


<b>ENCE ENERGÍA Y CELULOSA</b>		 <p><b>ence</b> ENERGÍA &amp; CELULOSA</p>	
NAME	<b>PURCHASING POLICY</b>		
MANAGEMENT	BOARD OF DIRECTORS		
PROCEDURE	-	DATE	6 November 2020
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### 1. Introduction

To achieve its vision, ENCE recognises the importance of collaborating with all actors in its supply chain and establishing responsible purchasing standards that ensure the creation of long-term shared value for both the company and its suppliers.

ENCE seeks to maintain a relationship based on mutual trust and reciprocal transparency with its suppliers of goods and materials, collaborators and service companies, establishing strong ties and contributing to the development and growth of its suppliers, especially local companies that operate in the vicinity of its facilities.

Specifically, as a company based on the sustainable use of natural resources, the transformation activity of which represents a significant economic, social and environmental contribution in the territory in which it operates, ENCE is aware of its responsibility to promote the sustainable cultivation and use of wood and biomass.

This Policy therefore places special emphasis on the activity of supplying these raw materials to ENCE, whether based on its assets, standing purchases or agroforestry supplies.

This Policy also demonstrates ENCE's commitment to the protection of human rights, the principles of the Global Compact and the Sustainable Development Goals established by the United Nations.

### 2. Objectives

The purpose of this Policy is to establish ENCE's guiding principles action in relation to its suppliers of products and services to ensure that the relationships established with all

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components of the supply chain are developed in line with the Company’s values and with the guidelines set out in its Code of Conduct and its Anti-Corruption Policy.

### 3. Scope

The scope of the Purchasing Policy covers all third-party expenses of the ENCE Group and its investee companies (“ENCE”), across all its business lines.

Therefore, the purchasing function at any level of ENCE must operate within the framework of this Purchasing Policy.

The principles contained in this Policy are applicable to the entire ENCE supply chain, from its suppliers and direct subcontractors, to their supply chains. Thus, direct suppliers and subcontractors will ensure compliance with the principles included in this Policy throughout their supply chains and all goods or services acquired by ENCE will be subject to this policy.

The principles set out in this Policy also apply to all transactions involving goods and services that ENCE enters into with third parties, even if they cannot be classified as purchases because they are carried out at no cost to ENCE, such as scrap removal services or removal of other materials, biomass removal agreements, etc.

## 4. Organisation and objectives of the purchasing function

### 4.1. Organisation

Depending on the type of good or service to be acquired, the responsibility for the purchase falls on different areas, as detailed below:

- Forestry Purchases and Strategy Management is in charge of standing wood and biomass purchases for the bio-plant (direct, linked or brokered to owners, purchases from associations and purchases at auction) and from suppliers, reporting to the Pulp Directorate-General.
- Biomass Supply Management is responsible for standing biomass purchases and from suppliers and removal agreements at no cost for independent power plants, under the auspices of the Directorate-General of Energy.
- Purchasing Management is responsible for industrial purchases and general services of goods and services for the entire ENCE Group (materials, raw materials, spare parts, services, etc.), dependent on the Directorate-General of Finance. The Directorate-General of Purchasing will preferably establish general agreements for the purchase of goods and services at the Group level, which may affect several Pulp and/or Energy

production centres. Where applicable, it will establish local agreements for goods and services.

#### 4.2. Delegation of the purchasing function

While Purchasing Management is responsible for purchasing goods and services (except wood and biomass) at the Ence Group level, the Purchasing Delegation procedure allows the acquisition of certain goods and services to be carried out by other departments on an exceptional basis.

Purchase delegations should be documented and signed by the corresponding Purchasing Management in accordance with the category of purchases, indicating the terms of the delegation (nature of the delegated purchase, the person or organisation and the maximum delegated amount).

The persons or departments to which the purchasing function is delegated must comply with the principles contained in this Policy, as well as all applicable purchasing procedures and regulations.

