

## APPENDIX I

### ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

#### ISSUER IDENTIFICATION DATA

**YEAR END DATE OF REFERENCE**

31/12/2017

**CORPORATE TAX ID NO.**

A-28212264

**COMPANY NAME**

ENCE ENERGIA Y CELULOSA, S.A.

**REGISTERED ADDRESS**

CALLE DE BEATRIZ DE BOBADILLA 14, 4<sup>a</sup> PLANTA, MADRID

# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## A OWNERSHIP STRUCTURE

A.1 Complete the following table about the company's share capital:

Last modification date	Share capital (€)	Number of shares	Number of voting rights
28/04/2017	221,645,250.00	246,272,500	246,272,500

Indicate whether there are different types of shares with different associated rights:

Yes

No

A.2 List your company's direct and indirect significant shareholdings at year end, excluding the Directors:

Shareholder name or company name	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JOSÉ IGNACIO COMENGE SÁNCHEZ-REAL	0	14,000,000	5.68%
CORPORACIÓN FINANCIERA ALCOR, S.L.	0	12,242,681	4.97%

Name or company name of the indirect owner of the share	Through: Name or company name of the direct owner of the share	Number of voting rights
MR. JOSÉ IGNACIO COMENGE SÁNCHEZ-REAL	LA FUENTE SALADA, S.L.	14,000,000
CORPORACIÓN FINANCIERA ALCOR, S.L.	IMVERNELIN PATRIMONIO, S.L.	12,242,681

Indicate the most significant transactions in the shareholding structure during the year:

Shareholder name or company name	Transaction date	Description of the transaction
NORGES BANK	30/03/2017	Has surpassed 3% of share capital
CORPORACIÓN FINANCIERA ALCOR, S.L.	14/12/2017	Has dropped 5% of share capital

A.3 Complete the following tables on the members of the company's Board of Directors who hold voting rights for the company's shares:

Name or company name of the Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JUAN LUIS ARREGUI CIARSOLO	500,000	68,362,118	27.96%
RETOS OPERATIVOS XXI, S.L.	68,362,118	0	27.76%
MR. IGNACIO DE COLMENARES BRUNET	112	0	0.00%
MR. VÍCTOR URRUTIA VALLEJO	0	15,604,000	6.34%
MENDIBEÁ 2002, S.L.	0	14,000,000	5.68%
MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ	1,055,337	0	0.43%
MR. JAVIER ECHENIQUE LANDIRIBAR	834	171,644	0.07%

Name or company name of the Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JOSE GUILLERMO ZUBIA GUINEA	34,028	0	0.01%
MR. JOSE CARLOS DEL ÁLAMO JIMÉNEZ	11,195	0	0.00%
MS. ISABEL TOCINO BISCAROLASAGA	10,312	0	0.00%
MR. LUIS LADA DÍAZ	200	0	0.00%
TURINA 2000, S.L.	0	68,362,118	27.76%

Name or company name of the indirect owner of the share	Through: Name or company name of the direct owner of the share	Number of voting rights
MR. JUAN LUIS ARREGUI CIARSOLO	RETOS OPERATIVOS XXI, S.L.	68,362,118
MR. VÍCTOR URRUTIA VALLEJO	ASÚA INVERSIONES, S.L.	15,604,000
MENDIBEA 2002, S.L.	LA FUENTE SALADA, S.L.	14,000,000
MR. JAVIER ECHENIQUE LANDIRIBAR	BILBAO ORVIETO SL	171,644
TURINA 2000, S.L.	RETOS OPERATIVOS XXI, S.L.	68,362,118

<b>Total % of voting rights held by the Board of Directors</b>	<b>40.48%</b>
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Complete the following tables on the members of the Board of Directors who hold rights over the company's shares.

A.4 Indicate, if applicable, the relationships of a family, commercial, contractual or corporate nature that exist among the significant shareholders, insofar as they are known by the company, unless they are little relevant or derived from ordinary business operations or trade:

A.5 Indicate, if applicable, the relationships of a commercial, contractual or corporate nature that exist among the significant shareholders, and the company and/or its group, unless they are little relevant or derived from ordinary business operations or trade:

A.6 Indicate whether any agreements among shareholders have been communicated to the company that affect it, as established in articles 530 and 531 of the Capital Companies Act. If so, describe them briefly and list the shareholders bound by the agreement:

Yes  No

Indicate whether the company is aware of the existence of subsidised activities among its shareholders. If there are, describe them briefly:

Yes  No

If there has been any modification or rupture of such agreements or agreements or subsidised activities during the year, expressly indicate:

Not applicable

A.7 Indicate whether there is any natural person or legal entity that exercises or may exercise control over the company pursuant to article 4 of the Stock Market Act. If so, please identify it:

Yes  No

<b>Observations</b>
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**A.8 Complete the following tables about the company's treasury stock:**

**At year end:**

Number of direct shares	Number of indirect shares (*)	Total % of share capital
1,496,062	0	0.61%

**(\*) Through:**

Detail the significant variations, pursuant to Royal Decree 1362/2007, made during the year:

Explain the significant variations
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The significant variation of treasury shares with respect to last year is due to the amortisation of 4,000,000 treasury shares, approved by the General Shareholders' Meeting of 30 March 2017, executed by the Board of Directors on 26 April 2017 and registered in the Commercial Registry on 11 May 2017.

This amortisation was made to implement the Share Repurchase Programme that the Company's Board of Directors approved on 23 June 2016 within the framework of authorising the acquisition of treasury shares in the secondary market, conferred by the Company's General Shareholders' Meeting held on 24 July 2012, as a form of remuneration to shareholders through the subsequent reduction of the Company's capital.

**A.9 Detail the terms and deadline of the current mandate from the shareholders' meeting to the Board of Directors to issue, repurchase or transfer treasury shares.**

The General Shareholders' Meeting held on 30 March 2017 adopted the agreement to authorise, pursuant to articles 146 et seq. and 509 of the Capital Companies Act, to acquire, at any time and as often as it considers opportune, by the Company –either directly, or through any subsidiary companies of which it is the parent company– treasury shares, by sale or by any other onerous legal title.

The minimum acquisition price or consideration shall be equivalent to the nominal value of the treasury shares acquired, and the maximum acquisition price or consideration shall be the equivalent to the quotation value of the treasury shares acquired in an official secondary market at the time of acquisition.

This authorisation was granted for a term of five years from the date of the aforementioned Meeting, and was subject to the limitation that at no time shall the nominal value of the treasury shares acquired in use of the authorisation, added to that of those already in possession of Ence Energía y Celulosa, SA and any of its controlled subsidiaries exceed the maximum amount allowed by law at any time.

The Board of Directors was also authorised to carry out the derivative acquisition of Ence Energía y Celulosa, S.A. shares under the terms set forth and so that it could allocate, totally or partially, the treasury shares already acquired and those acquired by virtue of the previous authorisation to disposal or amortisation, or implement remuneration systems that consisted of or the purpose of which was to deliver shares or option rights on Ence Energía y Celulosa, S.A. shares to workers and executives pursuant to the provisions of section 1.a) article 146 of the Capital Companies Act, as well as reinvestment plans for the dividends or similar shareholder remuneration instruments.

The aforementioned Meeting also resolved to annul, since it was not executed, the resolution adopted in this regard by the Extraordinary General Shareholders' Meeting held on 24 July 2012 in relation to the Company's acquisition of treasury shares.

**A.9.bis Estimated floating capital:**

	%
Estimated floating capital	50.85

**A.10 Indicate whether there are any restrictions on the transfer of securities and/or any restriction on the right to vote. In particular, the existence of any type of restrictions that may hinder the takeover of the company through the acquisition of its shares in the market must be communicated.**

Yes

No

A.11 Indicate whether the General Shareholders' Meeting has agreed to adopt neutralisation measures against a public takeover bid pursuant to Law 6/2007.

Yes

No

If applicable, explain the approved measures and the terms under which the restrictions will be ineffective:

A.12 Indicate whether the company has issued securities that are not traded on a regulated community market.

C.1.1 Yes

C.1.2 No

Where appropriate, indicate the different types of shares and, for each type, the rights and obligations conferred.

In 2015, the Company issued bonds of a higher value to the amount of €250,000,000 that are listed on the Euro MTF of the Luxembourg Stock Exchange (multilateral trading system).

On 24 November 2017, the Company, through its subsidiary, ENCE ENERGÍA, S.L.U., also made a bond issue for the amount of €50 million, maturing on 24 November 2025. These bonds are listed in the multilateral trading system called Open Market (Freiverkehr) of the Frankfurt Stock Exchange.

## **B GENERAL SHAREHOLDERS' MEETING**

B.1 Indicate and, if applicable, detail, whether there are differences with the minimum regime established in the Capital Companies Act (CCA) with respect to the quorum for constituting the General Shareholders' Meeting.

Yes

No

B.2 Indicate and, if applicable, detail, whether there are differences with the minimum regime established in the Capital Companies Act (CCA) for adopting corporate agreements.

Yes

No

Describe how it differs from the regime provided in the CCA.

B.3 Indicate the rules applicable to the modification of the company's articles of association. In particular, the majorities required for modifying the articles of association, as well as, if applicable, the rules for protecting the rights of the partners in modifying the articles of association must be communicated.

The modification of Ence Energía y Celulosa, S.A. Articles of Association is governed by the provisions of the Capital Companies Act and its own Articles of Association, which are established in the legal regime.

Thus, in the first call, the concurrence of shareholders present or represented who have at least fifty percent of the subscribed capital with the right to vote is required to be able to ratify any amendment to the articles of association. In the second call, the attendance of twenty-five percent of said capital is sufficient (Article 29.2 of the Articles of Association).

Once the meeting has been validly constituted, in order to approve any amendment to the articles of association, a favourable vote of half plus one of the shares with voting rights present or represented (articles 29.1 and 35.4 of the Articles of Association), or two thirds, is required when in the second call the attendance quorum does not reach fifty percent (article 29.2 of the Articles of Association).

B.4 Indicate the attendance data in the General Shareholders' Meeting held in the year to which this report refers and those of the previous year:

General Shareholders' Meeting date	Attendance data				Total
	% physical attendance	% in representation	% absentee ballot		
			Electronic ballot	Other	
16/03/2016	0.81%	63.58%	0.00%	0.00%	64.39%
30/03/2017	3.00%	62.56%	0.00%	0.84%	66.40%

B.5 Indicate whether there are any restrictions in the articles of association that establish a minimum number of shares required to attend the General Shareholders' Meeting:

Yes

No

B.6 Section deleted.

B.7 Indicate the address and access method to the company's website where the information on corporate governance and other information about the General Shareholders' Meeting that must be made available to shareholders through the Company's website can be found.

On the Company's website, [www.ence.es](http://www.ence.es), click Investors and Corporate Governance.

## C STRUCTURE OF THE COMPANY'S ADMINISTRATION

### C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors provided for in the Articles of Association:

Maximum number of Directors	16
Minimum number of Directors	8

C.1.2 Complete the following table with the Directors:

Name or company name of the Director	Representative	Director category	Position on the board	First nomination date	Last nomination date	Election procedure
MR. IGNACIO DE COLMENARES BRUNET		Executive	VICE-CHAIRMAN/MANAGING DIRECTOR	22/12/2010	30/03/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. VÍCTOR URRUTIA VALLEJO		Proprietary	DIRECTOR	30/06/2014	30/03/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ		Other external member	DIRECTOR	30/03/2007	16/03/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. LUIS LADA DÍAZ		Independent	DIRECTOR	16/03/2016	16/03/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MS. ISABEL TOCINO BISCAROLASAGA		Independent	DIRECTOR	21/03/2013	16/03/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. JUAN LUIS ARREGUI CIARSOLO		Proprietary	CHAIRMAN	07/02/2006	28/04/2015	GENERAL SHAREHOLDERS' MEETING AGREEMENT

MR. JAVIER ECHENIQUE LANDIRIBAR		Other external member	DIRECTOR	29/12/2005	28/04/2015	GENERAL SHAREHOLDERS' MEETING AGREEMENT
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Name or company name of the Director	Representative	Director category	Position on the board	First nomination date	Last nomination date	Election procedure
MR. JOSE GUILLERMO ZUBIA GUINEA		Independent	DIRECTOR	30/03/2007	16/03/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. JOSE CARLOS DEL ÁLAMO JIMÉNEZ		Independent	DIRECTOR	29/06/2009	28/04/2015	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. PEDRO BARATO TRIGUERO		Independent	DIRECTOR	25/06/2008	30/03/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
RETOS OPERATIVOS XXI, S.L.	MR. ÓSCAR ARREGUI ABENDIVAR	Proprietary	DIRECTOR	07/02/2006	28/04/2015	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MENDIBEA 2002, S.L.	MR. JOSÉ IGNACIO COMENGE SÁNCHEZ-REAL	Proprietary	DIRECTOR	30/06/2014	30/03/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
TURINA 2000, S.L.	MR. JAVIER ARREGUI ABENDIVAR	Proprietary	DIRECTOR	20/12/2017	20/12/2017	CO-OPTED NOMINATION

<b>Total number of Directors</b>	13
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Indicate the terminations that have occurred in the Board of Directors during the period subject to information:

Name or company name of the Director	Director category at the time of termination	Termination date
MR. PASCUAL FERNANDEZ MARTINEZ	Proprietary	20/12/2017

C.1.3 Complete the following tables on the Directors and their different categories:

### **EXECUTIVE DIRECTORS**

Name or company name of the Director	Position in the company's organisational chart
MR. IGNACIO DE COLMENARES BRUNET	VICE-CHAIRMAN/MANAGING DIRECTOR

<b>Total number of Executive Directors</b>	1
<b>% of the total board</b>	7.69%

### **EXTERNAL PROPRIETARY DIRECTORS**

Name or company name of the Director	Name or company name of the significant shareholder who represents or whose nomination has been proposed
MR. VÍCTOR URRUTIA VALLEJO	ASÚA INVERSIONES, S.L.
MR. JUAN LUIS ARREGUI CIARSOLO	RETOS OPERATIVOS XXI, S.L.
RETOS OPERATIVOS XXI, S.L.	RETOS OPERATIVOS XXI, S.L.
MENDIBEA 2002, S.L.	LA FUENTE SALADA, S.L.
TURINA 2000, S.L.	RETOS OPERATIVOS XXI, S.L.

Total number of Proprietary Directors	5
% of the total board	38.46%

## **EXTERNAL INDEPENDENT DIRECTORS**

### **Name or company name of the Director:**

MR. LUIS LADA DÍAZ

#### **Profile:**

Telecommunication Engineer from the Polytechnic University of Madrid and Academic number of the Royal Academy of Engineering.

He is currently a Director and Member of the Indra Sistemas Audit and Compliance Committee, member of the Assia, Inc. Advisory Board and non-executive Chairman of Banco Inversis, S.A.

He joined the Telefónica Research and Studies Centre in 1973 and remained for most of his professional career with this company. Between 1989 and 1993 he worked at the Amper Group as General Manager of Planning and Control and Deputy General Manager to the Presidency, after which he rejoined Telefónica as Deputy General Manager of subsidiaries and investee companies.

In 1994, he was appointed Chairman of Telefónica Móviles España and in 2000 he was appointed Executive Chairman of Telefónica Móviles, becoming Telefónica Group's General Manager of Development, Planning and Regulation in 2002.

Between 2005 and 2006 he was Executive Chairman of Telefónica de España. He has also been Chairman and Director of several companies, having received several professional and business awards.

### **Name or company name of the Director:**

MS. ISABEL TOCINO BISCAROLASAGA

#### **Profile:**

Doctor in Law and professor at the Complutense University, she has taken top management programmes at IESE and Harvard Business School. She is currently a member of the Academy of Doctors, advisor to ENAGÁS, S.A., Vice-Chairman of the Santander Spain Board of Directors and chairperson of Banco Pastor.

