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Annual Report 2011

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## Suppliers

“We uphold a relationship with our suppliers based on trust and mutual benefit”

**Suppliers** are indispensable in helping Abengoa to compete successfully in the market by ensuring the **quality** of its **products** and **services**.

In order for Abengoa to guarantee customer satisfaction, it is essential that suppliers understand the company's **expectations** and are able to **adapt** to its **needs** within a context of **mutual benefit**. Integration of suppliers as strategic partners is an essential component of this interactive process.

New **challenges** and the company's commitment to **ongoing improvement** demand supplier collaboration in the **implementation** of **advanced solutions** to **minimize risks** while at the same **optimizing costs** and **schedules**.



## Responsible purchasing system

In 2011, Abengoa developed a system of **responsible purchasing** that will be implemented in four stages and which primarily **seeks** to incorporate **sustainability criteria** into supplier assessments and to unify and standardize these processes, which currently differ due to the diverse characteristics of the company’s chosen suppliers and the variety of company activities.

This process comprises **four stages**: preliminary diagnostic of the purchasing system, supplier analysis, critical supplier audits and, finally, supplier assessment or rating.



Implementing the system has required collaboration among Abengoa’s different purchasing departments in order to carry out an exhaustive diagnostic study of the existing purchasing system (phase 1), in addition to selecting evaluation criteria in keeping with the particular features of each company activity and carrying out risk analysis to determine suppliers posing a greater threat in terms of CSR-related risk (phase 2). Variables taken into account in conducting this analysis include the supplier’s country of origin, supply nature, degree of visibility and solvency risk.

During 2011, Abengoa **analyzed** approximately **17,500 suppliers** in terms of **human rights**-related risk over the course of the year. Of all the suppliers analyzed only **3.5 %** were flagged as **critical suppliers**.

The process is now in Phase 3, with critical supplier audits currently under way. To date, **55 on-site audits** have been conducted, which amounts to 9 % of the critical providers identified.

Audits are intended to determine the extent to which Abengoa suppliers ensure compliance with the principles set down in the company’s **Social Responsibility Code**, to which all Abengoa providers must adhere in order to work with the company (phase 3).

Furthermore, a supervisory committee will be set up to ensure effective auditing operation, establishing targets to be met and analyzing results obtained.

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## Abengoa supplier commitment

### Greenhouse Gas Inventory

Since the introduction of the Greenhouse Gas Inventory, Abengoa requires **all of its suppliers** to report the **emissions associated** with the products and services acquired by the company (Greenhouse Gas Emissions Reporting System Implementation Agreement), and therefore suppliers have the obligation to provide information on the emissions linked to every order placed by the company.

In order to facilitate adaptation of all providers to these purchasing requirements, there is a transition period in which suppliers undertake in writing to implement an emissions reporting system. This transition period has a maximum duration of six months, after which Abengoa providers that have not provided data on their emissions or who have not expressed their commitment to implementing a reporting system are excluded as Abengoa suppliers. Only in exceptional cases may special authorization be granted, in which case the companies affected must carry out an estimation of the emissions derived from the product or service provided.



### Supplier Social Responsibility Code

To guarantee the integrity of those who may influence company activities, Abengoa requires all suppliers to adhere to the Social Responsibility Code (SRC) for Suppliers and Subcontractors, which includes 11 clauses based on the principles of the **United Nations Global Compact** and inspired by the international **SA 8000** standard.

Abengoa requires its providers to ratify the (SRC) as a way of promoting observance of and compliance with social and environmental regulations.

In 2010 suppliers signed **2,406 agreements** with Abengoa companies, and in **2011** the total was **2,368**. This amounts to a total of **14,216 agreements** since the measure was introduced.

Adherence to the Social Responsibility Code	2011	2010	2009
Number of agreements signed	2,368	2,406	5,249

## Local suppliers

Abengoa **helps** to create **wealth** in the countries in which it operates by implementing and developing economic **relationships with local suppliers**.