#### 4.3. Objectives of the purchasing function

**The main objective of the Purchasing function is to improve profit from operations and contribute to the creation of value for the ENCE Group:**

- ✓ Ensuring that the company's guiding principles are respected throughout its supply chain, and that sustainability requirements are observed in the acquisition of wood and biomass.
- ✓ By purchasing goods and services with the optimal Total Cost of Ownership (total cost of a product or service over its entire life cycle, taking into account direct, indirect and recurring costs) with the minimum process cost.
- ✓ Through a systematic process of searching the markets for materials, spare parts and services required by a company, on time, in the expected quantity and quality, and in the best possible terms, considering the latest innovations in the market.
- ✓ Through proactive and close collaboration with other organisational functions and with suppliers.

The following are considered key elements for ENCE's value creation objective:

- The sustainability of the long-term supply of the Ence Group's purchases.
- Maximising the efficiency of spending.
- Complying with environmental sustainability requirements throughout the entire purchasing process, from the acquisition of the material to its arrival at the plant.
- Exploiting the potential of joint purchasing, or managing spending at the appropriate level to obtain the best conditions and performance from suppliers.

- Knowledge sharing and coordination within the purchasing department and with the operational areas.
- Standardising goods and services in coordination with the operational areas, as well as standardising master data for certain common spare parts and materials.
- Standardising, designing and implementing an efficient purchasing process.
- Supplier base management, identifying key suppliers and rationalising the number of non-strategic suppliers. Developing alternative suppliers is essential to ensuring a balanced supplier base and obtain cost improvements.
- Making the best use of technology to carry out the purchasing function, minimising the operating cost of purchasing.
- Establishing savings and process targets, with performance monitoring and indicators to identify and share best practices.
- The contribution of the Purchasing function in the optimisation of net working capital.

## 5. Guiding principles

### 5.1. Regulations and Code of Conduct

One of ENCE's priorities is to develop a solid corporate culture of regulatory compliance, in which the company's ethical values are central to its activities and decision-making.

Consequently, relations with suppliers must comply with all local, national and international rules and laws, as well as the Group's internal regulations, and must comply with the highest ethical standards.

The Purchasing organisation adheres to the principles of conduct reflected in ENCE's Code of Conduct, Criminal Compliance Policy and the Anti-corruption and Anti-fraud policy. The Purchasing organisation is committed to putting its principles into practice both in its actions and in its relationship with suppliers, and to working actively to convey its values and guiding principles to them.

ENCE also undertakes to require its suppliers to comply with all the requirements established by current regulations, as well as the requirements arising from the voluntary commitments and initiatives to which the company subscribes. Therefore, it will be mandatory for all suppliers of goods and services to undergo an approval process, through which these commitments will be evidenced.

### 5.2. Rigour and confidentiality in the processing of information

The Purchasing organisation must safeguard any information that ENCE holds confidential in its relationship with the suppliers. It will not agree to receive confidential information from a supplier or provide confidential information from ENCE to a supplier, unless a confidentiality agreement is previously signed between the parties.

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### 5.3. Separation of duties.

The processes of identifying the need, selecting and awarding suppliers, issuing the order, receiving materials and services, and accounting and payment of the invoice are the five phases of the Purchasing process, which must be carried out by the managers specified in each case, in the Purchasing Procedures developed based on this Purchasing Policy.

### 5.4. Transparency in the process and decision-making

#### a) Definition of responsibilities

In industrial purchases and general services, all commitments with external suppliers of products, services or intellectual and industrial property assets must be taken into account:

- Approval of the requested expense or investment is the responsibility of the business unit requesting the asset, and will be carried out in accordance with ENCE's current rules. Therefore, the purchasing organisation is not involved in this approval process.
- The requesting party may suggest potential suppliers; however, Purchasing is responsible for accepting them or otherwise and for completing the list of suppliers based on its experience.
- The Purchasing organisation, in accordance with the award criteria established in the Purchasing Management Procedure, will establish the successful supplier, taking into account the requesting party's technical opinion.
- The approval of such request will be made according to the approval flow established in the corresponding Procedure.

