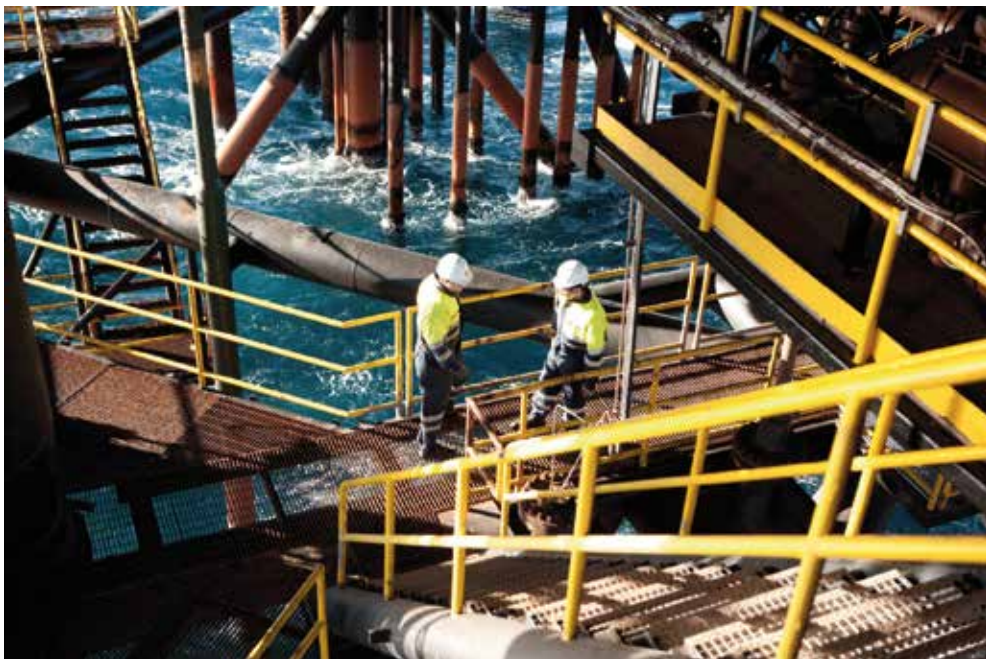


Suppliers and contractors: How we monitor performance and compliance

1. Qualification process
2. Supplier audits and evaluation
3. Aspects analysed in the supplier evaluation process



1. QUALIFICATION PROCESS

Our supplier qualification process strives to mitigate supply chain risks by checking that suppliers and contractors are suitable to provide a sustainable supply of various goods or services. As part of the process, we require that our providers complete a questionnaire which includes company, economic-financial, and technical data, as well as information about the quality assurance and health, safety, and environment management systems implemented. Aspects regarding ethics and human rights are also taken into account. All of these topics are then validated by different specialists. Acceptance of the Suppliers' Code of Ethics and Conduct is also mandatory for a supplier to be qualified.

Through qualification, suppliers are granted approval to provide their goods or services for a maximum of four years, although proof of qualification must be presented continually (specific for each activity) for validation and verification. We also use external verification services to perform periodic or one-off checks of our suppliers regarding matters of integrity, corruption, and bribery.

These analyses are complemented by technical audits, should this be required by technical specialists, and social audits (ethics and human rights) if the combination of activity and country entail a greater reputational risk. In this case, audits can also be performed on suppliers whose relationship with the country of supply does not contribute to an elevated potential risk.

2. SUPPLIER AUDITS AND EVALUATION

Our procurement and contract regulations require:

Supplier qualification audits to verify the information provided during the qualification process.

Performance evaluations to analyse performance and complete the supplier's or contractor's information should they need to be qualified again.

Our supplier qualification audits evaluate aspects related to economics and finance; quality assurance; health, safety, and the environment; and manufacturing processes.

Our performance evaluations establish a systematic evaluation process documenting the most relevant aspects of our relationships with our current suppliers. Through these performance evaluations we can identify potential risk situations. Should we identify any non-compliance, we work with the supplier on proposals for correction. With this evaluation, we aim to:

- Quantitatively measure performance, so that decision-making may be as objective as possible.
- Have a tool with which to maintain or modify supplier qualification status.
- Consider additional criteria to be taken into account when choosing suppliers to participate in calls for tender.

At least one annual performance **evaluation is mandatory for all high criticality suppliers** who have provided some good or service in the past year. The variety of goods and services received by the Company makes it difficult to determine a single set of evaluation indicators. For this reason, the different units have developed indicators which they consider appropriate for their supplier agreement monitoring, information, and quality assurance systems. These indicators must also be integrated into aspects related to management, quality assurance, and health, safety, and environment.

