

## Suppliers



### Commitment to the supply chain

Abengoa considers its suppliers and subcontractors to be indispensable for business development and keys to successfully competing in the market. Throughout the company's history, Abengoa suppliers have demonstrated a high level of excellence, far exceeding the demanding authorization and approval processes and embracing the same commitment to sustainability and upholding the highest standards of quality demanded by the company.

The company is aware of the difficult situation suppliers and contractors have found themselves in over the past few months, while maintaining their loyalty and making a significant effort toward enabling Abengoa to continue its operations. For this reason, supplier management is deemed a matter of priority. Suppliers **constitute a key stakeholder** body in the company's business and their support is essential in ensuring the continuation of the company's endeavors. Suppliers and contractors, therefore, are and will continue to be a top priority once Abengoa has surmounted the financial restructuring process in which the company is presently involved.

Within this context, on November 25, 2015, Abengoa sought protection under Article 5bis of the Insolvency Act in order to be able to carry out negotiations with its creditors with the necessary guarantees. On March 28, 2016, Abengoa presented a standstill agreement, by means of which creditors consented to suspending the exercise of certain rights involving resolution and anticipated debt maturity for a period of seven months, which ends on October 27, 2016. This agreement was legally recognized on April 6, 2016.

Negotiations are taking place during this process with financial creditors to find the most beneficial solution possible for all parties involved and one which will ensure the company's continuity in the medium and long term <sup>4</sup>.

Among the elements included in the viability plan, necessary for reaching an agreement, is the restructuring of Abengoa's debt to suppliers. This plan contemplates certain releases and standstills adjusted to the income forecast inherent to the business activity estimated in the restructuring plan, as well as future financing resulting from the Viability Plan that is currently in the process of being negotiated with our financial creditors.

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**Note 4** More information can be found in the chapter devoted to "Financial capital".

With the final aim of restructuring debt, and in line with the protocol of recent weeks, Abengoa is asking its suppliers to follow a credit novation process by means of debt relief or debt payment extensions.

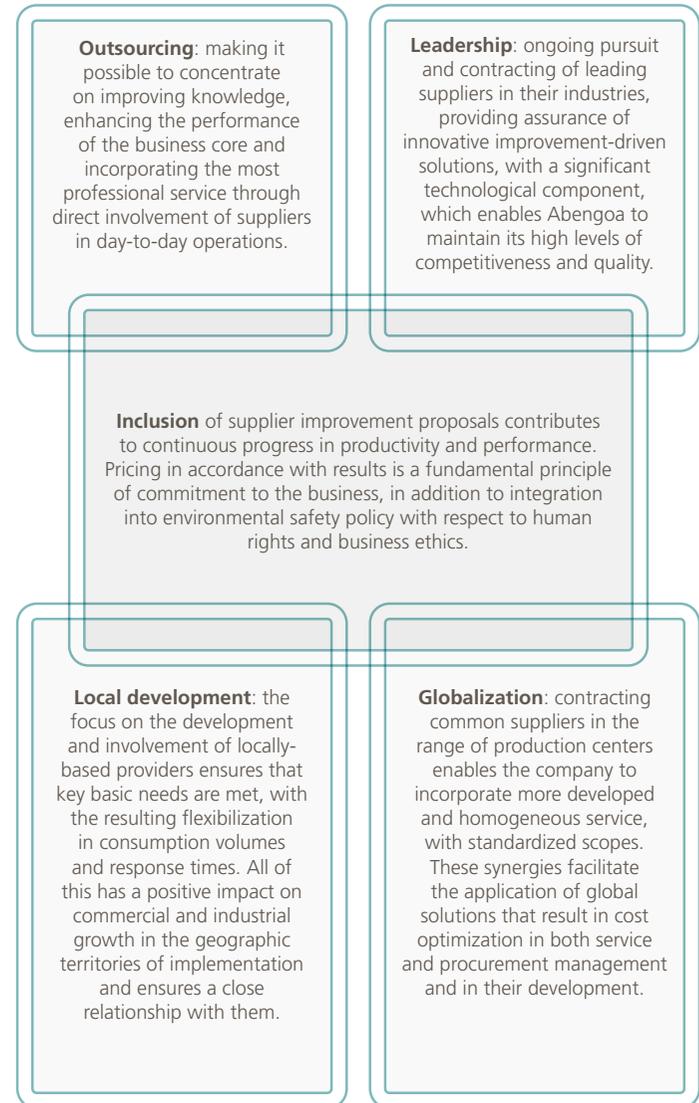
Thus, in keeping with the devised viability plan, and under the firm conviction that the optimal outcome for all parties is for Abengoa's activity to reemerge with energy to create value for its stakeholders as soon as possible, the company is contacting its suppliers individually and in a personalized manner in order to comprehend their situation and propose solutions to reconcile in the best possible way the circumstances in which the company finds itself. Keenly aware of the impact this may have on a significant number of small and medium enterprises, Abengoa has more than 70 people dedicated exclusively to this task.

