ABENGOA

Annual Report 2011

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03 Sustainability, our commitment

“The commitment to sustainability in all of its dimensions -social, environmental, and economic- is our main hallmark”

Sustainability is the essence of Abengoa. Working to ensure alternative ways of using available resources is the driving force behind the company; **the commitment to sustainability** in all of its dimensions -**social, environmental, and economic- is the company’s main hallmark.**

The economic, social and environmental status quo, where climate change and financial crisis occupy a central position, is forcing us to rethink the models followed up until now and bringing on **a change in the global paradigm**, which is beginning to provide **incentives to accountability over imprudence** and encouraging the pursuit of long-term instead of short-term benefits.

In this regard, the pursuit **of sustainability** plays a fundamental role in the ongoing evolution of the global business community towards **human progress**. Companies must ensure that the impacts derived from their activity are positive for **society** and the **environment**, and do so through **ethical** and **transparent** conduct contributing to the well-being of all. It is essential for organizations to **evaluate** and take their **environment** into account when **making decisions**.

First prize-winning photograph in the 3rd edition of the “Sustainability photography contest” taken by: Antonio Torres Saénz de Tejada.

Risks and opportunities

The current situation and the ensuing changes expose companies to a number of **risks**. Abengoa has **identified** and must strive to **mitigate** a range of risks, and has also pinpointed a number of **opportunities** associated with these risks:

- **Reputational risks**
  Related to company image. The company's image may be affected if stakeholders perceive negative or irresponsible attitudes on the part of the company.

  On the other hand, the associated opportunity is that companies embracing **a proactive focus** on **sustainability** will gain support from customers, markets and stakeholders who value the efforts of **responsible companies**.

Consolation award in the 3rd edition of the "Sustainability photography contest" taken by: Manuel Fernández Valdés.

- **Regulatory risks**

  Associated with the need for the company to **new regulatory frameworks**, entailing costs that could jeopardize the viability of certain operations.

  Once again, there is a related **opportunity**, in that **investment in innovation** will help the company, among other things, to **cut greenhouse gas (GHG) emissions**, leaving it better positioned to deal with regulatory change in this regard.

- **Legal risks**

  Related to **infringements of prevailing laws** and regulations.

  As competing companies that do not abide **strictly with prevailing legislation** see their costs go up as a result of lawsuits or sanctions, those organizations that do fulfill their **commitments** will obtain **clear competitive advantages**.

- **Physical risks**

  Deriving from **natural catastrophes** brought on by phenomena such as **climate change**. These can seriously damage company installations, as occurred in the case of the tsunami and earthquake that devastated Japan in March of 2011 and that caused, among other things, what is considered to date to be the second worst nuclear catastrophe in history. Another prime example would be Hurricane Irene, which wreaked havoc upon the Caribbean and the east coast of the USA, causing serious damage to industries in the affected regions; or the earthquake that ravaged Haiti in 2010 and which led to massive humanitarian disaster and even impacted the global economy.

  The tsunami in Japan unleashed a worldwide energy crisis that led to the closing of numerous nuclear plants. For this reason, one of the most obvious opportunities arises out of the need to **meet the gap in energy generating** capacity through plants that produce **electricity** from **other sources**, such as **renewables**.

- **Risks related to company value**

  Poor management of a company can have a negative effect on the company's market value. Furthermore, **sustainability indices** evaluate companies according to their **sustainability policies**, thus guiding **investors**.

  Having reliable systems in place that enable the company to make decisions based on real information and having a thoroughly developed sustainability policy that is recognized in the markets will **mitigate** these types of risks and **create a competitive edge** for the organization.

- **Risks that are difficult to measure**

  These include market changes, exemplified by growing pressure to **reduce emissions**, which may give certain regions a **competitive edge** over others due to the **natural resources** available to them (access to solar radiation, for example).

  Anticipating trends is a good way to capitalize on the opportunities related to risks which, due to their particular characteristics, are difficult to classify and are, a priori, unpredictable.