In all cases, the most important aspects to be included in supplier evaluation are:

Quality: functional and /or performance-related aspects pertaining to the good or service provided.

Management: operational and commercial aspects regarding the supplier, as well as those related to social responsibility.

Safety: concerning both people and goods.

Environment: in accordance with current legislation and regulations.

All the various audits allow us to identify and assess the impact of suppliers on work practices, human rights and corruption, as well as health, safety, and environment. Our analyses of various issues are more detailed when the criticality of the supplier is greater due to the nature of the good or service provided, or the place of manufacture or provision.

In general, the qualification audits examine systems for managing quality assurance and health, safety, and environment, as well as the code of ethics and conduct, respect for human rights, work practices, and measures against fraud and corruption, verifying that the information provided in the qualification is true and correct.

The social audits examine in detail the aspects covered by the qualification audit, as well as the supplier's or contractor's supply chain management.

Most of our audits are carried out by external audit firms. All suppliers are sent the final report of their audit. This allows them to implement a plan of action with the goal of improving on any aspects identified by the audit.

When a contractual relationship with a supplier comes to an end, we attempt to mitigate any possible negative impacts by including specific measures in the contract to ensure correct transfer. To achieve this, a period is established in which the departing and incoming suppliers work together to ensure the continuity of processes, prevent negative impacts, and ensure all information is passed on correctly. We also strive to avoid these situation by disqualifying suppliers for poor performance in ethical, environmental, work-related, and human rights issues. Auditing clauses are included in contracts which allow us to review performance.

Other preventative measures which help us to mitigate supply chain risks include the sessions we organise to explain all the purchasing regulations and procedures we require, especially our safety seminars for contractors providing various services at our industrial facilities. **Giving recognition to our suppliers with outstanding performance in safety also lets us reinforce our culture of safety and anticipate potential impacts** on our operations.

We have also implemented a new tool which has allowed us to perform periodic or one-off checks of our suppliers in order to verify and follow up on the information regarding corruption and bribery provided by the counterparties. Lastly, **we continue to review our contracts in order to include specific clauses regarding safety, the environment, and respect for human rights**, as well as the auditing of these matters. Suppliers or contractors that fail to meet our standards and requirements are not authorised to participate in calls for tender, nor can they be awarded orders or contracts.

The structure of our General conditions for Procurement and Contracting sets out all the obligations of contractors towards their subcontractors, which are mandatory and subject to verification throughout the supply chain. Subcontractors must also go through and pass the qualification process. **Action guidelines for suppliers' activities are set out in our Suppliers' Code of Ethics and Conduct**, which are equally applicable to their own commercial relationships: we require all our suppliers to share and adopt the action guidelines contained in the Code.

3. ASPECTS ANALYSED IN THE SUPPLIER EVALUATION PROCESS

ASPECT	QUALIFICATION QUESTIONNAIRE	QUALIFICATION AUDIT	SOCIAL AUDIT
Environment			
Environmental management	Yes	Yes	Yes
Emissions management	Yes	Yes	Yes
Energy efficiency management	Yes	Yes	Yes
Residue management	Yes	Yes	Yes
Labour			
Labour practices	Yes	Yes	Yes
Health practices	Yes	Yes	Yes
Safety management	Yes	Yes	Yes
Incidents (abuse, coercion, or harassment)	No	Yes	Yes
Salaries and pay	Yes	Yes	Yes
Work schedule	Yes	Yes	Yes

ASPECT	QUALIFICATION QUESTIONNAIRE	QUALIFICATION AUDIT	SOCIAL AUDIT
Human Rights			
Child labour	Yes	Yes	Yes
Forced labour	Yes	Yes	Yes
Discrimination	Yes	Yes	Yes
Freedom of association & right to collective bargaining	Yes	Yes	Yes
Rights of indigenous peoples	No	No	Yes
Management of security forces and training	Yes	Yes	Yes
Anti-corruption			
Policies and code of ethics	Yes	Yes	Yes
Checks and records	No	Yes	Yes
Training	No	No	Yes
Supply chain management			
Supplier evaluation and selection process	No	No	Yes
Audits and monitoring	No	No	Yes
Respect for human rights	No	No	Yes
Labour practices	No	No	Yes
Safety management	No	No	Yes
Environmental management	No	No	Yes