

**REPORT ON THE FUNCTIONING OF THE SUSTAINABILITY COMMISSION FOR FINANCIAL YEAR  
2021**

**1. Introduction**

ENCE ENERGÍA Y CELULOSA, S.A. (hereinafter, "Ence" or the "Company") prepares this Sustainability Commission Operating Report (hereinafter, the "Report") in order to inform shareholders and other interested parties of the activities carried out by the Sustainability Commission during the year.

This Report is published on the Company's website ([www.ence.es](http://www.ence.es)) sufficiently in advance of the Ordinary Meeting of Shareholders.

**2. Regulation of the Sustainability Commission**

The regulation of the composition, operation, and powers of the Sustainability Commission is contained in the Company's Board of Directors Regulations (Article 17 bis). In any event, the Company's internal rules governing the Sustainability Commission comply with the relevant provisions of the Capital Companies Act ("LSC" for its acronym in Spanish).

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 Commission and the matters for which it is responsible.

The revised text of the Board of Directors Regulations as of today's date has been reported to the National Securities Market Commission (CNMV for its acronym in Spanish) and filed with the Madrid Trade Register pending registration.

**3. Composition of the Sustainability Commission**

The Sustainability Commission is composed exclusively of non-executive directors and is chaired by an independent female director.

At the end of 2021, the composition of the Sustainability Commission and the seniority of its members is as follows:

<b>Name</b>	<b>Position</b>	<b>Category</b>	<b>Seniority in the Sustainability Commission</b>
<b>Ms Rosa Garcia</b>	Chairman	Independent	From 29 March 2019
<b>Ms Amaia Gorostiza</b>	Member	Independent	From 26 March 2021
<b>Mr Javier Arregui</b>	Member	Proprietary	From 26 March 2021
<b>Mr José Guillermo Zubía</b>	Member	Other external members	From 29 March 2019
<b>Mr Victor Urrutia</b>	Member	Proprietary	From 20 June 2018
<b>Mr José Antonio Escalona</b>	Secretary	Non-member	From 20 June 2018

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

The composition of the Sustainability Commission 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/>

#### **4. Functions of the Sustainability Commission**

The functions of the Sustainability Commission are governed by Article 17 bis of the Board of Directors Regulations.

The Sustainability Commission is entrusted with the following responsibilities:

- a) Periodically review the sustainability policy and propose to the Board of Directors that it be updated so that it is oriented towards the creation of value and the promotion of social interest, taking into account, as appropriate, the legitimate interests of other stakeholders.
- b) Define and update, when appropriate, the company's sustainability strategy, monitoring that it is aligned with the corporate strategy and addresses the material aspects for the company's stakeholders, and monitoring and assessing its degree of compliance, reporting to the Board of Directors as appropriate.
- c) Report, prior to review by the Audit Committee and approval by the Board of Directors, the annual non-financial information statement (Annual Sustainability Report).
- d) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- e) Propose the appointment of the independent third party to verify the non-financial information statement.
- f) Ensure that the company's culture is aligned with its purpose and values.
- g) Be aware of significant legal changes in the area of sustainability and responsible innovation, as well as trends in this area, such as those related to the circular economy, in order to analyse them and, where appropriate, promote action plans.
- h) Supervise and evaluate the communication strategy with different stakeholders, except for shareholders and investors.
- i) Be familiar with and promoting the Company's social action strategy and its community relations plans.

## **5. Meetings held and tasks performed during financial year 2021**

During the 2021 financial year, the Sustainability Commission held 5 meetings, with a personal attendance rate of 88% of its members and 100% of members present and duly represented, as well as the Secretary of the Commission.

The non-members of the Sustainability Commission who attended its meetings at times were the Chief Executive Officer, the General Secretary and General Manager of Sustainability, the Sustainability Director, the General Manager of Cellulose, the General Manager of Independent Power Plants, as well as the General Manager of Finance, Corporate Development and Forest Assets and the General Manager of Human Capital to inform the Commission on the monitoring of the sustainability objectives of their corresponding areas of responsibility and other matters related to the items on the agenda of the meetings.

The most significant tasks carried out by the Sustainability Commission throughout 2021 are described below:

(i) The consolidated statement of non-financial information (Annual Sustainability Report)

Prior to its review by the Audit Committee and its preparation by the Board of Directors, the Sustainability Commission reviewed the Sustainability Report for 2020 (reporting favourably) and its verification report, which was prepared and presented to the Commission by the external auditor KPMG.