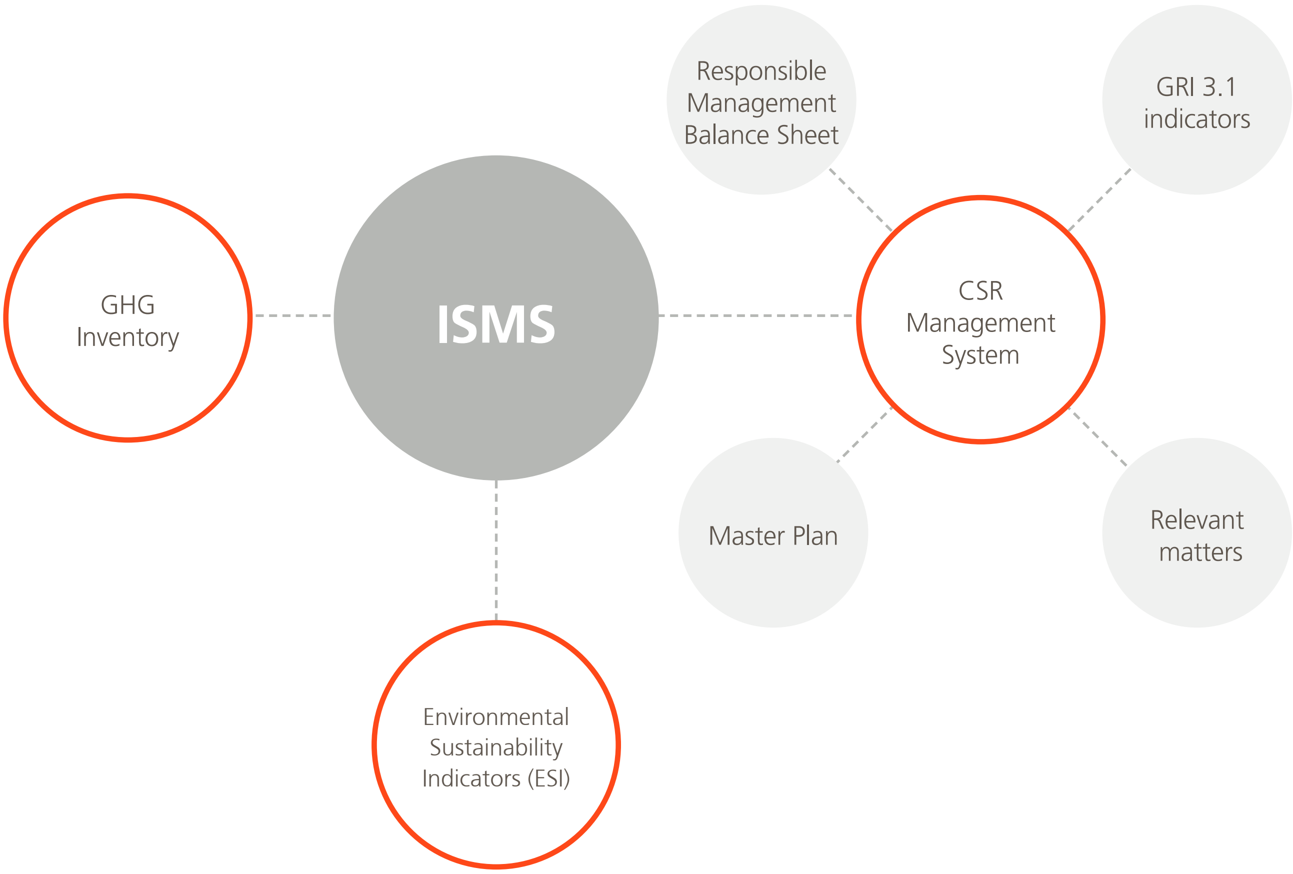
Apart from **managing risk**, Abengoa's sustainability policy must **create opportunities** from these risks through suitable monitoring, measurement, and rectification tools.

Integrated Sustainability Management System

Abengoa's **commitment** to **sustainability** is a priority in all of its actions. Therefore, the company endeavors to **reduce the impact** of its business with the help of an **integrated sustainability management system** that makes it possible for the organization to **measure and compare** the footprint of its activities and set improvement targets.

The **Integrated Sustainability Management System (ISMS)** is made up of the **CSR Management System**, which covers the indicators listed in the GRI 3.1 guidelines, those designed under the **Strategic Plan**, those extracted from the **Procedure on Relevant Matters**[1], and those comprising the **Responsible Management Balance Sheet**; the **GHG Inventory**; and the **Environmental Sustainability Indicators (ESI)**.

The **purpose** of this system is to obtain **reliable consolidated data** on relevant CSR-related **quantitative and qualitative** indicators in order to manage the data appropriately and disclose the information in a **transparent** fashion to company **stakeholders**.



