

REPORT ON AUDIT COMMITTEE OPERATIONS 2018 FINANCIAL YEAR

1. Introduction

ENCE ENERGÍA Y CELULOSA, S.A. (hereinafter, the "**Company**") prepares this Report on Audit Committee Operations (hereinafter, the "**Report**") in accordance with the recommendation contained in Technical Guide 3/2017 on Audit Committees of Public Interest Entities, published by the National Securities Market Commission (hereinafter, the "**CNMV**").

In accordance with the provisions of Article 19 bis. 2 of the Regulations of the Board of Directors of the Company and recommendation 6 of the Code of Good Governance of Listed Companies, this Report is published on the Company's website (www.ence.es) sufficiently in advance of the Ordinary Shareholders' Meeting.

2. Regulation of the Audit Committee

The regulation of the composition, operation and powers of the Company's Audit Committee is contained in the Articles of Association (Article 51) and in the Regulations of the Company's Board of Directors (Article 16). Both internal rules take into account the provisions of the Corporations Law and, as a supplement and provided that they are compatible, the provisions established for the operation of the Board of Directors in the Regulations of the Board of Directors.

In all cases, the Company's internal regulations governing its Audit Committee comply with the relevant provisions of the Spanish Companies Act ("**LSC**") and the good governance recommendations of listed companies.

It is important to point out that, in financial year 2018, Sections 1, 2 and 3 of Article 16 of the Regulations of the Board of Directors, relating to the composition and basic responsibilities of the Audit Committee, have been modified to adapt them to the new distribution of powers between committees deriving from the evaluation of the functioning of the Board of Directors and the Commissions and Committees in financial year 2017.

In particular, the powers related to the review of and compliance with corporate governance rules, which were previously vested in the Audit Committee in accordance with the foregoing section 14) of Article 16.2 of the Board Regulations, are now bestowed on the Appointments and Remuneration Committee. Furthermore, the powers related to corporate social responsibility policy and principles, non-financial information and diversity, as well as the relationship with the different stakeholders—other than the shareholders—that were previously vested in the Audit Committee pursuant to the previous Sections 19 and 20 of Article 16.3 are now bestowed on the Sustainability Committee.

The Articles of Association and the Regulations of the Board of Directors are registered in the Mercantile Registry of Madrid and have been notified to the CNMV. Both are available on the Company's website www.ence.es.

3. Composition of the Audit Committee

In accordance with the requirements of the applicable provisions, the Audit Committee is made up exclusively of non-executive Directors and a majority of independent Directors. The Audit Committee must be chaired by an independent Director.

In financial year 2018, the composition of the Audit Committee and the category and seniority of its members were as follows:

Name	Position	Category	Seniority
Mr. Luis Lada Díaz	Chairman	Independent	Since 16/03/2016 (Chairman since 22/03/2018)
Mr. José Guillermo Zubía Guinea	Secretary	Independent	Since 25/06/2008
Ms. Isabel Tocino Biscarolasaga	Member	Independent	Since 30/06/2014
TURINA 2000, S.L. (represented by Mr. Gorka Arregui Abendivar)	Member	Proprietary	Since 22/03/2018
Mr. Javier Echenique Landiribar	Member	Other external member	Since 19/12/2008

Its members were appointed at the proposal of the Appointments and Remuneration Committee, in accordance with Article 17 (g) of the Regulations of the Board of Directors.

In compliance with Article 529, Section 14 of the LSC, Article 51 of the Articles of Association and Article 16 of the Regulations of the Board of Directors, the members of the Audit Committee, especially its Chairman, have been appointed in consideration of their knowledge and experience in accounting, auditing or risk management. They are also familiar with the pulp and renewable energy production sector and the forestry sector in which the Company operates.

The composition of the Audit Committee and the *Curriculum Vitae* of its members are published on the Company's web page and can be accessed through the following links:

<https://ence.es/inversores/gobierno-corporativo/consejo-de-administracion/>

<https://ence.es/inversores/gobierno-corporativo/comisiones/>

The chairman of the Audit Committee, Mr. Luis Lada Diaz, has extensive experience in economic and financial matters, as well as in planning and control. He has spent most of his professional career at Telefónica, S.A., where he held the positions of Executive Chairman of Telefónica Móviles España, General Manager of Development, Planning and Regulation, and Executive Chairman of Telefónica de España. He also has experience in the financial sector and is currently the non-executive Chairman of Banco Inversis, S.A.

