

9. SUPPLY CHAIN

9.1. STRATEGY

In Group companies, the purchasing department manages the relationship with suppliers¹⁷ and contractors by means of specific systems for managing, classifying and approving them and controlling risks.

As a characteristic differentiating the Group from its competitors, it is important to highlight the distinct decentralisation of purchasing and supplier management departments in this area. There are a variety of systems in ACS in this aspect, which vary according to operating company needs. From a central, reference, corporate department, which defines policies and prices, to the most complete decentralisation where the works managers themselves define their needs and meet them using a common, widespread policy.

Furthermore, Group companies face three different types of suppliers or subcontractors:

- Suppliers of materials and/or services defined by the client
- Suppliers of services or subcontractors contracted by the ACS Group
- Materials suppliers contracted by the ACS Group

In the first case, in which an ACS Group company carries out a project in which the client defines the type of suppliers contractually, as well as the quantity and characteristics of the materials to be used, the Group companies, in

general, obey these requirements. Even so, the ACS Group's purchasing and suppliers departments have a control procedure established to verify the efficiency of the supplier designated by the client.

This procurement format, in which ACS has very little capability for managing the suppliers, is not in isolation because, as mentioned in the section on clients in this report, the Company carries out feedback actions with the client. This means that, in cases in which the suppliers defined by the client have given problems or presented areas for improvement, the client will be notified of them and corrective measures will be sought.

It is worth highlighting that, once the special features of the different markets in which the ACS Group is present have been considered, specific purchasing procedures are developed when necessary to increase competitiveness.

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 management, classification and approval of suppliers and subcontractors and risk control.
- The level of compliance with these systems is assessed.
- Collaboration with suppliers and transparency in contractual relationships are promoted.

¹⁷ The data referring to the ACS Group included in this section were calculated by analysing the information supplied by the Group's different companies, weighted by level of turnover. The data are expressed in terms of percentage of total Group sales in 2015.

Companies representing 75.1% of ACS Group have a formal system for approving suppliers and subcontractors.

- The purchasing system supports suppliers in driving a broad policy in its comparison which promotes the participation of various suppliers in selection processes. Given that the works managers tend to use the same suppliers, a study of common suppliers has been started to put decisions into objective terms and give access to new suppliers in different parts of the world.
- Visible purchasing 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 works managers. In Spain this portal helps local suppliers to sell their products domestically, promoting their development and growth.

Whenever possible, taking into account the requirements of the contract or product, the ACS Group also seeks to enter into contracts with local suppliers. Indeed, in 2015, local suppliers accounted for 72.9% of spending in locations with significant operations.

9.2. MANAGEMENT PRINCIPLES

9.2.1. SUPPLIER AND SUBCONTRACTOR APPROVAL

Companies representing 75.1% of ACS Group have a formal system for approving suppliers and subcontractors, in line with a series of clearly established criteria, which is subsequently used by the project works managers and provides them with information on the suitability or otherwise of a supplier to fulfil the anticipated task. The main concepts used for approving suppliers, both in the formal systems and informally are:

- Cost, payment and collection term, experience, professional prestige and technical capability.
- History of fulfilment of contractual clauses in their prior relationship with ACS.
- Additional non-financial criteria (see table attached).

LEVEL OF IMPLEMENTATION OF NON-FINANCIAL IN SUPPLIER APPROVAL (% OF ACS GROUP SALES)

	2012*	2013*	2014	2015
Adherence to the ACS Group Code of Conduct	82.7%	90.2%	83.8%	81.6%
Adherence to international standards as regards human rights and labour rights	67.1%	76.6%	68.3%	68.8%
Adherence to standards for fulfilment of commitments in ethical, social and environmental matters	67.1%	76.6%	73.7%	70.6%
Certification in quality aspects (ISO9001)	67.1%	30.0%	65.0%	87.6%
Certification in environmental aspects (ISO14001, EMAS or similar)	67.1%	95.0%	90.2%	87.6%
Analysis of labour standards and practices of suppliers and subcontractors	71.2%	77.8%	76.1%	73.7%

* 2012 and 2013 data which are not comparable due to organisational restructuring processes of the ACS Group.

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URBASER: PURCHASER

Over the course of the 2015 year, Urbaser has been developing a supplier portal, which will be rolled out in 2016 for the entire Urbaser group, and which is known as PurchaSer. It is the combination of the Official Supplier Authorisation Management Portal, and an Expense and Investment Procurement Management application with approval workflow, which will use a common authorised suppliers and the common materials database.