At the end of the 2021 financial year, the Commission reviewed the proposed structure and table of contents of the Annual Sustainability Report for 2021, the planning of the work for its preparation, and reported favourably on the appointment of KPMG as independent verifier of the Report.

Finally, with regard to the Annual Sustainability Report, the Commission discussed the recommendations made by the external auditor.

(ii) Sustainability Targets

During the 2021 financial year, the Commission has carried out quarterly monitoring of compliance with the sustainability objectives for 2021 approved in the 2020 financial year, which were defined in line with the pillars and lines of action established in the 2019-2023 Sustainability Master Plan and respond to its strategic axes. The targets included in the sustainability basket of the current Long Term Incentive (LTI) were also taken into account.

In order to monitor these objectives, the Commission was attended by the Managing Directors for Energy, Cellulose and Forestry Assets at the meeting of 26 July 2021, who gave a detailed presentation on the degree of compliance with the objectives corresponding to their area of responsibility.

At the last meeting of the year, held on 22 November, the Commission approved the sustainability objectives for 2022, which are also included in the Sustainability Master Plan 2019-2023 and respond to its strategic axes, but also include objectives related to compliance with new regulatory requirements that have arisen after the approval of the Plan (e.g. new renewable energy directive, European taxonomy of sustainable finance) and others related to new requirements of pulp customers.

(iii) Sustainability information included in the quarterly financial information

The Sustainability Commission reviewed and reported favourably on the sustainability information included in the various quarterly financial disclosures.

(iv) Analysis of climate change risks and opportunities

The Commission reviewed the progress in the analysis of risks and opportunities in the different business areas, as well as the plans and projects identified to mitigate risks and take advantage of the opportunities detected.

In the case of risks to eucalyptus cultivation, the Commission has reviewed the progress made in:

- ✓ Modelling of climate variation at the municipal level for timber supply areas.
- ✓ Analysis of new climate scenarios on the viability of E. globulus and E. nitens.
- ✓ Analysis of new scenarios on disease incidence.

(v) New developments in the regulatory framework and business implications

The Commission discussed the main regulatory developments and their impact on the Company's business.

In particular, the following were carefully reviewed:

- ✓ The Renewables Directive 2018 (REDII) as well as the proposed transposition into Spanish law.
- ✓ The proposed revision of RED II (Renewables Directive 2021- RED III)
- ✓ The strategic plan for the Common Agricultural Policy (CAP) post-2020
- ✓ The taxonomy of sustainable finance

In relation to this last point, the following were reviewed:

- the selection criteria for activities contributing to climate change mitigation and adaptation.
- reporting requirements for companies and financial institutions.
- a communication was made regarding the obligation to report in the 2021 Statement of Non-Financial Information the proportion of eligible activities according to the company's taxonomy, in the case of Ence, the % of turnover, OPEX and CAPEX coming from: (i) Renewable energy generation with biomass (ii) Forest management
- The obligation for next year to analyse compliance with the selection criteria, to report, in EINF 2022, the proportion of eligible activities aligned with the taxonomy.

(vi) Corporate Health and Safety Policy and diversity targets for senior management positions

The Commission reported favourably on the Board's approval of the Corporate Health and Safety Policy, as well as the setting of diversity targets for management positions.

- (vii) Quarterly information on the Pontevedra Social Plan and activities sponsored by the Company.

The Commission reviewed the quarterly updated information on the execution of the Pontevedra Social Plan, as well as the report on the activities sponsored by the Company and previously approved by the Sponsorship Committee.

#### **6. Evaluation of the Sustainability Commission**

In compliance with Article 529 nonies section 1 of the LSC and Article 19 bis of the Board of Directors Regulations, at its meeting held on 17 February 2021, the annual evaluation of the Commission corresponding to financial year 2020 was carried out.

The evaluation was carried out with the assistance of an expert advisor in line with good governance recommendation no. 36, through the individual and anonymous completion by each director of the self-assessment questionnaire on various aspects relating to the Board and its committees, and interviews with each of the directors.

The evaluation showed that the Commission has satisfactorily carried out its legal and regulatory functions, both at a general level and individually by the Chair and each of its members, without prejudice to some minor opportunities for improvement proposed in the Commission's action plan for 2021.

#### **7. Date the Sustainability Commission report was prepared and date it was submitted to the Board of Directors**

The Sustainability Commission prepared this Report on 23 February 2022 and made it available to the Board of Directors for consideration in the annual self-assessment regarding the functioning of the Board of Directors and its Commissions. If appropriate, the Board of Directors must approve it.

Madrid, 23 February 2022