

OPERATING REPORT OF THE APPOINTMENTS AND REMUNERATION COMMITTEE FINANCIAL YEAR 2019

1. Introduction

ENCE ENERGÍA Y CELULOSA, S.A. (hereinafter, "Ence" or "the **Company**") prepares this Operating Report of the Appointments and Remuneration Committee (hereinafter, "the **Report**") in accordance with the provisions of Technical Guide 1/2019 on appointments and remuneration committees, published by the Spanish National Securities Market Commission (hereinafter, "the **CNMV**"), in order to allow shareholders and other interested parties to understand the activities carried out by the Company's Appointments and Remuneration Committee (hereinafter, "the **CNR**") during the financial year.

In accordance with the provisions of Article 19 bis. 2 of the Regulations of the Company's Board of Directors and recommendation 6 of the Spanish 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. CNR Regulation

The regulation of the composition, operation and powers of the CNR is contained in the Articles of Association (Article 51 bis) and in the Regulations of the Company's Board of Directors (Article 17). In all cases, the Company's internal regulations that the CNR regulates comply with the relevant provisions of the Spanish Companies Act ("**LSC**") and the Spanish code of good governance of listed companies.

Likewise, the Company has established mechanisms to ascertain the recommendations of stakeholders and proxy advisors and assess their incorporation as best practices with respect to the operation of the Committee and the matters for which it is responsible.

It is important to point out that, in financial year 2018, Sections 2 and 4 of Article 17 of the Regulations of the Board of Directors, relating to the composition and basic responsibilities of the CNR, have been amended to adapt them to the new distribution of functions between committees deriving from the evaluation of the functioning of the Board of Directors and the Committees in financial year 2017 and thus to incorporate the new functions that correspond to the CNR. In particular, the functions related to the review, evaluation and compliance with Corporate Governance Rules, previously vested in the Audit Committee, are now bestowed on the Appointments and Remuneration 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 CNR

The CNR is composed exclusively of non-executive directors and a majority of independent directors, with one of the latter acting as Chairman.

In financial year 2019, the composition of the CNR and the seniority of its members were as follows:

Name	Position	Category	Seniority at the CNR
Mr. José Carlos del Álamo	Chairman	Independent (Lead Independent Director)	16/03/2016
Ms. Amaia Gorostiza	Secretary	Independent	28/03/2019
Ms. Isabel Tocino	Member	Independent	28/03/2019
Fernando Abril-Martorell	Member	Other external member	30/03/2007
Turina 2000, S.L. (represented by Mr. Gorka Arregui)	Member	Proprietary	28/03/2019

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.

The composition of the Appointments and Remuneration 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/comisiones/>

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

The Board has valued the proven track record of the members of the CNR in skills such as people management, identification and retention of talent, selection and management of teams, communication with collaborators and setting of remuneration components, as well as in other areas that are within the competence of the CNR such as good corporate governance.

4. Functions of the CNR

The functions of the CNR are regulated in Article 17 of the Regulations of the Board of Directors.

Amongst others, the CNR is entrusted with the following responsibilities:

- Assess the skills, knowledge and experience needed in the Board of Directors.
- Examine the Company's compliance with corporate governance rules and its code of conduct and make the necessary proposals for improvement.
- Submit to the Board proposals for the re-election, removal or appointment of Independent Directors, and report on proposals for the re-election, removal or appointment of the remaining Directors, so that the Board may proceed directly to appoint them (co-option) or take them on board for submission to the Meeting's decision.
- Establish a representation objective for the under-represented gender on the Board, prepare guidelines on how to achieve it and ensure that, when new vacancies are

filled or new Board Members are appointed, the selection procedures do not suffer from implicit biases that may imply discrimination on the grounds of gender.

- Examine and organise, where appropriate together with the Coordinating Director, the succession of the Chairman of the Board and the Chief Executive of the Company and, where appropriate, make proposals to the Board so that such succession takes place in an orderly and well-planned manner.
- Propose the members who should form part of each of the Committees to the Board.
- Report on the appointment and removal of Directors with greater responsibility in the Company that the Chief Executive may propose to the Board.
- Propose to the Board of Directors the system and amount of annual remuneration of the Directors and General Managers or those who carry out their senior management functions under the direct authority of the Board, Executive Committees or Managing Directors.
- Propose to the Board of Directors the standard conditions for Executive Directors' contracts and their individual remuneration.
- Ensure compliance with the remuneration policy.
- Propose the periodic review of the remuneration programs for the Directors and those executives determined by the Board of Directors.
- Check the information regarding remunerations for Directors and senior officers, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and senior officers in the Company.
- Propose measures for remuneration transparency and ensure compliance.
- Evaluate, at least once per year, their performance and the quality of their work.
- To report on the evaluation process of the company's Chairman of the Board and CEO.
- Ensure that possible conflicts of interest do not undermine the independence of any external consulting provided to the Committee.

