

5.7. SUPPLIERS AND CONTRACTORS



Supply chain management is one of the main material issues for the ACS Group. The Group's commitment to its supply chain is key to ensuring a responsible model, in which the quality of its services and products involves compliance with high standards of action and the promotion of sustainable practices.

The model relationship with suppliers, contractors and business partners established by the ACS Group seeks to ensure a responsible, equitable and ethical process that is adapted to each company's operational needs. The integration of environmental, social and good governance aspects (ESG) into the management of its supply chain forms part of the responsibility of the ACS Group and its commitment to sustainable development.

In 2018, the Board of Directors of the ACS Group approved the Code of Conduct for Business Partners, which was updated on 27 July 2021 and outlines the basic principles that must govern the relationship between the Business Partners and the ACS Group. In 2018, the Board of Directors of the ACS Group approved the Code of Conduct for Business Partners, which was updated on 27 July 2021 and outlines the basic principles that must govern the relationship between the Business Partners and the ACS Group.

This code of conduct is based on the ethical principles that guide ACS Group's conduct at all times. The Group requires all its business partners to expressly accept (by signature and commitment to compliance) of the contents included in this Code. Only in cases in which the Business

Partners can demonstrate the existence of a Code of Conduct or other internal rules with content similar to the

requirements of the ACS Group may explicit signing of this Code be waived (which must ultimately be confirmed by the Organisation). Of the 80,328 suppliers and contractors with which the ACS Group worked during 2021, 86.1% accepted by signing or have a procedure similar to the Code of Conduct for Business Partners of the ACS Group. This percentage is lower than that reported in the previous year in comparable terms since some Group companies published their own adjustment to the Code of Conduct for Business Partners in 2021 and are still making the transition. In addition, in 2021, 7.5% of suppliers received training on the Code of Conduct for Business Partners in the reporting year. Of the 80,328 suppliers and contractors with which the ACS Group worked during 2021, 86.1% accepted by signing or have a procedure similar to the Code of Conduct for Business Partners of the ACS Group. This percentage is lower than that reported in the previous year in comparable terms since some Group companies published their own adjustment to the Code of Conduct for Business Partners in 2021 and are still making the transition. In addition, in 2021, 7.5% of suppliers received training on the Code of Conduct for Business Partners in the reporting year

In ACS Group companies, the procurement departments are responsible for managing the relationship with suppliers and contractors by means of specific systems for managing, classifying, approving and controlling the supplier risks. As a characteristic feature that differentiates the Group from its competitors, it is important to highlight the strong decentralisation of procurement and supplier management departments in this area. This gives Group companies a competitive advantage as a result of the agility, flexibility and independence granted by this model.



5.7.1. SUPPLY CHAIN OF THE ACS GROUP

	2021
No. of suppliers and contractors	80,328
% Local suppliers	83.4%
% Expenditure with local suppliers	65.3%

The company's diverse activities translate into a very complex supply chain, made up of a large number of business partners. The total number of suppliers in the Group's supply chain in 2021 reached the 80,328 suppliers.

The ACS Group is committed to the economic and social progress of the countries in which it operates and it is therefore committed to contracting local suppliers. In 2021, 83.4% of the suppliers with which the group worked were local. This ACS Group's commitment to encourage local development has a positive effect in several different areas:

- The local economy is strengthened while at the same time reducing the costs of the operations.
- The proximity of the suppliers makes it possible to ensure the supply to the different business units worldwide and to shorten the delivery times.
- Reduces the ACS Group's environmental footprint and minimises the impact on the environment.

There are two different types of suppliers in the ACS Group's supply chain management based on the contracting process:

• **Suppliers determined by the client.** In this case, it is the customer who contractually determines the type of supplier, as well as the amount and characteristics of the materials to be used. Despite the fact that in these cases the Group's companies adapt to these requirements, the Group's procurement departments and suppliers have established a control procedure to confirm the efficiency of the

designated supplier, which may cause setbacks and promote corrective measures for other work.

• **Suppliers directly contracted by the ACS Group.** For suppliers of services and materials contracted by the ACS Group, whether through a central purchasing department or in a decentralised manner by works managers, detailed management and control processes are defined, which share the following points in common in all Group companies:

- There are specific standards and a system for managing, classifying, proofing and controlling the risk of suppliers and subcontractors.
- Analysis of the level of compliance of these systems.
- Promotion of collaboration with suppliers and transparency in contractual relationships.

There is also a comparative policy favouring the participation of various suppliers in selection processes. In order to objectively take decisions and facilitate access for new suppliers in different parts of the world, a study on customary suppliers has been launched. Visible procurement portals for all services are being developed, offering a wide range of products from different suppliers. This is a real aid to cost saving (because the most competitive prices are identified) and to controlling material consumption by employees or construction managers. In Spain this portal helps local suppliers to sell their products domestically, promoting their development and growth.