She has been a full professor at the Complutense University, Minister for the Environment, deputy and chairperson of the Foreign Affairs Committee and the European Affairs Committee at the Congress of Deputies, chairperson for Spain and Portugal and Vice-Chairman for Siebel Systems Europe. As Minister for the Environment, she participated actively in negotiating the Kyoto Protocol and promoted various legislative initiatives on waste, water and hydrological resources and national parks. She previously worked at the Nuclear Energy Board (today CIEMAT) and was part of the OECD European Energy Agency's Governmental Legal Experts' Group and today is a member of the International Society of Nuclear Law and the Spanish Nuclear Society (SNE).

She holds the Great Cross of Knighthood of the Royal Order of Charles III and of the Cross of San Raimundo de Peñafort.

### **Name or company name of the Director:**

MR. JOSE GUILLERMO ZUBIA GUINEA

#### **Profile:**

Law degree from the Complutense University of Madrid. He studied Economics at this University and Taxation at the Centre for Economic and Tax Studies. He has been an owner, consultant and advisor of several companies. He was secretary general of the Alavés Business Union (SEA) from 1979 to 1995. He was secretary general of the Confederation of Basque Entrepreneurs (Confebask) from October 1995 to March 2011.

He has been a member of the Board of Directors and Governing Bodies of the main Socio-Economic Institutions of the Basque Country: among others the Society for Promotion and Industrial Reconversion, the Economic and Social Councils and Labour Relations. He has been a member of the Economic and Social Council of Spain and its Economic and Labor Relations Commissions. He has also been a member of the Permanent Commission of the Andalusian School of Economics and has participated in



various courses and conferences at the Menéndez Pelayo International University, the summer courses at El Escorial and the summer university at the Basque Country University.

**Name or company name of the Director:**

MR. JOSE CARLOS DEL ÁLAMO JIMÉNEZ

**Profile:**

He qualified as a Forestry Engineer at the Technical University of Madrid, holds the ESADE Course for Directors diploma, and has completed two doctorate courses in the Higher Technical School of Forestry Engineering. He also a Lecturer on the Master's Degree in Energy Efficiency and Climate Change in the University Institute of Environmental Sciences of the Complutense University of Madrid, the Master's Degree in Environmental Project Engineering at the Technical University of Madrid, the advanced course in the Fundación Carolina de Políticas e Instrumentos de Gestión Forestal, in the CEU San Pablo University in Madrid and in other academic institutions.

He has occupied positions of great responsibility in central government, such as General Manager of Nature Conservation (Ministry of the Environment), and in the Regional Government of Galicia, where he was Director of the Environment from 1997 to 2003 and General Manager of Forestry and the Natural Environment from 1990 to 1996. He was also Vice-Chairman of the National Parks Agency, president of the Atlantic Islands National Park, member of the Ministry for the Environment's Environment Advisory Council and Chairman of the Galicia Environment Council, Chairman of the Engineers Professional Association (UPCI) and Chairman/dean of the college and Forestry Engineers Association. He is Chairman of the Spanish Institute of Engineering, member of the Board of the National Parks Network of MAPAMA, Member of the Board of Trustees for the National Park of the Sierra de Guadarrama, secretary of the "Forests and Climate Change Forum," Chairman of the "Environmental Forum for Economic and Social Progress" and Member of the Castile and Leon and Madrid Community Environment Councils.

He is currently Vice-Chairman of Grupo TYPASA and Chairman of TYPASA Estadística y Servicios.

**Name or company name of the Director:**

MR. PEDRO BARATO TRIGUERO

**Profile:**

A Law graduate and member of the National Farmers and Cattle Ranchers Confederation since 1978 and has been national Chairman of the Agrarian/Young Farmers Association (ASAJA) since 1990. He is also a member of the Spanish Confederation of Business Organisations (CEOE), member of the presidency of the European Union Agricultural Organizations Committee (COPA), member of the European Commission CAP council committee, Chairman of the Spanish Olive Oil Interprofessional Organisation, Chairman of the National Beet and Sugar Cane Growers Confederation and Chairman of the Spanish Self-Employed Persons Federation (CEAT).

He is currently a Proprietary Director of DEOLEO, S.A., advisory Director of MAPFRE AGROPECUARIA, Compañía Internacional de Seguros y Reaseguros, S.A. and Member of the Board of Directors of FREMAP, S.A.

<b>Total number of Independent Directors</b>	5
<b>% total of the board</b>	38.46%

Indicate whether any Director qualified as independent receives any amount or benefit for a concept other than Director's remuneration from the company or from its group, or maintains or has maintained, during the last financial year, a business relationship with the company or with any company in its group, either in its own name or as a significant shareholder, Director or senior manager of an entity that maintains or has maintained such relationship.

No, none of the Independent Directors of the Company is or has been in any of the situations described.

If applicable, a statement by the board on the reasons why it considers that said Director can perform his or her duties as an Independent Director must be included.

## OTHER EXTERNAL DIRECTORS

The other External Directors must be identified and the reasons why they cannot be considered proprietary or independent and their links, either with the company, its Directors or its shareholders, must be detailed:

### **Name or company name of the Director**

MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ

**Company, Director or shareholder with which the link is maintained:**

RETOS OPERATIVOS XXI, S.L.

**Reasons:**

Mr. Fernando Abril-Martorell Hernández maintains a minority shareholding in Foresta Capital, S.L., in which Juan Luis Arregui Ciarsolo, who controls 100% de RETOS OPERATIVOS XXI S.L., also participates indirectly.

### **Name or company name of the Director**

MR. JAVIER ECHENIQUE LANDIRIBAR

**Company, Director or shareholder with which the link is maintained:**

ALCOR HOLDING, S.A.

**Reasons:**

Mr. Javier Echenique became an External Director due to the decrease of Alcor Holding's shareholding in the company's capital.

<b>Total number of other External Directors</b>	2
<b>% total of the board</b>	15.38%

Indicate the variations that, if applicable, have occurred during the period in the category of each Director:

C.1.4 Complete the following table with information regarding the number of female Directors during the last four years, as well as the nature of such Directors:

	Number of Directors				% of the total number of Directors of each type			
	2017 financi al year	2016 financi al year	2015 financi al year	2014 financi al year	2017 financi al year	2016 financi al year	2015 financi al year	2014 financi al year
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	1	1	1	1	20.00%	20.00%	20.00%	20.00%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	1	1	1	1	7.69%	7.69%	7.69%	7.69%

C.1.5 Explain the measures that, if applicable, would have been adopted to try to include a number of women in the Board of Directors to enable a balanced presence of women and men.

**Explanation of the measures**

Pursuant to article 17.2 d) of the Board of Directors Regulations, the Nomination and Remuneration Committee establishes a representation target for the less-represented gender on the Board, draws up guidelines on how to achieve it and ensures that, if new vacancies are provided or when new Directors are appointed, the selection procedures are not subject to implicit biases that may imply gender-based discrimination. In order to comply with the provisions of article 529n 3b) of the CCA in relation to representation for women on the Board of Directors, the Nomination and Remuneration Committee has also agreed to establish the objective that in the year 2020 the number of female Directors shall represent 30% of the total of its members (in line with Good Governance Code recommendations).

**C.1.6 Explain the measures that, if applicable, the nominations committee would have agreed to ensure that the selection procedures are not subject to implicit biases that hinder the selection of female Directors, and that the company deliberately seeks and includes women who meet the professional profile sought among the potential candidates:**

**Explanation of the measures**

As indicated in Section C.1.5, the Nomination and Remuneration Committee has ensured that, when new vacancies are filled or when new Directors are appointed, the selection procedures do not suffer from implicit biases that may imply gender-based discrimination.

The vacancy in 2017 arose due to the departure of Proprietary Director Pascual Fernández Martínez as a consequence of the reducing ALCOR HOLDING, S.L.'s shareholding in the Company (significant shareholder represented by Mr Fernández). In this case, the Commission considered it appropriate to nominate TURINA 2000, S.L., with the category of Proprietary Director at the proposal of RETOS OPERATIVOS XXI, S.L., with the aim of maintaining proportionality between shareholding and representation on the Board of Directors and complying with the mandate of article 8.2 of the Board of Directors Regulations.

In 2018 it is planned to propose the nomination of an Independent Director, for which a specific procedure has been set in motion with the help of an external advisor who evaluated the candidates according to the professional profile sought, and which has subsequently been evaluated by the Nomination and Remuneration Committee.

This commission has submitted a proposal for nomination to the Board of Directors for approval by the General Shareholders' Meeting. The proposal for appointment of the new Independent Director is not intended to fill a vacancy within the Board of Directors, although her nomination will expand the current number of members of the administrative body, and in particular the number of female Directors within it. With this proposal, the Society shows its commitment to promoting more female Directors on the Board of Directors.

**If there are few or no female Directors, despite the measures that have been adopted, explain the reasons that justify it:**

**Explanation of the reasons**

As stated in the previous section, the vacancy arising in 2017 was due to reducing the shareholding of one of the significant shareholders. In view of the duty to attend to the Company's ownership structure in the qualitative composition of the Board, the Committee considered it appropriate to address the proposal of RETOS OPERATIVOS XXI, S.L. on the nomination of TURINA 2000, S.L. as Proprietary Director. Also, since it is a Proprietary Director, whose appointment corresponds to the significant shareholder who proposed it, the Nomination and Remuneration Committee's participation in the process is limited.

However, as indicated in the previous paragraph, the Company has set in motion a specific procedure for selecting an independent female Director that will increase the current number of the Company's Board of Directors of and, in particular, the number of women who are part of it.

**C.1.6bis Explain the conclusions of the nominations committee regarding verification of compliance with the Director selection policy. And in particular, how this policy is promoting the target that the number of female Directors represents at least 30% of the total number of members of the Board of Directors by 2020.**

**Explanation of the conclusions**

The Nominating and Compensation Committee has verified the degree of compliance with the selection policy for current Directors.

Regarding the nomination of new female Directors, the Commission has reiterated its commitment to comply with the objectives set forth in sections C.1.5 and C.1.6 above, which effectively materialise in the proposal to formulate an increase in the composition of the Board of Directors through a new position of Independent Director, which must be filled with a candidate who meets the professional profile defined for that purpose.

**C.1.7 Explain the method of representation on the board of shareholders with significant shareholdings.**

Pursuant to the mandate established in art. 8.2 of the Board of Directors Regulations that the qualitative composition of the Board will address the Company's ownership structure, so that the relationship between one and another type of Director reflects the relationship between stable capital and floating capital, the general criteria adopted is that significant shareholders that shall remain in the share capital who hold a stake equivalent to 5% of the share capital are represented on the Board.

**C.1.8 Explain, if applicable, the reasons why nominee Proprietary Directors have been nominated at the request of shareholders whose shareholding is less than 3% of the capital:**

Indicate whether formal requests for presence on the board have been responded to from shareholders whose shareholding is equal to or greater than that of others at whose request Proprietary Directors have been appointed. If so, explain the reasons why they were not responded to:

Yes

No

**C.1.9 Indicate whether any Director has ceased in his or her position before the end of his or her term, whether the reasons were explained to the board for this and through which method and, if he or she has done so in writing to the entire board, explain below at least the reasons that were given:**

**Name of the Director:**

MR. PASCUAL FERNANDEZ MARTINEZ

**Reason for termination:**

Mr. Pascual Fernández Martínez resigned voluntarily from his position as Proprietary Director by means of a letter notified to the Company dated 19 December 2017, and effective as from 20 December 2017.

The resignation of Mr. Pascual Fernández Martínez is due to reduced shareholding in the Company of ALCOR HOLDING, S.L., a significant shareholder represented by Fernández on the Company's Board of Directors with the category of Proprietary Director.

**C.1.10 Indicate, if any, the powers delegated to the Executive Director(s):**

**Name or company name of the Director**

MR. IGNACIO DE COLMENARES BRUNET

**Brief description:**

ALL POWERS, EXCEPT THOSE THAT CANNOT BE DELEGATED BY LAW, THE ARTICLES OF ASSOCIATION AND BOARD OF DIRECTORS REGULATIONS.

C.1.11 Identify, if applicable, the members of the board who assume administrative or executive positions in other companies that are part of the listed company's group:

Name or company name of the Director	Corporate name of the group entity	Position	Does he/she have executive functions?
MR. IGNACIO DE COLMENARES BRUNET	LAS PLÉYADES URUGUAY S.A.	Executive chairperson representative	YES
MR. IGNACIO DE COLMENARES BRUNET	MADERAS ASERRADAS DEL LITORAL S.A.	Executive chairperson representative	YES
MR. IGNACIO DE COLMENARES BRUNET	SIERRAS CALMAS S.A.	Executive chairperson representative	YES
MR. IGNACIO DE COLMENARES BRUNET	LOMA SERRANA S.A.	Executive chairperson representative	YES
MR. IGNACIO DE COLMENARES BRUNET	IBERFLORESTAL-COMÉRCIO E SERVIÇOS FLORESTAIS S.A.	Sole Administrator	YES
MR. IGNACIO DE COLMENARES BRUNET	SILVASUR AGROFORESTAL S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	CELULOSA ENERGÍA S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	IBERSILVA S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	LAS PLÉYADES S.A.	Executive chairperson representative	YES
MR. IGNACIO DE COLMENARES BRUNET	NORTE FORESTAL S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE INVESTIGACIÓN Y DESARROLLO S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	CELULOSAS DE ASTURIAS S.A.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA CASTILLA Y LEON S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA HUELVA S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	SOSTENIBILIDAD Y ECONOMIA CIRCULAR S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA EXTREMADURA S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA CASTILLA Y LEON DOS S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGIA EXTREMADURA DOS S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGÍA HUELVA DOS S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGÍA CELTA S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGÍA PUERTOLLANO, S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGÍA ESTE, S.L.U.	Sole administrator representative	YES
MR. IGNACIO DE COLMENARES BRUNET	ENCE ENERGÍA PAMI, S.L.U.	Sole administrator representative	YES

C.1.12 Detail, if applicable, the Directors of your company that are members of the Board of Directors of other companies listed on official stock exchanges other than your group that have been notified to the company:

Name or company name of the Director	Corporate name of the group entity	Position
MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ	INDRA SISTEMAS S.A.	CHAIRMAN
MR. LUIS LADA DÍAZ	INDRA SISTEMAS, S.A.	DIRECTOR
MS. ISABEL TOCINO BISCAROLASAGA	ENAGÁS, S.A.	DIRECTOR
MR. JUAN LUIS ARREGUI CIARSOLO	CARTERA INDUSTRIAL REA, S.A.	VICE-CHAIRMAN 1
MR. JAVIER ECHENIQUE LANDIRIBAR	BANCO DE SABADELL, S.A.	VICE-CHAIRMAN
MR. JAVIER ECHENIQUE LANDIRIBAR	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	DIRECTOR
MR. JAVIER ECHENIQUE LANDIRIBAR	TELFÓNICA, S.A.	DIRECTOR
MR. PEDRO BARATO TRIGUERO	DEOLEO, S.A.	DIRECTOR
RETOS OPERATIVOS XXI, S.L.	CARTERA INDUSTRIAL REA, S.A.	DIRECTOR
MENDIBEA 2002, S.L.	COCA COLA EUROPEAN PARTNERS, Plc.	DIRECTOR
MENDIBEA 2002, S.L.	EBRO FOODS, S.A.	DIRECTOR

C.1.13 Indicate and, if applicable, explain whether the company has rules established on the number of Boards that its Directors can be part of:

Yes

No

Explanation of the rules
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Article 37.2 of the Board of Directors Regulations establishes that the maximum number of other companies' Board of Directors of which the Company's Directors may form a part should not exceed three in the case of Executive Directors and five in the case of non-Executive Directors (except for family and property companies). Exceptionally and in view of concurrent personal and professional circumstances, the Board, after a favorable report from the Nominating and Compensation Committee, may individually authorise exceeding the limit established in the previous paragraph when the dedication of the affected Director is not compromised. If this situation arises, this authorisation is reported in the Annual Corporate Governance Report.