The company will be able to use this portal to assess its suppliers using two questionnaire types, with different degrees of complexity. The project has begun with six pilot tests, three of them in waste treatment plants, and the three others in urban service contracts. Suppliers are scored on the basis of quality, prevention, the environment, ethics, human resources, and integrity, as well as other criteria. Each supplier will be scored depending on its criticality and the aspects assessed. The Group cannot procure from a supplier who is not authorised and registered on the PurchaSer portal.

The Group has also prepared a master materials list to be able to receive feedback on each procurements made in the group and to be able to integrate it in the suppliers application. This will allow the Group to keep a record of every single procurement carried out on a single platform. In the long term, they will be able to access the suppliers platform at any point to modify certain data relating to business activity (Quality Certificates, REA, etc.)



THIESS: GREEN TICK

Thiess's online buying platform, Thiess Shop, has a system called Green Tick which is used to identify sustainable products which can offer clients long term benefits. This identification system is also used for the suppliers system and for any companies which can demonstrate that they act in a sustainable way in their operations, or in manufacturing or disposing of their products.

Additionally, in 2015 companies representing 57.6% of ACS sales specifically promote the use of recycled and/or certified construction materials in the supplier approval process, offering the client this type of option when the type of procurement is decided. The table attached

shows the materials covered by these initiatives, their level of consumption and the total percentage of Group clients which decided to use recycled or certified sources.

PROCUREMENT

	2013*	2014	2015
Percentage of certified timber	1.0%	1.8%	2.9%
Total timber purchased (m ³)	840,828.1	1,297,017.0	263,877.3
Percentage of recycled steel	7.7%	37.4%	34.3%
Total steel purchased (t)	1,031,686.1	1,178,660.1	579,339.0
Percentage of cement / cement with recycled aggregate	0.1%	0.1%	0.6%
Total cement purchased (m ³)	8,378,955.1	14,764,779.7	8,647,613.4
Percentage of recycled glass	100.0%	97.1%	97.3%
Total glass purchased (m ²)	2,880,152.9	2,966,125.2	2,958,416.4

* 2013 data which are not comparable due to organisational restructuring processes of the ACS Group.

** HOCHTIEF Americas 2015 estimated data for timber, steel and cement. Reported figures in 2015 are: timber 74,370 m³, steel: 159,460 t and cement: 2,229,060 m³.

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During 2015, the ACS Group has also prepared a Constructed Materials Policy through which it seeks to develop the following good practices in recommending construction materials to clients in applications to tender:

1. Proposing a traceability analysis of 100% of products used.
2. Having a record of suppliers who offer recycled/certified products.
3. Stressing the importance of aspects such as durability and maintenance when selecting construction materials.
4. Providing information about the characteristics of products which give off gases or which contain harmful substances and also about the products' lifecycles.
5. When making an offer or taking part in a bid to tender, always include the option of certified timber, and offer information on the environmental benefits of their use.
6. When making an offer or taking part in a bid to tender, always include the option of cement with recycled sands and gravels, and offer information on the environmental benefits of their use.
7. Provide environmental details of the proposed construction materials, such as energy used by machinery during extraction or treatment, greenhouse gas emissions, etc.
8. Report on the corporate waste management policy.
9. Provide information on waste management plans in projects, including design phases.
10. Give information on specific targets to reduce, recycle and reuse waste.
11. Report on procedures in place for the recovery and recycling of construction materials by subcontractors.
12. Give details of staff and subcontractor training processes in waste management techniques.
13. Provide details of waste separation processes in project facilities and works.
14. Actively promoting the purchase and sale of recycled sub-products.

Within the approval system, an after the fact analysis is carried out on suppliers. This process feeds back into the approval system. This system, which seeks to guarantee compliance with contractual clauses and agreements, is based fundamentally on detection and on corrective measures or management of non-compliance.

In the case of the initiatives for detection and control, the policy is based on regular audits, both internal and independent. In this case, companies representing 37.7% of ACS Group sales report carrying out internal audits of suppliers (affecting an average of 3.0% of suppliers) and 38.8% report that they carry out independent audits (affecting an average of 0.8% of suppliers). Specifically, compliance with the ACS Group Code of Conduct by suppliers is verified internally or externally in companies representing 27.0% of Group sales.

The corrective measures taken in cases of poor performance are adapted taking the following circumstances into account:

- If it is a critical supplier for the company, the reasons for the negative assessment are analysed and initiatives proposed to strengthen the identified areas for improvement including, among others, training and collaboration activities.
- If the company is not critical for the company, it is classified as not approved in the database.
- Companies representing 88.6% of ACS Group sales immediately cancel contracts or relationship agreements with suppliers if breaches occur in clauses related to performance.

