

OPERATING REPORT OF THE APPOINTMENTS AND REMUNERATION COMMITTEE FOR FINANCIAL YEAR 2020

1. Introduction

ENCE ENERGÍA Y CELULOSA, S.A. (hereinafter, "Ence" or the "Company") has prepared this Operating Report of the Appointments and Remuneration Committee (hereinafter, the "Report") in accordance with the provisions in 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 in Article 19.bis.2 of the Company's Board of Directors Regulations and recommendation 6 of the Spanish Good Governance Code of Listed Companies, this Report is published on the Company's website (www.ence.es) sufficiently in advance of the Annual General Meeting of Shareholders.

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 Company's Board of Directors Regulations (Article 17). In all cases, the Company's internal regulations that govern the CNR comply with the relevant provisions of the Spanish Companies Act ("LSC") and the Spanish Good Governance Code of Listed Companies.

Likewise, the Company has established mechanisms to ascertain the recommendations of stakeholders and voting advisors ("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 note that, in December 2020, Article 17 of the Board of Directors Regulations concerning the functions of the CNR was updated, among others, in order to:

- incorporate the new recommendation 22 of the Good Governance Code on the duty of directors to disclose situations that may affect them,
- add the function foreseen in the new recommendation 54 of the Good Governance Code consisting of supervising the communication strategy and the relationship with proxy advisors, and
- transfer the function of reviewing internal standards of conduct to the Audit Committee.

Likewise, the new Article 17 of the Board Regulations includes some of the functions envisaged in the CNMV's Technical Guide on appointments and remuneration committees, such as reporting on succession plans and career or professional development plans for senior management, or proposing and periodically supervising programmes to update advisors' knowledge.

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.

3. Composition of the CNR

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

In financial year 2020, the composition of the CNR and the seniority of its members was as follows:

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

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

The composition of the Appointments and Remuneration Committee and the CVs 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 the establishment 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 governed by Article 17 of the Board of Directors Regulations.

Among other functions, the CNR is entrusted with the following responsibilities:

- Assess the skills, knowledge, and experience needed on 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-opting) 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 this, 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 Chair 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 appointments 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 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 programmes for the Directors and the executives determined by the Board of Directors.
- Verify the information regarding remuneration 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.
- Report on the evaluation process of the company's Chair of the Board and CEO.
- Ensure that conflicts of interest do not undermine the independence of any external advice provided to the committee.
- Supervise the communication strategy and the relationship with voting advisors.

5. Meetings held and tasks performed during financial year 2020

In financial year 2020, the CNR held 7 meetings, attended by 100% of its members in person or through proxies, as well as the Secretary of the Board of Directors.

The attendance of non-members of the CNR was limited to the Chief Executive Officer and the Head of Human Resources to submit various proposals relating to senior management to the Committee.

The most significant tasks carried out by the CNR throughout 2020 are described below:

(i) Variable remuneration for Senior Management

The CNR reviewed and reported favourably on the proposal to **meet the 2019 ordinary variable remuneration targets of the Management Committee**, which included the achievement percentage 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** whose degree of compliance will determine the amount of variable remuneration for 2020.

(ii) Senior management assessment and succession planning

The members of the CNR reviewed the Strategic Personnel Plan, the results of the evaluation of the members of the Management Committee, and the succession plans for each of the different positions.

(iii) Remuneration Policy for Directors and Remuneration Report

The CNR reviewed and reported favourably on:

- the **2020-2022 Remuneration Policy for Directors**, which was approved by the General Meeting of Shareholders held on 31 March 2020, and
- the **2019 Annual Report on Directors' Remuneration**, which was submitted to a consultative vote of the shareholders at said General Meeting.

In addition, the CNR reviewed the information on remuneration contained in the Company's Annual Accounts for 2019 and in the Company's half-yearly financial reports, and agreed with it.

(iv) Evaluation by the Board and the Committee

The **annual evaluation of the Board of Directors and the CNR for financial year 2019** was carried out by the CNR in February 2020 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.

