

08

Corporate governance, transparency and rigor in management

Annual Report 2011

Corporate governance **I 126**

Transparency and rigor in management **I 130**

Risk management model **I 132**

Risk management manual **I 135**

2011 milestones **I 136**

Improvement areas **I 136**

Future goals and challenges **I 136**

08

Corporate governance, transparency and rigor in management

Transparency is essential in maintaining long-term stakeholder relationships based on trust. Abengoa therefore guarantees direct ongoing **access to quality information** on the company.

Corporate governance

Applying **good governance practices** that help to increase the transparency of the information published by the company generates value and improves third-party communications to thereby minimize risks and maximize benefits. For this reason, Abengoa addresses **transparency** and **management** needs in accordance with both national and international standards of business ethics.

Along these lines, in 2010 the International Advisory Board was, created in 2010, increased the number of women forming part of the company's senior management, and Abengoa continues improving its efforts towards comprehensive prevention of corrupt practices.

In 2011, the appointment of Manuel Sánchez Ortega as the company's chief executive officer was ratified, and the number of members of the International Advisory Board was increased. Apart from this, Abengoa remains the only company listed on the Spanish stock market to have its **Annual Report on Corporate Governance undergo independent third-party verification**, obtaining the highest level of assurance.



08

**Corporate
governance,
transparency
and rigor in
management**

Board of Directors

The Board of Directors has its own **internal rules** and regulations which complement the provisions of Spain's recent **Capital Companies Act**, subjecting the actions of directors to a set of rules on conduct, governed by the principles of business ethics and geared towards upholding the overriding priority of corporate interests and ensuring the transparency of Board resolutions.

Composition of the Board of Directors

Mr. Felipe Benjumea Llorente	Executive chairman
Prof. José B. Terceiro -en rep. de Aplicaciones Digitales S.L.	Executive vice chairman. Coordinating officer
Mr. Manuel Sánchez Ortega	Chief executive officer
Mr. José Joaquín Abaurre Llorente	Member
Mr. José Luis Aya Abaurre	Member
Mrs. M ^a Teresa Benjumea Llorente	Member
Mr. Javier Benjumea Llorente	Member
Prof. José Borrell Fontelles	Member
Prof. Mercedes Gracia Díez	Member
Mr. Ricardo Martínez Rico	Member
Prof. Carlos Sebastián Gascón	Member
Mr. Ignacio Solís Guardiola	Member
Mr. Fernando Solís Martínez-Campos	Member
Mr. Carlos Sundheim Losada	Member
Mrs. Alicia Velarde Valiente	Member
Mr. Miguel Ángel Jiménez-Velasco Mazarío	Non-board member secretary

The Board is composed of 15 members, 3 women and 12 men, whose ages range from 47 to 68. 7 of them are proprietary directors, 5 independent directors and 3 internal directors. None of them is a Board Member in any listed company.

In 2011, the Abengoa Board of Directors met on 11 occasions (one of which was held in writing, without a physical meeting having been called).

Following a favorable report from the corresponding committee, the Board is to approve at its plenary session the following company policies and strategies:

- Investment and financing policy.
- Definition of group structure.
- Corporate governance policy.
- Corporate social responsibility policy.
- Strategic or business plan, as well as management objectives and budget.
- Policy on remuneration and performance review of members of senior management.
- Policy on risk control and management, as well as periodic monitoring of internal reporting and control systems.
- Dividend policy, as well as policy on treasury stock and, in particular, restrictions thereon.

To ensure that control mechanisms are functioning properly and effectively, the Audit Committee and the Appointments and Remuneration Committee also have their own internal rules and regulations.

08

**Corporate
governance,
transparency
and rigor in
management**

Audit Committee

This committee is primarily made up of non-executive members, thereby meeting the requirements established under standards of good governance. Likewise, in accordance with article 2 of the Internal Rules and Regulations, the office of committee chairman must fall upon a non-executive officer. These characteristics also apply to the Appointments and Remuneration Committee.

The duties and powers of the Audit Committee, as stipulated under the regulations, include **overseeing and resolving conflicts of interest**. Pursuant to the Regulations of the Board of Directors, directors are duty bound to inform the Board of any situations involving potential conflict in a preventive fashion and to abstain from taking any action until the committee has handed down a ruling.