C.1.14 Section deleted.

C.1.15 Indicate the overall remuneration of the Board of Directors:

Board of Directors remuneration (thousands of euros)	2,943
Amount of the rights accrued by the current Directors on the matter of pensions (thousands of euros)	672
Amount of the rights accrued by former Directors on the matter of pensions (thousands of euros)	76

C.1.16 Identify the members of senior management who are not Executive Directors, and indicate the total remuneration accrued in their favour during the year:

Name or company name	Position
MR. ALFREDO AVELLO DE LA PEÑA	GENERAL MANAGER OF FINANCE AND CORPORATE DEVELOPMENT
MR. JAIME ARGÜELLES ÁLVAREZ	GENERAL MANAGER CELLULOSE OPERATIONS
MS. MARIA JOSE ZUERAS SALUDAS	GENERAL HUMAN RESOURCES MANAGER
MR. ÁLVARO EZA BERNAOLA	GENERAL MANAGER SUPPLY CHAIN
MR. ÁNGEL JOSÉ MOSQUERA LÓPEZ-LEYTON	INTERNAL AUDITING DIRECTOR
MR. JORDI AGUILÓ JUBIERRE	GENERAL MANAGER ENERGY OPERATIONS
MR. LUIS CARLOS MARTÍNEZ MARTÍN	GENERAL MANAGER COMMUNICATION AND INSTITUTIONAL RELATIONS
MR. JAVIER ARREGUI ABENDIVAR	GENERAL MANAGER NEW ENERGY AND FOREST HERITAGE PLANT DEVELOPMENT
MS. REYES CEREZO RODRÍGUEZ-SEDANO	GENERAL SECRETARY

<b>Total senior management remuneration (thousands of euros)</b>	3,153
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C.1.17 Indicate, if applicable, the identity of the board members who are also members of the Board of Directors of significant shareholder companies and/or entities of their group:

Name or company name of the Director	Company name of the significant shareholder	Position
MR. VÍCTOR URRUTIA VALLEJO	ASÚA INVERSIONES, S.L.	SOLE ADMINISTRATOR
MR. JUAN LUIS ARREGUI CIARSOLO	TURINA 2000, S.L.	CHAIRMAN
TURINA 2000, S.L.	RETOS OPERATIVOS XXI, S.L.	SOLE ADMINISTRATOR

Detail, if applicable, the relevant relationships other than those contemplated in the previous section, of the members of the Board of Directors who are linked with significant shareholders and/or entities of their group:

**Name or company name of the linked party:**

MENDIBECA 2002, S.L.

**Name or company name of the linked significant shareholder:**

LA FUENTE SALADA, S.L.

**Description of the link:**

Mr. José Ignacio Comenge Sánchez-Real is administrator of both companies.

**Name or company name of the linked party:**

MR. JUAN LUIS ARREGUI CIARSOLO

**Name or company name of the linked significant shareholder:**

RETOS OPERATIVOS XXI, S.L.

**Description of the link:**

Mr. Juan Luis Arregui is the natural person representative of the sole administrator of Retos Operativos XXI, S.L.

C.1.18 Indicate whether there has been any modification to the Board of Directors Regulations during the year:

Yes

No

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. Detail the competent bodies, the procedures to be followed and the criteria to be used in each of the procedures.

The internal regulatory framework in this regard includes the Articles of Association, the Board of Directors Regulations and the Board Selection Policy approved by the Board of Directors on 4 February 2016.

The Directors are appointed and separated by the General Shareholders' Meeting (article 39.1 of the Articles of Association). The Board of Directors may fill vacancies that occur through the interim co-option procedure until the first General Shareholders' Meeting held (Article 40 of the Articles of Association).

In any case, the proposals for the appointment of Directors that the Board (or the Nomination and Remuneration Committee in the case of Independent Directors) submit to the General Shareholders' Meeting, and the appointment decisions adopted by the Board by virtue of the powers of co-option legally attributed to it, must be preceded by the corresponding Nomination and Remuneration Committee report. When the Board departs from the Nomination and Remuneration Committee's recommendations, it must state the reasons for its action and record the reasons in the minutes (Article 20.2 of the Board Regulations).

The Board of Directors and the Nomination and Remuneration Committee shall ensure that the candidates selected are persons of recognised solvency, competence and experience, imposing strict requirements in relation to those nominated to fill the positions of Independent Director (Article 21.1 of the Board of Directors Regulations).

The Appointments and Remuneration Committee may not propose or appoint persons to cover an Independent Director position whose situation or whose present or past relationship with the Company may impair their independence (Article 21.2 of the Board of Directors Regulations).

Pursuant to article 8.1 of the Board of Directors Regulations, the Board of Directors shall endeavour to ensure that external and non-Executive Directors represent a large significant of the Executive Directors on the board and that, in general, the different categories of Directors are adapted in their proportion and characteristics to the best corporate governance practices.

Article 8.2 of the Board of Directors Regulations establishes that, in order to establish a reasonable balance between Proprietary Directors and Independent Directors, the Board will consider the Company's ownership structure, so that the relationship between one and another type of Director reflects the relationship between stable capital and floating capital.

The Board of Directors will explain the type of each Director to the General Shareholders' Meeting that must make or ratify his/her appointment or re-election. This type will be reviewed annually, after verification by the Nomination and Remuneration Committee.

By virtue of article 19 bis of the Board of Directors Regulations, the Board of Directors must evaluate once a year, and will adopt, where appropriate, an action plan that corrects the deficiencies detected with respect to:

- a) The quality and efficiency of the Board of Directors operation.
- b) The performance and membership of its committees.
- c) The diversity of Board of Directors membership and competences.
- d) The performance of the Chairman of the Board of Directors and of the Managing Director taking into account, as the case may be, the evaluation made by the Coordinating Director or by the Nomination and Remuneration Committee.
- e) The performance and contribution of individual Directors, with particular attention to the Chairmen of the Board of Directors committees.

On 20 February 2018, the Board of Directors made self-assessments pursuant to article 19 bis of the Board of Directors Regulations, assisted by international consulting firm KPMG, whose appointment for this purpose was agreed upon in the Board of Directors meeting on 31 October 2017.

Pursuant to article 40 of the Articles of Association, a Director's term of office is three years and may be re-elected one or more times for periods of equal duration.

Pursuant to article 22 of the Board of Directors Regulations, the proposals for re-election of Directors must be made in accordance with the provisions of their nomination.

Pursuant to the provisions of article 24.1 of the Board of Directors Regulations, the Directors shall cease to hold office when the period for which they were appointed has transpired and when the General Shareholders' Meeting or the Board of Directors decides on the use of the legal, articles of association or regulatory powers bestowed upon them.

In addition, the Board of Directors will not propose the removal of any Independent Director before the expiry of the statutory period for which they were appointed, unless there is just cause, as assessed by the Board following a report from the Nomination and Remuneration Committee (article 24.4 of the Board of Directors Regulations).

The removal of an Independent Director may also be proposed as a result of public offers for acquisition, mergers or other



similar corporate transactions that entail a change in the capital structure of the Company, to the extent that it is necessary to establish a reasonable balance between the Proprietary Directors and Independent Directors based on the relationship between the Company's stable capital and floating capital (article 24.4 of the Board of Directors Regulations).

**C.1.20 Explain the extent to which the annual evaluation of the board has led to significant changes in its internal organisation and on the procedures applicable to its activities:**

Description of changes
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Pursuant to the provisions of art. 19 bis of the Board of Directors Regulations, on 20 February 2018, the Board of Directors, assisted by international consulting firm KPMG, evaluated its activity. As a result of this evaluation, it has been decided to launch an internal regulatory review process in order to (i) redistribute, in the manner deemed most convenient for the Company's corporate governance, part of the current functions of the Audit Commission not legally reserved to it between the Nomination and Remuneration Committee and the Forestry and Regulatory Policy Advisory Commission, and (ii) redefine the powers of the latter Commission.

**C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors, where appropriate assisted by an external consultant, regarding the diversity in its composition and competences, the functioning and the composition of its committees, the performance of the Chairman of the Board of Directors and the CEO of the company and the performance and contribution of each Director.**

The Company's Board of Directors at the meeting held on 31 October 2017 appointed international consulting firm KPMG to assist in evaluating the activity of the Board and its committees.

The evaluation process was based on conducting interviews with each of the Directors on the basis of a questionnaire previously completed individually and anonymously. The structure of the questionnaire covered all aspects referred to in this section regarding diversity in the composition and powers of the Board of Directors, the functioning and composition of its Committees, the performance of the Chairman of the Board of Directors, its Secretary and the CEO of the Company, as well as the remaining the Board members.

The final report has been reviewed by the Chairmen of the Board and the respective committees and its conclusions have been taken into account in order to evaluate the activity of these bodies in accordance with the regulations stipulated. From this evaluation, apart from the changes indicated in the previous subsection, some improvements have been derived to be implemented during the 2018 fiscal year.

**C.1.20.ter Itemisation, if applicable, of the business relationships that the consultant or any company of its group maintains with the Company or any company of its group.**

The Company hired KPMG Forensic during 2017 for issuing expert reports in the framework of legal proceedings in which the Company is a party.

**C.1.21 Indicate the cases in which the Directors are obliged to resign.**

Pursuant to article 24.3 of the Board of Directors Regulations, the Directors must offer their resignation to the Board and formalise, if deemed opportune, their resignation in the following cases:

- f) when they are affected by any of the applicable incompatibility or prohibition cases;
- g) when prosecuted or placed on trial for any of the offences indicated in Article 213 of the Capital Companies Act, which shall be reported in the Annual Corporate Governance Report, or when sanctioned as a result of disciplinary proceedings brought by the supervisory authorities owing to a severe or very severe infringement;
- h) when severely reprimanded by the Audit Committee for having infringed their obligations as Directors;
- i) when their continued presence in the Board may seriously jeopardize the interests of the company or when the reasons for which they were appointed disappear; or when, in the case of Proprietary Directors, the shareholder they represent or who proposed their appointment fully transfers their shareholding, or reduces their shareholding to a level that requires a proportional reduction in the number of their Proprietary Directors.

C.1.22 Section deleted.

C.1.23 Are enhanced majorities, rather than legal ones, required in any kind of decision?:

Yes

No

As applicable, describe the differences.

<b>Description of the differences</b>
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In accordance with article 24.2 of the Board of Directors Regulations, for the re-election as Executive Director of those Directors who reach the age of 65, the favourable vote of at least two thirds of the Directors present or represented is required.

C.1.24 Explain if there are specific requirements, different from those relating to Directors, to be appointed Chairman of the Board of Directors.

Yes

No

<b>Description of requirements</b>
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In accordance with article 10.1 of the Board of Directors Regulations, the position of Chairman of the Board of Directors may fall to an Executive Director. In this case, their appointment will require the favourable vote of two thirds of the members of the Board.

C.1.25 Indicate if the Chairman has a casting vote:

Yes

No

<b>Matters where there is a casting vote</b>
--

In all matters, in accordance with article 10.3 of the Board of Directors Regulations and 48 of the Articles of Association, in the event of a tie, the Chairman shall have the casting vote.

C.1.26 Indicate whether the Articles of Association or the Board of Directors Regulations establish any limit on the age of the Directors:

Yes

No

Chairman's age limit: Unlimited

Age limit of Managing Director: 65 years (extendable up to 70 years)

Age limit of Director: Unlimited

C.1.27 Indicate whether the Articles of Association or the Board of Directors Regulations establish a limited mandate for Independent Directors, different from that established in the regulations:

Yes

No

C.1.28 Indicate whether the Articles of Association or the Board of Directors Regulations establish

specific rules for the delegation of votes in the Board of Directors, the method of doing it and, in particular, the maximum number of delegations that a Director can hold, as well as if any limitations have been fixed regarding the categories in which it is possible to delegate, beyond the limitations imposed by law. As applicable, give a brief description of said rules.

In accordance with the provisions of the Articles of Association (article 46), the representation must be conferred in writing and specifically for each Board, each Director not being able to hold more than three representations, with the exception of the Chairman, who will not be subject to that limit, although he may not represent the majority of the Board.

The Board of Directors Regulations (article 19.1 paragraph 2) provide that Directors shall do everything possible to attend Board meetings and, when they cannot do so personally, they shall endeavour to ensure that the representation they confer on behalf of another member corresponds to another Director of the same group. In the case of a non-Executive Director, only a non-Executive Director may be granted representation. The representation will be conferred with the corresponding instructions depending on the specific matters that are expected to be discussed in the Board.

C.1.29 Indicate the number of meetings held by the Board of Directors during the year. Also indicate, as applicable, the times that the board has met without being attended by its Chairman. In the calculation, representations made with specific instructions will be considered to be attendance.

<b>Number of board meetings</b>	11
<b>Number of board meetings without the Chairman's attendance</b>	0

If the Chairman is an Executive Director, indicate the number of meetings held, without the attendance or representation of any Executive Director and under the Chairmanship of the coordinating Director

<b>Number of meetings</b>	0
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Indicate the number of meetings held during the year by the different board committees:

<b>Committee</b>	<b>Number of meetings</b>
NOMINATION AND REMUNERATION COMMITTEE	7
EXECUTIVE COMMITTEE	10
AUDIT COMMITTEE	5
FORESTRY AND REGULATORY POLICY ADVISORY COMMITTEE	4

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with the attendance of all of its members. In the calculation, representations made with specific instructions will be considered to be attendance:

<b>Number of meetings with the attendance of all the Directors</b>	11
<b>% of attendance out of total votes during the year</b>	100.00%

C.1.31 Indicate if the individual and consolidated annual accounts that are presented to the board for approval are certified beforehand:

Yes  No

Identify, if applicable, the person (s) who has / have certified the individual and consolidated

annual accounts of the company, for their formulation by the board:

Name	Position
MR. IGNACIO DE COLMENARES BRUNET	VICE-CHAIRMAN/MANAGING DIRECTOR

C.1.32 Explain, if any, the mechanisms established by the Board of Directors to prevent the individual and consolidated accounts formulated by it from being presented at the General Shareholders' Meeting with provisos in the audit report.

In accordance with the provisions of article 16.2 and 43.1 of the Board of Directors Regulations, the Audit Committee is responsible for maintaining relations with the External Auditors in order to receive information on matters that may jeopardize their independence and any other matters related to the process of conducting the audit of accounts, as well as any other communications provided for in audit law and in the technical audit rules. Through its Chairman, the Audit Committee informs the Board of Directors of the content and agreements of the meetings of the Committee.

For their part, the Board of Directors Regulations (article 16.2 10)) entrusts the Audit Committee with the function of serving as a communication channel between the Board of Directors and the Auditors, evaluating the results of each audit and the responses of the management team to its recommendations, mediating in the event of discrepancies between them, in relation to the principles and criteria applicable in the preparation of financial statements.

Likewise, the Board of Directors Regulations (article 43.4) provide that the Board of Directors will endeavour to finalize the accounts in such a way that there is no room for provisos on the part of the auditor. However, when the Board considers that it is required to defend its criterion, it will publicly explain the content and scope of the discrepancy and will also ask the auditor to give an account of its considerations in this regard.

C.1.33 Does the secretary of the board have the status of a Director?

Yes

No

If the secretary does not have the status of a Director, complete the following table:

Name or corporate name of the secretary	Representative
MR. JOSÉ ANTONIO ESCALONA DE MOLINA	

C.1.34 Section deleted.