5.7.2. SUPPLIER APPROVAL AND ASSESSMENT SYSTEMS

The management model responsible for the supply chain of the ACS Group begins with a process of approval of suppliers and subcontractors in which compliance with the fundamental criteria established by the ACS Group to form part of the Group's supply chain is assessed. Thus, in companies that represent the 91.6% ACS Group's procurement costs present a formal system for the approval of suppliers and subcontractors. The main aspects considered during the approval process are:

- Average payment and collection periods.
- Technical capacity and suitability to perform the planned task .
- History of fulfilment of contractual clauses in their prior relationship with ACS.
- ESG aspects related to compliance with the Code of Conduct for Business Partners.

The weight of ESG factors in the approval process varies according to the companies' activities and action areas, but the weighted average weight of these factors exceeds 38.4% in 2021. Specific aspects assessed include certificates on environmental aspects (ISO14001, EMAS or

the like), certification on quality aspects (ISO 9001 and the like), adherence to international human rights and labour rights standards and analysis of the labour standards and practices of suppliers and subcontractors, among others. In 2021, 33.9% the suppliers with which the Group has worked have adhered to ethical, social and environmental commitment standards or have certificates in this area⁶.

For the contracted suppliers, the ACS Group's supplier approval system envisages a subsequent analysis phase, which goes back to the ACS Group's ongoing management and improvement system. This process, which seeks to guarantee compliance with contractual clauses and agreements and includes the identification of economic, environmental and social risks, is based fundamentally on the detection of non-compliance and on corrective or management measures to be applied. In 2021, 57,785 suppliers had been assessed at least once in the last three years, representing 71.9% of the total suppliers.

If breaches or risks are detected, the appropriate corrective measures are applied, adapted to the circumstances of each case. When the breaches detected are considered serious, they can immediately terminate the contracts.

SAFE, RESPONSIBLE AND SUSTAINABLE PURCHASES (CLECE)

In line with the company's sustainability strategy, two innovative projects have been developed from the Clece Purchasing department.

Firstly, in 2021 GoSupply, an intelligent platform that monitors potential supplier risks in real time and that integrates third-party data sources such as Dow Jones, Refinitiv, Moody's, Informa D & B, Serasa and Aenor, was implemented. This has allowed the Company to evolve from static models of pre-qualification of suppliers to a system that enables it to approve, have visibility and monitor the risk and compliance levels of its critical suppliers, in order to immediately take the appropriate decisions to mitigate these risks and actively interact with its suppliers.

With GoSupply, the CTP teams have a single platform that includes and validates information on suppliers regarding compliance, sustainability, finance, environment and social responsibility, all from 15 possible types of risk and with more than 50 defined alerts in real time. Likewise, the Company's Compliance teams gain visibility on compliance levels in standards, legislation, sanctions and adverse news from both suppliers and their parent companies, shareholders and associates, including real-time alerts that enable them to make decisions and actions that limit the risk to the company.

On the other hand, in 2022 Clece plans to obtain certification of the purchasing function in ISO 20400:2017 for Sustainable Purchases. The purpose of this standard is to ensure that companies, through the purchasing function, can extend their good practices in environmental, social and good governance (ESG) issues to their supply chain. To this end, the sustainability principles and objectives set forth in the ISO26000: 2010 Social Responsibility Guide, as well as some of the United Nations Sustainable Development Goals (SDGs), are implemented.

ISO 20400 provides the main lines to integrate sustainability into the Company's procurement strategy, which implies that purchases are beneficial for the organisation while having a positive impact on society and the environment, leading to a more sustainable supply chain.

Certification in this standard also implies the establishment of a series of ESG targets, including increasing the acquisition of eco-label products and/or environmental labelling, reducing paper consumption, reducing CO2 emissions associated with the vehicle fleet and raising awareness of the supply chain in governance aspects and the inclusion of disadvantaged groups.

⁶ Scope of the data: 13.7% suppliers 2021

5.7.3. ANALYSIS OF CRITICAL SUPPLIERS

The ACS Group's companies carry out an analysis to identify critical suppliers in their supply chains. The Group considers a supplier to be critical when the percentage of procurement or subcontracting expenses are significantly greater than the average for the company's other suppliers, as well as suppliers of critical components and/or non-replaceable suppliers.

Therefore, companies that represent 97.3% of the Group's procurement expenses have determined processes to identify critical suppliers. As a result of these processes, the main data from the analysis of critical suppliers is as follows:

- Of these, 7.1% are considered critical suppliers. These suppliers represent 66.3% of the total costs for Group companies with critical suppliers.
- Almost all these suppliers consider the ACS Group to be a key client to their business.