Audit Committee	
Chairman	Prof. Carlos Sebastian Gascón
Members	Mr. José Joaquín Abarre Llorente
	Prof. José B. Terceiro
	Prof. Mercedes Gracia Díez
	Mrs. Alicia Velarde Valiente
Non-committee member secretary	Mr. Miguel Ángel Jiménez-Velasco Mazarío

Appointments and Remuneration Committee

Committee duties and powers include reporting to the Board of Directors on Board and Advisory Board appointments and remuneration, as well as the general compensation and incentive policy for members of these boards and for senior management; informing the Board of matters related to gender diversity; proposing the remuneration policy of directors and senior executives and individual remuneration of directors; and overseeing compliance with the remuneration policy established by the company.

The Appointments Committee acts as a watchdog to ensure that in filling any vacancies that may arise, selection procedures are not affected by implicit bias blocking the recruitment of female directors, and that shortlists include female candidates whose professional profiles meet the profile sought. The committee is the body in charge in all such cases and draws up and passes its proposal, stating grounds, to the Board of Directors, applying the criteria of independence and professionalism established under the Regulations of the Board of Directors and under the Committee's own rules and regulations.

The performance of the Board and of executive officers is assessed at the proposal of the Appointments Committee by means of substantiated reporting to the Board at its meeting held during the first subsequent quarter, once the previous fiscal year has ended and the accounting results for the year or at least an estimation thereof have been obtained as well as the audit report, all of which are indispensable elements of the assessment process.

Appointments and Remuneration Committee	
Chairwoman	Prof. Mercedes Gracia Díez
Members	Mr. José Luis Aya Abarre
	Prof. José B. Terceiro
	Mrs. Alicia Velarde Valiente
	Prof. Carlos Sebastian Gascón
Non-committee member secretary	Mr. José Marcos Romero

08

**Corporate
governance,
transparency
and rigor in
management**

Strategy and international vision

Abengoa voluntarily supplements its efforts by creating support bodies to ensure full awareness of the needs of the company's principal stakeholders and optimal business development. These bodies are: the **Strategy Committee and the International Advisory Board**.

Strategy Committee

This committee comprises the executive chairman, the executive vice chairman, the chief executive officer, the director of Corporate Strategy and Development, the Business Group directors, the chief technical officer, the director of Human Resources, the director of Organization, Quality and Budgets, the financial director, the director of Planning and Control, the director of International Institutional Relations, the general secretary for Sustainability, and the general secretary.

This committee meets monthly and is governed by the Internal **Code of Conduct in Stock Markets**, which sets down a series of obligations to protect information and uphold the duty of secrecy, while addressing preliminary decision-making and disclosure aspects of relevant corporate actions, establishing for such purpose the pertinent procedures for ensuring internal and external confidentiality, recording ownership of shares, and dealing with transactions involving securities, and conflicts of interest.

International Advisory Board

Conscious of the international implications of its business concerns, in 2010 Abengoa created the International Advisory Board, whose election is incumbent on the Board of Directors.

Although the board was initially made up of seven members, the decision was reached in 2011 to increase the number of members to eleven, all of whom have a clearly international background.

The Advidsory Board is set up as a non-regulated voluntary body for purposes of providing consultation and technical advice to the Board of Directors, to which it remains accountable as a consultation and professional advisory body. Its main duty is that of supporting the Board of Directors by providing collaboration and consultation, gearing its activity towards addressing queries raised by the Board of Directors or presenting any proposals deemed pertinent.

Composition of the International Advisory Board	
Prof. José Borrell Fontelles	Chairman
Mr. Alberto Aza Arias	Member
Mrs. Pamposh Bhat	Member
Mr. Kemal Dervis	Member
Lord Douro	Member
Mr. Álvaro Fernández - Villaverde y Silva	Member
Prof. Ricardo Hausmann	Member
Mr. Jerson Kelman	Member
Prof. Mario Molina	Member
Mr. Bill Richardson	Member
Lord Nicholas Stern	Member

08

Corporate governance, transparency and rigor in management

Transparency and rigor in management

Abengoa is keenly aware of the importance of suitably managing risks in order to fulfill strategic planning and meet objectives, and understands the need for having a Risk Management System in place.

This system is global and dynamic in nourishing itself through constant feedback, and meets the following set of requirements:

- Risks must be managed at all company levels without exception.
- The system must be fully integrated in keeping with objectives and in line with operations undertaken to meet these objectives.
- Management supports, evaluates and monitors the system, and adheres to the guidelines set down regarding risk management.

