

FIVE



SUPPLIER ASSESSMENT POLICY

Issued By: Senior Director – Risk & Compliance, Purchasing Manager
Approved By: The Board Committee

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PURPOSE AND OBJECTIVE

FIVE is deeply committed to follow fundamental standards on labour laws, human rights, environmental, social and ethic requirements. We endeavor to enable and ensure that our suppliers are compliant to all code of conduct requirements to meet high social, ethical, human rights and environmental standards as a part of our responsible and sustainable business approach.

FIVE intends to develop lasting relationships with its suppliers and create shared value while monitoring adherence to the law to preserve the health and safety standards of the workers of the companies involved with its supplies. FIVE performs periodic supplier risk assessments to assess the compliance to the supplier standards laid out in the supplier code of conduct document.

APPLICABILITY

This policy applies to all suppliers of FIVE and related group entities.

SUPPLIER ASSESSMENT GUIDELINES

a. Scoping of suppliers –

- Risk assessment is done on all the suppliers considering the following attributes and accordingly suppliers are classified in A, B and C category. Nature of business and goods or services provided
- Volume of business during the year
- Type of supplier (Single source, mandated by compliance laws)
- Type of company (Limited, Partnership, Multinational, Start-up, etc.)
- Country or region
- Sector (Manufacturing, IT, Infrastructure, F&B, etc.)
- List of supplier complaints received
- Access to systems and data of FIVE

A summary of attributes considered for evaluating vendors are given below:

Criteria	UOM	Category A	Category B	Category C
Volume of purchases	AED per year	> 1 million	>= 500000 to 1 million	<500000
% contribution to total purchases	Purchases/ Total Purchases	>10%	5% – 10%	< 5%
Type of supplier	Material/ Service Category	F&B, Engineering, IT	F&B, Engineering, IT, General	Others
Presence	Local/ Foreign	Foreign suppliers	Local suppliers	Local suppliers
Revenue	Revenue (AED in millions)	> 50	20 – 50	< 20
Complaints	Number of complaints per year	>=2	1	0
Access to data	Access to FIVE data	Direct access	No access	No access

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Based on the above, a category allocation is done (A, B, C) and based on maximum rating obtained (A, B, C), the supplier will be assigned a final category (A, B, C) based on which supplier sample will be selected for audit. A minimum of 10% suppliers will be selected for audit every year along with coverage for a minimum of 80% of purchases volume.

Sample selection of suppliers for audit will be a combination of following:

- Category A suppliers – $\geq 60\%$
- Category B suppliers – $\geq 30\%$
- Category C suppliers – $\leq 10\%$

Note: In case of receiving repetitive complaints during the year (> 2 complaints), FIVE can perform supplier audits during the year. In case of > 3 complaints reported during the year, for a preferred supplier (by the user department), the same supplier may be considered for supplier audit purposes

In case a supplier is a sole supplier subject to requirements by the local laws and regulations, on-site audits may not be conducted.

The list of suppliers to be considered based on the above evaluation will be signed off by the Purchasing Manager and Food and Safety Manager (in case of food suppliers) before initiating supplier audits for the year.

Additional supplier selection will be subject to the discretion of the Purchasing Manager or the Risk and Compliance Director.

b. Supplier risk assessment and audit -

Supplier audit schedule is prepared for on-site audit. Following steps are followed:

1. **Notification:** Suppliers are notified 5 days prior to the supplier audit for on-site visit scheduled by the Purchasing team
2. **Audit Responsibility:** Depending upon the availability, purchasing team member, a member from the user department and the Food Safety Manager (in case of F&B suppliers) will visit the suppliers for the on-site visit
3. **Frequency:** Supplier audit (on-site) is conducted as per the defined frequency. The supplier audits are planned throughout the year with certain suppliers audited every quarter. Audits may be conducted on a surprise visit basis to the supplier in case of repetitive complaints (as mentioned above under the risk assessment section)
4. **Audit scope:** Supplier audits to include the following parameters –
 - Quality check
 - Storage conditions for inventory (cold storage requirements, conditions, packaging, etc.)
 - Questionnaire/ survey with a few employees per facility (in the manufacturing facility, trading, storage area, sales department, HR department) to understand current practices [this may include conducting worker interviews outside the supplier site]
 - In case of service suppliers, perform a survey at the office facility through interview questionnaire with the sales and marketing team, HR, and legal team to understand current practices, equality in employment opportunities, working conditions, availability of feedback and grievance mechanisms, health and safety conditions and any ethic issues noted by them
 - Adherence to supplier code of conduct standards through review of records maintained such as employee master database, internal HR policies and procedures, recruitment records, training documents, working hours, environmental management records, etc.
 - Check that no child labour is working at the supplier premises

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- Validate sample employee contracts to check the terms and conditions of the contract for voluntary employment
- Check compliance to fundamental human rights (absence of forced labor, child labor, human trafficking) through interviews and validation of available records
- Check compliance to proper working conditions at the facility by validating parameters at the facility
- Confidential interviews with the supplier workers may also be conducted in local languages (in case of local suppliers)
- Review of supplier records on their composition of supply chain, labour rights risks and working conditions
- Check whether the supplier sub-contracts any of the work with prior authorization and if any third-party audits are conducted by them for monitoring of sub-contracting activities (in form of production volumes, screening of working conditions). This can be done through validation of sample third party audit reports
- Verify whether the supplier maintains records on any incidents reported
- Whether the supplier discloses information on its key suppliers, any key labour rights risks and audit results with regards to environmental safety and governance on request
- Whether the supplier extends the principles of good supply chain standards on environment, health, safety, and security to all its suppliers as well
- Whether the supplier has any internal grievance mechanism in place and is also aware of FIVE's grievance procedures
- Check if the supplier follows the principles for code of business ethics and has a comprehensive code of conduct in place