C.1.35 Indicate, if any, the mechanisms established by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.

In accordance with the provisions of article 16.2.6. of the Board of Directors Regulations, the Audit Committee is responsible for establishing appropriate relations with the Account Auditors in order to receive information on matters that may jeopardize their independence (in particular, so that the auditor's remuneration for its work does not compromise its quality or independence), for consideration by the Committee and any other matters related to the process of conducting the audit of accounts, as well as any other communications provided for in audit law and in the technical audit rules.

In any event, each year the Audit Committee shall receive from the auditors of accounts or audit companies the written confirmation of their independence from the company or companies related to them directly or indirectly, as well as information on additional services of any kind provided and the corresponding fees received from these companies by the aforementioned auditors of accounts or audit companies, or by the persons or entities linked to them in accordance with the provisions of the Account Auditing Act.

Likewise, the external auditor must hold a meeting a year with the plenary session of the Board of Directors to report on the work performed and the evolution of the accounting and risk situation of the Company.

In addition, according to article 16.2.7, each year the Audit Committee shall issue, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditors of accounts or audit companies.

On the other hand, article 16.2.10 provides that the Audit Committee should serve as a communication channel between the Board of Directors and the Auditors, evaluating the results of each audit and the responses of the management team to its recommendations, mediating in the event of discrepancies between them, in relation to the principles and criteria applicable in the preparation of financial statements.

The Committee will be responsible for supervising compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted in a clear and precise manner (Article 16.2.12 of the Board of Directors Regulations).

Likewise, the Board shall refrain from contracting those audit firms whose fees, for all matters, are greater than ten percent of their total income during the last fiscal year (Article 43.2 of the Board of Directors Regulations). In addition, the Board of Directors Regulations will publicly report the overall fees paid to the auditing firm for services other than auditing (Article 43.3 of the Board of Directors Regulations).

C.1.36 Indicate whether the Company has changed its external auditor during the year. Where appropriate, identify the incoming and outgoing auditor:

Yes

No

In the event that there were disagreements with the outgoing auditor, explain the content thereof:

C.1.37 Indicate whether the audit firm performs work for the company and / or its group other than the audit and in that case declare the amount of the fees received for such work and the percentage that it represents out of the fees invoiced to the company and / or its group:

Yes

No

	Company	Group	Total
<b>Amount of work other than audit (thousands of euros)</b>	2	0	2
<b>Amount of work other than audits / Total amount billed by the audit firm (in %)</b>	2.53%	0.00%	2.53%

C.1.38 Indicate whether the audit report on the annual accounts of the previous year contains reservations or provisos. If so, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of said reservations or provisos.

Yes

No

C.1.39 Indicate the number of years that the current audit firm has been conducting the audit of the annual accounts of the company and / or its group without interruption Also, indicate the percentage representing the number of years audited by the current audit firm out of the total number of years in which the annual accounts have been audited:

	Company	Group
<b>Number of uninterrupted fiscal years</b>	6	6
<b>Number of fiscal years audited by the current audit firm / No. of fiscal years in which the company has been audited (in %)</b>	24.00%	24.00%

C.1.40 Indicate and, if applicable, describe, if there is a procedure for Directors to obtain external advice:

Yes

No

**Describe the procedure**

In accordance with the Board of Directors Regulations (Article 27.1) and to assist them in the performance of their duties, and whenever circumstances require, the Company will provide the Directors, and the Directors may request the hiring of, at the cost of the Company, with legal, accounting and financial advisors or other experts. The assignment must necessarily deal with specific problems of a certain scope and complexity that arise in the performance of the position. The decision to hire must be forwarded to the Chairman and must be approved by the Board, which can only deny it if it is not necessary for the proper performance of the functions entrusted to External Directors; its cost is not reasonable in view of the scale of the problem and the assets and income of the company; or the technical assistance that is given may be adequately provided by experts and technicians of the Company.

Likewise, Article 16.7 of the Board of Directors Regulations states that, for the best performance of its functions, the Audit Committee may seek the advice of external professionals, to which end that referred to in the previous paragraph of this point shall apply.

C.1.41 Indicate and, if applicable, describe, if there is a procedure enabling Directors to have the necessary information to prepare the meetings of administrative bodies with sufficient time:

Yes

No

**Describe the procedure**

In accordance with article 26 of the Board of Directors Regulations, the Director is vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background of corporate operations and to inspect all its facilities. The right to information extends to subsidiary companies, whether domestic or foreign.

To avoid disturbing the ordinary management of the company, the exercise of the right to information will be channelled through the Chairman or the Secretary of the Board of Directors, who will deal with requests from the Director providing him with the information directly, offering him the appropriate interlocutors at the appropriate organizational level, deciding on the appropriate measures to allow him to carry out the necessary examinations and inspections in situ.

C.1.42 Indicate and, if applicable, describe, whether the company has established rules that oblige Directors to report and, where appropriate, resign in those cases that could harm the credit and reputation of the company:

Yes

No

**Explain the rules**

The Directors must notify the Board, as soon as possible, of any event or situation that may be relevant to their performance as Directors of the Company, especially those circumstances that affect them and that may damage the credit and reputation of the company and, in particular, criminal cases in which they appear as accused (article 37.3 of the Board of Directors Regulations). Likewise, article 24.3 of the Board Regulations establishes that the Directors must tender their resignation to the Board of Directors and formalize, if deemed appropriate, the corresponding resignation, in the following cases among others:

- i) when prosecuted or placed on trial for any of the offences indicated in Article 213 of the Capital Companies Act, which shall be reported in the Annual Corporate Governance Report, or when sanctioned as a result of disciplinary proceedings brought by the supervisory authorities owing to a severe or very severe infringement (Article 24.3.b));
- ii) when severely reprimanded by the Audit Committee for having infringed their obligations as Directors (Article 24.3.c));
- iii) when remaining on the Board could seriously jeopardise the interests of the Company (Article 24.3.d))

C.1.43 Indicate whether a member of the Board of Directors has informed the company that he/she has been prosecuted or placed on trial for one of the offences indicated in Article 213 of the Capital Companies Act:

Yes

No

Indicate whether the Board of Directors has analysed the case. If the answer is yes, provide a reasoned explanation of the decision made about whether or not the Director should remain in his/her post, or, where appropriate, detail the actions taken by the Board of Directors up to the date of this report, or the actions it plans to take.

C.1.44 Detail any relevant agreements signed by the company which come into force, are amended or are terminated in the event of a change in the control of the company as a result of a takeover bid, and the effects thereof.

The issue in October 2015 of senior-ranking bonds in the amount of €250,000,000, with maturity in 2022, and the line of credit of €90,000,000 agreed with various financial institutions as part of this issue, include change of control clauses which oblige the company to offer repayment of the bond and the line of credit under the terms established in the respective contracts.

C.1.45 Provide details of all agreements between the company and its Directors and managers or employees which have compensation, guarantee or protection clauses for when said parties resign or are unfairly dismissed, or for when the contractual relationship comes to an end owing to a takeover bid or another type of transaction.

### Number of beneficiaries 11

**Type of beneficiary:**

Managing Director, Management and Employees

**Description of the Agreement:**

a) Conditions applicable to the Managing Director.

The contract signed with the Managing Director provides that in the event of dismissal at the will of the Company, the latter shall give him/her at least three months' notice and the managing Director shall be entitled to receive a gross compensatory amount consisting of one year's worth of the fixed salary he/she had been receiving at that time, plus the amount of variable remuneration received in the year immediately preceding that of his/her dismissal. The Managing Director shall be entitled to receive this same compensation in the event that a change of control takes place within the Company and the managing Director voluntarily resigns from his/her post. Compensation shall not be paid to the Managing Director until the company has checked that there have been no infringements or serious breaches resulting in verifiable harm to the company, which it shall do within three months of the dismissal.

b) Conditions applicable to 10 executives of the Company.

At the close of the 2017 financial year, there were 10 executives whose contracts included the following compensation for each of them:

- One Executive, whose contract states that in the event of his leaving the company owing to the latter's unilateral termination of the working relationship, he shall be entitled to compensation equivalent to 45 days of his fixed gross salary per year worked, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.
- One Executive, whose contract states that in the event of the company's unilateral termination of the working relationship, during the first three years of the contract, he shall be entitled to gross compensation equivalent to one year's worth of his fixed salary, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.
- One Executive, whose contract states that in the event of the company's unilateral termination of the working relationship, he shall be entitled to gross compensation, in addition to legal compensation, equivalent to six months' worth of his fixed salary.
- One technician, whose contract states that in the event of the company's unilateral termination of the working relationship during the first three years of the contract, he shall be entitled to gross compensation equivalent to four months' worth of his fixed salary, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.
- One Technician, whose contract states that in the event of the company's unilateral termination of the working relationship, during the first 31 months of the contract, he shall be entitled to gross compensation equivalent to six months' worth of his fixed salary, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.
- One technician, whose contract states that in the event of the company's unilateral termination of the working relationship, within one year of his joining, he shall be entitled to gross compensation equivalent to twelve months' worth of his fixed salary, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.
- One technician, whose contract states that in the event of the company's unilateral termination of the working relationship during the first twelve months of the contract, he shall be entitled to gross

compensation, in addition to legal compensation, equivalent to three months' worth of his fixed salary, except in the event of a fair dismissal declared final in a judgment, arbitral award or administrative decision.

- One technician, whose contract states that exclusively in the event of the company's unilateral termination of the working relationship within 24 months of the effective start date of his service provision, he shall be entitled to a total gross compensatory amount, including legal compensation, corresponding to a number of months' worth of his fixed gross salary, said number being equivalent to the difference between 24 months and the months effectively worked, except in the event of a fair dismissal declared final in a court judgment.

- One technician, whose contract states that he is entitled to receive €10,000, even when the three-year employment period has not elapsed, exclusively in the event of a disciplinary dismissal that is declared or recognised as unfair by a final court judgment, or by an agreement reached through judicial or extrajudicial conciliation before the relevant authorities in each case.

- One technician, whose contract states that he is entitled to receive €10,000, even when the three-year employment period has not elapsed, exclusively in the event of a disciplinary dismissal that is declared or recognised as unfair by a final court judgment, or by an agreement reached through judicial or extrajudicial conciliation before the relevant authorities in each case.

Given that none of the 10 executives are members of the management committee, the clauses described are not submitted to the Board.

Indicate whether these contracts must be communicated and/or approved by the bodies of the company or its group:

	Board of Directors	General Shareholders' Meeting
Body that approves the clauses	Yes	No

	Yes	No
Is the General Shareholders' Meeting informed about the clauses?	X	

## C.2 Committees of the Board of Directors

C.2.1 Give details of all the committees of the Board of Directors, their members, and the proportion of Executive Directors, proprietary and Independent Directors and other external members that form them:

### **NOMINATING AND COMPENSATION COMMITTEE**

Name	Position	Category
MR. JOSE CARLOS DEL ÁLAMO JIMÉNEZ	CHAIRMAN	Independent
MR. PEDRO BARATO TRIGUERO	MEMBER	Independent
MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ	MEMBER	Other external member
MR. JOSE GUILLERMO ZUBIA GUINEA	MEMBER	Independent

Name	Position	Category
TURINA 2000, S.L.	SECRETARY	Proprietary

% of Proprietary Directors	20.00%
% of Independent Directors	60.00%
% of other external members	20.00%

Explain the functions assigned to this committee, describe its organisational and operational procedures and rules and summarise its most important activities in the financial year.



Pursuant to Article 17 of the Board of Directors Regulation, the Nomination and Remuneration Committee shall be formed by the number of non-Executive Directors decided by the Board of Directors, with a minimum of three members and a maximum of seven, the majority of which must be Independent Directors.

The Nomination and Remuneration Committee meets every time the Board or its Chairman requests the issue of a report or the adoption of proposals, and, in any case, whenever it is appropriate to ensure the proper performance of its functions, and at least 4 times a year. It always meets once a year to prepare the information regarding the remuneration of the Directors, which the Board of Directors must approve and include in their annual public documentation (Article 17.4 of the Board of Directors Regulation).

The agreements adopted in each session of the Board are reported at the following session of the Board of Directors and a copy of the minutes of the committee's sessions shall be made available to all the Directors.

Its duties, consisting mainly in assessing the competence of the members of the Board of Directors and of the senior management and in proposing nominations of Independent Directors and reporting the nominations of the other Directors, as well as remuneratory changes it considers appropriate for these two groups, are set out in Article 17 of the Board of Directors Regulation.

## **EXECUTIVE COMMITTEE**

Name	Position	Category
MR. JUAN LUIS ARREGUI CIARSOLO	CHAIRMAN	Proprietary
MR. IGNACIO DE COLMENARES BRUNET	MEMBER	Executive
MR. JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Other external member
MR. JOSE GUILLERMO ZUBIA GUINEA	MEMBER	Independent
MR. PEDRO BARATO TRIGUERO	MEMBER	Independent
MR. FERNANDO ABRIL-MARTORELL HERNÁNDEZ	MEMBER	Other external member
MR. VÍCTOR URRUTIA VALLEJO	MEMBER	Proprietary

<b>% of Executive Directors</b>	14.29%
<b>% of Proprietary Directors</b>	28.57%
<b>% of Independent Directors</b>	28.57%
<b>% of other external members</b>	28.57%

Explain the functions assigned to this committee, describe its organisational and operational procedures and rules and summarise its most important activities in the financial year.

Pursuant to Article 50 of the Articles of Association, the Executive Committee shall be formed by a minimum of four Directors and a maximum of eight, including the Chairman. Within these limits, the number of members is determined by the Board of Directors based on the changing circumstances of the company, with the aim of ensuring that there is a reasonable balance between the different types of Director (Article 15.1 of the Board of Directors Regulation).

It reports its agreements to the Board at the next meeting, and all the Directors shall be provided with a copy of the minutes of Executive Committee sessions.

It has all the same powers as the Board of Directors except those which cannot be delegated under the law, the Articles of Association, or the Board of Directors Regulation.

Indicate whether the composition of the delegate or executive committee reflects the different types of Director on the board:

Yes

No

## **AUDIT COMMITTEE**

Name	Position	Category
MR. JOSE GUILLERMO ZUBIA GUINEA	CHAIRMAN	Independent
MR. JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Other external member
MENDIBEA 2002, S.L.	MEMBER	Proprietary

MR. LUIS LADA DÍAZ	MEMBER	Independent
MS. ISABEL TOCINO BISCAROLASAGA	SECRETARY	Independent

<b>% of Proprietary Directors</b>	20.00%
<b>% of Independent Directors</b>	60.00%
<b>% of other external members</b>	20.00%

Explain the functions assigned to this committee, describe its organisational and operational procedures and rules and summarise its most important activities in the financial year.

Pursuant to Article 51 of the Articles of Association, the Audit Committee shall be formed by a minimum of three and a maximum of seven Directors. Its members shall be exclusively non-Executive Directors, the majority of whom shall be Independent Directors, and shall be appointed based on their knowledge and experience in accounting, auditing, or both (Article 16.1 of the Board of Directors Regulations).

The Audit Committee meets periodically as necessary, and at least four times a year.

Members of the executive team or company staff must attend the Committee sessions, collaborate and allow it to access the information they possess when required to do so, and shall have a voice but no voting rights.

The agreements adopted in each session of the Board are reported at the following session of the Board of Directors and a copy of the minutes of the Committee's sessions shall be made available to all the Directors.

Its duties, consisting mainly in ensuring regulatory compliance, financial transparency and that risks to the Company are assessed, are set out in Article 16 of the Board of Directors Regulation.

Identify the Director of the Audit Committee who has been appointed based on his/her knowledge and experience in accounting, auditing, or both, and give the number of years that the Chairman of this Committee has held this post.

