

REPORT AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS OF ENCE ENERGÍA Y CELULOSA, S.A. ON THE PROPOSED AMENDMENTS TO THE BYLAWS

1. PURPOSE OF THE REPORT

In compliance with article 286 of the Spanish Capital Enterprises Act (*Ley de Sociedades de Capital*), the board of directors of Ence Energía y Celulosa, S.A. now issues this report in relation to item six on the agenda of the Company's general shareholders' meeting scheduled for 15 March 2016 on first call, and for 16 March 2016 on second call. The aforementioned item on the agenda concerns amendments to certain articles of the bylaws to bring them in line with article 529 *quaterdecies* of the Capital Enterprises Act (with the wording to take effect on 17 June 2016) and the recommendations set out in the Good Governance Code of Listed Companies approved by the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*, or CNMV for short) on 18 February 2015 (the “**Good Governance Code**”).

While making these changes, the Company also intends to improve the accuracy and clarity of the articles in question.

2. DETAILED ANALYSIS OF THE PROPOSED AMENDMENTS

The following sections provide a more detailed rationale and explanation for the specific amendments of four articles of the bylaws (43, 49, 51 and 51 bis) to be submitted for approval.

2.1 Proposed amendment of article 43 (insurance and employee pension schemes)

The board proposes amending paragraph 2 of the article to bring it in line with recommendation 57 of the Good Governance Code to confine long-term savings schemes (pension plans, retirement schemes, or other employee benefit systems) to executive board members.

The second paragraph would thus read as follows:

Current wording	Proposed version
<p>Article 43 (paragraph 2). Insurance and pension schemes</p> <p>The Company may establish for its Board members, within the limit established by the General Meeting in accordance with section 1 of the preceding article, a pension system for cases of death, retirement, disability, inability to exercise duties, or removal. The amount, conditions and characteristics of the system shall be established by the Board of Directors, and the amount of the allowance may not exceed, per person and per year, the sum of all amounts the Board member in question would have received in the most recent financial year, or in the most recent calendar year (if this amount is greater), for holding a seat on the Board of Directors. The Company may outsource this system in whole or in part.</p>	<p>Article 43 (paragraph 2). Insurance and pension schemes</p> <p>The Company may establish for its <u>executive</u> Board members, within the limit established by the General Meeting in accordance with section 1 of the preceding article, a pension system for cases of death, retirement, disability, inability to exercise duties, or removal. The amount, conditions and characteristics of the system shall be established by the Board of Directors, and the amount of the allowance may not exceed, per person and per year, the sum of all amounts the Board member in question would have received in the most recent financial year, or in the most recent calendar year (if this amount is greater), for holding a seat on the Board of Directors. The Company may outsource this system in whole or in part.</p>

2.2 Proposed amendment of article 49 (delegated and consultative bodies of the Board of Directors)

The board proposes amending paragraph 5 of this article to bring it in line with recommendation 36 of the Good Governance Code, so that the focal points of any action plans are referred generically to those determined by law and by the regulations of the board of directors.

Section 5 of article 49 would thus read as follows:

Current wording	Proposed version
<p>Article 49 (paragraph 5).- Delegated</p>	<p>Article 49 (paragraph 5).- Delegated</p>

<p>and consultative bodies of the Board of Directors</p> <p>(...) The Board of Directors must conduct an annual evaluation of its performance and of the performance of its committees and propose, as applicable and based on the results of the evaluations, an action plan to correct any deficiencies detected. The results of the evaluation will be recorded in the meeting minutes or will be annexed thereto as an appendix.</p>	<p>and consultative bodies of the Board of Directors</p> <p>(...) The Board of Directors must conduct an annual evaluation of its performance and of the performance of its committees and propose <u>and adopt</u>, as applicable and based on the results of the evaluations, an action plan to correct any deficiencies detected <u>in relation to the subjects determined by law and by the regulations of the board of directors.</u> The results of the evaluation will be recorded in the meeting minutes or will be annexed thereto as an appendix.</p>
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2.3 Proposed amendment of article 51 (audit committee)

Final Provision Four, paragraph 20, of the Spanish Financial Auditing Act (*Ley 22/2015, de Auditoría de Cuentas*) has modified article 529 *quaterdecies* of the Capital Enterprises Act, with the requirement now being that a majority of audit committee places be held by independent directors and they all be appointed on the basis of their knowledge and experience in the field of accounting, auditing or both. This modification to the Capital Enterprises Act will take effect from 17 June 2016. For the time being, it is merely a recommendation set out in the Good Governance Code (recommendation 39).

However, said recommendation clarifies Final Provision Four content in the line that, in the appointment of the Audit Committee members and especially its president, it should be taken into account not only their knowledge and experience in terms of accounting, but also in risk management.

Accordingly, the proposed amendment will ultimately comply with article 529 *quaterdecies* of the Capital Enterprises Act once it takes effect in June 2016, and in the meantime it will allow the Company to honour the recommendation contained in the Good Governance Code.

Secondly, the board proposes amending the functions vested in the audit committee by simple reference to those prescribed by law and those set out in the internal regulations of the board of directors, rather than providing an exhaustive list of its functions in the bylaws. By doing so, the Company will no longer have to modify its bylaws each and every time the law or the regulations broaden or modify the functions entrusted to the committee.

