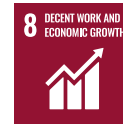


5.7 SUPPLIERS AND CONTRACTORS



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 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 of its business partners

to expressly accept (by signing and commitment to comply) the content 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 suppliers and contractors with which the ACS Group worked during 2020, 92.8% suppliers accepted by signing or have a procedure similar to the Code of Conduct for Business Partners of the ACS Group, and 28.2% of the suppliers received training.

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.



 Code of Conduct for Business Partners

5.7.1. THE SUPPLY CHAIN OF THE ACS GROUP

Main figures	2020
No. of suppliers and contractors	131,984
Local suppliers	85.5%
Expenditure with local suppliers	66.3%

The company's diverse activities translate into a very complex supply chain, made up of a large number of business partners. In this regard, the total number of suppliers in the Group's supply chain in 2020 reached the 131,984 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 2020, 85.5% 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 MANAGEMENT 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 98.1% 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 38.5% in 2020. 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 2020, 51.8% the suppliers with which the Group has worked have adhered to ethical, social and environmental commitment standards or have certificates in this area.

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.

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.



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.

Therefore, companies that represent 88.9% 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:

- Companies representing 82.7% of suppliers have performed this analysis.
- Of these, 3.8% are considered critical suppliers. These suppliers represent 39.2% 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 analysing the supply chain for managing risks for the company, the ACS Group companies identify their direct critical suppliers (tier-1 critical suppliers). In 2020, the ACS Group evaluated the 4,242 tier-1 critical suppliers in terms of sustainability of 4,979 identified tier-1 critical suppliers, representing 85.2% of the total. Of these 4,242 critical tier-1 suppliers assessed, a 0.4% of them at risk in terms of sustainability, and the lack of certificates, breaches or other risks detected is understood as such. 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 immediately lead to the 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 2020 reached 14,436 suppliers in this category.

AVERAGE PERIOD OF PAYMENT 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:

	2019	2020
	Days	
Average period of payment to suppliers	62	60
Ratio of payments made	59	57
Ratio of payments pending	69	67
	Thousands of Euro	
Total payments made	3,523,154	2,836,313
Total payments pending	1,555,565	1,555,565

5.7.4. RISK MANAGEMENT ON SUPPLY CHAIN ISSUES

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, 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 supply chain	<p>Poor practices by a company's suppliers pose a potential risk that, if it were to materialise, could hinder its ability to do business. It is necessary to assess the counterparty risks to which it is exposed and to constantly improve its performance.</p> <p>Likewise, to ensure adequate control, supervision and monitoring of these aspects, the risks associated with them were integrated into the Group's risk management system in 2020. 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"> • Procurement and subcontracting processes. • Occupational risk prevention, health and safety risks. • External communication with stakeholders • COVID management • Impact on the economic-social environment 	<p>The mandatory Code of Conduct for Business Partners establishes, among other basic principles, that:</p> <ul style="list-style-type: none"> - It is essential that the business partners, regardless of the country in which they carry out their activity, respect the fundamental human and labour rights, recognised internationally - Respect for human health and safety is a primary objective for ACS. Therefore, its business partners must be committed to ensuring a safe and healthy working environment for their members, as well as greater respect for occupational health and safety regulations, complying with the applicable occupational risk regulations. 	<p>In 2020, of the 131,984 direct suppliers with which the Group works, 92.8% of suppliers signed on to accept this Code or have a method similar to the ACS Group Code of Conduct.</p> <p>In these 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 38.5% in 2020.</p>	<ul style="list-style-type: none"> • Code of Conduct Business Partners. • Risk Control Policy.
Protection of human rights	<p>In compliance with the principles of the Global Compact, the ACS Group remains committed to respecting human rights in all of its operations and activities. The business commitment to Human Rights is a key aspect for the Group, based on the ethical principles and corporate culture that guide the development of its activities and the achievement of its purposes.</p> <p>In this regard, it is necessary to assess the risks of human rights infringement, particularly in the supply chain, since there is no absolute control of the employment practices of external companies that work for ACS.</p> <p>Being involved in a controversy or a breach of human rights could harm ACS's reputation, and could also expose it to the risk of not being able to enter into commercial or employment relationships with clients and other suppliers.</p> <p>Likewise, to ensure adequate control, supervision and monitoring of these aspects, the risks associated with them were integrated into the Group's risk management system in 2020. 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"> • Infringement of human rights. • External communication with stakeholders 	<p>The Group has developed different mechanisms to ensure respect for human rights:</p> <ul style="list-style-type: none"> • The positioning framework of the ACS Group in regard to Human Rights, which addresses in detail the relationships and the main areas of interconnection between the effective performance of the ACS Group's activities and respect for and guarantee of Human Rights. • Human Rights risk analysis due to potential infringement, which makes it possible to establish a global perspective and deepen the understanding of these global risks, in which the ACS Group may be involved. • Corporate Protocol on Due Diligence in regard to Human Rights. This defines the conduct to prevent and arbitrate the specific measures for the prevention of this risk. This facilitates the management and mitigation of effects, and the processing of complaints or claims that may be made by those who have been the object of the aforementioned conduct. 	<p>In 2020, 58,892 employees received training in human rights, ethics, integrity, conduct and compliance procedures.</p> <p>ACS carries out assessments of the total risks of human rights infringements by different entities that form part of the ACS Group through a Risk Score Card, which measures the status of implementation of the Corporate Protocol on Due Diligence in regard to Human Rights.</p> <p>Lastly, as a result of the human rights management model, it should be noted that, in 2020, there were no complaints from ACS Group companies in regard to human rights violations</p>	<ul style="list-style-type: none"> • Code of Conduct for Business Partners • Code of Conduct • Human Rights Policy • Corporate Protocol on Due Diligence in regard to Human Rights • Sustainability Policy