Finally, in 2020 the CNR initiated and completed the process of appointing an external advisor to evaluate the Board and its Committees in this financial year, the conclusions of which will be presented in 2021.

(v) Selection of advisors

The CNR agreed **to report favourably on the re-election** of Mr Ignacio de Colmenares Brunet as an executive director and Mr Víctor Urrutia Vallejo as a proprietary director.

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

At the same meeting, it was also agreed to report favourably on the re-election of Mr Colmenares as CEO, Chairman of the Board of Directors, and Chairman of the Executive Committee.

Finally, the CNR agreed to report favourably on the appointment of the Independent Director Ms Irene Hernández as Chair of the Audit Committee, confirming her extensive experience in financial and risk management matters.

In December, the CNR reported favourably on the appointment by co-opting of Mr José Ignacio Comenge as proprietary director, replacing La Fuente Salada, S.L., which produced the vacancy as a result of its resignation.

Finally, in 2020 the CNR initiated and completed the process of appointing an external advisor for the selection of independent directors for financial year 2021.

(vi) Consolidated text of the executive director's contract

In September, the CNR reported favourably on the drafting of a consolidated text of the director's service contract. The changes introduced to the contract simply consist of improvements and clarifications to the wording of the original contract and its four addenda, and are therefore a mere technical recasting without any substantial or material modifications, including certain adaptations to the Good Governance Code of Listed Companies.

(vii) Corporate Governance

In February 2020, the CNR reviewed the contents of the **Annual Corporate Governance Report for 2019** and the 2019 annual accounts within the scope of its responsibilities and agreed to report favourably on their approval by the Board of Directors.

In addition, during the financial year the CNR was regularly informed about **the main new developments in corporate governance matters** published by the CNMV, such as (i) the new procedures for reporting inside information and other relevant information, (ii) the review of the types of treasury stock transactions considered as "safe harbours", and (iii) the reform of the Good Governance Code of Listed Companies.

As a result of the reform of the Good Governance Code in June, the CNR has reported favourably on:

- The review of the Director Selection Policy and Diversity in the composition of the Board of the Company.
- The revision of the Company's Board of Directors Regulations.

The CNR **was also briefed on issues such as:**

- the main actions taken by the company in the area of corporate governance during the first half of 2020,

- the conclusions reached following meetings with *proxy advisors* and ESG analysts,
- the impact of the COVID-19 pandemic on corporate governance issues such as the functioning of corporate bodies, their digitalisation, or issues to be addressed in these bodies, and
- the adjustment by the CNMV of the annual corporate governance report and the annual directors' remuneration report models, as a consequence of the latest revision of the Good Governance Code.

It is also worth highlighting the review carried out by the CNR in relation to the **extension of the good corporate governance lines included in the 2019-2023 Sustainability Master Plan**, which was reported favourably by the Committee.

Finally, the CNR reviewed the **competency matrix** that identifies, on the one hand, the skills and knowledge present on the Board of Directors and, on the other hand, the competences that are considered necessary to face the Company's challenges in the medium- and long-term and that must be taken into account in future director selection processes.

6. Evaluation of the Board of Directors and the CNR

As indicated above, in February 2020 the **annual evaluation of the Board of Directors and the CNR for financial year 2019 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, their functioning, the actions carried out, and the performance of their Chairs and their 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 under the Articles of Association, had been satisfactorily performed both generally and individually by the Chair and all members, and therefore agreed to submit the evaluation reports to the Board of Directors.

As a result of this process, an Action Plan was finalised including **measures** such as: (i) Maintain regular interaction with the directors; (ii) Promote an increase in the number of independent directors; (iii) Plan to hold at least one session focused on strategy; (iv) Regularly update the training plan for directors on matters deemed necessary.

7. Date the CNR report was prepared and date it was submitted to the Board of Directors

The CNR prepared this Report on 22 February 2021 and has made it available since then to the selected external advisor for consideration in the annual evaluation of the functioning of the Board of Directors and its Committees. If appropriate, the Board of Directors must approve it.

Madrid, 22 February 2021