As a result of this analysis, and due to the characteristics of its business, it has been found that in several of the ACS Group's main companies, the suppliers are highly fragmented, geographically dispersed and do not have enough critical mass to be determined to be critical. On the contrary, in companies representing 77.8% of Group sales, such critical suppliers have been detected.

In these companies, the main data from the analysis of critical suppliers are as follows:

- 35.3% of the suppliers to these companies are covered by this analysis.
- Of these, 15.8% are considered critical suppliers.
- These suppliers represent 39.7% of the total costs for Group companies with critical suppliers.
- Almost all these suppliers consider ACS to be a key client to their business.

9.2.2. CRITICAL SUPPLIERS

Companies representing 42.8% of ACS Group sales have carried out an analysis to identify whether they have critical suppliers. Specifically, a supplier is defined as critical when it concentrates a significantly higher percentage of procurement or subcontracting costs than the average for the rest of the company's suppliers.



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9.3. MAIN INDICATORS

MAIN MANAGEMENT INDICATORS - SUPPLIERS

	2012*	2013*	2014	2015	Objective for 2016
Analysis of supplier and subcontractor criticality	49.6%	59.9%	41.6%	42.8%	> 2015
Inclusion of compliance with the Code of Conduct in supplier and subcontractor contract clauses	82.7%	90.2%	83.8%	81.6%	> 2015
Existence of formal systems for supplier and subcontractor approval	47.3%	95.8%	71.6%	75.1%	> 2015
Carrying out of internal audits on suppliers and subcontractors	6.6%	8.2%	35.1%	37.7%	> 2015
Development of corrective plans for suppliers and subcontractors to improve their performance in economic, social or environmental matters	54.0%	4.2%	4.5%	46.8%	> 2015

* 2012 and 2013 data which are not comparable due to organisational restructuring processes of the ACS Group.

The spreading of the risk prevention culture among suppliers, contractors and collaborating companies is another of the Group's basic lines of action in this subject. Details on the control

and management efforts in this area are included in this document in the Suppliers section.

ACCIDENT RATE INDICES SUBCONTRACTORS

	2012*	2013*	2014**	2015**
Frequency	6.43	7.83	9.36	7.89
Construction	4.77	6.78	8.84	9.99
Industrial Services	6.03	3.28	2.40	1.88
Environment	81.81	143.11	151.67	97.76
Severity	0.13	0.16	0.14	0.10
Construction	0.08	0.13	0.06	0.07
Industrial Services	0.09	0.06	0.06	0.04
Environment	2.52	3.53	2.80	1.48

* 2012 and 2013 data which are not comparable due to organisational restructuring processes of the ACS Group.

**In 2014 and 2015, the scope of the data is of 70.3% and 77.3% of the Group's employees respectively.



9.4. RISKS

Three types of main risk have been identified in Group company activities with their suppliers: economic, social and environmental risks.

Through its control and measurement of such risks, the Group has detected that on average 2.6% of its suppliers pose high economic risks (solvency, delivery dates). As far as social matters are concerned, in 2015, the Group evaluated a total of 67,100 suppliers' labour practices, and concluded that 1.3% of these suppliers had significant risks in such practices. The Group also evaluated 21,088 suppliers in terms of their human rights record. A total of 18,343 suppliers were also assessed regarding their possible impacts on society. The Group also assessed its new suppliers: 17.9% in relation to their labour practices and 0.7% about criteria concerning their impact on society.

Lastly, the Group assessed a total of 23,780 suppliers on a range of environmental issues, and concluded that 1.6% of these suppliers pose significant environmental risks. Also noteworthy was the fact that the Group performed an environmental assessment of 13.3% of its new suppliers, and that it is analysing the carbon footprint of the suppliers for companies which account for 19.8% of the Group's sales.

To minimise these possible risks, the Group companies implement the following initiatives:

- Corrective plans are developed in suppliers to improve their economic, social or environmental performance in companies representing 46.8% of ACS Group sales.
- Companies representing 54.3% of Group sales report proactive collaboration initiatives with suppliers. The main activities for collaboration are based on training which, generally, is made up of courses in various subjects such as quality, the environment, safety and the execution of works.
- In companies with sales representing 69.4% of the Group total, initiatives have been implemented in the purchasing and supplier management departments which have resulted in project cost savings.
- Environmental, social or governance clauses are included in contracts so that these are adopted by the subcontractors or suppliers in companies which represent 88.4% of the sales of the ACS Group. A total of 62.2% of spending on procurement is covered by these clauses.