<b>Name of Director with experience</b>	MR. JOSE GUILLERMO ZUBIA GUINEA
<b>No. of years the Chairman has held the post</b>	3

### **FORESTRY AND REGULATORY POLICY ADVISORY COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
MR. PEDRO BARATO TRIGUERO	CHAIRMAN	Independent
MR. JUAN LUIS ARREGUI CIARSOLO	MEMBER	Proprietary
MR. JOSE CARLOS DEL ÁLAMO JIMÉNEZ	MEMBER	Independent
MR. IGNACIO DE COLMENARES BRUNET	MEMBER	Executive
TURINA 2000, S.L.	MEMBER	Proprietary
MS. ISABEL TOCINO BISCAROLASAGA	MEMBER	Independent
RETOS OPERATIVOS XXI, S.L.	MEMBER	Proprietary

<b>% of Executive Directors</b>	14.29%
<b>% of Proprietary Directors</b>	42.86%
<b>% of Independent Directors</b>	42.86%
<b>% of other external members</b>	0.00%

Explain the functions assigned to this committee, describe its organisational and operational procedures and rules and summarise its most important activities in the financial year.

The Forestry and Regulatory Policy Advisory Committee shall consist of the number of Directors determined by the Board of Directors, up to a maximum of eight members. The Chairman of the Board of Directors and the Managing Director of the Company are ex officio members of the Committee. The remaining members are elected from among the Company Directors, based on their experience and knowledge with regard to the responsibilities assigned to the Committee. (Article 17 bis of the Board of Directors Regulation.)

The Forestry and Regulatory Policy Advisory Committee meets as many times as it deems necessary, at the request of the Chairman of the Board of Directors or the Managing Director of the Company, and in any case 4 times a year. Anyone required to do so may attend the sessions of the Committee, and shall have a voice by no voting rights. The Committee reports its actions to the Board of Directors periodically and whenever it deems it appropriate to do so.

Without prejudice to other tasks which may be assigned to it by the Board, the Forestry and Regulatory Policy Advisory Committee is responsible for reporting, advising, collaborating and making proposals in the following areas, and any others related thereto:

- a) the Company's actions in relation to policies and regulation and management in areas which are directly or indirectly linked to the Company's activities and operations, particularly with regard to forest management;
- b) the institutional relationship with the various authorities competent in the establishment of policies, regulations, management and planning in said areas, at a state level, in the autonomous communities, and locally; and
- c) the establishment and development of policies, regulations, management and planning, before the various administrative and territorial departments with competence in said areas, especially those intended to promote cooperation in the management of forest areas or cooperation or centralisation with regard to forest ownership.

**C.2.2 Complete the following table with information about the number of Directors on the Board of Directors Committees during the last four financial years:**

	Number of Directors							
	2017 financial year		2016 financial year		2015 financial year		2014 financial year	
	Number	%	Number	%	Number	%	Number	%
NOMINATION AND REMUNERATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT COMMITTEE	1	20.00%	1	20.00%	1	20.00%	1	20.00%
FORESTRY AND REGULATORY POLICY ADVISORY COMMITTEE	1	14.28%	1	14.28%	1	16.66%	1	16.66%

**C.2.3 Section deleted**

**C.2.4 Section deleted.**

**C.2.5 Indicate, where appropriate, the existence of regulations governing the committees of the Board, where they can be consulted, and any amendments thereto during the financial year. In addition, indicate whether an annual report has been prepared voluntarily on the activities of each committee.**

**EXECUTIVE OR DELEGATE COMMITTEE**

The Executive Committee regulations are in both the Articles of Association and the Board of Directors Regulations.

Subsidiarily, the provisions of the Regulation on the functioning of the Board of Directors shall apply to the Executive Committee, insofar as is possible. There are no specific regulations for the Executive Committee.

The Articles of Association and the Board of Directors Regulations in force at any time can be accessed on the Company's website, at the address [www.ence.es](http://www.ence.es).

There have been no amendments to its regulations during this financial period.

**AUDIT COMMITTEE**

The Audit Committee regulations are in both the Articles of Association and the Board of Directors Regulations.

Subsidiarily, the provisions of the Regulation on the functioning of the Board of Directors shall apply to the Audit Committee, insofar as is possible. There are no specific regulations for the Audit Committee.

The Board of Directors Regulations in force at any time can be accessed on the Company's website, at the address [www.ence.es](http://www.ence.es). There have been no amendments to its regulations during this financial period.

The Audit Committee has prepared the performance report for the 2017 financial year, in accordance with the recommendations set out in Technical Guide 3/2017 of the CNMV on Audit Committees of Public-Interest Entities.

**NOMINATION AND REMUNERATION COMMITTEE**

The Nomination and Remuneration Committee regulations are in both the Articles of Association and the Board of

Directors Regulations.

The Articles of Association and the Board of Directors Regulations in force at any time can be accessed on the Company's website, at the address [www.ence.es](http://www.ence.es). There have been no amendments to its regulations during this financial period.

#### FORESTRY AND REGULATORY POLICY ADVISORY COMMITTEE

The Forestry and Regulatory Policy Advisory Committee regulations are in the Board of Directors Regulation. There are no specific regulations for the Forestry and Regulatory Policy Advisory Committee.

The Board of Directors Regulations in force at any time can be accessed on the Company's website, at the address [www.ence.es](http://www.ence.es). There have been no amendments to its regulations during this financial period.

C.2.6 Section deleted.

## **D RELATED TRANSACTIONS AND INTRA-GROUP TRANSACTIONS**

D.1 Explain, where appropriate, the procedure for approving transactions with related parties and intra-group transactions.

### **Procedure for reporting the approval of related transactions**

Pursuant to Article 16.2.16) of the Board of Directors Regulation, the Audit Committee is responsible for reporting transactions which involve or could involve conflicts of interest to the Board of Directors.

Subsequently, the Board of Directors shall approve (or not approve) the proposed transaction before it is effected (Article 33.2 of the Board of Directors Regulation).

D.2 Give details of any transactions of a significant amount or a relevant nature that were made between the company or entities of its group and the company's significant shareholders:

D.3 Give details of any transactions of a significant amount or a relevant nature that were made between the company or entities of its group and the company's administrators or executives:

<b>Name or company name of the administrators or executives</b>	<b>Name or company name of the related party</b>	<b>Relation</b>	<b>Nature of the transaction</b>	<b>Amount (thousands of Euros)</b>
RETOS OPERATIVOS XXI, S.L.	ENCE ENERGÍA Y CELULOSA, S.A.	Contractual	Purchases of finished or unfinished goods	163

D.4 Report any significant transactions made by the company with other entities belonging to the same group, whenever these are not eliminated in the process of preparing consolidated financial statements and are not part of the company's routine business.

In any case, report any intra-group transaction made with entities established in countries or territories considered to be tax havens:

D.5 Indicate the amount of the transactions made with other related parties. 0 (in thousands of Euros).

D.6 Detail the mechanisms established for detecting, determining and resolving potential conflicts of interest between the company and/or its group, and its Directors, executives or significant shareholders.

Article 44 of the Articles of Association entrusts the Board of Directors with defining, through the Board Regulation, the specific obligations

of Directors arising from the duty of loyalty, and in particular from the duties to maintain the confidentiality of the Company's information to which they have access during the performance of their roles, and to not carry out activities which involve effective competition with those of the Company. In addition, the Board of Directors Regulations shall focus in particular on conflicts of interest, and shall establish the appropriate procedures and guarantees for authorising or waiving them in accordance with the provisions of Articles 229 et seq. of the Capital Companies Act.

With regard to conflicts of interest, the Board of Directors Regulations (Article 33) establishes that board members must refrain from participating in deliberations and votes on agreements or decisions in which they or a related person have a direct or indirect conflict of interest. The above refraining obligation shall not extend to agreements or decisions which concern them in their capacity as Directors, such as their appointment or removal for positions in the administrative body or others of similar significance.

In any case, Directors must inform the Board of Directors of any direct or indirect conflict of interest which they or persons related to them may have with the Company. Conflicts of interest involving Company administrators shall also be reported in the Annual Corporate Governance Report and in the notes to the annual accounts.

A Director may not directly or indirectly make professional or commercial transactions with the company, unless he or she reports the situation of conflict of interest in advance and the Board approves the transaction following the issue of a report by the Audit Committee. Through the Audit Committee, the Board of Directors shall ensure that said transactions are made under market conditions and respect the principle of equal treatment of shareholders.

In turn, Article 40.2 of the Board of Directors Regulations establishes that in any case the approval by the Board of Directors of the transactions described in the previous paragraph is subject to a report issued previously by the Audit Committee, in which the transaction shall be assessed to establish whether it respects the principle of equal treatment of shareholders and is carried out under market conditions.

Furthermore, in relation to the non-compete obligation, the Board of Directors Regulations (Article 32) stipulates that board members must refrain from: a) making transactions with the Company, with the exclusion of ordinary transactions which are made under standard conditions for clients and are of little relevance; b) using the name of the Company or their status as administrator to unduly influence the conduct of private transactions; c) making use of the Company's assets, including its confidential information, for private purposes; d) taking advantage of the Company's business opportunities; e) gaining advantages or remuneration from third parties other than the Company and its group in connection with the performance of their roles, unless these are mere courtesies; and f) performing activities on their own or another party's account which involve real or potential effective competition with the Company or which put them in a position of permanent conflict of interest with the Company in any other way. In the case of Directors who are legal persons, this obligation extends to the natural person representing the Director.

Board members who have obtained authorisation from the General Shareholders Meeting shall have the obligation to comply with the conditions and guarantees laid down in the General Shareholders Meeting agreement and, in any case, the obligation to refrain from (i) accessing information and (ii) participating in discussions and votes regarding agreements or decisions in which they or a related person have a direct or indirect conflict of interest, this refraining obligation excluding agreements or decisions which concern them in their capacity as board members, in accordance with the provisions of the article below and Articles 229 and 228 of the Capital Companies Act.

In any case, Directors must inform the Board of Directors of any direct or indirect conflict of interest which they or persons related to them may have with the Company. Any conflicts of interest involving Directors shall be reported in the notes.

Lastly, in accordance with Article 23.3 of the Board of Directors Regulations, if, when informed by the Nomination and Remuneration Committee, the Board of Directors understands that 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. 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. This compensation shall be calculated within the limit referred to in Article 42.1 of the Articles of Association.

## D.7 Is more than one of the Group's companies listed in Spain?

Yes

No

Name the subsidiary companies listed in Spain:

### Subsidiary company listed

Indicate whether the respective areas of business and possible business relationships between them have been publicly and precisely defined, as well as any such relationships between the listed subsidiary and other companies of the group;

Define any business relations between the parent company and the listed subsidiary company, and between the listed subsidiary company and the other group companies

Identify the mechanisms envisaged for resolving potential conflicts of interest between the listed subsidiary and the other group companies:

## E RISK MANAGEMENT AND CONTROL SYSTEMS

### E.1 Explain the scope of the company's Risk Management System, including the system for managing tax risks.

Ence's Risk Management System ("RMS") is a process which is integrated into the organisation and focused on identifying, assessing, prioritising, responding to and following up on situations which pose a threat to the company's activities and objectives. This process involves the participation of different areas of the company with specific responsibilities that cover all its phases.

Ence's Risk Management System is defined and regulated in the Risk Management and Control Policy and the Risk Management Procedure, which have been approved by the company's Board of Directors. Said Risk Management System is periodically revised to include best practices in this area.

The RMS encompasses Ence and the companies within its group as defined under Spanish law, as well as all its business lines (pulp, energy and forestry) and the activities of its corporate and ancillary spheres.

The RMS specifies all risk factors that have been identified for the different objectives of the organisation. The risks, like the objectives, are categorised as relating to strategy, operations, financial reporting and regulatory compliance, as well as by origin (internal or external).

Furthermore, the RMS establishes the following types of risks, according to their nature: environment risks, risks relating to information in decision-making, financial risks, organisational risks, operational risks, criminal risks, tax risk factors and reputational risks.

The Risk Record and the Risk Map are the formats used for the periodic report on the main risks identified and assessed in the different business, corporate and ancillary units, in accordance with the requirements established in the Risk Management and Control Policy and Procedure.

Every year, Ence identifies and assesses new risks, monitors the development of risks that have been identified in previous years and determines whether any risks have ceased to exist during the period. In addition, it updates the information relating to the controls and action plans associated with identified risks.

The Audit Committee periodically monitors the fiscal risks facing the company in order to help the Board establish the fiscal risk management and control policy. To this end, Ence has a team of advisors and experts, as well as specific resources available in the company, who have set out internal guidelines for fiscal compliance and low risk appetite in this area.

Ence has a Risk Management System for the prevention and detection of offences. It includes numerous measures and controls designed to prevent or reduce as much as possible the risk of a criminal act being committed, and to ensure that the company's employees, executives and administrators act in accordance with the law at all times as they perform their professional activities.

With the aim of being able to comprehensively supervise and monitor all the Company's activities, a Criminal Risk Map has been prepared, identifying all the activities that present opportunities for criminal acts and therefore criminal liability risks for Ence.

In addition to covering offences that could result in criminal liability for Ence, other offences have been included in the criminal risk map. Whilst these do not imply criminal liability for the legal person, committing them could lead to legal consequences for the company as outlined in Article 129 of the Criminal Code.

### E.2 Identify which company bodies are responsible for the preparation and execution for the Risk Management System, including the fiscal system.

#### BOARD OF DIRECTORS

The Company's ultimate decision-making body, with the exception of matters reserved for the jurisdiction of the General Shareholder's Meeting. The policy adopted by Ence's Board of Directors is to delegate company management in order to concentrate on its supervisory role, but cannot delegate non-delegable powers in accordance with the provisions of the Capital Companies Act (article 5.3 of the Board of Directors Regulations).

#### AUDIT COMMITTEE

The Audit Committee assists the Board of Directors with its monitoring and control functions by supervising the efficiency of the Company's internal control, internal auditing and the process of preparation and presentation of financial information (article 51 of Articles of Association 16.3, 16.4 and 16.5 of the Board of Directors Regulation).

Furthermore, article 16.2.11 of the Board of Directors Regulations empowers the Audit Committee to "supervise the efficiency of the Company's internal control and the risk management system, including internal systems for the control of financial information, environmental aspects, safety, audit and prevention of occupational risks; supervise the appointment and replacement of management; and liaise with account auditors or audit companies regarding any weaknesses detected in the internal control systems, during the course of the audit."

#### ETHICS AND COMPLIANCE COMMITTEE

Ence has an Ethics and Compliance Committee which reports to the Audit Committee and the Board of Directors, with autonomous powers and control over all areas of the Company, that should act as the main control for prevention, supervision and revision. Their duties are established in the procedure regulating the Ethics and Compliance Committee, and include:

- Define and update ENCE's Criminal Risk Map, which identifies those company activities which have scope for possible offences, and that should be prevented.
- Supervise, control and assess the operation of ENCE's Model for the Prevention and Detection of Offences, in coordination with those directly responsible for the controls, as established by the company for offence prevention.
- Identify control weaknesses or areas for improvement, promote action plans for rectification and update or modify the measures and controls that form part of Ence's Model for the Protection and Detection of Offences.
- Adequately analyse and register those risks and controls that could affect several departments within Ence.
- Periodically inform Ence's Audit Committee of the assessment results in relation to the Model for the Prevention and Detection

of Offences.