### Basic guidelines of supplier management

Abengoa is aware of its responsibility of its supply chain; therefore, despite the difficulties experienced in recent months, it has continued to manage the risks and impacts involved.

Due to the company's international presence, in some cases involving emerging countries, the number of suppliers with whom the company works and their importance in conducting company activities, Abengoa places particular emphasis on establishing, fomenting and maintaining sustainable criteria in its lines of business. The company accordingly promotes compliance with ethical, labor, environment and health and safety standards with its suppliers, as well as efficiency in generating products and services with high quality standards, which lowers costs and increases profits.

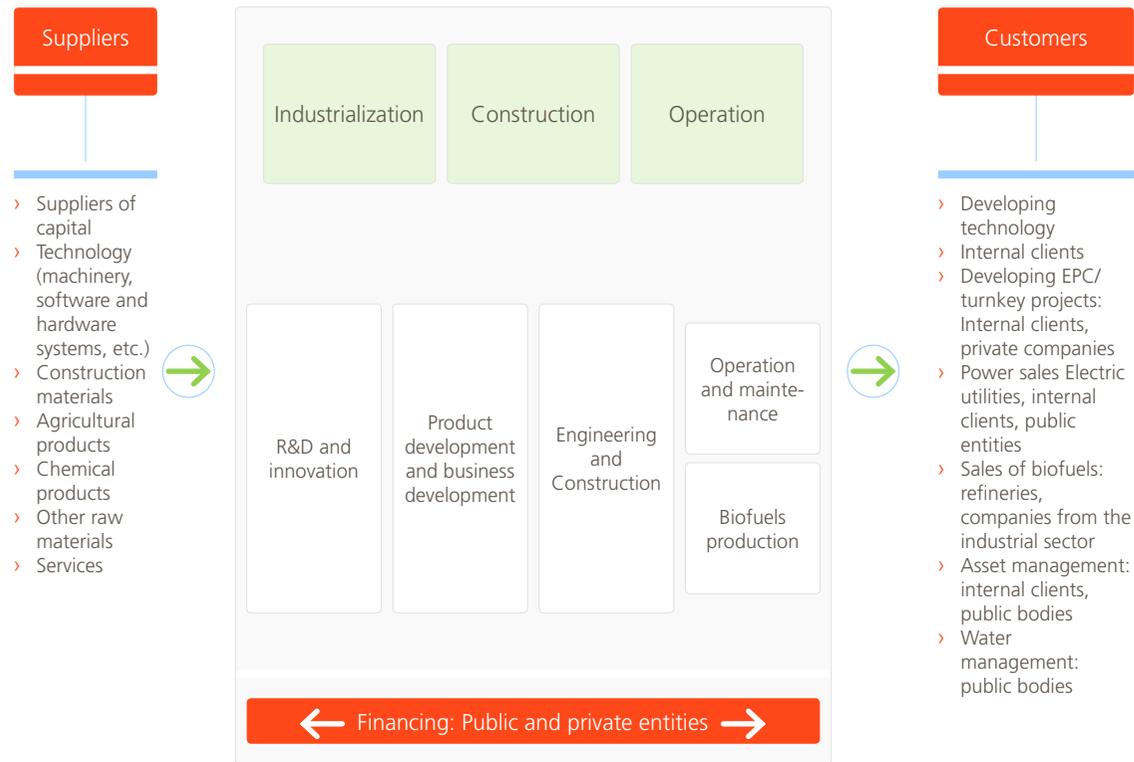
In order to gauge this efficiency, the company utilizes a structured procedure that includes information and opinions from the suppliers evaluated themselves. All of this is carried out by employing five basic guidelines that determine the supplier relationship and reinforce Abengoa strategy: outsourcing, leadership, globalization, local development and integration.