Mr. José Guillermo Zubía Guinea, has extensive training, experience and knowledge in the economic field. He has extensive experience in public and private economic and financial bodies. He has been a member of the Economic and Social Council of Spain and its Economy and Labour Relations Committees, as well as a member of the Boards of Directors or Governing Bodies of the main socio-economic institutions of the Basque Country. He has also been a member of the Permanent Commission of the Andalusian School of Economics.

Isabel Tocino Biscarolasaga has training and extensive experience in business management. She is a member of the Board of Directors of important companies in the financial sector, such as Banco Santander. She is currently Vice-Chairman of the Board of Santander España and Chairman of Banco Pastor.

Gorka Arregui Abandivar, legal representative of TURINA 2000, S.L., has extensive experience in the field of business management, being a member of the Board of Directors of companies belonging to various sectors such as the industrial, energy and forestry sectors.

Javier Echenique Landiribar has a background in economic and actuarial sciences and extensive business experience, specifically in the financial sector. He has held important positions in large financial institutions, including Grupo BBVA and Banco Guipuzcoano, where he was General Manager. He is currently Vice-Chairman of Banco Sabadell, and a Director of ACS Actividades de Construcción y Servicios, ACS Servicios, Comunicaciones y Energía and Telefónica, S.A.

4. Responsibilities of the Audit Committee

The functions and responsibilities of the Audit Committee are regulated in Article 16.2 of the Regulations of the Board of Directors.

Among others, the Audit Committee is entrusted with the following functions:

- To report to the General Shareholders' Meeting on any issues arising within its sphere of competence.
- To propose the appointment of Account Auditors to the Board of Directors for submission to the General Shareholders' Meeting.
- To regularly gather information from the Board on the audit plan and its execution, as well as to supervise the internal audit of the Company.
- Ensure the independence and effectiveness of internal audits.
- Supervise the development and submission process of regulated financial information, as well as the completeness of this information.
- Establish the necessary relations with account auditors in order to receive information on matters that could jeopardise their independence and any other matters related to the account auditing process.
- Issue, once a year prior to the issuance of the accounts audit report, a report expressing an opinion on the independence of the account auditors or audit companies.
- Review the Company accounts, monitor compliance with 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.

- To serve as a communication channel between the Board of Directors and the auditors.
- Supervise the effectiveness of the company's internal control and internal control systems, as well as its financial and non-financial risk management systems, including internal control systems for financial information, environmental aspects, safety, and occupational hazard prevention audits.
- 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.
- 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 company.
- Report on transactions with significant shareholders with the scope provided for in Article 40 of the Regulations of the Board of Directors and on transactions that imply or may imply conflicts of interest.
- Report to the Board of Directors on all matters provided for in the Law, the Bylaws and the Board Regulations and, in particular, on the creation or acquisition of holdings in special purpose entities domiciled in countries or territories considered tax havens.
- Evaluate, at least once per year, their performance and the quality of their work.
- Analyse and report to the Board beforehand on the structural and corporate changes that the company plans to undergo.

As indicated above, the functions relating to corporate governance of the Company and corporate social responsibility, previously invested in the Audit Committee, have been bestowed respectively on the Appointments and Remuneration Committee and on the Sustainability Committee, since the approval of the modification of the Board of Directors' Regulations by the Board on 24 April 2018.

5. Meetings held and tasks performed during the financial year 2018

In financial year 2018, the Audit Committee held 7 meetings, attended by 100% of its members, as well as the Secretary of the Board of Directors.

The representatives of the external auditor attended the meetings held on 19 February, 23 April, 23 July and 30 October 2018 in order to report on aspects related to their independence, the periodic financial reports and the Annual Accounts, as detailed in the following section on "Significant activities during 2018".

The Company's external tax advisors attended the meetings of the Committee on 19 February and 23 July 2018 to report on matters relating to the Company's tax situation referred to in the section "Significant activities during 2018" below.

The Chief Executive Officer, the Chief Financial Officer and personnel assigned to their management, as well as the Director of Internal Audit and the Secretary General attended the meetings and covered the agenda items that required their intervention, presenting the matters within their competence.

6. Significant activities carried out in 2018

In 2018, the Audit Committee carried out the significant activities described below:

(i) Review of Annual Accounts and Quarterly, Half-Yearly and Annual Financial Information

Throughout 2018, the Committee reviewed and analysed this information prior to being known by the Board of Directors and transmitted to the regulator and the markets, having the collaboration of the Financial Management for this analysis.

In particular, the Committee has reviewed and reported favourably on:

- The annual accounts and management report of Ence Energía y Celulosa, S.A. and its consolidated group for the financial year 2017 and has proposed to the Board of Directors the preparation of these documents.
- Quarterly financial information for Q4 2017 and Q1 2018, as well as consolidated interim summarised financial statements for the six-month period ended June 30 2018 and the interim consolidated management report.
- At the proposal of the Finance Department, the financial reports to be sent to the CNMV and the main messages to be transmitted to investors after publication of the financial information mentioned above.

