



Energía y Celulosa

## **ANNUAL REPORT ON BOARD MEMBER REMUNERATION FROM ARTICLE 61.3 OF THE SECURITIES MARKET ACT**

The board of directors of Ence Energía y Celulosa, S.A. ("the Company") has prepared this report on the Company's remuneration policy for the members of its board of directors.

This report, which presents the legal context and applicable statutory law, as well as the principles followed for application of these and a list of remuneration corresponding to fiscal year 2012, will be distributed and put to a vote at the Company's general shareholders' meeting, with an advisory character and as a separate point on the agenda.

### **1. REGULATORY CONTEXT**

This report has been produced based upon article 61.3 of the Securities Market Act (*Ley del Mercado de Valores*), introduced by Law 2/2011, of March 4, on the Sustainable Economy (*Ley 2/2011, de Economía Sostenible*), which puts forth the following:

*"Article 61.3. On the annual report on board member remuneration.*

*1. Along with its Annual Corporate Governance Report, a publically traded corporation must produce an annual report on its remunerations made to board members. This report must include complete, clear, and comprehensible information about the company's remuneration policy, as approved by its board for the year in progress, as well as, as the case may be, the remunerations planned for future years. The report must also include a global summary of how the remuneration policy was applied during the fiscal year, as well as a list of the individual remunerations paid to each of the board members.*

*2. The annual report on board member remuneration, the remuneration policy for the Company approved by its board for the year in progress, the remunerations planned for future years, the global summary of how the remuneration policy was applied during the fiscal year, and the list of the individual remunerations paid to each of the board members, must be distributed and subjected to a vote by the general shareholders' board, with an advisory character and as a separate point on the agenda."*

Articles 217 to 219 of the Spanish Corporations Act (*Ley de Sociedades de Capital*) establish the basic regulations for remuneration of administrators.



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Remuneration to the Company's board members is also regulated by article 42 of the corporate bylaws, which state:

*"Article 42. Remuneration*

*1. The position of administrator is paid, through the concession of a specific periodic amount and through payments for attending the board of directors meetings and those of its commissions and committees. The amount of the remunerations that the Company may pay annually to its board members for these items must not exceed the amount determined for this purpose by the general shareholders, without prejudice to the contents of the following article 43.2. The amount thus determined will be maintained unless modified under a new agreement by the general board. Establishment of the exact amount to be paid within these limits, the distribution of remuneration among the various board members, and the periodicity of the payments made, must be determined by the board of directors.*

*2. Additionally, and independent of the remuneration discussed in the previous section, the administrators may also be paid through the awarding of shares or stock options, or through any other system of remuneration related to the value of the shares, whether these are shares in the Company itself or in other companies in its group. The application of these remuneration systems must be agreed upon by the general shareholders, in conformity with the provisions found in the Spanish Corporations Act.*

*3. The remuneration considered in this article must be compatible with and independent of the salaries, payments, indemnifications, pensions, or any other type of compensation, established either in general or individually for those members of the board of directors who maintain a common or special upper management or service provision labour relationship with the Company. Such relations must be compatible with a position as a member of the board of directors, without prejudice to the need for these remuneration items to be included in the annual report, under the terms established in the Spanish Corporations Act and all other applicable provisions."*

Also, article 28 on regulation of the Company's board of directors indicates the following:

*"Article 28. Remuneration for the Board Members.*



- 1. The board member will have the right to obtain remuneration as established by the board of directors, in agreement with the statutory provisions and the contents of these bylaws, and based upon the report from the Appointment and Remuneration Committee.*
- 2. The board must ensure that remuneration to the board members is moderated based upon the market conditions and that it is adjusted to such conditions. If the board believes that during a certain fiscal year, strict application of the regulations in the bylaws would result in remuneration that does not respond to these criteria of moderation, it must be agreed to waive payment of the amounts considered to be excessive, with such a waiver being subjected to the general shareholders, who must then decide upon the remuneration.*
- 3. The remuneration paid to each board member must be transparent. For this purpose, along with the Annual Corporate Governance Report, the board of directors must produce an annual report on the remunerations paid to the board members, with the contents and structure established by law. This report must be made available to the shareholders at the time when the general shareholders' meeting is called, and must be put to a vote there, advisory in character and as a separate point on the agenda."*

Finally, article 17 of the Company's bylaws for the board of directors, in relation to the appointment and remuneration committee's functions involving studies and proposals, states:

- "2. Without prejudice to other duties that the board may assign, the appointment and remuneration committee will have the following basic responsibilities:*
- i) to propose to the board of directors the system and amount of annual remunerations for the board members and directors determined by the board of directors, as well as the other basic conditions of their contracts, and to oversee compliance with the remuneration policy established by the Company;*
  - j) to propose the period review of the remuneration programs for the executives determined by the board of directors, considering their appropriateness and performance, and overseeing compliance;*
  - k) to propose measures for transparency of the remunerations and to oversee compliance [...]."*



## **2. APPLICATION OF THE REMUNERATION POLICY TO THE BOARD MEMBERS DURING FISCAL YEAR 2011**

### **2.1. Fixed remuneration and other payments**

The allocation of remuneration to the board members during fiscal year 2012 has consisted of a fixed remuneration and payments for attending the meetings. A listing of these by item is as follows:

#### Board of Directors

President: Fixed Remuneration: €10,302/gross (12 annual payments).  
Payment for attendance: €4,033/gross.