The ISMS takes the form of a **computer application** that takes in all of the information related to the system indicators and enables **reliable information** to be gathered in **real time**, which helps to **improve company management and decision-making**, while rapidly detecting potential risks to be mitigated and improvement areas on which to focus efforts.

1 More information on the Procedure on Relevant Matters in the chapter titled Report Preparation Process.

Responsible Management Balance Sheet

A scorecard or Responsible Management Balance Sheet was drawn up in 2011, comprising a selection of the most relevant indicators related to sustainability.

Implementation of the Responsible Management Balance Sheet, in addition to enabling the company to **improve the management** of sustainability issues which, due to their significance for the company and its stakeholders, are more **critical**, will improve **stakeholder** relationships by **disclosing** key figures **more frequently**, thus helping to **build confidence**.

The **selected indicators** will be reported periodically through the company website and in shareholder reports. They will also be audited twice a year in the same fashion as the annual accounts.

Economic indicators		**2011**
Total revenue		7,089,157 k€
Purchase volume		5,172,639 k€
% of purchases from local suppliers		81 %
Payment to Public Administrations		262,102.8 k€
Significant financial support received from governments		27,946.13 k€
R&D investment	Investment in R&D (M€)	90.6 M€
	Number of patents applied for	68
	R&D+i investment effort (R&D investment/ revenues)*100 %	1.31 %
Social indicators		**2011**
Employees		
Job creation		8.79 %
Percentage of critical voluntary turnover	Percentage of voluntary turnover	3.20 %
	Percentage of critical voluntary turnover	0.88 %
Percentage of female employees	Percentage of women in executive positions	11.89 %
	Percentage of women in middle management positions	17.32 %
Training (hours of training / number of employees)		65.2
Absenteeism		2.78 %
Work-related accidents	Work-related accidents. Frequency rate	2,806.35
	Work-related accidents. Severity rate	0.3
Suppliers		
Number of suppliers evaluated with respect to human rights		17.482
Number of suppliers posing high degree of human rights-related risk detected within the supply chain		595
Percentage of high-risk suppliers		3.4 %
Percentage of audited high-risk suppliers		9.2 %
Communities		
Total amount of external social action		13.8 M€
Corruption		
Percentage of business units analyzed with respect to corruption-related risks		100 %
Percentage of employees trained in company anti-corruption policies and procedures		85.6 %
Environmental indicators		**2011**
Energy consumption (GJ)[1]		99,940,603
Direct emissions[2]		2,953,020
Direct emissions from biomass [2]		2,463,272
Indirect emissions[2] [4]		849,190
Sea water withdrawal (m^3)		130,407,394
Water withdrawal from other sources (m^3) [3]		24,427,474
Abengoa's ISO 14001 - certified companies		88.18 %
Environmental audits performed		208

(1) Includes primary, electrical and thermal power consumption.

(2) Emissions units: (t CO_2 equivalents).

(3) Includes used, river, well, rain and grid water.

(4) Includes exclusively emissions derived from the consumption of electric and thermal energy, work-related travels, commuting trips to work, loss in transportation of electric energy, and emissions from the supply value chain of fuels used for the generation of purchased electric energy.

Corporate Social Responsibility Master Plan

Abengoa developed its **Corporate Social Responsibility Master Plan** with the aim of setting down sustainability-related guidelines to be followed through the definition of strategic actions aimed at integrating stakeholder expectations and anticipating new challenges facing the company and mitigating risks that are inherent to the company's business.

During the process of preparing and developing the plan, the company singled out approximately **100 main prescriptors** from among its key stakeholders in order to discover their expectations and perceptions regarding the company's performance with respect to each one of the matters they flagged as relevant.

The **Master Plan** facilitates vertical, horizontal, and **transversal deployment of the Corporate Social Responsibility (CSR)** strategy throughout the company by drawing up specific multidisciplinary actions that are adapted to the reality of the different companies and regions. It also enables the company to identify specific objectives for each initiative and to define **monitoring indicators** to evaluate fulfillment of the objectives set.

Just like the **strategic plans**, the Master Plan is reviewed on an annual basis by **a follow-up committee** set up expressly for this purpose.