(ii) Other financial/accounting information

Among other issues, the Committee:

- Has reported favourably on the financial statements of liquidity to be prepared by the Board for the distribution to shareholders of two interim dividends for financial year 2018, in accordance with the dividend distribution policy approved by the Board of Directors.
- Has been regularly informed by the Chief Financial Officer of various issues related to finances and accounting, such as the distribution of results among subsidiaries, the current liquidity contract, the accounting treatment of the liquidation of the 2016-2018 Long-Term Incentive Plan, the tax treatment of convertible bonds and other noteworthy events.

(iii) Other issues addressed

In relation to other types of information:

- At its meeting on 23 April 2018, the Committee reported favourably on the approval by the Board of Directors of the amendments to the Regulations of the Board of Directors and its revised text.

The proposed amendment was an improvement action included within the action plan adopted by the Board of Directors in the framework of its 2017 annual evaluation, consisting of redistributing part of the (not legally reserved) functions that were performed by the Audit Committee between the Appointments and Remuneration Committee, which is now assuming corporate governance responsibilities, and the Advisory Committee on Forestry and Regulatory Policy (currently the Sustainability Committee), which is now assuming corporate social responsibility, non-financial information and diversity functions.

- At its meeting on 16 January 2018, the Committee was informed of legislative developments in relation to the new statement of non-financial information introduced by Royal Decree-Law 18/2017. At its meeting on 26 November 2018, the Committee was also informed of the developments envisaged in the draft law on non-financial information.
- At its meeting on October 30, the Committee reviewed the response to a request from the CNMV for further information on the composition and functioning of the Audit Committee. At its meeting on November 26, 2018, the Chief Financial Officer informed the Committee of the CNMV's requirement regarding the use of various credit rating agencies.

(iv) Relations with the external auditor

With regard to the external auditor:

- The Committee agreed to propose the re-election for one year of PricewaterhouseCoopers as auditor of the accounts of Ence Energía y Celulosa, S.A. and its consolidated group for financial year 2018.
- The external auditor appeared before the Committee to report on the main aspects of the audit:
 - its audit work on the 2017 annual accounts and its report on the functioning of the internal financial reporting control system (SCIIF), as well as the additional report to the Audit Committee; and
 - the work carried out in relation to the quarterly financial information and the consolidated abridged interim financial statements for the six-month period ended 30 June 2018, as well as the consolidated interim management report.

- With respect to the audit results presented by the external auditors in the 2018 financial year, it should be noted that, at the Committee's meeting on February 19, the external auditors did not notice the existence of significant deficiencies

With regard to the Independence of the Statutory Auditor, at the meeting of 19 February 2018:

- the Committee drew up the mandatory report on the Independence of the Statutory Auditor, based on the external auditor's written confirmation of their independence from the Company and related entities, and submitted it to the Board of Directors; and
- the Committee authorised, after analysis, the contracting of certain services other than auditing of accounts.

(v) Internal Audit

The Committee has supervised the actions carried out by the Internal Audit Department and, specifically, has been informed of and approved:

- The annual Internal Audit report corresponding to financial year 2017, which includes the main actions carried out by the Internal Audit team and, in particular, the audit work carried out, compliance with the Internal Audit Plan and the monitoring of the proposed actions.
- The annual Internal Audit plan for financial year 2018, which describes in detail the actions planned by the department during the year.
- Quarterly monitoring of the progress of the annual Internal Audit Plan 2018.

(vi) Tax Information

The Committee has learned of the following:

- Report by the Company's external advisors on the closing of corporate income tax for 2017.
- Quarterly report by the external advisors on the first and second instalments of the 2018 Corporate Income Tax, ongoing tax inspections and litigation cases, new laws and regulations, as well as the external advisors' opinion on the tax situation of the Company.

Furthermore, at its meeting of 23 July 2018, the Committee reported favourably on the Board's approval of the Tax Policy.

(vii) Information on relevant litigation cases

The Committee has been informed by the Company's external legal advisors and by the General Secretary on the status of the main adversarial-administrative proceedings (in particular those related to the concession of the Pontevedra factory), as well as civil and criminal proceedings.

(viii) Corporate Governance

The Committee has carried out the following actions in this area:

- Annual evaluation of the Committee for the financial year 2017, which was carried out with the assistance of the independent consultant KPMG. The results of the evaluation are detailed in point 7 of this Report.
- Approval and submission to the Board of Directors of the Committee's Operating Report for financial year 2017.
- Issuance of a favourable report, prior to its approval by the Board of Directors, on the Annual Corporate Governance Report corresponding to financial year 2017¹.

