

## **REPORT ON AUDIT COMMITTEE OPERATIONS FOR FINANCIAL YEAR 2020**

### **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](http://www.ence.es)) sufficiently in advance of the Ordinary Shareholders' Meeting.

### **2. Audit Committee Regulations**

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 Company's Board of Directors Regulations (Article 16). Both internal rules take into account the provisions of the Spanish Companies Act ("**LSC**") and, as a supplement and provided that they are compatible, the provisions established for the operation of the Board of Directors in the Board of Directors Regulations.

In all cases, the Company's internal regulations governing its Audit Committee comply with the relevant provisions in the LSC and the good governance recommendations for listed companies. In this regard, the revision of the Good Governance Code for listed companies carried out by the CNMV in June 2020 has led the Company to amend its Board of Directors Regulations in order to, among other improvements, adapt them to this revision. This adaptation includes the updating of some of the provisions relating to the composition and functions of the Audit Committee, as will be specified in the following sections of this document.

The Articles of Association are registered in the Madrid Trade Register and have been reported to the CNMV. The revised text of the Board of Directors Regulations as of today's date has been reported to the CNMV and filed with the Madrid Trade Register pending registration. Both are available on the Company's website [www.ence.es](http://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 2020, the composition of the Audit Committee and the category and seniority of its members was as follows:

Name	Position	Category	Seniority in the Committee
<b>Ms Irene Hernández Álvarez</b>	Chairwoman	Independent	Since 28/03/2019 (Chairwoman since 31/03/2020)
<b>Mr José Guillermo Zubía Guinea</b>	Secretary	Other external member	Since 25/06/2008
<b>Ms Isabel Tocino Biscarolasaga</b>	Member	Independent	Since 30/06/2014
<b>Ms Rosa María García Piñeiro</b>	Member	Independent	Since 28/03/2019
<b>TURINA 2000, S.L. (represented by Mr Gorka Arregui Abendivar)</b>	Member	Proprietary	Since 22/03/2018

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

In compliance with Article 529 m of the LSC, Article 51 of the Articles of Association, and Article 16 of the Board of Directors Regulations, the members of the Audit Committee, especially its Chair, have all been appointed in consideration of their knowledge and experience in accounting, auditing, and risk management, both financial and non-financial<sup>1</sup>. 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/comisiones/>

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

### 4. Responsibilities of the Audit Committee

The functions and responsibilities of the Audit Committee are governed by Article 16.2 of the Board of Directors Regulations, which were amended by the Board of Directors at its meeting of 22 December 2020 in order to adapt it to the new distribution of functions set out by recommendations 41, 42, and 54 of the Good Governance Code.

<sup>1</sup> Amendment of the Board of Directors Regulations of 22 December 2020 to adapt them to the new drafting of Recommendation 39 of the Good Governance Code.

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

- Report to the Annual General Meeting of Shareholders through the Chair of the Committee on any issues arising within its area of competence;
- Propose to the Board of Directors, for submission to the Annual General Meeting of Shareholders, the appointment, contracting conditions, scope of their commission, and their re-election and, where appropriate, the removal or non-renewal of the external auditors or audit firms, encouraging the group auditor to assume responsibility for the audits of the companies comprising the group;
- Ensure the independence and efficiency of the internal audit's functions, propose the selection, appointment, re-election, and removal of the person responsible for this service, propose a budget, review the information that this system periodically generates about its activities, check that senior management have taken note of the reports' conclusions and recommendations, and approve its guidance and work plans, ensuring that its activity is concerned mainly with the risks that are relevant to the Company;
- Regularly obtain information from the internal audit on the audit plan and its execution and supervise the Company's internal audit based on the annual internal audit plan presented by the person responsible for this area every financial year, on the information supplied about possible incidents and limitations to the scope of the audit that have arisen during that have arisen during its development, and on the results and follow-up of its recommendations and the activity report submitted by the head of the internal audit to the Committee for consideration at the end of each financial year;
- Monitor and evaluate the process of preparing financial and non-financial information and their integrity;
- Supervise compliance with the Company's internal codes of conduct and make the necessary proposals for their improvement;
- Establish appropriate relations with the Account Auditors in order to receive information on matters that may jeopardize their independence (in particular, so that the auditor's remuneration for its work does not compromise its quality or independence), for consideration by the Committee and any other matters related to the process of conducting the accounts audit, as well as any other communications established in accounts auditing law and in technical audit rules;
- In any event, each year the Audit Committee shall receive from the account auditors or audit companies the written confirmation of their independence from the company or companies related to it directly or indirectly, as well as information on additional services of any kind provided and the corresponding fees received from these companies by the aforementioned account auditors or audit companies, or by the

persons or entities related to them in accordance with the provisions in the Account Auditing Act;