#### INTERNAL AUDIT DEPARTMENT

Ence has an internal audit function, reporting to the Board of Director's Audit Committee, and which has the following responsibilities:

- o Develop the group's risk management procedures and criteria and present them, via the Audit Committee, to the Board of Directors for their approval.
- o Ensure that risk management procedures and criteria that have been approved by the Board of Directors are correctly implemented
- o Provide support and guidance for risk managers in all areas related to risk management.
- o Advise the Audit Committee of any identified risks, as well as the proposed action plans and proposals made by the risk manager.
- o Develop and periodically update the risk map based on those previously approved.
- o Inform the Board of Directors, via the Audit Committee, about risks that have emerged, underlining the circumstances that caused them and if the established control systems have worked.
- o Periodically monitor the extent to which approved action plans are implemented.
- o Periodically inform the Audit Committee of the emergence of new risks, the evolution of those identified, the extent to which action plans are being implemented and the general operation of the risk management system.

#### RISK MANAGERS

Directors and managers of the different business areas and corporate functions are responsible for the different risks, and who perform, among other things, the following duties:

- o Use the approved risk management procedures and criteria, in particular:
  - Identify situations of risk that effect the fulfilment of objectives within their area of responsibility.
  - Assess identified risks according to the methodology available.
  - Inform of these risks by taking part in the established risk reporting process for this purpose and by using the tools made available for them.
- o Follow the directives outlined at every step with reference to risk management.
- o Inform the internal auditor of the risks identified, the proposed action plan, as well as the level of progress of their implementation.

### E.3 Indicate the main risks, including fiscal elements, that could affect the fulfilment of the company's business objectives.

Objective of improving and optimising production capacity.

ENCE produces eucalyptus cellulose paste in its factories in Navia (Asturias) and Pontevedra, which uses the most environmentally-friendly technology and adopts continual improvement processes to strengthen competitiveness and the quality of their products. Nevertheless, the age of some of the equipment could affect their correct operation, their efficiency and lifespan.

Objective of strengthening our position in European cellulose: develop new products:

ENCE is creating its own brand on an international scale with the aim of differentiating its production from that of its competitors. This objective could come under threat if Ence were unable to produce the products that its clients demand, or were not able to obtain a sufficient amount of certified wood that meets the standards generally accepted in the global paste market, primarily those set by the Forest Stewardship Council (FSC).

Objective of optimising operating costs.

Ence has established operational efficiency as a priority, by optimising production throughout the entire value chain. This objective could come under threat due to the rising costs of raw material, consumables (chemicals, fuel, gas) other industrial supplies and parts, logistics and transport, salary costs, strikes or a drop in productivity.

Minimise the impact of our operations on the environment: The cellulose business is carried out in industrial facilities, involving a continuous process which poses risks inherent in all industrial activity. Complying with current legislation is a priority for Ence, as well as reducing to any risks that could potentially harm the company's natural, environmental or social context to a minimum.

Business continuity objectives

The extension of the land concession for the Pontevedra factory was granted for a period of 50 years with 10 additional years, the latter additional 10-year period owing to certain energy efficiency, water conservation and environmental quality projects, that have been offered by Ence. Failure to comply with the conditions of the commitments reflected in the ministerial decree, of 26 January 2016, based on which the concession was granted, could mean the loss of the said additional period.

Financial discipline objectives

The businesses develop in complex economic environments that require disciplined financial measures, in order to maintain financing capacity to reasonable levels, that could be effected by the following risks:

- a) VOLATILITY IN THE PRICE OF PASTE The product price on the global market is inherently volatile, influenced by variables such as worldwide production or global demand for the product. The price of paste significantly impacts Ence's revenues and profits. A significant drop in the product price could have a corresponding negative effect on revenues, on cash flow or on profit.
- b) EXCHANGE RATE VOLATILITY The price of paste is set in dollars (USD) and Ence's costs, in euros, meaning that business revenue on paste sales depend on the euro/dollar exchange rate. Possible variations in the said exchange rate can have negative effects on profits.
- c) COMMERCIAL CREDIT RISK - CELLULOSE There is a risk associated with collection of commercial loans to clients.
- d) LIQUIDITY AND CAPITAL RISKS Exposure to adverse debt or equity market situations could hinder or impede the ability to cover the financial needs required for the proper development of the Group's activities and its Strategic Plan 2016-2020.

Objective of guaranteeing occupational quality, health and safety.

The objective of ongoing improvement in the areas of occupational health and safety could be threatened by risks inherent to industrial and forestry activities. Ence has specific prevention regulations in this area, but they do not entirely eliminate the risks.

#### Regulatory compliance objectives

The implementation of the BREF (Best Available Techniques References Documents) in the paste and paper sector in 2017, established production and emissions standards that are more restrictive than before, in terms of the type of process, the geographical location and local environmental conditions, which will create the need for investment, new control and environmental improvement systems.

In 2015, on the other hand, Ence implanted a Risk Management System for the Offence Prevention and Detection, which includes measures and controls designed to prevent or minimise the risk of committing any offensive act and guarantee the legality of employees, management or administration.

#### Fiscal risk control objectives

Ensure that the activities and operations carried out by Ence develop in compliance with the applicable taxation legislation. The Audit Committee monitors the Company's fiscal risks in order to help the Board determine fiscal risk management and control policies.

**Regulatory Changes - Taxation** The government may undertake new modifications to tax regulations that could affect Ence and directly impact company profits, such as modifications or reforms in company tax, income tax, etc.

Ence has a department specialised in taxation and field-specific advice, with the aim of establishing internal guidelines for tax compliance and a zero risk appetite.

### E.4 Identify if the organisation has a risk tolerance level, including fiscal risk.

Ence has implanted a methodology to assign specific tolerance levels for the risks identified. This methodology is based on three pillars.

a. Identify the organisation's maximum capacity for each risk, or rather, the maximum risk it is capable of withstanding to achieve its objectives and fulfil its mission/vision, specified for each threat situation.

b. Based on the objectives and the maximum capacity defined for each type of risk and objectives, a risk appetite is formulated for each threat; that is to say, a given risk level that the Company voluntarily accepts is established, in order to reach its objectives and to fulfil its mission/vision.

c. A risk tolerance is established for specific risks: these levels can be exceeded or can fall short of the risk appetite, without jeopardizing the maximum risk capacity. The tolerance level compares the variation in the real risk taken by the organisation with their objectives, as defined in the risk appetite.

Ence's Risk Management and Control Policy takes the previous element into account and establishes the Company's position in relation to them. Furthermore, the risk management techniques used include the following strategies based on the capacity-tolerance-appetite focus of each risk, with the aim of providing an appropriate response to threat situations: avoid, mitigate, transfer or accept.

All risks included in Ence's Risk Management System (RMS) are assessed on the basis of certain impact evaluation criteria that allow it to determine its position within the general scheme of risk appetite. The criteria used are: health and safety criteria, legality and compliance, environmental criteria, economic and financial criteria and reputational criteria.

Together with assessments about the probability of risk occurrence, these criteria are transferred and incorporated with the tools used in the RMS (risk records and maps), with the aim of informing and correctly monitoring them, on behalf of the corresponding bodies.

### E.5 Indicate the risks, including fiscal, that have arisen during the period.

The following risks have arisen during the 2017 financial year:

a) **PASTE PRICE VOLATILITY** The price of paste is established in an active market whose development significantly affects Ence's revenue and profits. Global paste prices have been volatile during the 2017 financial year, causing variations in the Company's profits.

b) **EXCHANGE RATE VOLATILITY** The euro to dollar exchange rate proved to be extremely volatile in 2017. Ence has periodically monitored the foreign exchange market with a view to contracting hedge funds or futures to mitigate impacts, if necessary.

c) **PRICE VARIATIONS IN CHEMICAL PURCHASING** As a result of the European Union's prohibition of using mercury technology in chlorine production and caustic soda, from 11 December 2017, Ence has seen a rise in its production costs due to the closure and disappearance of suppliers, to the decrease in supply, and the increased price of the new technologies needed to produce the said chemical products.

d) **NON-EXCLUSIVE ACCESS TO THE NAVIA OUTFALL** The obligation to share the submarine outfall at the Navia plant with other users, pursuant to the private agreement in which CEASA has the exclusive concession, caused something of a bottleneck throughout 2017, and consequently, increased pressure on the Company's cellulose paste production.

e) **PONTEVEDRA FACTORY CONCESSION.** In light of its expiration in July 2018 - the timeframe stipulated in the Coastal Law 1988 having run its course - the Company began a process to extend the administrative concession on 8 November 2013 for the occupation of public shoreline fringe upon which the Pontevedra plant is based.

This process was reactivated after the expiration case mentioned in the previous paragraph was resolved, and which has also been completed via resolution communicated on 25 January 2016, in which the Company was granted the concession. The said concession was granted for a period of 60 years, counting from the day the request was made. The extra period granted on top of the originally intended maximum of 50 years for this type of concession, is linked to a series of investments with a total value of 61 million euros, which are scheduled in the Company's Strategic Plan.

The said resolution, similar to the one that finalised the concession expiry expedient, has been disputed before the National High Court in 2016 by the Pontevedra Town Council, the Ria Defence Association and Greenpeace Spain. These appeal processes have continued throughout 2017 and are still awaiting resolution.

### E.6 Explain the response and supervision plans for the organisation's main risks, including fiscal risks.



- The objective of improving production capacity: Reduce the risks of obsolescence of facilities and equipment through civil engineering reviews, investments and maintenance programmes.
- The objective to develop new products: A deeper understanding of the client's needs, improvement in production processes and strengthening the sales team. The availability risk of FSC certified wood is reduced by strengthening owner and supplier management and relations with the FSC. European market presence and positioning has been strengthened, designing actions to increase the number of clients and new specialisms, reducing the impact of potential risks.
- Objective of optimising operating costs. Identify the most competitive assets and services, improve negotiation capability and broaden the supply base. Insufficient availability of wood in the factories' surroundings can be managed through a better commercial and logistical plan, and a larger presence in the market by log purchasing, contingency plans and minimum stocks.

STRIKES Communication and management policies together with providers are in place, in anticipation of third-party strikes that could affect Ence.

COST ASSOCIATED WITH SPECIFIC REGULATIONS Reduce risks through ongoing relations with main interest groups

TECHNOLOGICAL ADVANCES OF COMPETITORS Ongoing monitoring of competitors' technological behaviour and continual improvement of production processes.

- Minimise the impact of our operations on the environment: Ongoing improvements and investments in facilities are made to reduce the risk of environmental impact, pursuant to the regulatory requirements of our Integrated Environmental Permits.
- Business continuity objectives

NATURAL DISASTERS The response adopted consists of risk prevention and to minimise the impacts that unfold: training, assurance, preventive inspection measures, activity surveillance and control and an integrated vision to combat the main pests that threaten biological assets.

PONTEVEDRA CONCESSION PERIOD Legal defence to deal with appeals against the concession.

- Financial discipline objectives

VOLATILITY IN THE PRICE OF PASTE Ence has a Global Risk Committee to mitigate this risk, which periodically monitors the development of the paste market. This Committee stays in permanent contact with financial entities to contract the pertinent hedge funds or futures, when applicable and if prices are appropriate.

EXCHANGE RATE VOLATILITY monitoring of the foreign exchange market and the performance of the euro/dollar rate, to contract hedge funds or futures when applicable.

INTEREST RATE VOLATILITY The most important financial operations are linked to fixed interest rates. Hedge funds are contracted for operations with variable interest rates.

COMMERCIAL CREDIT RISK - CELLULOSE This is mitigated by assuring practically all of the sales and financial credit risk, by dealing with counterparts with excellent credit ratings and establishing contracting limits with periodic reviews.

LIQUIDITY AND CAPITAL RISKS This is mitigated by a Financial Plan developed by the General Finance Director which encompasses all financial requirements and the way in which they will be covered. In addition, policies have been put in place to establish the maximum capital to be committed on promotional projects, prior to obtaining the associated long-term finance.

- Objective of guaranteeing occupational quality, health and safety.

Plans for the prevention of occupational risks are in place, based on training and maintenance of integrated management systems and obtaining ISO, OSHAS and FSC certificates. The development of a project to improve safety and costs through the Overall Equipment Effectiveness (OEE) is envisaged.

- Regulatory compliance objective

Response to this risk is channelled by actively participating in decision-making forums about regulations relating to the new application (BREF) and in defining the investments that are the most important, in order to adapt to new future regulations.

On the other hand, Ence has implemented a Risk Management System for the Offence Prevention and Detection. This includes numerous measures and controls that are designed to prevent or mitigate, as much as possible, any criminal act committed within our organisation, and guarantee the legality of actions carried out by Company employees or Directors in the course of their professional activities, at all times. During 2017, Ence developed and implemented internal policies and procedures to reduce its exposure to specific offences.

- Fiscal risk control objectives The Audit Committee monitors the fiscal risks in order to help the Board to determine fiscal risk management and control policies.

In addition, Ence has a team of advisors and experts, combined with the availability of the company's dedicated resources, that have marked internal fiscal compliance guidelines and under risk assumption in this area. Nevertheless, as these risks come from outside the company and whose field of activity are unlikely to effect Ence significantly, the main developments are monitored in detail in order to adjust accordingly, as they arise.

## **F INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)**

Describe the mechanisms that comprise the internal risk management and control systems with the financial reporting process (SCIIF) of your organisation.

### **F.1 The entity's control environment**

Report, indicating their main characteristics, at least:

#### **F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.**

Article 14.1 of Ence's Board of Directors Regulations foresees the creation of an Audit Committee by the Board of Directors, whose roles and operation are listed in article 16 of the Company's aforementioned Board of Directors Regulations.

The Audit Committee assumes the following duties in relation to the internal information and control systems:

1. Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment, contracting

conditions, the scope of the professional mandate, the reelection and, as the case may be, the termination or non-renewal of account auditors or auditing companies.

2. Supervise the Company's internal audit based on the annual internal audit plan presented by the person responsible for this area every financial year; on the information supplied about incidences that have arisen during the period; and on the activities that the person responsible for the internal audit submits for the Committee's consideration at the end of every financial year.

3. Ensure the independence and efficiency of the internal audit's functions, propose the selection, appointment, reelection and removal of the person responsible, propose a budget, examine the information that this system periodically generates about its activities, check that senior management have taken note of the reports' conclusions and recommendations and approve its guidance and work plans, ensuring that its activity is concerned mainly with the risks that are relevant to the Company.

4. Supervise the development and preparation process of regulated financial information.

5. Review the Company accounts, monitor compliance of legal requirements, the correct application of generally accepted accounting principles and the scope of the consolidation perimeter, as well as inform of proposals to modify the accounting principles and criteria suggested by management.

6. Supervise the efficiency of the Company's internal control and risk management systems including internal systems controlling financial information, environmental aspects, safety, audit and prevention of occupational risks; supervise the appointment and replacement of management; and liaise with account auditors or audit companies regarding any weaknesses detected in the internal control systems, during the course of the audit.

7. Provide advance warning about the Board's adoption of the corresponding agreement regarding the prospectus and the periodical financial information, that the Company must provide to the markets and supervisory bodies.

8. Establish and supervise a mechanism which enables employees to communicate confidentially, and if deemed appropriate, anonymously, any potentially important irregularities, especially financial and accounting issues, that are of concern to the heart of the company.

9. Examine the Company's compliance of government rules and make the necessary proposals for improvement. In particular, it is the Audit Committee's responsibility to receive information and, when applicable, issue reports on disciplinary measures for members of the Company's Board of Directors.

Ence's Corporate Finance Department is responsible for defining the Internal Control System in relation to Financial Information (SCIIF). In this context, it establishes and communicates the policies, directives and procedures related to the preparation of this information, to ensure the quality and reliability of the financial information generated. In addition, the Internal Audit Department's functions include assuring the Audit Committee that the significant business risks are identified and managed effectively, and that adequate supervision of the internal control system of financial information is in place.

#### F.1.2. Should they exist, particularly in relation to the preparation process of financial information, the following elements:

- Departments and/or mechanisms responsible for: (i) to design and review of the organisational structure; (ii) to clearly define lines of responsibility and authority, with an appropriate distribution of tasks and authority; and (iii) that sufficient procedures are in place for properly communicating this within the organisation.