Article 51 would thus read as follows:

Current wording	Proposed version
<p>Article 51.- Audit committee</p> <p><i>In all events, the Board of Directors will appoint an Audit Committee, made up exclusively of a minimum of three non-executive directors, of whom at least two must be independent directors and one will be appointed on the basis of his knowledge and experience in accounting, auditing or both.</i></p> <p><i>Without prejudice to any responsibilities that may be entrusted to it by the Board of Directors, the Audit Committee shall have the following minimum competencies:</i></p> <ol style="list-style-type: none"> <i>1. To report to the General Shareholders' Meeting on matters posed by shareholders in the area of their competency.</i> <i>2. To monitor the effectiveness of the Company's internal control and its internal audit and risk management systems, including tax-risk management systems, and to discuss with the Company's auditors any significant weaknesses detected in the internal control system during the audit.</i> 	<p>Article 51.- Audit Committee</p> <p><i>In all events, the Board of Directors will appoint an Audit Committee, made up exclusively of a minimum of three non-executive directors <u>and with a majority of places to be held by independent directors, who will be designated, and particularly in the case of its chairman, of whom at least one two must be an independent director and one on the basis of his or her knowledge and experience in accounting, auditing, or both risk management.</u></i></p> <p><i>Without prejudice to any responsibilities that may be entrusted to it by the Board of Directors, the Audit Committee shall have the following competencies powers set forth at by law and in the Regulations of the Board of Directors. minimum:</i></p> <ol style="list-style-type: none"> 1. To report to the General Shareholders' Meeting on matters posed by shareholders within the scope of its authority. 2. To monitor the effectiveness of the Company's internal control and its internal audit and risk management systems, including

Current wording	Proposed version
<p>3. To monitor the process of preparing and presenting the regulated financial reporting.</p> <p>4. To propose to the Board of Directors, for submittal to the General Shareholders' Meeting, the designation, selection, appointment, re-election and replacement of external auditors, as well as the conditions for hiring them, and to regularly obtain from the Board information on the audit plan and its execution, in accordance with the regulations that apply to the Company.</p> <p>5. To establish appropriate relationships with auditors in order to receive information, for examination by the Audit Committee, on matters which may jeopardise their independence and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations.</p> <p>In all events, on an annual basis the Committee must receive from the auditors written confirmation of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them, as well as information on the fees received from these entities by the external auditors or by persons or entities</p>	<p>tax risk management systems, and to discuss with the Company's auditors any significant weaknesses detected in the internal control system during the audit.</p> <p>3. To monitor the process of preparing and presenting the regulated financial reporting.</p> <p>4. To propose to the Board of Directors, for submittal to the General Shareholders' Meeting, the designation, selection, appointment, re-election and replacement of external auditors, as well as the conditions for hiring them, and to regularly obtain from the Board information on the audit plan and its execution, in accordance with the regulations that apply to the Company.</p> <p>5. To establish appropriate relationships with auditors in order to receive information, for examination by the Audit Committee, on matters which may jeopardise their independence and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations.</p> <p>In all events, on an annual basis the Committee must receive from the auditors written confirmation of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered to these</p>

Current wording	Proposed version
<p><i>related to them, as stipulated by auditing legislation.</i></p> <p>6. <i>To issue annually, prior to the audit report, a report containing an opinion on the independence of the auditors. This report should invariably address the provision of the services referred to in the preceding section, considered both individually and as a whole, in addition to statutory audits and how they relate to the requirement of independence or to the regulatory legislation on audits.</i></p> <p>7. <i>To keep the Board of Directors apprised, in advance, of all matters set forth in the law, these bylaws and the regulations of the Board and, in particular, of the financial reporting that the Company is to make public, the creation or acquisition of interests in special purpose vehicles or entities domiciled in tax havens and related party transactions. (...)</i></p>	<p><i>entities by the aforementioned auditors or persons or entities related to them, as well as information on the fees received from these entities by the external auditors or by persons or entities related to them, as stipulated by auditing legislation.</i></p> <p>6. <i>To issue annually, prior to the audit report, a report containing an opinion on the independence of the auditors. This report should invariably address the provision of the services referred to in the preceding section, considered both individually and as a whole, in addition to statutory audits and how they relate to the requirement of independence or to the regulatory legislation on audits.</i></p> <p><i>To keep the Board of Directors apprised, in advance, of all matters set forth in the law, these bylaws and the regulations of the Board and, in particular, of the financial information the Company is to make public, the creation or acquisition of interests in special purpose vehicles or entities domiciled in tax havens and related party transactions. (...)(...)</i></p>

2.4 Proposed amendment of article 51 (Appointments and Remuneration Committee)

The board proposes modifying the first paragraph of this article so as to state that a majority of places on the appointments and remuneration committee will be held by independent members, thus incorporating recommendation 47 of the Good Governance Code.

The first paragraph of article 51 bis of the bylaws would thus read as follows:

Current wording	Proposed version
<p>Article 51 bis (paragraph 1).- Appointments and Remuneration Committee</p> <p><i>“The Board of Directors will appoint an Appointments and Remuneration Committee, made up exclusively of a minimum of three non-executive directors, of whom at least two must be independent directors (...).</i></p>	<p>Article 51 bis- (paragraph 1).- Appointments and Remuneration Committee</p> <p><i>The Board of Directors will appoint an Appointments and Remuneration Committee, made up exclusively of a minimum of three non-executive directors <u>and a majority of independent directors</u>, of whom at least two must be independent directors (...). <u>(...).</u></i></p>

In Madrid, on 12 February 2016