- Likewise, the external auditor must hold one meeting a year with the plenary session of the Board of Directors to report on the work performed and the evolution of the Company's accounting and risk situation.
- Annually issue, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditors or audit firms; this report shall be published on the Company's website and must, in any case, express an opinion on the provision of the additional services referred to in the preceding section, considered individually and as a whole, other than the statutory audit, the limits on the concentration of the auditor's business and, in general, in relation to the rule on independence or the regulatory audit regulations;
- Ensure that the company notifies the CNMV of a change of auditor and enclose a statement with the notice of any disagreements with the outgoing auditor and, if any, their content, and, in the event of the auditor having resigned, a review of the circumstances that gave rise to the resignation;
- Ensure that the annual accounts that the Board of Directors submits to the Annual General Meeting of Shareholders are drawn up in accordance with accounting regulations; monitor compliance with legal requirements, the correct application of generally accepted accounting principles, and the proper delimitation of the scope of consolidation, as well as the correct application of accounting criteria, reporting on proposals for the modification of accounting principles and criteria suggested by management;
- Serve as a communication channel between the Board of Directors and the auditors, evaluate the results of each audit and the responses of the management team to its recommendations, and mediate in the event of discrepancies between them in relation to the principles and criteria applicable in the preparation of the financial statements;
- Supervise and assess the effectiveness of the internal control and financial and non-financial risk management systems relating to the Company and, where appropriate, the group, including operational, technological, legal, social, environmental, climate, political, reputational, and corruption-related risks; and discuss with the auditors or audit firms any significant weaknesses in the internal control system detected during the course of the audit;
- Monitor in general that the established internal control policies and systems are effectively implemented in practice;

- Supervise compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted in a clear and precise manner;
- Provide advance notice about the Board's adoption of the corresponding agreement regarding the prospectus and the periodical financial information that the Company must provide to markets and supervisory bodies;
- Establish and supervise a mechanism that allows employees and other parties related to the Company, such as directors, shareholders, suppliers, contractors, or subcontractors, to report potentially significant irregularities, including financial, accounting, or any other irregularities related to the Company that they notice within the Company or its group; This mechanism must guarantee confidentiality and, in any case, establishing the possibility for communications to be made anonymously, respecting the rights of the accuser and the accused;
- Report on transactions with directors and significant shareholders or other related party transactions, in accordance with the provisions of the Law and Article 40 of these Regulations;
- Report on transactions that involve or may involve conflicts of interest and, in general, on the matters set out in Chapter IX of these Regulations, except for those whose competence is reserved therein to the Appointments and Remuneration Committee;
- Report to the Board of Directors, prior to the adoption by the latter of the corresponding decisions, on all matters set out by Law, the Articles of Association, and these Regulations and, in particular, in relation to the creation or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the group;
- Evaluate, at least once per year, their performance and the quality of their work;
- Analyse and report in advance to the Board of Directors on the structural and corporate modifications that the Company plans to carry out, their economic conditions and their accounting impact, and, in particular, if appropriate, on the proposed exchange ratio;
- Supervise the communication and relationship strategy with shareholders and investors, supervise the application of the general policy regarding the communication of economic-financial, non-financial, and corporate information, and monitor the way in which the entity communicates and interacts with small and medium-sized shareholders.

## 5. Meetings held and tasks performed during financial year 2020

In financial year 2020, the Audit Committee held 8 meetings, attended by 100% of its members, as well as the Secretary and Vice-Secretary of the Board of Directors. Since March, Audit Committee meetings have been held remotely as a security measure in view of the extraordinary situation caused by the COVID-19 pandemic that has impacted this financial year, all in accordance with the provisions in applicable legislation and internal regulations.