Abengoa Code of Conduct

The honesty, integrity and sound judgment of Abengoa's employees, directors and officers is essential to the company's reputation and success. The Code of Conduct governs working relations within the company between Abengoa staff and relationships between Abengoa personnel and the company's stakeholders. This code may be consulted through the company intranet, Connect@, available to all employees, and is also available on the corporate website. Any changes made to the code are duly communicated throughout the organization with no exceptions or delays.

Practices for preventing corruption

Anti-corruption act

In the fight against extortion, fraud and bribery, Abengoa, in addition to its own Code of Conduct, adheres to the provisions of the US Foreign Corrupt Practices Act (FCPA), which regulates the actions of all international companies that conduct any type of activity in the USA.

The act makes it a crime for companies or any of their members to pay, promise, offer or authorize the payment of anything of value to a foreign official, foreign political party, officials of international public organizations, etc., for the purpose of obtaining any kind of improper advantage.

The company also has a specific communication channel in place that is available to employees and serves as an instrument for reporting any potential irregularity, non-compliance, or conduct in violation of the ethics, legality and norms governing the organization.

The US Foreign Corrupt Practices Act (FCPA) complements the requirements established under Section 404 of the US Sarbanes-Oxley (SOX) Act.

The US Department of Justice is the body ultimately in charge of overseeing compliance with the anti-bribery act for national and foreign companies, with the Securities and Exchange Commission (SEC) being responsible for application to listed companies.

In 2011, 486 audit reports were conducted, which include, among other aspects, reviews and analyses of corruption-related risks in companies deemed material. The number of legal audits performed in companies categorized as material totaled 49. And the total number of companies categorized as being material in which the aforementioned audits

08

Corporate governance, transparency and rigor in management

were performed was 80. There were no reports over the course of the year of any incidents involving corruption. No incidents involving monopolistic practices or breaches of free competition occurred in 2011.

Whistleblower channels

Together with the Audit Committee, Abengoa manages a whistleblower mechanism, which was implemented in 2007 in accordance with the requirements of the Sarbanes-Oxley Act.

The company currently has two whistleblower channels in place:

- **Internal:** available to all employees via electronic mail or ordinary mail whereby they may report any irregularities in matters of accounting, auditing or breaches of the Abengoa Code of Conduct.
- **External:** enabling any third parties unrelated to the company to report irregularities, fraudulent acts or conduct that contravenes the Abengoa code of conduct via the corporate website (www.abengoa.com).

Claims may be submitted with the petition of assurance of **whistleblower confidentiality**, and may also be sent in anonymously.

Abengoa's aim in creating these channels is to provide a specific means of **communication** with company management and governing bodies serving as an instrument for reporting any incident that potentially involves irregularity, non-compliance or conduct that runs contrary to the ethics, legality and norms governing the group.

Development of a SAP module for SOX

Implementation of Process Control got under way within the company in 2011. This provides a technological solution for automating the internal control model and monitoring fulfillment thereof, thus increasing security in company operations and cutting travel-related costs.

Internal control is a process intended to add value by **enhancing an organization's operational efficiency**, regulatory compliance, financial information reliability, and protection of assets.

The benefits of implementing this tool are as follows:

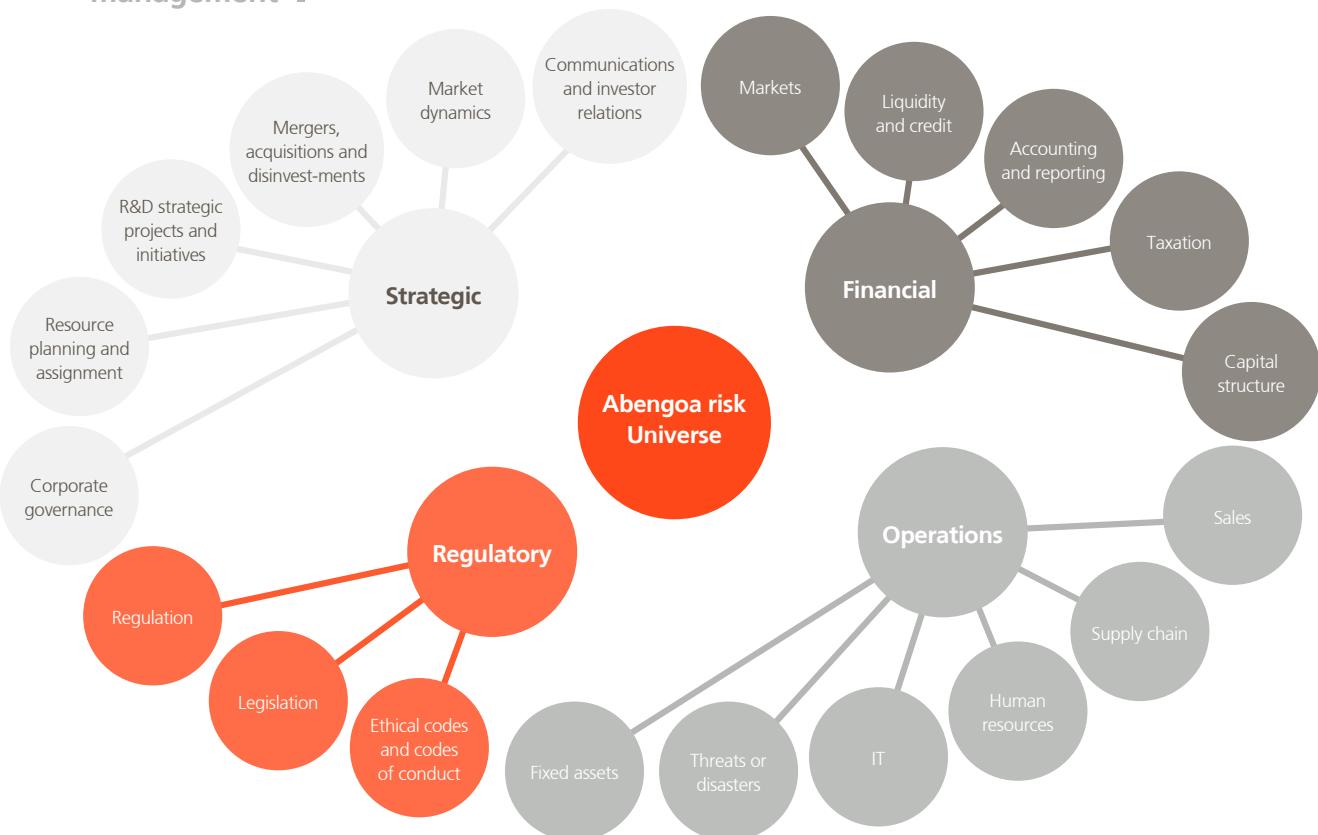
- **Automation of control mechanisms to speed up auditing**, documentation and monitoring processes.
- **Reduction in the level of user effort** in maintaining the internal control model throughout the organization.
- **Reduction in travel-related costs** when carrying out internal control testing.
- **Centralization** of documentation processes and internal control management throughout the organization.
- Because it is a global integrated solution, it enables **control tests** to be conducted across the company.

08

**Corporate governance,
transparency
and rigor in
management**

Risk management model

Abengoa's Universal Risk Model comprises a total of 94 main risks that may affect company business.



For each risk, a monitoring procedure has been set up, along with at least one quantitative indicator and a level of tolerance that rates the risk depending on the likelihood of occurrence and the potential impact for the company.