The design and review of the organisational structure, as well as the lines of responsibility, are the responsibility of the Nomination and Remuneration Committee and the Board of Directors. The said Committee, via the Managing Director, determines the tasks and functions within senior management, guaranteeing an adequate communication system between the different areas and an appropriate segregation of functions.

- Code of conduct, approving body, level of dissemination and education, the included principles and values (indicating whether there are specific mentions of the registration of operations and preparation of financial information), the body responsible for analysing non-compliance and for proposing corrective measures and penalties.

Ence has a Code of Conduct, approved by the Board of Directors and which applies to all Company employees, Directors and administrative staff, third parties who act on behalf of Ence (contract workers or sub-contracted companies, agents and intermediaries, etc.) and any other person that is included within the scope of the Code of Conduct, by decision of the President of Ence's Board of Directors or Managing Director, in view of the circumstances in each individual case.

The Code in question contains a statement of the group's ethical values, as well as the minimal behavioural standards that should be observed by all people within its scope, in the way that they behave in the course of their professional activity. The said Code of Conduct includes a specific paragraph that considers the basic behavioural principles in relation to transparency and integrity with financial information; reliability of financial information and control of operating records, preparation of financial and accountancy reports, market information, contracting privileged information, as well as dealing with classified and confidential information.

Ence also has a disciplinary procedure approved by the Board of Directors, as a means through which violation of the group's procedures and implemented internal regulations will be penalised.

Throughout 2017, the Human Resources Department have continued to run training sessions on the Code of Conduct, targeted to all of the group's employees.

Likewise, Ence has an Internal Conduct Regulation for the Stock Market, (hereafter the "ICR"), approved by the Company's

Board of Directors, which adapt to the new regime established in Regulation (EU) No. 596/2014 of 16 April 2014 regarding market abuse. The said ICR responds equally to the requirements of Spanish legislation and develops aspects such as: regulations for conduct in relation to the execution of operations on stocks and financial instruments issued by the group, treatment of privileged information, communication of relevant information, transactions on treasury shares, prohibition of price manipulation, among others.

- A whistleblower channel, that allows for the communication of financial or accounting irregularities to the Audit Committee, as well as possible non-compliances of the Code of Conduct and irregular activities in the organisation, informing in a confidential nature whenever applicable.

Ence has a communication, or whistleblower channel, which enables the communication of financial or accounting irregularities, events or unlawful acts, disobedience of the Code of Conduct and Ence's procedures and internal regulations. This channel is a tool that enables the confidential reporting of the aforementioned irregularities and facilitates direct communication with the Company's governing bodies.

Management of the whistleblower channel is regulated by the whistleblower channel procedures, approved by the Board of Directors, and carried out by Ence's Audit Committee, represented by the President, fulfilling their responsibility to comply with the basic principles mentioned in areas that constitute, or could constitute, a criminal incident. In addition, the Audit Committee is responsible for adopting measures to improve compliance and for settling any doubts regarding interpretation.

Likewise, it controls and monitors that all complaints are dealt with and managed in an adequate, complete, independent and confidential manner.

The basic principles required for this control to work properly are: (i) guarantee confidentiality for those who use the whistleblower channel; (ii) ensure that all complaints received are adequately managed, which means they should be treated in the utmost confidence and in compliance with the whistleblower channel's operational procedures. (iii) ensure adequate analysis in an independent and confidential manner of all received allegations; (iv) the commitment to fully carry out, where relevant, the disciplinary, punitive and legal procedures in order to correct all conduct contrary to the law or the internal regulations of Ence in a proportionate manner.

Every quarter, the Internal Audit Department prepares a report on all received allegations which are categorised by subject (harassment, conduct, ethics, criminal, etc.), gravity (minor, serious, very serious or inappropriate), actions taken and conclusion. The report is submitted to the Audit Committee.

- Training programmes and regular refresher courses for staff involved in the preparation and review of financial reports, as well as the assessment of the SCIIF, which covers at least accounting rules, audits, internal controls and risk management.

As part of Ence's management systems, the Central Human Resources Department has established a training plan that screens for the training needs of staff, including those who participate in financial reporting and its preparation, risk management and internal controls. The annual performance evaluation fosters personal development and the uncovering of training needs.

## F.2 Risk assessment in financial reporting

State, at least:

### F.2.1. What are the principal characteristics of the process for identifying risks, including errors and fraud, in relation to:

- The existence and documentation of such a process.

Ence's Risk Management System (SGR) is defined and regulated under its Risk Control and Management Policy and the Risk Management Procedure, which have been approved by the Board of Directors.

The SGR encompasses Ence and the companies within its group, as defined under law, as well as all businesses (cellulose, energy, forestry) and activities performed within its corporate and ancillary spheres.

The SGR specifies all risk factors that have been identified for the different objectives of the organisation. The risks, like the objectives, are categorised as relating to strategy, operations, financial reporting and regulatory compliance, as well as by origin (internal or external).

Furthermore, the SGR establishes the following types of risks, according to their nature: environment risks, risks relating to information in decision-making, financial risks, organisational risks, operational risks, tax risk factors and reputational risks.

Risks of fraudulent financial reporting were considered as a relevant factor at the time of establishing the Internal Control over Financial Reporting, its documentation and procedures, and the implementation of a sufficient separation of duties within the financial department.

- Whether the process covers all objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, breakdown and comparability; rights and duties), and if it is updated and how often.

The process is based on the integrated management of different business processes aimed at strategic objectives. It includes financial reporting risks. For these latter risks, the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, breakdown and comparability; rights and duties).

The risk map is periodically reviewed (at least once a year) and its results are submitted to the Audit Committee and the Board of Directors.

- The existence of a process for identifying the scope of consolidation, considering, among other things, the possible existence of complex corporate structures or special purpose vehicles.

On a monthly basis, the Executive Finance Department determines Ence's scope of consolidation by using the Consolidation Procedure. This procedure establishes the steps to follow in ensuring that the scope of consolidation is properly updated, thereby avoiding any omissions in the consolidated financial reports.

- Whether the process considers the effects of other risk types (operating, technological, financial, legal, reputational, environmental, etc.) to the extent that they may affect the financial statements.

The risk map, among other things, shows the risk factors involved in financial reporting, along with other risk types classified as environment risks, operational risks, reputational risks, legal and regulatory risks, organisational risks, risks related to information in decision-making, and the possible financial effects their occurrence would have.

Furthermore, Ence has established a Risk Management System for the prevention and detection of offences. It includes many measures and controls designed to prevent or reduce as much as possible the risk of a criminal act being committed within our organisation. It is also aimed at ensuring that the professional activities of the company's employees and managers are at all times legal.

As part of a comprehensive supervision and control of all company activities, a map of criminal risks has been formulated. The map identifies all activities in which criminal acts could be committed, leading to Ence being held criminally liable.

In addition to covering offences that could result in criminal liability for Ence, other offences have been included in the criminal risk map. Whilst these do not imply criminal liability for the legal person, committing them could lead to legal consequences for the company as outlined in Article 129 of the Criminal Code.

During 2017, Ence developed and implemented internal policies and procedures to reduce its exposure to specific offences.

- Which of the entity's governing bodies supervises the process.

Said system is coordinated and supervised by the Internal Audit Department which in turn is monitored by the Audit Committee.

## F.3 Control activities

State whether the company has any of the following and describe their principal characteristics:

F.3.1. Procedures for the review and authorisation of financial reports and for the description of the SCIIF, to be published on stock exchanges, and identification of those responsible. Procedures for the description of operational cash flows and controls (including those for the risk of fraud) of the different types of transactions that could materially affect the financial statements, including the procedure for closing accounts and the specific review of estimates, assumptions, valuations and projections.

Ence has a collection of manual and automatic verification checks for financial reporting in order to prevent fraudulent actions, and ensure the accuracy of the financial reports and compliance with relevant legislation and generally accepted accounting principles. There is also an account closing process that verifies and approves the financial reports before their publication.

The annual accounts of the individual companies and the consolidated group, along with the quarterly and half-yearly financial reports, which are released to the market, are reviewed firstly by the Central Financial Department, then inspected by the Audit Committee before being prepared by the Board of Directors. Ence also applies procedures, agreed upon with the external auditor, which review interim financial statements.

In accordance with the recommendations of the National Stock Exchange Commission (CNMV), Ence has established and documented the critical checks that affect the preparation of the financial reports. Such documentation consists of instructions, relevant risk matrices and controls which contain information on the supervisory activity, the risk to be reduced, the frequency of checks and the person in charge. It also defines the critical checks and fraud controls to be performed. Finally, a system for the reviewing of said processes has been established to ensure they are kept up-to-date.

### F.3.2. Internal control policies and procedures for information systems (including access security, change tracking, system operation, operational continuity and separation of functions) which support the entity's processes in the preparation and publication of financial reports.

Ence has an Information System Security Policy that regulates access, changes made, system operation, operational continuity and separation of functions across the entire applications map, including the infrastructure, with a special focus on the financial reporting systems. The security rules described in it and the prevention and detection controls set out in the systems protect the financial information.

### F.3.3. Internal control policies and procedures for supervising the management of outsourced activities, including evaluation, calculation or valuation activities assigned to independent experts, which could materially affect the financial statements.

As part of the internal authorisation rules, all subcontracted activities are subject to internal levels of joint approval. The level depends on the amount at issue even where the Managing Director is concerned. Authorisation is monitored by the legal department where necessary.

As part of the Accounts Auditing Act 22/2015 of 20 July, external auditors are required to demonstrate their independence every year. Furthermore, where they offer their services as independent experts, the offer must be submitted to the Audit Committee in order to ensure the transparency of the financial statements is unaffected.

## F.4 Information and communication

State whether the company has any of the following and describe their principal characteristics:

### F.4.1. A specific department in charge of defining and updating accounting policies (accounting policy department or section), resolving questions or conflicts resulting from the interpretation of those policies, maintaining open communication with operation managers of the organisation, as well as an up-to-date accounting policy manual circulated among the entity's business units.

The Administration and Accounting Policies Department is in charge of defining the accounting policies applicable to Ence and keeping them up-to-date. It is also in charge of communicating those policies to all persons concerned, and resolving all questions or enquiries in relation to them whether from subsidiaries or a business unit. Ence also has an Accounting Policies Manual that has been circulated and is available through the Ence Intranet to all staff who actively participate in the preparation of the financial statements.

### F.4.2. Mechanisms for capturing and preparing financial information in standardised formats along with application and use mechanisms for all company and group units, which support the main financial statements and notes, as well as information explaining the SCIIF.

Ence's accounting procedure has established mechanisms for the standardised capturing and preparation of financial information, general rules, data entry rules, manual entry approval, estimates and opinions (including valuations and projections) and a communication system for financial reporting to the executive management.

The preparation of the consolidated financial statements is carried out centrally on the basis of the financial statements provided by each subsidiary of the Group in the established formats. The consolidation process has established checks to ensure the accuracy of the consolidated financial statements, in accordance with the Consolidation Procedure and the Inter-company Transaction Procedure.

## F.5 Supervision of the system's operation

State, along with their main characteristics, at least:

F.5.1. The SCIIF supervisory activities performed by the Audit Committee and whether the entity has an internal audit department that, among other duties, assists the committee in its supervisory role over the internal control system, including the SCIIF. Furthermore, state the scope of the SCIIF assessment conducted during the year and the procedure used by the assessor to disclose the results, whether the entity has an action plan detailing any corrective measures, and whether their impact has been considered in the financial reports.

Ence has a fully independent internal audit department whose functions and responsibilities in relation to financial reporting supervision is regulated by the Internal Audit Regulation as approved by the Audit Committee.

In 2017, the Internal Audit Department informed the Audit Committee every quarter on the progress of the audit plan, the conclusions reached and the results of its activities. It also provided the Committee with its recommendations, highlighting in particular those aspects relating to financial reporting and the SCIIF, as well as the progress of the action plans implemented to reduce any internal control failings.

As part of its 2017 Audit Plan, approved by the Audit Committee, supervisory activities were carried out on the internal control over financial reporting. In particular, a schedule to review all SCIIF processes on a three-year cycle has been in place since 2012. Failings detected in audits are notified to the relevant departments, along with the corresponding corrective action.

As part of the assessment of SCIIF processes, the following are checked:

- the updating of information and documents where processes have undergone changes.
- the absence of any significant failings in the internal control over financial reporting; if there is, corrective measures are carried out as part of an action plan and the possible effect of such deficiencies are assessed.

F.5.2. Whether there is a communication procedure by which the accounts auditor (in accordance with the Auditing Standards), the internal audit department and other experts can notify executive management and the Audit Committee or company Directors of any significant internal control failings discovered during the review of the annual accounts or other assigned reviews. State also whether there is an action plan for correcting or mitigating any detected failings.

In accordance with the Board of Directors Regulation, the Audit Committee is responsible for the preparation, submission and monitoring of regulated financial reports. It must also ensure the effectiveness of the Company's internal control and the internal control and risk management systems, including the Internal Control over Financial Reporting.

The Audit Committee meets at least once per quarter in order to obtain and analyse the information necessary to comply with the duties assigned by the Company's Board of Directors.

There is an annual schedule of content that has to be handled during the Audit Committee's meetings; the meetings include sessions where the accounts auditor, tax experts or other specialists attend when deemed necessary. The following relevant aspects ought to be highlighted:

- As mentioned in the previous section, the Audit Committee receives quarterly reports on the progress of implemented action plans that aim to correct detected internal control failings.
- The accounts auditor has access to the Audit Committee through invitations to the Audit Committee's meetings that review the quarterly financial statements; at these meetings, the external auditor submits a quarterly report on agreed procedures.
- Similarly, the Internal Audit Department has access to the Audit Committee as it is invited to the latter's meetings.

The half-yearly report released to the markets has been reviewed by the accounts auditor, through the agreed procedures in those areas that the Company's management considers critical and of risk.

## F.6 Other relevant information

Not applicable

## F.7 External auditor's report State:

F.7.1. Whether the SCIIF information provided to markets was submitted to the external auditor for review, in which case the entity should include the auditor's report as an appendix. Otherwise, the entity should state its reasons for not doing so.

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the extent to which the company has complied with the recommendations of the Unified Good Governance Code of Listed Companies.

Where a recommendation has not been fully complied with, a detailed explanation must be included so that shareholders, investors and the market in general receive sufficient information to assess the company's course of action. Explanations of a general nature are not acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes held by a single shareholder, nor contain any other restrictions that may obstruct gaining control of the company through the purchase of shares on the open market.

Met

Explanation

2. When the parent company and subsidiary are listed, both should publicly and concisely state:

- a) Their respective areas of business and any business relations between them, as well as any such relations between the listed subsidiary and other group companies.  
b) The procedures in place to resolve any possible conflicts of interest.

Met

Partially Met

Explanation

Not applicable

3. During the Annual General Shareholders' Meeting and in addition to the release of the Annual Corporate Governance Report, the chairperson of the Board of Directors should inform the shareholders, in person and with sufficient detail, of the most relevant aspects of the company's corporate governance and, especially:

- a) Any changes that have occurred since the previous Annual General Shareholders' Meeting.  
b) The actual reasons why the company does not comply with any of the recommendations in the Corporate Governance Code, and of any alternative rules in this area that may exist.

Met

Partially Met

Explanation

4. The company should establish and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors, which fully observes the rules on market abuse and treats all shareholders in the same position alike.

The company should make said policy public on its website and include information on how it is being implemented, along with the identities of those responsible for carrying it out.

Met

Partially Met

Explanation

5. The Board of Directors should not submit to the General Shareholders' Meeting any proposal for the delegation of powers that would allow the issuance of shares or convertible securities without preemption rights at an amount greater than 20% of the share capital at the time of the delegation.

