

REPORT ON AUDIT COMMITTEE OPERATIONS FINANCIAL YEAR 2019

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 Company's Board of Directors 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.

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 2019, the composition of the Audit Committee and the category and seniority of its members were as follows:

Name	Position	Category	Seniority in the Committee
Ms. Isabel Tocino Biscarolasaga	Chairwoman	Independent	Since 30/06/2014 (Chairwoman since 28/03/2019)
Mr. José Guillermo Zubía Guinea	Secretary	Other external member	Since 25/06/2008
Ms. Rosa María García Piñeiro	Member	Independent	Since 28/03/2019
Ms. Irene Hernandez Alvarez	Member	Independent	Since 28/03/2019
TURINA 2000, S.L. (represented by Mr. Gorka Arregui Abendivar)	Member	Proprietary	Since 22/03/2018

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 also have proper knowledge about 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/>

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 By-laws 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.

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

In financial year 2019, the Audit Committee held 7 meetings, attended by 100% of its members, as well as the Secretary and Vice-Secretary of the Board of Directors.

The representatives of the external auditor attended the meetings held on 20 February, 29 April, 29 July and 28 October 2019 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 2019".

The Company's external tax advisors attended the meetings of the Committee on 20 February and 29 July 2019 to report on matters relating to the Company's tax situation referred to in the section "Significant activities during 2019" below.

The CEO, the Chief Financial Officer and personnel assigned to their management, the Director of Internal Audit and the General Counsel, as well as the General Directorates for Health, Safety

and the Environment, the General Directorate for Cellulose and the General Directorate of Operations of Independent Energy Plants, attended the meetings and covered the agenda items that required their intervention, presenting the matters within their competence.

6. Significant activities carried out in 2019

In 2019, the Audit Committee carried out the significant activities described below:

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

Throughout 2019, 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 financial year 2018, including the Annual Sustainability Report for 2018, and has proposed to the Board of Directors the preparation of these documents.
- Quarterly financial information for Q4 2018 and financial year 2019, as well as consolidated interim summarised financial statements for the six-month period ended 30 June 2019 and the interim consolidated management report.
- The financial reports to be sent to the CNMV and the corresponding presentations 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 distribution to shareholders of an interim dividend for financial year 2019, in accordance with the dividend distribution policy approved by the Board of Directors.
- It has been periodically informed by the Chief Financial Officer of various financial-accounting issues, such as the updating of the investment plan contained in the Strategic Plan 2019-2023, the financing of the acquisition of the Company's new plant in Termollano, the settlement of the long-term Incentive Plan 2016-2018 or the review of the resources available to operate under the liquidity agreement.

(iii) Other issues addressed

In relation to other types of information:

- The Committee has authorised the launch, with the external support of a consultant, of a specific project for the design of an internal control system for non-financial information (SCIINF) including controls to ensure the reliability and quality of data.
- The Committee has resolved to report favourably on the approval by the Board of Directors of a share buyback program to cover the 2019-2023 Long Term Incentive Plan and the appointment of GVC Gaesco Beka, S.V., S.A. to manage the liquidity contract in replacement of M&G Valores, Agencia de Valores, S.A.
- The Committee has resolved to report favourably on the approval by the Board of Directors of an Antitrust Compliance Programme.

(iv) Relations with the external auditor

With regard to the external auditor:

- The Committee resolved 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 2019.
- The external auditor appeared before the Committee to report on the main aspects of the audit:
 - its audit work on the 2019 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 2019, as well as the consolidated interim management report.
- With regard to the results of the audit presented by the external auditors for the 2019 financial year, at the Committee meeting of 20 February, the external auditors confirmed to the Committee that both the accounting treatments and the information contained in the annual accounts are adequate, and therefore their opinion is given without qualifications and without limitations of any kind.

(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 2018, 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 2019, which describes in detail the actions planned by the department during the year, as well as its resources and budget.
- Quarterly monitoring of the progress of the annual Internal Audit Plan 2019.

(vi) Tax Information

The Committee has acknowledged the following:

- Report by the Company's external advisors on the closure of Corporate Income Tax for 2018 and the tax amendments provided for in the Bill for the Spanish General Budget Law for 2019.
- Quarterly report by the external advisors on the first and second instalments of the 2019 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.

(vii) Information on relevant litigation cases

The Committee has been informed by the Company's external legal advisors and by the General Counsel on the status of the main adversarial-administrative proceedings (in particular those related to the concession of the Pontevedra biomill), 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 financial year 2018, which was carried out through the internal procedure consisting of taking as a reference the individual and anonymous completion by each Director of the self-evaluation questionnaire on various aspects relating to the Board and its Committees, prepared by the Appointments and Remuneration Committee and sent to the Directors. 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 2018.
- Favourable report, within the scope of its competencies, on the content of sections D, E and F of the draft of the Annual Corporate Governance Report whose approval is proposed to the Board.

(ix) Compliance

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

- Approval of the annual report for 2018 of the Compliance Committee, highlighting the importance of having obtained the UNE 19601 certificate of criminal compliance issued by AENOR, which accredits the quality and effectiveness of the crime prevention system implemented, and the implementation of the European Regulation on Data Protection in the Company.
- Quarterly monitoring of the Compliance Committee's activity during the 2019 financial year, with special monitoring of the complaints received regarding potential violations of the Code of Conduct, the action plans for safety and environmental audits and other relevant issues such as the approval of the Compliance Programme for the Defence of Competition, the review and updating of the Criminal Risk Map, the implementation of the necessary measures to ensure the application of the new regulations on personal data protection or the revision and drafting of internal standards such as the Information Security Policy to adapt it to Law 1/2019 of 20 February on Business Secrets.
- Evaluation and favourable report on the proposal to modify the composition and functions of the Compliance Committee and the consequent adaptation of the regulatory procedure for the operation of the Compliance Committee.

(x) Sustainability

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

- It has been informed of the actions of the Sustainability Committee in relation to the status of non-financial information (Sustainability Report 2018) which was reported favourably by this Committee, having been verified by the firm Deloitte without any qualification.
- It has resolved to favourably admit the Annual Sustainability Report for 2018, and to submit it to the Board of Directors for approval.

(xi) Risk Management and Control

The Committee approved the updating of the Company's risk map for financial year 2019, reviewing in detail the new risks, the materialised risks and those that have been eliminated, as well as the tolerance levels. It also favourably submitted to the Board the information related to the global risk map and criminal risk map for ratification of the approval resolution.

The Committee has likewise 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, and has incorporated the risks related to climate change.

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 20 February 2019 the annual evaluation of the Committee corresponding to financial year 2018 was carried out.

The evaluation was carried out through the internal procedure consisting of taking as a reference the individual and anonymous completion by each Director of the self-evaluation questionnaire on various aspects relating to the Board and its Committees, prepared by the Appointments and Remuneration Committee and sent to the Directors.

The evaluation showed that the Committee has performed satisfactorily the functions assigned to it by law and regulations, both generally and individually, by the Chairman and each of its members.

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 2018 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 2018.

9. Date of preparation

The Audit Committee prepared this Report on 24 February 2020 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 shall approve it.