Voting Members: Fixed Remuneration: €2,834/gross (12 annual payments).  
Payment for attendance: €2,017/gross.

#### Executive Committee

President: Payment for attendance: €4,033/gross.

Voting Members: Payment for attendance: €2,017/gross.

#### Appointment and Remuneration Committee

President: Payment for attendance: €4,033/gross.

Voting Members: Payment for attendance: €2,017/gross.

#### Audit Committee

President: Payment for attendance: €4,033/gross.

Voting Members: Payment for attendance: €2,017/gross.

#### Forestry policy and regulation advising committee

President: Payment for attendance: €4,033/gross.

Voting Members: Payment for attendance: €2,017/gross.

### **2.2. Variable multi-year remuneration**

In conformity with the contents found in the Company's Long-Term Incentives Plan for the 2010-2015 period, referred to in section 4.2.2 below, and as authorized by the Company's general shareholders at their 22 June 2010 meeting, the board of directors has established, at its meetings of 22 December 2010 and 29 April 2011, a maximum limit of 1,000,000 for the number of shares that can be obtained by the board of directors during the entire period the plan is in effect<sup>1</sup>.

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<sup>1</sup>The CEO is the only member of the board of directors who is a beneficiary of the Long-Term Incentives Plan for the 2010-2015 period.



The general shareholders board also agreed, at their 29 April 2011 meeting, to extend the period of effect of the Company's cited the 2010-2015 Long-Term Incentives Plan by a period of one year for the CEO, so that the options pending attribution could be assigned for fiscal year 2013 as established in the cited Plan, until reaching the maximum number of options authorized for the CEO.

### 3. LIST OF INDIVIDUAL REMUNERATIONS PAID TO EACH BOARD MEMBER DURING FISCAL YEAR 2012

Below, the remunerations paid to each of the board members during fiscal year 2012 are listed, in relation to the members' own functions and status as members of the board of directors and its committees. As explained in section 4.2 below, this remuneration is within the limit established by the general shareholders.

Administrator	Type	Euros		
		Fixed Remuneration	Payments	Total
Mr. Juan Luis Arregui Ciarsolo	Executive	123,624	76,626	200,250
Mr. Ignacio de Colmenares y Brunet <sup>2</sup>	Executive	-	-	-
Retos Operativos XXI, S.L.	Proprietary	34,008	30,255	64,263
Mr. José Manuel Serra Peris	Independent	34,008	42,353	76,361
Mr. Pedro Barato Triguero	Independent	34,008	22,187	56,195
Mr. Fernando Abril-Martorell Hernández	Other External	34,008	46,386	80,394
Mr. Gustavo Matías Clavero	Independent	34,008	32,272	66,280
Mr. José Guillermo Zubía Guinea	Independent	34,008	52,440	86,448
Mr. José Carlos del Álamo Jiménez	Independent	34,008	26,221	60,229
Norteña Patrimonial, S.L.	Proprietary	34,008	14,119	48,127
Mr. Pedro José López Jiménez <sup>3</sup>	Proprietary	34,008	24,202	58,210
Mr. Pascual Fernández Martínez	Proprietary	34,008	36,306	70,314
Mr. Javier Echenique Landiribar	Proprietary	34,008	44,374	78,382
		497,712	447,741	945,453

<sup>2</sup>Since it is not strictly speaking remuneration for the performance of functions based upon his status as a member of the board, the remuneration paid to the CEO based upon his service provision contract is not included. This information appears in the Annual Report and the Annual Corporate Governance Report, under the terms prescribed by law.

<sup>3</sup>Mr. López Jiménez's position as a board member ended on 20 December 2012.



It is stated that the Company has not conceded any advances or credits to the board members, nor has it entered into any contractual obligations with the board members regarding pensions or alternative insurance systems<sup>4</sup>.

#### **4. REMUNERATION POLICY FOR THE COMPANY FOR THE YEAR IN PROGRESS.**

##### **4.1. Bodies authorized to establish the remunerations for the board of directors**

As indicated in the first section, the Company's bylaws and rules for its board of directors give the board, within the maximum limit established by the general shareholders, the authority to determine the remunerations for the board members, after having received the report from the appointment and remuneration committee.

Exceptions to the above are remunerations that consist of the Company's shares, or options to purchase these, or remunerations made through any other system that is referenced to the value of the Company's shares, which must be approved by the general shareholders.