The head of the specific cost centre approves the expense or investment and provides the technical requirements, deadlines and expected amount. They also negotiates a new budget item if it needs to be extended.

The responsibility for generating the commitment of funds with external suppliers of products, services or intellectual and industrial property assets rests exclusively with the Purchasing Department, which acts as guarantor of compliance with the procedure.

#### b) Purchasing Authority

The purchase of goods and services will be carried out by the Purchasing Department. Therefore, all commitments with external suppliers of products, services or intellectual and industrial property assets must be approved and carried out by the corresponding Purchasing Management, taking into account the established limits and tolerances. Exceptions to this rule will be clearly defined in specific purchasing delegation procedures.

### 5.5. Traceability of actions taken

Approval of the order request, selection of suppliers and approval of the order or delivery schedule will be made only by the persons from each department designated in accordance with current authorisation limits. The purchasing process with its approvals will be traceable through SAP.

### 5.6. Supplier competition and competition

All relationships with suppliers must be sincere, objective, impartial (with equal opportunities), and conducted with transparent criteria.

The materials, spare parts or services the purchase of which is requested must:

- Be described in sufficient detail without favouring or excluding a potential supplier.
- Be specified in the most advantageous and beneficial manner for ENCE.
- Correspond precisely to ENCE's needs.

ENCE's policy is not to buy or sell products or services based on reciprocity agreements with suppliers or clients. Therefore, purchase decisions should not be conditioned by sales agreements or vice versa. ENCE will base the award decision on objective criteria, strictly following the guidelines and requirements contained in its Code of Conduct and Anti-corruption Policy, which, among others, regulates issues related to improper or facilitation payments, giving or accepting gifts or possible conflicts of interest in the purchasing function, and will be subject at all times to the guiding principles for purchasing employees, buyers rules and other principles contained in the aforementioned Code of Conduct.

If ENCE establishes commercial relationships that may give rise to a conflict of interest with a third party that, being a client, may also act as a supplier of goods or services for the company, the terms of the relationship should be analysed, assessed and agreed between the corresponding Directorate-General (Pulp, Energy, or Finance) and Sales Management. If the management of those departments fail to reach an agreement with regard to those terms, the decision will be referred to the CEO. In any event, any decision agreed upon may not contravene the principles set forth in this Policy.

### 5.7. Compliance with award conditions

Supplies of material or services must faithfully comply with the conditions established in the related contract, as a preliminary step to agreeing to the payment thereof.

### 5.8. Adequate Purchasing Strategy

The basis of the entire purchasing and savings planning strategy is an adequate and reliable analysis of expenditure. In each purchasing family, there are several purchasing management

strategy options. The purchasing organisation in each case (forestry, biomass, industrial) will study each case to ensure that the strategy selected is the most appropriate.

### 5.9. Respect for Human Rights

ENCE will not work with suppliers or subcontractors that violate or allow violations in their supply chain of the internationally recognised human rights included in the United Nations International Bill of Human Rights and in the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights comprising it; as well as in the ILO Declaration on Fundamental Principles and Rights at Work and its conventions. In particular:

- ENCE will not allow any form of forced or involuntary labour at its suppliers and subcontractors.
- ENCE will not allow child labour.
- ENCE will not work with suppliers or subcontractors that do not guarantee their employees the rights of association, affiliation and collective bargaining.
- ENCE will not work with suppliers or subcontractors that engage in abuse, inhumane treatment, harassment or intimidation of their employees.
- ENCE's suppliers and subcontractors will maintain a recognised and established employment relationship with their employees in compliance with applicable legislation.
- ENCE will only work with suppliers or subcontractors that guarantee their employees safe and healthy working conditions (and, where applicable, accommodation) and adopt the necessary measures to prevent accidents and harm to their health.
- ENCE's suppliers and subcontractors must offer remuneration to their employees that meets or exceeds the applicable legal minimums.
- ENCE's suppliers and subcontractors must ensure that the standard working hours of their employees comply with applicable legislation and industry collective agreements or reference standards, with the criterion that offers the greatest protection to the employee prevailing.