In 2015, Abengoa worked with approximately 19,500 suppliers in 86 countries in every region of the world.

The countries with the largest concentration of company providers are Brazil, Spain, the US, Chile, Peru, Mexico, Uruguay and India, accounting for 80 % of the total number of suppliers. With respect to the approximate monetary value of payments made to suppliers, the supplier billing figure was € 7,246 M in 2015. **G4-12**

Throughout the entire value chain of Abengoa , the company works with different types of suppliers, as shown in the following chart:



As a result of Abengoa's commitment to the supply chain and its goal of expanding the definition of impacts in all processes carried out by the company, there is greater depth in the information reported in the analysis of materiality in relation to company suppliers. The process has thus enabled Abengoa to identify and define the main negative impacts supplier activities may have on the company or on society in general with the aim of evaluating the company's efforts toward minimizing these impacts.

**Main risks of suppliers with whom Abengoa operates**

Risks	Financial impact	Social impact	Environmental impact	How Abengoa works to minimize them
Supply chain management	<ul style="list-style-type: none"> <li>› Reputational risk</li> <li>› Financial losses</li> <li>› Distrust in sector</li> <li>› Difficulty for developing countries</li> </ul>	<ul style="list-style-type: none"> <li>› Difficulty for developing countries</li> <li>› Rise in poverty</li> <li>› Violation of basic rights</li> </ul>	Loss of confidence Risk of fines and penalties	<ul style="list-style-type: none"> <li>› Mandatory signature of the CSR by all suppliers</li> <li>› Supplier evaluation</li> <li>› Audits conducted on critical suppliers</li> <li>› Training subcontractors on human rights</li> </ul>
Health and safety of internal employees and contractors	<ul style="list-style-type: none"> <li>› Costs associated with accident rate</li> <li>› Loss of investor and client credibility</li> </ul>	<ul style="list-style-type: none"> <li>› Greater probability of accident rate at work</li> <li>› Poor reputation</li> <li>› Loss of potential talent</li> </ul>	Accidents, discharges and spillages	<ul style="list-style-type: none"> <li>› Occupational Risk Prevention training for employees and subcontractors</li> <li>› Daily talks before commencing on works</li> </ul>
Business ethics and anti-corruption	<ul style="list-style-type: none"> <li>› Protocol for fraudulent activity</li> <li>› Noncompliance with rules and standards</li> <li>› Financial penalties</li> <li>› Reputational risk</li> <li>› Loss of subsidies</li> </ul>	Loss of credibility and trust	Operations carried out on illicitly acquired projects	<ul style="list-style-type: none"> <li>› Specific training on anti-corruption policies and procedures</li> </ul>

G4-EN33, G4-LA15, G4-HR11, G4-SO10

## Supply chain management

Throughout its supply chain, Abengoa promotes the principles undertaken in the Spanish network of the Global Compact, the Universal Declaration of Human Rights, the Global Reporting Initiative (GRI), as well as the company's own Code of Conduct. The company watches over compliance with the same to ensure that suitable health and safety conditions are in place; human rights are upheld in all geographies of company operation; there is assurance of non-corrupt practices and sound use of natural resources (proper environmental management); and guaranteed product quality standards. With these objectives in mind, the company provides its suppliers and contractors with the resources needed to fulfill these principles accordingly through training and the obligatory nature of signing up to the following initiatives, among others:

### Signing of the Abengoa Social Responsibility Code

With the aim of conducting its business with the utmost integrity and respect toward those who may be affected by its operations, Abengoa requires all suppliers with whom the company operates to adhere to the [Code of Social Responsibility for Suppliers and Subcontractors](#). This code contains eleven clauses based on the principles of the United Nations Global Compact and the international SA8000 standard.