##### **4.2. Establishment of remunerations for board members based upon their activities**

###### **4.2.1. Remuneration for the position of board member**

Based upon the Company's bylaws and regulations for its board of directors, the remunerations made to board members for performance of their activities must be established primarily by taking into account two types of remuneration:

- (i) A fixed annual amount appropriate for the market standard, which may vary depending upon the specific functions carried out by each board member.
- (ii) Payments for attending the board of directors meetings and meetings of the commissions or committees to which each member may belong.

Additionally, in terms of insurance and other benefits, the Corporation may adopt any or all of the following measures:

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<sup>4</sup> The CEO, based upon his service provision relationship, is included within certain social benefits, including contributions and payments for pensions. This information appears in the Annual Report and the Annual Corporate Governance Report.



- (i) To purchase insurance for its board members (life, accident, illness, health care), in which case the premiums paid for these items must be calculated within the limit established by the general shareholders board, in conformity with the provisions found in article 43 of the corporate bylaws.
- (ii) To establish a system of pensions for its board members, for circumstances of death, retirement, disability, or incapacity to carry out their position. The amount, conditions, and characteristics of this system must be established by the board of directors, but with the amount of the provision not exceeding, per person each year, the annual amount that the person had received for all of these items during the last economic year (or calendar year in cases where the resulting amount may be greater), because of his position as a board member.
- (iii) To purchase civil liability insurance on behalf of the board members.

Finally, the cited remuneration to the board members must be compatible with and independent of the salaries, retributions, indemnifications, pensions, or compensations of any type, established either generally or individually for those board members who maintain common or special high management or service provision labour relations with the Company. These relations must be compatible with the status of board member, without prejudice to the fact that such remunerative items must be included in the annual report.

For the fiscal year in progress, remuneration for the board members for performance of their activities is the same as that applied in fiscal year 2012 and referred to above in section 2.1, with variations not being expected for the rest of 2013.

#### 4.2.2. Remuneration linked to shares

For the executive board members, because of the special functions that they carry out, the Company's regulations for the board of directors have included, as an incentive, a provision that members can be the beneficiaries of remuneration systems consisting of shares or options to purchase shares, or any other system of remuneration linked to the value



of the Company's shares or those of other corporations in the Company's business group, with the application of such remuneration systems subject to the agreement of the general shareholders.

In this respect, the Long-Term Incentives Plan is in effect for the 2010-2015 period, with the objective of providing incentives for the beneficiaries of the plan, which include the CEO, to comply with the objectives laid out by the Company's board of directors.

Based upon the objectives reached, the beneficiaries will receive a certain number of stock options each year, within the maximum limit authorized for each beneficiary by the board of directors. As mentioned above in section 2.2, in the case of the CEO this limit is 1,000,000.

In conformity with the contents of the Incentives Plan, and with a favourable report from the appointment and remuneration committee, the board of directors evaluated the degree of compliance with the objectives planned for the year 2012 at its 19 February 2013 meeting. It has conceded 270,966 stock options to the CEO, which can be exercised after two years have passed from the deadline for their concession as included in the Plan itself.

#### **4.3. Global limit for remunerations**

In accordance with article 42.1 of the corporate bylaws, the global annual limit for remuneration to the board members (including the fixed allocation and the payments for attendance referred to in section 2.1 above) will be that determined at the general shareholders' meeting, with the board of directors responsible for establishing the exact amount to be paid to the board members within this limit, as well as the manner of distribution among the board members and the periodicity of the payments.

This limit was set at 1,500,000 euros by the general shareholders in 2006, and this amount remains in effect since no later modifications have been made at any general shareholders' meeting.

Excluded from this limit are the values of shares or stock options, or any remunerations referenced to their quoted values, which in all cases must be agreed upon by the general shareholders, as well as the salaries, retributions,



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indemnifications, pensions, or compensations of any type given to those board members who maintain common or special high management or service provision labour relations with the Corporation.

#### **5. REMUNERATION POLICY PLANNED FOR FUTURE YEARS**

For future fiscal years the appointment and remuneration committee has presented the board of directors with a favourable report regarding maintenance of the remuneration policy that has been followed up until now, based upon the principles of moderation, compensation for dedication, and correspondence with the evolution of the company's results. However, within this same context, it is expected that the appointment and remuneration committee, with the assistance of a specialized consultant, will revise the retribution plan for the board members during the current fiscal year, as the most recent updating took place in March 2011.

The new Long-Term Incentive Plan for 2013-2015 also falls under this policy, which the board of directors will submit to the general shareholders for approval. This is planned for first call meeting to be held on 21 March 2013, under the seventh point on the agenda. This involves a monetary retribution plan that is multi-year in nature, and which has the objective of providing incentives for the plan's beneficiaries, which include the CEO, to comply with the following objectives: (i) reinforce the executive team's orientation towards attainment of the business objectives committed to in the Company's Strategic Plan; (ii) commitment of the top levels of leadership to management in the interest of the shareholders; and (iii) to retain key executives.

Madrid, 19 February 2013