### 5.10. Diversity and Equal Opportunities

In keeping with its Diversity and Equal Opportunities Policy, ENCE will not work with suppliers or subcontractors that apply discriminatory practices in the hiring, remuneration, access to training, promotion, termination of contract or retirement of its employees due to gender, race, nationality, religion, age, marital status, sexual orientation, disability or trade union or political affiliation.

### 5.11. Integration of environmental criteria in the Purchasing process

In selecting alternatives for the supply of products or services, ENCE will integrate environmental criteria, assessing the impact in terms of waste generation, emissions,



odour impact, noise, hazardous substances and greenhouse gas emissions and the consumption of resources (water, raw materials, energy, etc.) throughout their life cycle. All technical and economic conditions being equal, priority will be given to suppliers that apply preventive measures to minimise the environmental impact of their activity, have environmental management systems that follow internationally recognised standards (ISO 14001 or similar) and demonstrate a commitment to reduce and mitigate the impact of their activity on climate change.

#### **5.12. Promotion of local purchases and long-term value generation**

Whenever technically and economically feasible, ENCE is committed to prioritising purchases from local suppliers in the areas where it operates.

ENCE will also foster long-term relationships with its suppliers whenever possible, mutually beneficial agreements that support and promote the development of the agroforestry sector and the business fabric of its environment.

#### **5.13. Supplier approval process**

In cases in which ENCE does not have direct access to material at source (i.e., when the purchases are not strictly standing purchases), ENCE has a contractually established mandatory supplier approval process (suppliers, loaders, high control, and equivalents), which must be carried out before the purchase and, in the event of a positive assessment, will prevent purchases from suppliers not approved according to these criteria through a blocking process (administrative or physical, at the weighbridge).

In the criteria for the approval and/or assessment of suppliers, ENCE will include and assess the performance of the supplier's behaviour in terms of health and safety, environmental performance and will require a commitment to respect human rights. ENCE will also collaborate with suppliers that do not meet its approval criteria to develop the capabilities that will enable them to achieve them.

#### **5.14. Guiding principles in wood and biomass purchases**

##### **5.14.1. Legal compliance and traceability:**

- Ence will only consume wood and biomass from land that complies with all the requirements established under current regulations, in addition to the voluntary requirements adopted by the company at the time of acquisition.
- All wood and biomass with which ENCE is supplied, must comply with the applicable legal requirements established by Community, state, regional and local legislation on due diligence, including obtaining all usage permits established by law in each case.

- ENCE will require its suppliers to comply with the same legal compliance requirements as it applies to its own activities, thus promoting trade in wood and biomass within the legal standards defined by the applicable legislation.
- ENCE will only acquire raw material from traceable sources, which comply with the legal requirements established, including those of an environmental nature.

#### **5.14.2. Promotion of sustainable use of agroforestry resources**

- ENCE will prioritise and promote the consumption of wood certified by its own and externally recognized forest sustainability standards, such as FSC® (Licence code: FSC-C081854) and/or PEFC (Licence code: PEFC/14-33-00001), with the aim of achieving 100% certified wood in the supply to its pulp mills.
- ENCE will not acquire wood obtained from or engage in activities related to:
  - illegal logging or trade in illegal wood or forest products;
  - silviculture operations involving violations of civil, traditional and human rights;
  - silviculture operations that put at risk High Biological, Ecological, Social or Cultural Conservation Values (as defined in the FSC® Principles and Criteria);
  - silviculture operations involving the significant conversion of forests to plantations or other uses;
  - silvicultural operations involving the introduction of genetically modified organisms; or
  - silvicultural operations in which any of the Fundamental Conventions of the International Labor Organization (ILO) are infringed, as defined in the ILO Declaration on Fundamental Principles and Rights at Work, 1998.
- In its biomass purchases, ENCE will apply its Rules for the Sustainability of Biomass as Fuel and any other mandatory or voluntary regulatory requirements that the company may subscribe. ENCE will also establish the monitoring and control systems necessary to avoid purchasing and reject materials that do not comply with any of the items in those rules or with any other mandatory or voluntary regulatory requirement signed by the company.
- In wood and biomass purchases, ENCE will comply with the 10 Fair Trade principles established by the International Fair Trade Organization (WTFO).
- ENCE will promote the acquisition of local wood and biomass, thus minimising emissions from transport, generating value at the local level and contributing to the economic and social development of the environments in which it operates.