By signing this agreement, suppliers not only commit to governing their activity on the basis of the code, but also to their full availability to undergo audits or other kinds of inspections by Abengoa to verify compliance with said principles. In 2015, specifically, **1,567 agreements were signed with suppliers.**

### Labor-Related Social Responsibility Policy and the implementation of a management system

One of the objectives of this management system is to engage suppliers and contractors in fulfillment of Abengoa's LSR directives, establishing evaluation and selection procedures based on social responsibility criteria and developing control mechanisms to ensure compliance with this policy.

This system provides the company with the tools needed to move forward in the implementation of the ten principles of the United Nations Global Compact, endorsed by the company in 2002, involving not only Abengoa, but the entire supply chain as well.

Abengoa's LSR management system was devised based on the SA8000 standard, which implies that 100 % of the group's companies have a system in place based on this norm. Group companies may also opt to obtain certification individually.

In 2015, the company in charge of managing human resource policies and procedures obtained SA8000 certification through IQNet and utilizing the company's own resources, 266,986 hours of training were conducted for suppliers in risk prevention.

### G4-LA9

## Emissions Reporting from Suppliers for the Greenhouse Gas (GHG) Emissions Management System

In recent years, Abengoa has asked its suppliers to sign an agreement on the implementation of a GHG emissions reporting system whereby all suppliers must provide data on the CO<sub>2eq</sub> emissions related to each order processed by the company.

Since November, in light of the complex situation of the company, this requirement has been abolished. However, thanks to the company's management systems and the experience gained through years of working closely with its suppliers, Abengoa will continue to calculate these emissions through estimates based on the use of emission factors linked to the products and services acquired.

## Procurement system: risk identification and management

In order to fulfill the commitments established with its supply chain, Abengoa has devised a system for identifying risks involved in managing company purchasing.

The system includes sustainability criteria in the supplier evaluations the company performs and it is made up of tools and procedures that help determine risk level. Internal audits

are intended to prevent any conduct which might contravene the performance principles established by the company.

Implementation of the system is carried out in three stages: evaluation, critical supplier audits and rating.

### Operation of the procurement system G4-EN32, G4-LA14, G4-HR9, G4-HR10, G4-SO9

#### 1. Supplier evaluation: risk identification and management.

- Objective
- › Monitoring supplier involvement in and approval of corporate policies.
  - › Determining the level of risk and establishing mitigation measures.

At Abengoa, there is a procedure in place to assess the level of risk of the supply chain. This analysis takes account of different variables, such as the country in which the supplier operates, the nature of supply, the type of activity performed or other more subjective aspects that may set the limits of a greater reputational risk. In order to determine the level of risks of the supplier's country, Abengoa follows international indexes on human rights (child labor, discrimination, freedom of association...), corruption and enforcement of political and civil rights.

Risk level analysis			
Systems and procedures	Human rights and labor practices	Human rights Child labor Discrimination Freedom of association Labor vulnerability	Environmental risks  Energy-derived CO <sub>2</sub> emissions rate Access to running water Air pollution concentration
	Corruption	Corruption perceptions index Bribe payers index	
	Political and civil rights	Change-related risk Government non-payment Political interference Supply chain disruption Regulatory and legal risks Political violence Business risk Banking vulnerability	Political and civil rights  Degree of freedom in political and civil rights