The representatives of the external auditor participated in the meetings held on 24 February, 23 April, 27 July, 26 October, and 11 November 2020 in order to report on aspects related to their independence, the periodic financial reports and the Annual Accounts, and their opinion on specific issues related to corporate transactions approved during the financial year, as detailed in the following section on "Significant activities during financial year 2020".

The Company's external tax advisors attended the meetings of the Committee on 24 February and 27 July 2020 to report on matters relating to the Company's tax situation referred to in the section "Significant activities during 2020" below.

The CEO, the Chief Financial Officer, financial management personnel, the Internal Audit Director, the Secretary General, and the General Managers for Health, Safety, and the Environment, the General Manager for Cellulose, and the General Manager of Independent Energy Plant Operations, attended the meetings and covered the agenda items that required action to present matters within their area of competence.

## 6. Significant activities carried out in 2020

In 2020, the Audit Committee carried out the significant activities described below:

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

Throughout 2020, the Committee reviewed and analysed this information prior its approval by the Board of Directors and reported it to the regulator and the markets, with collaboration from the Financial Management Department 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 2019, including the Annual Sustainability Report for 2019, and has proposed to the Board of Directors the preparation of these documents.
- Quarterly financial information for Q4 2019 and financial year 2020, as well as consolidated interim summarised financial statements for the six-month period ended on 30 June 2020 and the interim consolidated management report.

- The financial reports to be sent to the CNMV and the corresponding presentations to be reported to investors after publication of the financial information mentioned above.

(ii) Other financial/accounting information

Among other issues, the Committee has:

- Regularly analysed the financial impact of the COVID-19 pandemic and the financial and liquidity measures to adopt, all in accordance with the recommendations of the CNMV and the ESMA in this regard.
- Reported favourably on the two corporate transactions carried out during financial year 2020, consisting of the sale of the shares representing 49% of the share capital of Ence Energía, S.L.U. and the sale of 100% of the share capital of Ence Energía Solar S.L.U. (which in turn holds 90% of the share capital of Ence Energía Termollano), analysing their accounting impact and their economic conditions.
- Monitored the project to implement a narrative *reporting* tool to cover the requirements of the Commission Delegated Regulation 2018/815 with regard to the single electronic financial reporting format (ESEF), and the adaptation of the 2019 financial report to xHTML format and the labelling of the financial statements to the format proposed by the European regulator (*IFRS Taxonomy 2020*).
- Received regular reports from the Chief Financial Officer on significant financial and accounting issues, such as the convertible bond price, the impact of Royal Decree-Law 23/2020 on measures for economic recovery, and the evolution of the corporate rating.

(iii) Relations with the external auditor

With regard to the external auditor:

- At the beginning of the financial year, the Committee agreed to propose the re-election for one year of PricewaterhouseCoopers (PwC) as accounts auditor for Ence Energía y Celulosa, S.A. and its consolidated group for financial year 2020.
- During the financial year, the Committee carried out the selection process for the new auditor, following the expiry of the legal term for the provision of audit services by PwC, and reported favourably on the proposed appointment of KPMG as the Company's auditor for the period 2021-2023.
- The external auditor appeared before the Committee to report on the main aspects of the audit:

- its audit work on the 2020 annual accounts and its report on the functioning of the internal control over financial reporting (ICFR) system, as well as the additional report to the Audit Committee;
  - the work carried out in relation to the quarterly financial information and the consolidated abridged interim financial statements for the six-month period ended on 30 June 2020, as well as the consolidated interim management report; and
  - certain issues related to the corporate activities carried out.
- With regard to the results of the audit presented by the external auditors for the 2020 financial year, at the Committee meeting of 24 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.

(iv) 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 2019, 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 2020, which describes in detail the actions planned by the department during the year, as well as its resources and budget.

The Committee also monitored the progress of the annual Internal Audit Plan 2020 on a quarterly basis.

(v) Tax Information

The Committee has learned of the following:

- Report by the Company's external advisors on the closure of Corporate Income Tax for 2019 and the tax amendments envisaged in the Bill for the 2020 Spanish General Budget Law.
- Quarterly report by the external advisors on the first and second instalments of the 2020 Corporate Income Tax, new laws and regulations of a fiscal nature, and the external advisors' opinion on the Company's tax situation.



(vi) Information on relevant litigation cases

The Committee has been informed by General Secretary on the status of the main existing administrative, contentious-administrative (in particular those related to the concession of the Pontevedra factory), tax, civil, and criminal proceedings.