Given the importance of the supply chain analysis for risk management for the Company, the ACS Group companies

identify their direct critical suppliers (tier-1 critical suppliers). In 2021, the ACS Group evaluated the 5,493 tier-1 critical suppliers in terms of sustainability of 5,686 identified tier-1 critical suppliers, representing 96.6% of the total. Of these 5,493 critical tier-1 suppliers assessed, 6.3% of them were found to be at risk in terms of sustainability, understood as the lack of certificates, breaches or other risks detected. Depending on the risks detected the reasons for the negative assessment are analysed and initiatives are proposed to strengthen the identified areas of improvement that include, among other things, training and collaboration activities, or whether it is a serious breach can lead to the immediate termination of contracts or agreements relating to suppliers.

Likewise, the Group companies have begun to extend the scope of this analysis of the Group's supply chain, reaching the critical suppliers of the direct suppliers (tier-2 critical suppliers). The number of these suppliers identified in 2021 was 56,270 suppliers in this category, of which 56,229 have been assessed at least once in the last 3 years.

AVERAGE PAYMENT PERIOD TO SUPPLIERS

The following table details the information required by additional provision two of Law 31/2014, of 3 December, which was prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the information to be included in the management report in regard to the average payment period to suppliers in commercial operations:

	2020	2021
	Days	
Average period of payment to suppliers	60	58
Ratio of transactions paid	57	50
Ratio of transactions pending payment	67	78
	Thousands of Euros	
Total payments made	2,836,313	1,373,688
Total payments pending	1,372,500	526,606

5.7.4. RISK MANAGEMENT IN ISSUES RELATING TO THE SUPPLY CHAIN

Among the functions attributed to the Audit Committee of the Group's Board of Directors is the review, monitoring and assessment of the Company's Sustainability Policy and its practices, as well as the other related internal regulations, including the Code of Conduct for Business Partners.

The ACS Group companies will carry out these policies, which will be carried out in accordance with the characteristics and needs of each of the Group companies.

Likewise, according to the risk map prepared by the Group, the risks based on the relevance that they may have for the performance of the company's activity have been prioritised, in accordance with the type of activity, action areas, policies and management approaches, and throughout the report, the results obtained from this prioritisation of potential risks for the performance of the activity related to the supply chain as well as the management measures adopted by the ACS Group.

In managing the risk chain, it must be considered that the possible improper practices of the suppliers of a company pose a potential risk that, if it materialises, may hinder their ability to do business. It is necessary to assess counterparty risks, both at the level of personnel, security and health, the environment and ethics, integrity and rights to which it is exposed and to be involved in constantly improving its performance. To do so, the Code of Conduct for Business Partners, which establishes the basic principles of action that the Shareholders must comply with in their relationship with the Group, as well as the management systems expected from them in certain aspects. Likewise, in addition to the own management systems defined by companies in their relationship with suppliers, the specific regulations of the Group on issues such as the Environmental Policy or the Corporate Protocol on Due Diligence in Human Rights or the Criminal Compliance and Anti-Bribery Policy, extend not only to the Group's employees but to the entire value chain.

Issue	Potential risks	Detection, prevention, management and mitigation measures	Associated management indicators	Applicable Policies ACS Group
Responsible management of the supply chain.	<p>The management systems responsible for suppliers and contractors allow for the mitigation of the potential risks associated with the supply chain, improving processes and working conditions, and creating opportunities and lasting relationships of trust. Otherwise, the failure to implement a responsible management system might pose significant legal and operational risks for the Group.</p> <p>Associated risk Risk Map: Purchases/Subcontracting</p> <p>The main risks associated with this material issue that forms part of the group's risk management system are:</p> <ul style="list-style-type: none"> • Increase in costs associated with activities. • Loss of market share. • Loss of license to operate. 	<p>Company's suppliers and contractors meet their commitments and expectations through awareness-raising through established ethical and environmental principles. This management must be carried out through the dissemination and application of environmental, social and governance (ESG) criteria in business relationships with third parties. The ACS Group therefore has:</p> <ul style="list-style-type: none"> • Supplier approval and selection systems • Code of Conduct for business partners • Supply chain impact management • Training of suppliers • Due diligence (financial and non-financial) in the supply chain • Inclusion of ESG criteria in supply chain management • ESG clauses to suppliers 	<p>Of the 80,328 suppliers and contractors with which the ACS Group worked during 2021, 86.13% accepted by signing or have a procedure similar to the Code of Conduct for Business Partners of the ACS Group.</p> <p>In the formal supplier approval systems, the weight of the factors related to sustainability (environmental, ethical and social criteria) out of the total factors used for the approval varies according to the companies' activities and areas of activity, but the weighted average weight of these factors exceeded 38.4% in 2021.</p> <p>In 2021, 57,785 suppliers had been assessed at least once in the last three years, representing 71.9% of the total suppliers.</p>	<ul style="list-style-type: none"> • Code of Conduct Business Partners • Risk Control Policy. • Human Rights Policy • Corporate Protocol on Due Diligence in regard to Human Rights • Sustainability Policy