The plan envisages the following subject areas:

- Attracting, developing, and retaining talent.
- Labor practices.
- Integrity and compliance.
- Corporate governance.
- Stakeholder dialog.
- Health and safety.
- Climate change.
- Crisis and risk management.
- Supplier relations.
- Customer relations.
- Social commitment and local impact.
- Environmental policy and management.
- Environmental performance.
- Biodiversity management.
- New business challenges.
- Relations with SRI investors.

The McKinsey three-horizon framework is used to organize and manage the issues. This strategy enables simultaneous management of three scenarios according to the degree of development and implementation of each of the areas.

In 2011, Abengoa initiated the company-level implementation stage, which is expected to be completed next year. Furthermore, the follow-up committee will also review the subject areas and working lines defined under the plan in 2012.

The **Master Plan** is one of the company's most important tools in the realm of CSR, not only in enabling alignment of all company actions with defined strategy, but also because it facilitates **monitoring of actions** and **objectives established** in each of the areas.

Principles of the Global Compact

Since 2005, Abengoa has been publishing an annual progress report on the Global Compact website in which the company reports to its stakeholders on its ongoing implementation of the 10 principles, underscoring the year-to-year goals and objectives set.

Consolation award in the 3rd edition of the "Sustainability photography contest" taken by: Irene Otemín.

Principle 1. Businesses should support and respect the protection of internationally proclaimed fundamental human rights within their sphere of influence.

Abengoa has undertaken in its labor practices the **Universal Declaration on Human Rights of the United Nations** and aligns professional conduct with all of its protocols, in addition to international agreements approved by the UN and, in relation to labor rights, by the International Labour Organisation (ILO).

Principle 2. Businesses should make sure that they are not complicit in human rights abuses.

Abengoa's Common Management Systems, which contain rules that are binding on all employees and apply throughout the organization, without exception, set forth the **company's guidelines and policies on the protection of human rights**.

To guarantee the integrity of those who may have an influence on company activities, Abengoa requires all providers to sign up to the Social Responsibility Code (SRC) for suppliers and subcontractors, which includes eleven clauses based on the principles of the **United Nations Global Compact** and inspired by the **international SA 8000 Standard**.

In 2011, Abengoa developed a **system of responsible purchasing** that will be implemented in four stages and whose fundamental objectives are to incorporate sustainability criteria into supplier assessments and to standardize and endorse these processes, which currently vary due to the diverse characteristics of the suppliers contracted and the variety of company activities. Abengoa analyzed approximately 17,500 suppliers in terms of human rights-related risk over the course of the year.

Principle 3. Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.

Within an open atmosphere of ongoing dialog, Abengoa supports the free association of its workers and considers this an inalienable right.

Principle 4. Businesses should support the elimination of all forms of forced and compulsory labor.

Abengoa's Common Management Systems establish the **company's guidelines and policies on recruitment**, as well as employee procedures and working conditions, all of which are intended to ensure efficient work and a suitable personal and professional life balance. In the **SRC** is included a specific clause to prohibit coercive hiring practices.

Principle 5. Businesses should support the abolition of child labor.

Abengoa **condemns all forms of child labor**, in accordance with the terms specified under Convention 138 of the International Labor Organization (ILO) concerning minimum age.

In the SRC, an agreement was reached to include the prohibition of child labor as a contracting prerequisite and a specific requirement to comply with the norms of the International Labor Organization.

Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Abengoa has its own **Equality Framework Plan**, which applies to all company personnel, and which seeks to ensure **equality in the treatment and opportunities between men and women**, while preventing any situation that may imply or constitute direct or indirect labor discrimination for reasons of gender.

In 2009, a work **harassment whistleblower protocol** was put in place at Abengoa to deal with any potentially discriminatory situation occurring within the company.

This protocol addresses whistleblower procedures and defines situations that could constitute harassment. It is applied in accordance with the principles of confidentiality, credibility and timeliness in order to ensure and protect the privacy, dignity and rights of company employees.

Principle 7. Businesses should support a precautionary approach to environmental challenges.

Abengoa has a **sustainability policy** that is clearly defined under internal rules and regulations, in addition to a risk management system that includes environmental aspects, a Greenhouse Gas (GHG) Emissions Inventory, and specific emission reduction targets for all business groups, and specific Environmental Indicator system. All of this helps to detect environmental risks, present them, evaluate business sustainability, and set improvement targets.

Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.

Abengoa bases its business and management model on innovative technologies for sustainable development, thus ensuring the **sustainability** of not only **products and services**, but also **processes**.