**Operation of the procurement system G4-EN32, G4-LA14, G4-HR9, G4-HR10, G4-SO9**

**2. Supplier audits**

Objective	<ul style="list-style-type: none"> <li>› Determining the degree to which the Abengoa supplier complies with the principles set out in the CSR Code.</li> <li>› Conducting an analysis using self-assessment questionnaires or through audits (remote or on-site) that include visits to the supplier plant.</li> <li>› Continuously working with suppliers to resolve breaches with the aim of conveying responsible conduct in the supply chain.</li> </ul>																								
Systems and procedures	<p>It is the responsibility of all Abengoa’s companies to analyze and assess the risks connected to the activity carried out by suppliers with whom they operate. In 2015, a target was set to conduct audits on a minimum of 10 % of suppliers detected as critical or, failing this, high risk. However, given the company’s exceptional situation in recent months, the target dropped to 5 %, precisely how it was in previous years.</p> <p>A supplier auditing procedure has been drawn up this financial year with the general guidelines and minimum requirements to be considered. In addition, a medium-term aim was set to incorporate all aspects and casuistry of supplier audits in a mandatory standard (NOC in Spanish).</p> <p>When a ‘non-conformity’ is detected, Abengoa draws up an action plan that is implemented through collaborative work with the supplier, enabling it to adapt to the established requirements.</p>																								
Results	<table border="1"> <thead> <tr> <th>Suppliers</th> <th>2015</th> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Analyses performed</td> <td>14,739</td> <td>12,391</td> <td>14,389</td> </tr> <tr> <td>High-risk suppliers detected</td> <td>967</td> <td>765</td> <td>950</td> </tr> <tr> <td>High-risk suppliers detected (%)</td> <td>6.6</td> <td>6.17</td> <td>6.6</td> </tr> <tr> <td>Critical suppliers audited</td> <td>5</td> <td>8.37</td> <td>9.58</td> </tr> <tr> <td>Number of audits performed</td> <td>48</td> <td>64</td> <td>91</td> </tr> </tbody> </table> <p>Throughout 2015, 48 audits were conducted, 31 of which were on site, with visits to the supplier plant, and the remaining 17 were carried out remotely. The main incidents detected concern aspects related to occupational health and safety: the lack of an adequately designated assessment plan, lack of trained medical staff, no emergency drills carried out, lack of accident logbook or facilities not adequately adapted for disabled users, among others.</p>	Suppliers	2015	2014	2013	Analyses performed	14,739	12,391	14,389	High-risk suppliers detected	967	765	950	High-risk suppliers detected (%)	6.6	6.17	6.6	Critical suppliers audited	5	8.37	9.58	Number of audits performed	48	64	91
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**3. Supplier rating**

Objective	Supplier rating according to the assessment carried out, enabling Abengoa to reward the best practices or exclude those who do not meet the requirements set out in the CSR.
Systems and procedures	Abengoa may suspend a working relationship with a supplier that incurs a ‘non-conformity’ if said supplier fails to rectify it. Along these lines, in 2015, Abengoa did not cancel any working relationship with any supplier because of the above reasons.

## Local suppliers

Abengoa embraces a deep commitment to the economic and social progress of the communities where it conducts its business and therefore seeks to enhance the creation of wealth in the countries where it operates by implementing and developing economic relationships with locally-based suppliers.

Working with local partners helps the company to strengthen and support local economy, contributing at the same time to improving living conditions in the places where it operates by means of direct and indirect job creation and through indirect attraction of investments.

The total percentage of purchases made from local suppliers in 2015 was 73 % (76 % in 2014 and 78 % in 2013). *G4-EC9*

Country	2015		2014		2013	
	Local supplier procurement %	Country procurement/ Abengoa procurement %	Local supplier procurement %	Country procurement/ Abengoa procurement %	Local supplier procurement %	Country procurement/ Abengoa procurement %
Brazil	98	5	95	5	97	6
South Africa	93	10	67	5	30	5
United States	78	10	78	32	86	30
Spain	71	37	81	28	78	34
Mexico	65	12	59	9	85	4
Chile	56	8	31	4	83	1
Netherlands	56	6	82	6	74	7