(ix) Ethical and criminal compliance

The Committee has carried out the following actions in this area:

- Approval of the annual report corresponding to financial year 2017 of the Ethics and Criminal Compliance Committee, highlighting as a fundamental objective for financial year 2018 the project of obtaining the UNE 19601 Certificate of criminal compliance relating to the prevention of corporate crimes, in order to certify the quality and effectiveness of the implemented crime prevention system.
- Quarterly monitoring during 2018 of the activities of the Ethics and Criminal Compliance Committee with special monitoring of complaints received in relation to potential breaches of the Code of Conduct and other relevant issues such as the implementation in the company of the General Data Protection Regulations.
- Evaluation of the proposal to redefine the Ethical and Criminal Compliance Committee, changing its name to "Compliance Committee", expanding its competencies and incorporating the Chief Financial Officer as a new member of the Committee.
- Favourable information on the approval by the Board of the Criminal Compliance Policy, the Procedure of the Compliance Committee, the changes in the Committee's composition and the evaluation of its members.

¹ Following the amendment of the Board of Directors' Regulations in April 2018, the functions of Corporate Governance are bestowed on the Appointments and Remuneration Committee.

(x) Corporate Social Responsibility

The Committee has carried out the following actions related to this section:

- Has reported favourably on the annual Corporate Social Responsibility report for financial year 2017² for approval by the Board.
- It has been informed on a quarterly basis—until the Sustainability Committee assumes these functions—of the actions carried out in the area of Corporate Social Responsibility.

(xi) Risk Management and Control

The Committee approved the updating of the Company's risk map for 2018 and 2019, reviewing in detail the new risks, the materialised risks and those that have been eliminated, as well as the tolerance levels. It also submitted information to the Board on the 2018 risk map for ratification of the approval agreement.

The Committee has also monitored the different risks according to their classification, with particular emphasis on those considered to be the most critical according to the matrix used for this purpose.

The Committee has followed up on the action plans defined for the mitigation of the most critical risks with the identification of those responsible for their implementation.

7. Evaluation of the evolution and performance of the Audit Committee

In compliance with Article 529, Section 9, Paragraph 1 of the LSC and Article 19 bis of the Board of Directors' Regulations, at its meeting held on 19 February 2018 the annual evaluation of the Committee corresponding to financial year 2017 was carried out.

The evaluation was carried out with the help of the independent consultant KPMG, taking as a reference the report conducted by this consultant on the basis of anonymous self-evaluation questionnaires by each Director and the interviews with each one of them.

The evaluation showed that the assessment of the functioning and composition of the Committee was very positive, both in terms of the performance and contribution of each of its members, as well as in terms of the fulfilment of the Committee Chairman's responsibilities.

However, it became clear that it was necessary to relieve the Committee of some of its functions (not attributed to it by law) and to redistribute them among other Committees.

The result of the evaluation was an amendment to the Regulations of the Board of Directors whereby the powers relating to corporate governance of the Company and corporate social

² Following the amendment of the Board of Directors' Regulations in April 2018, the Corporate Social Responsibility functions are assumed by the Sustainability Committee.

responsibility, previously attributed to the Audit Committee, are assumed by the Appointments and Remuneration Committee and the Sustainability Committee, respectively.

8. Information on the Audit Committee's opinion on the Statutory Auditor's independence

The Committee, in accordance with Article 529, Section 14, Paragraph 4 (e) of the LSC received the external auditor's declaration of independence in relation to the Company or entities related to it, as well as detailed and individualised information on the additional services rendered of any kind and the corresponding fees received.

Once the declaration of independence had been received, the Committee prepared the report on the independence of the Auditor for the 2017 financial year, which was published on the Company's website at the time the General Shareholders' Meeting was called, in compliance with Article 16.2 (7) of the Regulations of the Board of Directors.

This report, in accordance with Article 529, Section 14, Paragraph 4 (f) of the LSC includes the reasoned appraisal of additional services of any kind, considered individually or as a whole, other than the statutory audit, provided to the Company or entities related to it by the external Auditor or by persons or entities related to it.

In the aforementioned report, the Committee considered that, taking into account the applicable regulations, the external auditor carried out its work independently during the financial year 2017.

9. Date of preparation

The Audit Committee prepared this Report on 20 February 2019 and made it available to the Board of Directors for consideration in the annual self-assessment of the functioning of the Board of Directors and its Committees. If appropriate, the Board of Directors must approve it.