The table below shows the purchase volume in countries that have a specific weighting within the total number of purchases made by the group and the percentage corresponding to local suppliers<sup>1</sup>.

Country	Total purchase volume in €	Local supplier (%)
Algeria	26,859	25.92
Argentina	28,532	94.24
Australia	805	100
Brazil	413,552	89.20
Chile	45,741	82.93
China	48,298	49.34
Chipre	122	100
Colombia	15,4	100
Costa Rica	3,663	72.70
France	43,956	65.76
Germany	92,690	83.93
Greece	0.39	100
Guatemala	3,093	95.35
India	8,013	83.95
Italy	58,6	100
Libya	162.7	57.93
Mexico	238,340	66.86
Morocco	22,245	53.20
Netherlands	538,552	59.67
Nicaragua	875	95.85
Panama	6.9	100
Peru	65,567	94.16
Poland	1,779	86.53
Portugal	144	82.21
Serbia	426	16.03
South Africa	172	100
Spain	4,805,909	81.52
Sweden	21,853	87.17
Switzerland	5,814	2.17
Turkey	6,473	88.36
United Arab Emirates	175,719	44.02
United Kingdom	11,119	87.05
USA	1,442,582	91.24
Uruguay	48,542	88.41

Abengoa helps small suppliers or those operating in regions characterized by slower development by:

- Obtaining **financing** or securing channels of access to funding.
- **Improving** supplier health and safety systems.
- Providing **technical training** geared towards **occupational risk prevention**.

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Abengoa maintains close relations with suppliers and collaborators based on communication, knowledge and mutual support in order to create value for the entire organization.

### RBSA Sustainability Assurance Standard

Abengoa, within the framework of the Renewable Energy Directive, has developed a sustainability assurance standard, the **RED Bioenergy Sustainability Assurance (RBSA)** scheme, which serves to demonstrate compliance with the requirements of the directive in relation to any feedstock or productive process, ranging from agricultural production to biofuel commercialization and including industrial transformation processes. Abengoa is the first company to implement this system in Spain.

The RBSA standard, approved in July by the European Commission, establishes the binding operational requirements for all economic agents participating in the scheme and for management and maintenance thereof, and sets the highest standards of quality in processes involving certification and independent auditing of the information supplied.

This system also incorporates innovative methodology developed by Abengoa, mainly for calculating greenhouse gas (GHG) emissions and developing sustainable maps with the aim of facilitating rigorous and effective implementation in supply chains of these innovative sustainability requirements.

This will enable biofuels developed by Abengoa to be marketed anywhere in the EU with accreditation of their being "sustainable", which will provide unique recognition of this assurance throughout all of Europe.

Leonesa Astur de Piensos (Lesa), a grain producer and marketer, was the first company to obtain Abengoa's biofuel sustainability assurance standard.

The different feedstocks produced by Lesa's 500-plus farmers will strictly adhere to all sustainability criteria under the directive; this implies upholding the highest standards with respect to the protection of biodiversity and carbon reserves existing within their areas of production, and traceability thereof in accordance with a rigorous mass balance system, in addition to entailing Greenhouse Gas Emission (GHG) levels in line with authorized thresholds.



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From left to right: Carlos Sebastián Gascón, independent board member of Abengoa; Teresa Ribera, former Secretary of State for Climate Change; prize winner Antonio Navarrete, manager of Sulzer AG; first prize winner Lars Christian Hanses, president for Europe of Novozymes; prize winner Cristina Martín of Aislamientos Desmontables; José B. Terceiro, president of the Focus-Abengoa Foundation and vice chairman of Abengoa; and Carlos Más, president of PwC Spain

Sustainable Business Awards

At the end of 2010, the Focus-Abengoa Foundation introduced the Sustainable Business Awards to openly thank those Abengoa suppliers that have proved the most committed to sustainable development and the fight against climate change.

The contest is open to all Abengoa suppliers and awards prizes in two categories: one for small and medium-sized businesses (with fewer than 50 employees), and the other for large companies (with 50 or more employees).