#### **5.14.3. Commitment against deforestation:**

- ENCE is aware of the problem posed by the deforestation of the world's forests and is committed to adopting the necessary measures to prevent it within the scope of its business. Thus, it will be proactive in the fight against deforestation, both in managed forests, as well as in other forests from which it might be supplied through its Supply Chain.

- All wood supplied from its own forest areas will entail maintaining or increasing the wooded forest area, except in the case of possible restorations of wooded areas that come from non-wooded natural states of higher ecological value and previously modified.
- All ENCE wood or biomass suppliers, whether in the form of standing purchases or supplies, must comply with the requirements that the company establishes to combat deforestation, whether through contractual or approval clauses.
- ENCE agrees to establish monitoring and control mechanisms to detect practices that promote deforestation throughout its Supply Chain and, if necessary, to implement the appropriate preventive and corrective measures.
- ENCE will not participate in commercial or industrial activities that may involve practices that lead to the deforestation of natural environments, and undertakes not to use raw materials obtained through such practices.

#### **5.14.4. Responsible relationship with agricultural and forestry owners:**

- In its standing purchases, ENCE undertakes to meet the requirements agreed with the owner, to establish transparent conditions between the parties, and to responsibly represent the owner in the agroforestry process when so agreed with them, managing, where applicable, the necessary permits from the various public administrations.
- In woodland and crops managed directly by ENCE, the best known practices will be applied that ensure economically profitable, environmentally friendly and socially responsible exploitation.

#### **5.14.5. Mechanisms for controlling, sanctioning and rejecting material:**

- ENCE will establish the internal controls necessary to prevent the purchase of wood or biomass from problematic sources and/or from taking advantage of operations that do not comply with the principles included in this Policy.
- ENCE will sanction, in accordance with a procedure drafted for that purpose, suppliers that fail to comply with the requirements agreed with the company.
- ENCE undertakes to reject any consignment of wood or biomass that is proven to be from illegal operations, or any wood or biomass whose harvesting has affected protected elements of the natural, archaeological, cultural or social heritage that are incompatible with its use. Likewise, ENCE will halt any harvesting of wood or biomass in which previously unknown environmental, cultural or social values are identified, which by their nature are protected by legislation, and the integrity of which may be compromised in the harvesting process.
- ENCE agrees to reject any consignment of biomass that does not comply with the principles established in the Rules for the Sustainability of Biomass as Fuel, in force at any given time.

#### 5.14.6. Environmental control mechanisms for agroforestry services:

- ENCE will establish the internal controls necessary to prevent the contracting of agroforestry services by companies that do not comply with the environmental requirements established by the company.
- All agroforestry service companies must complete an approval form established for this purpose, which will be subject to evaluation and will determine the period during which the company may contract services with ENCE based on its regulatory and environmental performance.
- Companies that operate with goods owned by ENCE that are subject to standardised traceability processes (for example, certified wood) must have traceability systems in place or, otherwise, sign regulated outsourcing commitments.
- Agroforestry service companies operating under approval must be able to be audited by ENCE and inspected in the performance of the contracted work.
- ENCE undertakes not to contract services from companies that do not comply with their sustainability requirements.
- Agroforestry service companies, as well as wood and biomass suppliers, will be subject to a system for verifying and controlling the environmental quality of the work carried out.

#### 5.15. Communication

ENCE will make contact mechanisms available to its suppliers to handle possible suggestions and claims and will establish procedures to actively listen to its suppliers to understand their expectations and suggestions.