The team shall seek permission and click pictures as evidence against parameters where applicable during audit and obtain copies of documents/ files required to meet audit evidence requirements. In case of import suppliers/ exceptional circumstances where site visit cannot be conducted, sample documents will be obtained to conduct supplier audits off-site (post approval from Purchase Head) Detailed supplier audit report will be prepared based on the checklist (refer Annexure) filled for supplier evaluation and all non-conformities to requirements will be documented in the report.

The checklist covers several factors as per the labour health and safety conditions, environmental conditions, and the parameters to perform a detailed assessment of supplier risk and compliance to the supplier standards.

Note: Risk assessment and audit scope may be modified based on the change in business and other requirements. However, prior approval will be taken from the Purchasing Manager and Risk and Compliance team.

c. Preparation of risk assessment framework

After completion of the risk assessment and audit process, a layout is prepared to identify category-wise (labour working conditions, working hours, environment, quality, business ethics) score for every vendor. Based on assigned weightages for every parameter, a final score is deduced for every vendor and criticality is estimated – on whether a vendor is a high-risk or low-risk vendor in line with the requirements of the social and environment, labour working conditions within the supply chain framework.

The rating grid can be illustrated as follows –

Rating scale is defined as follows for the purpose of supplier assessment:

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Rating	Description
0	Processes and systems are absent and may cause serious problems
1	Processes and systems comply with the required standard

Calculation of rating score:

Criteria	No. of checkpoints (A)	Rating (B)	Total rating (A*B)
No. of Inadequate Observations (0 rating)		0	
No. of Excellent Observations (1 rating)		1	
Total rating			
% computed[#] (of 50 questions)			

Based on outcome of the supplier risk assessment, suppliers will be recategorized as High Risk, Medium Risk and Low Risk based on the following scores –

Rating Score	Description	Risk Category
80% - 100%	Good performance of supplier/ approved supplier	Low Risk
60% - 80%	Fair performance – Provide mitigation plan to suppliers for improvement/ Qualify supplier with an improvement plan	Medium Risk
<60%	Supplier to be off-boarded/ rejected/ provided warning letters	High Risk

Please note: the total may be changed in case certain criteria do not apply to the type of the supplier

Based on the risk assessment, a report of non-conformities will be prepared and sent to the suppliers for resolution of such non-conformities.

d. Procedures in case of non-compliance

- A corrective remediation plan along with implementation timelines is documented against the non-compliances noted in the audit report and formal confirmation from the supplier is obtained to adhere to the remediation plan via email/ manual sign-off.
- FIVE provides appropriate guidance for the remediation of non-compliances by supporting suppliers to remediate such non-compliances. Reference documents, guidelines and steps may be provided to the suppliers. Periodic knowledge-sharing sessions may also be conducted
- In case of regulatory non-compliances, intimation will be sent to user and purchasing department to restrict creation of new orders till the observations are remediated
- A follow-up re-audit is scheduled after 6 months from the date of initial audit conducted to verify whether all noted gaps have been mitigated as per the corrective remediation plan
- In case all actions are completed as per the remediation plan, business will be initiated with the supplier as usual
- If the gaps are not implemented, a notice of termination will be sent to the supplier. If the supplier provides reasonable revised timelines, FIVE may choose to provide an extension to the supplier for remediation
- If remediation measures are taken and sufficient, appropriate evidence has been provided, then FIVE shall re-instate the ordering process

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- However, in case the remediation plans remain pending to be implemented, the supplier will be off-boarded, and a formal intimation letter will be sent to the supplier

EMPLOYEE TRAINING

FIVE shall perform a refresher training on a half-yearly basis to all its purchasing team members in the department on the following:

- Supplier standards on labour rights and working conditions
- Pre-requisites for supplier qualification
- Records to be verified or audited before supplier onboarding/ periodic supplier assessments performed for suppliers

REPORTING

All supplier risk assessment and audits performed are summarized in a report and shared with the management on a half-yearly basis. Following information is reported as a part of the supplier risk assessment reporting –

- a. Key suppliers
- b. Any incident reports received from suppliers during the period
- c. Labour rights/ Environmental risks
- d. Audit results (including major non-conformities reported)
- e. Follow-up audits and audit outcomes

COMMUNICATION

FIVE has communicated the supplier standard and guidelines to all its colleagues through periodic email communications and intranet. All suppliers within and outside the Group are informed to comply with the supplier standards mentioned in the code of conduct document and provide their declaration on the compliance of these standards. Suppliers should promote these standards with their own suppliers and subcontractors.

Any colleague who has questions or concerns about this policy should speak with the Purchasing Manager or the Risk and Compliance team.

ANNEXURES

Checklist templates:

Checklist Name	Template
Supplier assessment – EHSQ	 Supplier assessment - EHSQ
Supplier assessment – ISO (applicable only for Food Safety suppliers)	 Supplier assessment checklist - ISO