First prize in the Large Company category was awarded to Novozymes for its "Life Cycle Assessments (LCA)" project, which includes supplying enzymes for bioethanol production, technical support in applying the enzymes and data on the carbon footprint associated with the enzymes supplied to Abengoa.



In the same category, the Focus-Abengoa Foundation awarded a runner-up prize to Sulzer AG for the company's "Energy and resource efficiency in the production process and products" initiative. The foundation also awarded a runner-up prize to Aislamientos Desmontables S.L., a company made up of 14 employees, in the Small and Medium-Sized Business category.

The awards ceremony for the first edition of the Sustainable Business Awards was held in June 2011. The event was presided over by then Secretary of State for Climate Change, Teresa Ribera. In attendance were José B. Terceiro, president of the Focus-Abengoa Foundation and vice chairman of Abengoa; Carlos Mas, president of PwC Spain, and Carlos Sebastián Gascón, an independent Abengoa officer and member of the panel of judges.

Also in attendance at the event were various representatives from the judging panel, whose members in this first edition were Matthew Bateson, managing director of Energy and Climate Change for the World Business Council for Sustainable Development (WBCSD); Cristina García-Orocóy, managing director of the Entorno Foundation; Carmen Gallastegui, executive president of the Ikerbasque Foundation, the Basque Foundation for Science, and professor of the University of the Basque Country; Lutz Guderjahn, vice president of ePURE (European Producers Union of Renewable Ethanol) and vice president of operations of CropEnergies AG; Carlos Sebastián Gascón, professor of Economic Analysis at the Complutense University of Madrid and independent board member of Abengoa; and Jordi Sevilla, senior counselor of PwC and former Spanish minister of Public Administration. PwC, in turn, was the firm in charge of technical advisory for the awards.

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### 2011 milestones

- The percentage of **purchases** made from **local suppliers** in the main countries in which Abengoa operates totaled **81 %**.
- Over the course of the year suppliers signed **2,368 agreements** formalizing their **adherence** to the **Social Responsibility Code**.
- Analysis of approximately **17,500 suppliers** in terms of **human rights**-related risk over the course of the year. Of all the suppliers analyzed only **3.5 %** were flagged as **critical suppliers**.
- 55 suppliers audits were conducted within the framework of the responsible purchasing system. This represents more than 9 % of the critical suppliers detected.
- The 1<sup>st</sup> edition of the **Sustainable Business Awards** was held, publicly recognizing Abengoa suppliers that are most deeply committed to sustainable development and combatting climate change.
- Development, within the framework of the **Renewable Energy Directive**, of a sustainable assurance standard: **RED Bioenergy Sustainability Assurance (RBSA)**.
- The **SAP software system is being implemented** in all Abengoa companies, which will help to create a single procurement system.



## Improvement areas

- The next steps envisaged in the process of implementing the sustainable purchasing system include the need to devise a **procedure for supplier assessment** and approval, reflecting the results obtained from supplier visits and audits conducted and rewarding excellence in sustainability practices.
- In keeping with the above, the company needs to define a **purchasing-related code of conduct**.
- It is also necessary to **promote sustainable practices** by increasing the number of feedstock supplier certifications.
- Work should continue on **developing supplier communication** channels to enable us to gain more accurate information on the degree of supplier satisfaction.
- In the local environment, work will be conducted on **supplier analysis and in building sustainable and lasting** supplier relationships.
- As for purchasing processes themselves, there is a need to **improve order placements** and the **supplier payment procedure**.

## Future goals and challenges

Among the goals established by the organization for optimizing the purchasing system, the improvement actions detected and the fulfilment of supplier expectations, we may underline the following:

- **Consolidating implementation of the responsible purchasing** system throughout the company.
- Continuing global **development and engagement** with respect to the different **voluntary assurance schemes** approved by the European Commission.
- **Optimizing new payment tools**.
- Fostering **long-term supplier relations**.
- **Growing the supplier portfolio** in developing countries.
- Driving forward the **commitment to sustainability** throughout the Abengoa **supply chain**.