5. Meetings held and tasks performed during the financial year 2019

In financial year 2019, the CNR held 7 meetings, attended by 100% of its members, as well as the Secretary of the Board of Directors.

Attendance of non-members of the CNR has been limited to those meetings and Agenda items that required the presence of external advisors (as will be detailed, in order to present and resolve issues related to the new Long-Term Incentive Plan 2019-2023 and the selection of two new Independent Directors) or of the General Human Resources Manager.

Throughout 2019, the most significant tasks carried out by the CNR are described below:

(i) Variable remuneration for senior management

The CNR reviewed and reported favourably on the proposal of **achievement of the 2018 ordinary variable remuneration targets of the Management Committee** (and of the executives reporting directly to the Board), which included the percentage of achievement of these targets and the resulting variable remuneration amounts for each of them.

At the same meeting, the CNR reviewed and reported favourably on the proposal to **set the objectives of the Management Committee** (and of the executives reporting directly to the Board) whose degree of compliance will determine the amount of variable remuneration for 2019.

(ii) Long-term incentive plans

The CNR agreed to report favourably on the Board's approval of the **levels of compliance with the targets set out in the 2016-2018 Long Term Incentive Plan** and, consequently, the amount of the resulting incentive in cash and shares, to be received by the beneficiaries on the payment date (4 July 2019).

Likewise, the proposal for a **new long-term incentive, for financial years 2019-2023**, prepared by the firm KPMG, as an external expert advisor on the subject, was presented to the CNR. This external advisor attended the CNR meeting in person under the corresponding Agenda item and answered the questions raised by the Commission members.

At the meeting of 21 February, the CNR agreed to report favourably on the approval by the Board of Directors: (i) of the proposal of agreement to be submitted to the General Meeting in relation to the new Long-Term Incentive Plan 2019-2023, (ii) of the Plan Regulations, and (iii) of the designation as beneficiaries of the Plan, at the four levels identified, of the corresponding persons and positions.

(iii) Directors' remuneration

The CNR reviewed the **Annual Report on Directors' Remuneration for 2018** and agreed to report favourably on its approval by the Board of Directors. In addition, at that session the CNR reviewed the information on remuneration contained in the Company's Annual Accounts for 2018, and agreed with it.

(iv) Evaluation by the Board and the Commission

The **annual evaluation of the Board of Directors and the CNR for the 2018 fiscal year** was carried out by the CNR through the internal procedure that takes as a reference the individual and anonymous completion by each Director of the self-evaluation questionnaire on various aspects related to the Board and its Committees, prepared by the CNR and sent to the Directors.

After reviewing the results and conclusions of the evaluation process, the CNR submitted its corresponding report to the Board of Directors.

(v) Selection, appointment and re-election of Directors

In January 2019, the members of the CNR agreed to hire the external consultant Spencer&Stuart to **complete the selection process for new Directors**.

In relation to this process, on the basis of the Commission's commitment to the target set in the Policy for the Selection of Directors, which is to procure that, by 2020, the number of female directors represents at least 30% of the total Board members, **the CNR analysed the profiles and evaluation reports issued by the external consultant on four candidates**, and agreed to prepare the mandatory reports to be submitted to the General Meeting for its decision on the selection of the two most suitable candidates, in view of their suitability for the previously defined profile, the absence of a conflict of interest and their proven availability.

Likewise, the CNR agreed to **propose to the Board the re-election** of Ms. Isabel Tocino Biscarolasaga as an Independent Director and to **report favourably on the re-election** of Mr. Fernando Abril-Martorell Hernández as another External Director and Mr. José Guillermo Zubía Guinea as another External Director. It likewise agreed to **propose the appointment** of Ms. Amaia Gorostiza Tellería and Ms. Irene Hernández Álvarez as Independent Directors, issuing the corresponding reports.

In all cases, the CNR analysed the suitability of their knowledge, skills and experience for the performance of the position in accordance with the Policy for the Selection of Directors.