Since the introduction of the Greenhouse Gas Inventory in 2008, Abengoa has **required all of its suppliers** to **report the emissions attributed to the products and services acquired** by the company, and therefore suppliers are under the obligation to provide information on the emissions associated with every order placed by the company. This enables the company to convey its policy and culture of helping to combat climate change to its supply chain.

Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

Abengoa is an international company that applies innovative technological solutions for sustainable development in the energy and environment sectors, generating energy from the sun, producing biofuels, desalinating sea water, and recycling industrial waste, while bringing long-term value to its shareholders through a management model that champions enterprise, social responsibility, transparency, and rigor.

Abengoa upholds an ongoing commitment, through its innovation policy and strategy, to promoting **sustainable use of resources** and **raw materials** that spans their entire life cycle. Abengoa focuses efforts on innovation involving renewable energies. The drive towards and implementation of these technologies are based on sources characterized by low environmental impact and higher energy efficiency.

Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.

Abengoa fights corruption through its **Code of Professional Conduct**, which governs the conduct and working relations of Abengoa employees, directors and officers with all stakeholders. This code demands the highest standards of honor and ethical conduct, includes procedures for dealing with personal and professional conflicts of interest, and requires suitable disclosure in the reports which Abengoa must present on a regular basis to government bodies; requires compliance with applicable laws, standards and regulations; addresses improper use or poor application of assets and business opportunities; demands **maximum confidentiality and fair treatment** both inside and outside of Abengoa; and demands immediate internal communication of failure to comply with the code, as well as appropriate communication of any illegal conduct.

In 2010, Abengoa implemented the **external whistleblower channel**, complementing the internal channel already in place and serving as an instrument for reporting any potential irregularity, non-compliance, or conduct in violation of the ethics, lawfulness and norms governing the organization.

THE GLOBAL COMPACT
WE SUPPORT

Furthermore, Abengoa has signed up to the **US Foreign Corrupt Practices Act (FCPA)**, which regulates the actions of all international companies that conduct any type of business in the USA, and makes it a crime for companies, as well as their directors, board members, employees, and representatives, to pay, promise, offer or authorize the payment of anything of value to a foreign official, foreign political party, officials of public international organizations, etc., for the purpose of obtaining any kind of improper advantage.

2011 milestones

- In May, the Focus-Abengoa Foundation and F.O. Licht inaugurated the tenth edition of the World Biofuels Conference, **"World Biofuels 2011"**.
- Inclusion of the company by the "**Industry Classification Benchmark (ICB)"** standard under the "Renewable Energies" category.
- New edition of **Carbon Training** held, as well as the **School of Energy and Climate Change**.
- Start-up of construction on the **Solana** and **Mojave solar plants** and the **commercial cellulosic bioethanol plan**t in Hugoton, Kansas.
- Creation of two business units based on three company activities: **Hydrogen**, **Energy Crops**, and **Water**.
- **Patent** application process started for the **Integrated Sustainability Management System**.
- Creation of the **Responsible Management Balance Sheet**, which gathers together the **most relevant sustainability-related indicators**.
- Continuation of **Master Plan implementation**.

Improvement areas

The following areas for improvement with regard to sustainability were detected:

- Completing new functional features for the computer application of the **Integrated Sustainability Management System**. The aim is for the tool to be **completely linked** to the purchasing application and to **budget reporting systems**, thus allowing **consolidated data** on **relevant sustainability indicators** to be obtained: GHG Inventory, Global Reporting Initiative (GRI), Environmental Sustainability Indicators (ESI).
- **Increasing** the level of **involvement** of **those in charge** of the different areas of the **Master Plan** in order to facilitate more **effective implementation** and full coordination with Abengoa's **CSR** Department.

Future goals and challenges

One of the objectives established for 2012 is the implementation of **five new functional** features within the **Integrated Sustainability Management System** to supplement existing functionalities:

- **Unified catalog** of Abengoa materials.
- Supplier **portal**.
- Product **labeling**.
- GHG emission **reduction plans**.
- Connection of human resource and training applications to the system.

2012 will also be the first year in operation of the **Responsible Management Balance Sheet**, with **relevant sustainability indicators** to be reported **more frequently** than up until now.

Another objective established for 2012 is the successful **implementation** of the **Master Plan** in all **companies** that are **relevant** to the organization in terms of sustainability, thereby helping company CSR strategy to permeate **all levels** of the organization in a **steady** and **synchronized** manner.