(vii) Corporate Governance

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

- Annual evaluation of the Committee for financial year 2019, 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 2019.
- 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 proposed to the Board for approval.
- Favourable report on the amendment of the Communication Policy with shareholders, investors, and proxy advisors in order to adapt it to the new drafting of Recommendation 4 of the Good Governance Code.

(viii) Compliance

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

- Approval of the annual report corresponding to financial year 2019 by the Compliance Committee, which includes the different activities carried out by said Committee in said financial year, among others, the review of the audits carried out in compliance matters, the review of the action plans derived from the audits, the review of complaints received and their follow-up, the update and review of the Criminal Risks Map, the implementation of internal regulations, training activities, and the follow-up audit by AENOR on UNE 19601 certification.
- Quarterly monitoring during financial year 2020 of the Compliance Committee's activity with special monitoring of complaints received in relation to potential breaches of the Code of Conduct, action plans for safety and environmental audits, and other relevant issues.
- Review and drafting of relevant internal rules such as the Code of Conduct, the Anti-Corruption and Anti-Fraud Policy, and the Whistleblowing Channel Procedure. Four

complaints were reported through this channel during financial year 2020, which were reported on quarterly and for which an action plan was proposed.

- Favourable report on the amendment of the Internal Code of Conduct in Securities Markets in order to adapt it to the latest CNMV requirements and to the channels established on its website for the communication of Privileged Information and Other Relevant Information.
- Monitoring of the actions carried out by the Information Systems Department, from the point of view of IT security, as a result of personnel teleworking and the digitalisation of the plants, with the Cybersecurity Plan standing out in particular.

(ix) Sustainability

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

- It has been informed of the actions of the Sustainability Committee in relation to the non-financial information statement (Sustainability Report 2019) which was reported favourably by this Committee, having been verified by the firm Valora without any qualification.
- It has agreed to report favourably on the Annual Sustainability Report for 2019, and to submit it to the Board of Directors for approval.

In this regard, it should be noted that in December 2020 the Company adapted the functions of the Audit Committee set out in the Board of Directors Regulations in relation to non-financial information in accordance with the latest revision of the Good Governance Code for listed companies.

In this way, the Audit Committee has taken on the responsibility for monitoring and assessing the preparation process and the integrity of non-financial information.

(x) Risk Management and Control

The Committee approved the updating of the Company's risk map for financial year 2020, reviewing in detail the new risks, the materialised risks, and risks that have been eliminated, as well as risk tolerance levels. It also reported favourably and submitted to the Board the information related to the overall risk map and criminal risk map for confirmation of the approval decision.

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 risks related to climate change and has expanded the risks related to people's health and safety. With regard to the latter, the Committee's ongoing analysis of the measures taken in response to the COVID-19 pandemic within the framework of the Risk Map are worth highlighting.

In addition, the Committee has followed up on the action plans defined for the mitigation of 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 24 February 2020, the annual evaluation of the Committee corresponding to financial year 2019 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 satisfactorily performed the functions assigned to it by law and regulations, both generally and individually by the Chair and each of its members.

In addition, an action plan for the Audit Committee was reviewed and approved, based on extending the duration of the meetings in order to devote more time to particularly relevant issues, and including training on matters of special technical complexity in the Directors' refresher programme.

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

The Committee, in accordance with Article 529 m section 4 (e) of the LSC, received the external auditor's statement 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 statement of independence was received, the Committee prepared the report on the independence of the accounts auditor for financial year 2019, which was published on the Company's website at the time the Annual General Meeting of Shareholders was convened, in compliance with Article 16.2 (7) of the Board of Directors Regulations.

This report, in accordance with Article 529 m section 4 (f) of the LSC, includes a justified assessment 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.

Specifically, according to the data provided by the auditor, all professional services rendered during financial year 2019 to the Company and entities in its Group amounted to a total of 203,200 euros, of which 6,200 euros correspond to other services related to the audit and the issuance of the report on specific procedures referring to the ICFR.

In the aforementioned report, the Committee considered that, taking into account the applicable regulations, the external auditor carried out its work independently during financial year 2019.

#### **9. Date of preparation**

The Audit Committee prepared this Report on 22 February 2021 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.

Madrid, 22 February 2021