Likewise, at the same meeting, it was resolved to report favourably on the appointment and re-election of **members of the Committees**, as well as on the proposal to appoint the head of the Legal Department, Ms. Reyes Cerezo, as **Vice-Secretary of the Board**

In April, the CNR launched the necessary actions to carry out the **succession of the Chairman of the Board of Directors**. In particular, the members of the CNR reviewed the proposal for the appointment of **Mr. Ignacio de Colmenares Brunet as Chairman of the Board of Directors and of the Executive Committee**, which was favourably informed by the CNR for its approval by the Board. Likewise, the CNR resolved to favourably report the **appointment of Mr. Juan Luis Arregui Ciarsolo as Honorary Chairman** of the Company and **Mr. José Carlos del Álamo Jiménez as Lead Independent Director**.

Finally, the CNR resolved to report favourably the **appointment of the Independent Director Ms. Irene Hernández** as a member of the Executive Committee.

(vi) Modification of the Executive Director's contract

In April, the CNR reviewed the CEO's service contract and resolved to report favourably on its modification to reflect the new situation after his appointment as Chairman of the Board of Directors.

(vii) Recruitment and evaluation of senior management

In relation to the hiring of senior executives, the CNR resolved to report favourably on the hiring of Mr. Faustino Martínez as General Manager of Safety, Prevention and the Environment.

It also resolved to report favourably on the incorporation of Mr. Fernando González-Palacios, Manager of Planning and Management Control, to the Management Committee.

In addition, the members of the CNR reviewed the results of the evaluation of the members of the Management Committee, which was presented by the General Manager of Human Capital, as well as the succession plans for each of the different positions.

(viii) Corporate Governance

The CNR reviewed the contents of the **Annual Corporate Governance Report for 2018** and resolved to report favourably on its approval by the Board of Directors.

Likewise, in relation to this matter, the CNR presented a summary of the recently-published **Technical Guide of the CNMV on Appointments and Remuneration Committees**. After reviewing the recommendations proposed in the guide, the CNR concluded that most of them were followed within the Commission and it was decided to take certain actions to implement several of the proposed recommendations. Among them, the preparation and publication of this report on the functioning of the CNR is noteworthy.

The **proposal for a training and refresher programme for Directors** was also reviewed, in **response to one of the actions suggested** in the evaluation process of the Board of Directors. The content of the programme as well as the implementation schedule was specified and approved at the meeting on 26 November.

For its part, the CNR was informed of the **main actions taken by the company in the area of corporate governance during the first half of 2019**. The report included a proposal to update and improve the Company's website in terms of corporate governance, which was approved by the Committee.

Finally, the CNR launched the **procedure to formalize a competence matrix** that identifies, on the one hand, the skills and knowledge present in the Board of Directors and, on the other, those competences that are considered necessary to face the challenges of the Company in the medium- and long-term and that must be taken into account in future selection processes of directors.

6. Evaluation of the Board of Directors and the CNR

As indicated above, the **annual evaluation of the Board of Directors and the CNR for financial year 2018** was carried out through the internal procedure that takes as a reference the individual and anonymous completion by each Director of the self-evaluation questionnaire on various aspects related to the Board and its Committees, prepared by the CNR and sent to the Directors.

The CNR received the aggregated information from the completed questionnaires and reviewed the results obtained on the assessment of general issues of the Committee and the Board of Directors, its functioning, the actions carried out, the performance of its Chairman and its members. In order to assess the functioning and quality of the work, the matters discussed during the meetings of the Committee and the Board of Directors were also reviewed.

After reviewing the results and conclusions of the evaluation process of the Committee and the Board of Directors, the CNR considered, notwithstanding the opinion of the Board of Directors in this regard, that the functions corresponding to these bodies, both legally and statutorily, had been satisfactorily performed both generally and individually by the Chairman and each of its members, and therefore agreed to submit the evaluation reports to the Board of Directors.

As a result of this process, an Action Plan was drawn up consisting of the following **3 improvement actions**: (i) increase training and development actions for Directors, especially with regard to knowledge of ENCE's different businesses, including physical visits to plants; (ii) greater dedication to strategic issues, in particular the company's long-term strategy; and (iii) intensify contact with the Company's management team.

7. Date of formulation of the report by the CNR and date of its presentation to the Board of Directors

The CNR prepared this Report on 24 February 2020 and provided it 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 shall approve it.

Madrid, 24 February 2020