Where the Board of Directors approves any issuance of shares or convertible securities without preemption rights, the company should immediately publish the reports on said exclusion of preemption rights with reference to the relevant legislation on its website.

Met

Partially Met

Explanation

6. Listed companies that necessarily or voluntarily prepare the reports mentioned below should publish them on their websites sufficiently in advance of the Annual General Shareholders' Meeting, even if their disclosure is not mandatory:
- Report on the independence of the auditor.
  - Reports on the operations of the Audit Committee and nomination and remuneration committee.
  - Report by the Audit Committee on transactions between related parties.
  - Report on the corporate social responsibility policy.

Met  Partially Met  Explanation

7. The company should broadcast General Shareholders' Meetings live via its website.

Met  Explanation

The meeting size, attendance rate and the company's market capitalisation do not justify the live broadcast of General Shareholders' Meetings. Moreover, no shareholder has requested such a broadcast to date.

8. The Audit Committee should ensure that the auditor has no reason to issue any reservations or qualifications in its report on the financial statements that the Board of Directors submits to the General Shareholders' Meeting. In the exceptional cases where provisos exists, the chairperson of the Audit Committee and the auditors should clearly explain the content and scope of such qualifications and reservations to the shareholders.

Met  Partially Met  Explanation

9. The requirements and procedures accepted for a shareholder to prove ownership of shares, the right to attend General Shareholders' Meetings and the exercise or delegation of voting rights should always be accessible on the company's website.

Such requirements and procedures should encourage, without distinction, the attendance and exercise of rights by shareholders.

Met  Partially Met  Explanation

10. Where any genuine shareholder exercises the right to add items to the agenda or submit new resolution proposals prior to the General Shareholders' Meeting, the company should:

- Immediately publish such additional items and new resolution proposals.
- Publish the example of the attendance card or form for proxy voting or absentee voting with the necessary changes to allow voting on the new agenda items and resolutions proposals under the same terms as the Board's proposals.
- Submit all new items and proposals to a vote and apply the same voting rules as those for the Board's proposals, including rules of presumption or inference in how votes are cast.
- Following the General Shareholders' Meeting, release the breakdown of votes cast on such additional items or alternative proposals.

Met  Partially Met  Explanation  Not applicable

11. If the company levies an attendance fee for General Shareholders' Meetings, it should establish beforehand a general policy on such fees and said policy should be consistent.



Met

Partially Met

Explanation

Not applicable

12. The Board of Directors should perform its functions with uniform purpose and independence of judgement, treat all shareholders in the same position alike and be guided by the company's interest which is understood as establishing a sustainable, profitable business in the long term which promotes the company's continuity and maximises its economic value.

As part of acting in the company's interests and observing laws, regulations and behaviour based on good faith, ethics and the respect for customs and generally accepted good practices, the board should seek to reconcile the company's interests with, where applicable, the legitimate interests of its employees, suppliers, customers and other stakeholders who may be affected, including the effect of the company's activities on the community at large and the environment.

Met

Partially Met

Explanation

13. The Board of Directors should be of the requisite size to function effectively and collaboratively, i.e. between five and fifteen members.

Met

Explanation

14. The Board of Directors should implement a policy for selecting Directors which:

a) Is practical and verifiable.

b) Ensures that nomination or re-election proposals are based on a prior analysis of the Board's needs.

c) Favours diversity of knowledge, experience and gender.

The result of the prior analysis of the Board's needs should be supplied in the supporting report prepared by the nomination committee. The report itself should be published upon issuance of the notice for the General Shareholders' Meeting at which the confirmation, appointment or re-election of each Director will be submitted to a vote.

The Director selection policy should advance the goal of having women make up at least 30% of all Board members by 2020.

The nomination committee should verify compliance with the Director selection policy on an annual basis and state its findings in the Annual Corporate Governance Report.

Met

Partially Met

Explanation

15. Proprietary and Independent Directors should form the majority of Board members and the number of Executive Directors be as few as necessary, taking into account the complexity of the company group and the percentage of shares held by the Executive Directors in the company.

Met

Partially Met

Explanation

16. The proportion of Proprietary Directors to the total number of non-Executive Directors should not be greater than the proportion of share capital represented by said Proprietary Directors to the total share capital.

This criteria may be relaxed:

a) For large cap companies which have few shareholders considered as having a significant shareholding under the law.

b) For companies with a plurality of shareholders represented on the Boards of Directors and who are not related to one another.

Met

Explanation

17. At least half of all Directors should be Independent Directors.

However, for non-large cap companies or where a large cap company has one or more shareholders acting together and controlling more than 30% of the share capital, Independent Directors should represent at least one-third of all Directors.

Met

Explanation

18. Companies should publish the following information about their Directors on their website and keep it up-to-date.

- a) Professional profile and biography.
- b) Other Boards of Directors on which they sit, whether belonging to listed companies or otherwise, as well as any other paid activities they perform regardless of the type of activity.
- c) The type of Directorship held; in the case of Proprietary Directors, the shareholder they represent or are linked with should be named.
- d) The date of their original appointment to the board of the company and subsequent re-elections.
- e) The shares in the company and any share options they hold.

Met

Partially Met

Explanation

19. The Annual Corporate Governance Report, following its confirmation by the nomination committee, should explain the reasons why Proprietary Directors have been nominated at the behest of shareholders with a less than 3% stake in the company's share capital. It should also explain, if applicable, why formal requests by shareholders for representation on the board were denied where such shareholders held an equal or greater equity stake to those shareholders who obtained Proprietary Directors.

Met

Partially Met

Explanation

Not applicable

20. Proprietary Directors should submit their resignation if the shareholder they represent transfers all of his/her shares. If said shareholder reduces his/her shareholding to a level that requires a reduction in his/her Directors, the commensurate number of such Proprietary Directors should resign.

Met

Partially Met

Explanation

Not applicable

21. The Board of Directors should not propose the removal of any Independent Director before his/her statutory term of office has elapsed, except for just cause as found by the Board of Directors following a report from the nomination committee. In accordance with the applicable legislation, just cause occurs when the Director (i) occupies new positions or contracts new obligations that impede him/her dedicating the necessary time to the performance of duties as a Director, (ii) fails to fulfil his/her duties, or (iii) enters into a set of circumstances that remove his/her independence of the company.

Independent Directors may also be removed as a result of takeover bids, mergers or other similar corporate manoeuvres that change the shareholding structure of the company, when the principle of proportionality mentioned in recommendation 16 causes changes in the structure of the Board of Directors.

Met

Explanation

22. Companies should establish rules obliging Directors to inform the Board of Directors of situations that could damage the standing and reputation of the company, and accordingly resign if appropriate. The rules should, in particular, oblige Directors to inform the Board of any criminal offences that may be alleged against them and of their subsequent legal proceedings.

If a Director is prosecuted or tried for any offences proscribed in company law, the Board of Directors should examine the case as soon as possible and, given the actual circumstances, decide whether or not the Director can continue in his/her position. The Board of Directors should give a reasoned account of such a case in the Annual Corporate Governance Report.

Met  Partially Met  Explanation

23. All Directors should clearly express their opposition to any proposed decision submitted to the Board of Directors which they consider contrary to the company's interests. Independent and other Directors unaffected by the potential conflict of interests should do the same in the case of decisions that could prejudice the shareholders not represented on the Board of Directors.

Where the Board of Directors adopts significant or repeated decisions on issues that a Director has expressed serious reservations, that Director should draw the appropriate conclusions of such actions and, if he/she resigns, explain the reasons in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the Board of Directors even if he/she is not a Director.

Met  Partially Met  Explanation  Not applicable

24. If a Director resigns or stands down for any other reason before completion of his/her term, that Director should explain the reasons in a letter delivered to all members of the Board of Directors. Without prejudice to said resignation being a material fact, the reason should be stated in the Annual Corporate Governance Report.

Met  Partially Met  Explanation  Not applicable

25. The nomination committee should ensure that the non-Executive Directors are sufficiently available for the proper performance of their duties.

The Board of Directors Regulations should lay down the maximum number of company Boards on which Directors can serve.

Met  Partially met  Explanation

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.

Met  Partially met  Explanation

27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Met  Partially met  Explanation

28. When Directors or the secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be

recorded in the minute book if the person expressing them so requests.

Met

Partially met

Explanation

Not applicable

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Met

Partially met

Explanation

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher courses when circumstances so advise.

Met

Explanation

Not applicable

31. The agendas of board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of Directors present.

Met

Partially met

Explanation

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Met

Partially met

Explanation

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the board a schedule of meeting dates and agendas; organize and coordinate regular evaluations of the board and, where appropriate, the company's CEO; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.

Met

Partially met

Explanation

34. When a lead Independent Director has been appointed, the Articles of Association or Board of Directors Regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Vice-Chairmen; give voice to the concerns of non-Executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Met

Partially met

Explanation

Not applicable

35. The Board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Met

Explanation

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:
- a) The quality and efficiency of the Board's operation.
  - b) The performance and membership of its committees.
  - c) The diversity of Board membership and competences.
  - d) The performance of the Chairman of the Board of Directors and the company's CEO .
  - e) The performance and contribution of individual Directors, with particular attention to the Chairmen of board committees.

The evaluation of board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the nomination committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Met  Partially met  Explanation

37. When an Executive Committee exists, its membership mix by Director class should resemble that of the board. The secretary of the Board should also act as secretary to the executive committee.

Met  Partially met  Explanation  Not applicable

38. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the committee's minutes.

Met  Partially met  Explanation  Not applicable

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by Independent Directors.

Met  Partially met  Explanation

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive Chairman or the Chairman of the Audit Committee.

Met  Partially met  Explanation

41. The head of the unit handling the internal audit function should present an annual work program to the Audit Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Met  Partially met  Explanation  Not applicable

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programs, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Met

Partially met

Explanation

43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Met

Partially met

Explanation

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Met

Partially met

Explanation

Not applicable

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Met

Partially met

Explanation

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board of Directors committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

Met

Partially met

Explanation

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Met

Partially met

Explanation

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Met

Explanation

Not applicable

49. The nomination committee should consult with the company's Chairman and CEO, especially on matters relating to Executive Directors.

When there are vacancies on the board, any Director may approach the nomination committee to propose candidates that it might consider suitable.

Met

Partially met

Explanation

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the Board of Directors the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for Directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on Director and senior officers' pay contained in corporate documents, including the Annual Report on the Remuneration of Directors.

Met

Partially met

Explanation

51. The remuneration committee should consult with the company's Chairman and CEO, especially on

matters relating to Executive Directors and senior officers.

Met

Partially met

Explanation

52. The terms of reference of supervision and control committees should be set out in the Board of Directors Regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-Executive Directors, with a majority of independents.
- b) They should be chaired by Independent Directors.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first Board of Directors plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Met

Partially met

Explanation

Not applicable

All the Board's Committees comply with all the requirements except in relation to the composition of the Forestry and Regulatory Policy Advisory Committee, which does not have a majority of Independent Directors, even if the Chairman of the Committee is one. This is because due to the nature of the skills of this Committee, we believe that the experience and professional profile of its members should prevail over the legal category to which they belong.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board of Directors committee or split between several, which could be the Audit Committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organization, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation. Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- e) Monitor and evaluate the company's interaction with its stakeholder groups.
- f) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- g) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Met

Partially met

Explanation

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.



- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Met  Partially met  Explanation

55. The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.

Met  Partially met  Explanation

56. The Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-Executive Directors.

Met  Explanation

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to Executive Directors.

The company may consider the share-based remuneration of non-Executive Directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Met  Partially met  Explanation

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Met  Partially met  Explanation  Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to

ensure that predetermined performance criteria have effectively been met.

Met

Partially met

Explanation

Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Met

Partially met

Explanation

Not applicable

61. A major part of Executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Met

Partially met

Explanation

Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Met

Partially met

Explanation

Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Met

Partially met

Explanation

Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Met

Partially met

Explanation

Not applicable

## **H** OTHER IMPORTANT INFORMATION

1. Provide brief details of any other relevant aspects of the corporate governance of the company or group entities not included in the other sections of this report, which must be covered if the report is to contain the most comprehensive and well-founded information on the structure and practices of governance in the entity or its group.
2. Any other information, clarification or detail related to the above sections of the report may be included in this section insofar as it is relevant and not repetitive.

Specifically, indicate whether the company is subject to foreign legislation on corporate governance, and if so, include any information it is bound to supply other than that required in this report.

3. The company may also indicate whether it voluntarily adheres to other codes of ethical principles or good practices (international, sector-related, etc.). In that case, the company will identify the code concerned and the date it began adhering to that code.

## 1. SPECIFIC CLARIFICATIONS REGARDING DIFFERENT SECTIONS OF THE REPORT

### SECTION A.3

During fiscal year 2017, there were extensions of the Financial Operations Framework Contract signed between Retos Operativos and Caixabank, whereby this financial institution had a put option to Retos Operativos of 5,394,036 shares of ENCE, representing 2.16% of its share capital. This sale option has been partially exercised during the year 2017 and has finally been exercised in full in January 2018, as reported to the CNMV at the time.

### SECTION A.5

The sections D.2 and D.3

### SECTION C.1.12

The references to MENDIBEA 2002, S.L. should be understood as referring to the natural person representing it, i.e., Mr. José Ignacio Comenge Sánchez-Real.

### SECTIONS C.1.15 and C.1.16

The remuneration indicated in section C.1.15 includes the remuneration accrued by the Chief Executive Officer by virtue of his services lease agreement, a complete breakdown of which is provided in the Company's Annual Report on the Remuneration of Directors for the financial year 2017. Under Article 42.3 of the Articles of Association, that remuneration for the performance of executive functions is compatible and separate from that received by the Directors in their capacity as such. The limit on the remuneration of the Directors in their capacity as such was set by the General Shareholders' Meeting of 28 June 2006 at €1,500,000 per year and the amount accrued in the financial year 2015 amounted to €1,497,730.

Section C.1.16 includes the remuneration accrued by Mr. Javier Arregui Abenivar up to 20 December 2017, the date on which he resigned from the office of General Manager of the development of new energy plants and forestry assets.

### SECTION C.1.26

With regard to Executive Directors over the age of 65, the Board of Directors may approve their re-election on an annual basis by a majority of two thirds, until they reach the age of 70.

### SECTION C.1.37

The exact cost of other jobs unrelated to audit jobs was €1500 to the Company and €500 to the Group. In 2017 this item included other services relating to the audit, in respect of 1) the Financial Information Internal Control System revision procedures and 2) a report on the financial ratios meeting obligations under the finance contracts. Furthermore, the network of which the auditor forms a part has invoiced €12,000 for audit services provided abroad and €88,000 for other services.

### SECTION C.1.39

Besides the Company's annual accounts for the financial year 2017, the Company's auditors have audited those of the companies belonging to its group bound to be audited.

### SECTION C.1.45

The General Shareholders' Meeting is informed of any golden parachute clauses through the Annual Corporate Governance Report or the Annual Report on the Remuneration of Directors.

The CEO's contract is subject to the approval of the Board of Directors.

### SECTIONS D.2 and D.3

Related party transactions involving the significant shareholder Retos Operativos XXI, S.L. are not described in section D.2, as they are described in section D.3

The amounts indicated in section D.3 were accrued in the financial year 2017 under the biomass sale agreement between Foresta Mantenimiento de Plantaciones, S.L. and Ence Energía y Celulosa, S.A./Ence Energía Extremadura S.L.U, arising from the transaction of December 2012 between Ence and Foresta, approved by the Board of Directors following a favourable report by the Audit Committee.

This Annual Corporate Governance Report was approved by the Company's Board of Directors in its meeting of 20/02/2018.

Indicate whether any Directors voted against or abstained from approving this report.

Yes

No