Any ENCE employee, supplier or stakeholder may report possible irregularities or breaches of this policy through the various tools for reporting complaints established by the company, included in the Whistle-blowing Channel Procedure:

- Email address: [canaldenuncias@ence.es](mailto:canaldenuncias@ence.es)
- Postal address:

Ence Energía y Celulosa  
Attn.: Chair of the Audit Committee  
Calle Beatriz de Bobadilla, 14  
28040 Madrid

ENCE will notify and inform all company personnel that work directly and indirectly in purchasing management so that they are aware of and apply the principles included in this Policy. ENCE also undertakes to provide the necessary means to ensure that its suppliers and contractors are aware of this Policy and thus facilitate compliance with it.

The Company will also make the Policy public to inform all its employees and other stakeholders.

#### 5.16. Measurement and continuous improvement

For performance measurement, indicators will be established to allow periodic measurement, the establishment of objectives and the continuous improvement of the Purchasing Function.

### 6. Responsibilities

- **ENCE Board of Directors**
  - Approves, reviews and, where applicable, updates this Policy.
  
- **ENCE Steering Committee:**
  - Determines ENCE's global strategy and first-level purchasing structure.
  - Approves the Corporate Purchasing Procedures.
  - Enforces purchasing policies and procedures.
  
- **Directorate-Generals of Pulp (Forestry), Energy (biomass) and Finance (industrial and GS):**
  - Approve the purchasing strategy for the groups of items or strategic families for which they are responsible.
  - Review and propose the corporate purchasing policy and procedures for which they are responsible.
  - Manage the performance of the Purchasing Department for which they are responsible.
  - Approve and monitor purchasing savings targets and process indicators for which they are responsible.
  - Enforce purchasing policies and procedures for which they are responsible.
  
- **Pulp and Energy Operational Areas and Corporate Areas:**
  - Identify the need and clearly define the specifications.
  - Provide technical support to the Purchasing Department.
  - Verify that the goods and services have been received in accordance with the specifications defined, and that they are received in the system.
  - Comply with and enforce the Purchasing Policy and procedures.
  
- **Purchasing Management, respectively (Forestry, Biomass, Industrial and GS)**
  - Develops and proposes the Purchasing Procedures for which it is responsible.
  - Proposes the strategy of the purchasing families for which it is responsible.
  - Leads the negotiation and procurement of the purchasing families.

- Selects and manages key common suppliers for strategic purchasing families.
  - Promotes the training and development of its department.
  - Coordinates the master data of suppliers and materials.
  - Monitors purchasing indicators, identifying improvements.
  - Proposes strategic purchasing savings targets and process indicators.
  - Identifies cost improvement opportunities and initiatives.
  - Complies with and enforces the purchasing policy and procedures.
- **Availability Management**
    - Confirms compliance with contractual requirements, prices, permits and other documentation in wood purchases.
  - **Internal Audit Management**
    - Audits compliance with the guiding principles set forth in this Policy.
  - **Directorate-General of Sustainability**
    - Reviews and proposes the sustainability requirements reflected in the guiding principles of this Policy
    - Verifies compliance with sustainability requirements in wood and biomass purchases
    - Confirms compliance with contractual requirements, prices, permits and other documentation in biomass purchases.
  - **All ENCE Group employees** are responsible for complying with the guiding principles established in this Policy and for reporting any violation thereof through the channels established.

## 7. Purchasing Procedures

This Purchasing Policy is implemented through the following procedures:

- Forestry purchasing procedures
- Procedures for standing wood purchases
- Wood supply procedure
- High control loading procedures
- Biomass supply procedures
- Biomass supply procedures
- Procedure for industrial purchases and general services
- PRO.SC.600.0001 Purchasing Management
- PRO.SC.600.0002 Supplier Management
- PRO.SC.600.0003 Control of the Purchasing Process
- PRO.SC.600.0004 Inventory of the Spare Parts Warehouse



Each procedure may in turn be complemented by detailed operating procedures.