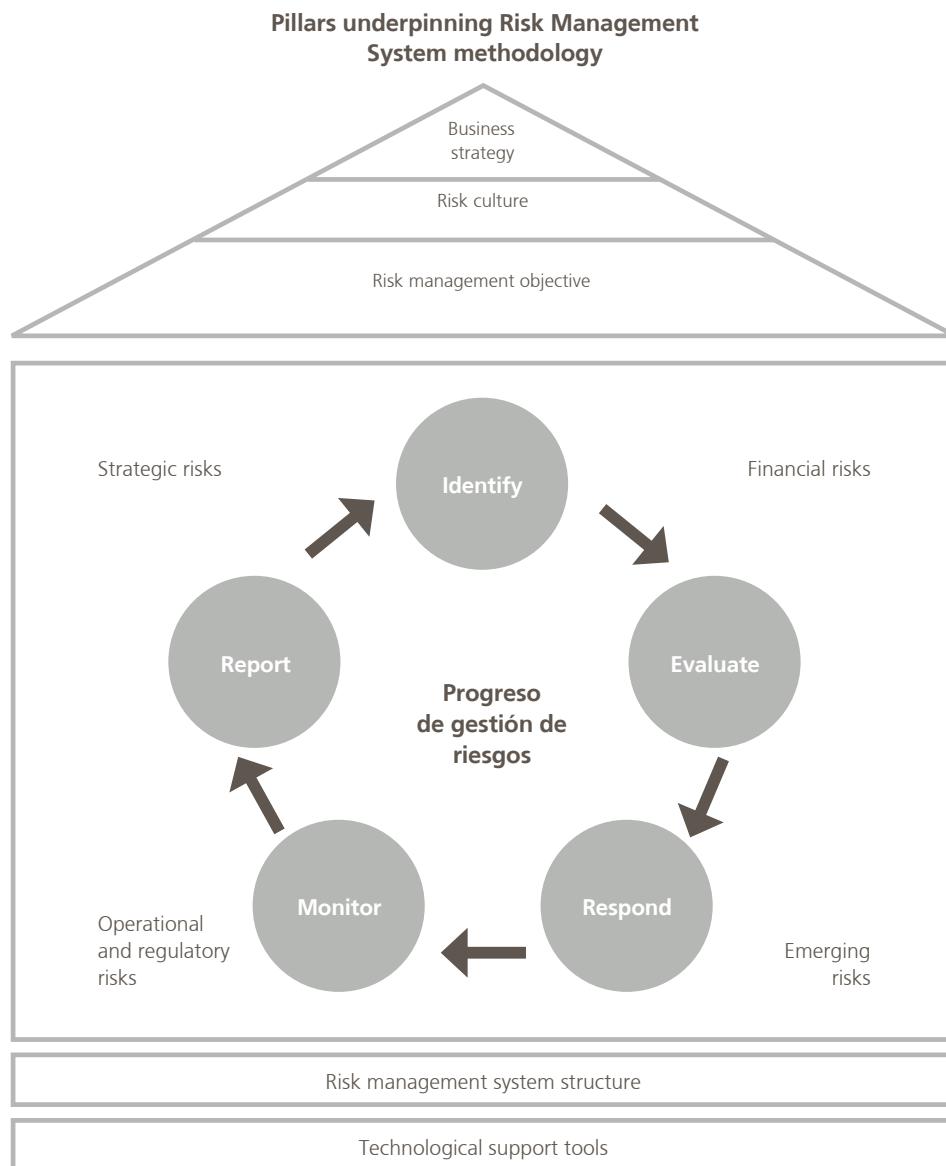
How the Abengoa Universal Risk Model works

08

**Corporate
governance,
transparency
and rigor in
management**

The Abengoa Risk Model is reviewed periodically and falls under the responsibility of the Internal Auditing Department, those in charge of the indicators, and heads of Corporate Risk Management. The company designs and plans measures for mitigating relevant risks based on this model.

Risk management philosophy is reflected in and applied through the Abengoa Risk Management System, illustrated below as follows:



The response mechanisms devised and included under the different Abengoa risk management systems are intended to:

- **Eliminate** risk.
- **Control and minimize risk** as far as possible using strategic or security measures (supply diversification, and quality, maintenance, prevention and other systems).
- **Third-party transfer** so that Abengoa is in no way held liable for the risk, either through an insurance firm or other third party (supplier, subcontractor).
- **Financial withholding**, in the event that it is not possible to otherwise control the risk involved.

08

Corporate
governance,
transparency
and rigor in
management

Evaluating CSR-related risks of facilities

Last year, Abengoa developed a system for evaluating the CSR risks of its facilities, which enabled it to identify the principal environmental and social risks where the company operates, in line with its commitments to sustainability.

The resulting risks were identified based on material corporate social responsibility-related matters of interest to the company, which are identified under the Strategic Plan and included in the following areas.

- Labor practices.
- Occupational health and safety.
- Suppliers.
- Social commitment and local impact.
- Environmental management and climate change.
- Ethics, integrity and compliance.

In 2011, four pilot projects were carried out at different Abengoa facilities in India, Brazil, and in Huelva and Seville in Spain.

The project consists of consolidating risk management in all company facilities through this model which, apart from identifying risks, also helps manage stakeholder dialog and conflicts at these facilities.

This risk analysis will enable the company to draw up a specific stakeholder map to cover facilities and ensure sustainable long-term businesses.



eCRM development

Implementation of the Archer eCRM solution began in 2010. This technological solution enables automation of the process of determining, evaluating, responding to, monitoring and reporting on risks that make up the Abengoa Universal Risk Model.

This technological solution began to use in 2011, helping to automate all processes involved in risk management for the entire range of business activities and sectors, while at the same time tailoring risk evaluation, response, monitoring and reporting to reflect all company activities and sectors through a common standardized and centralized methodology.

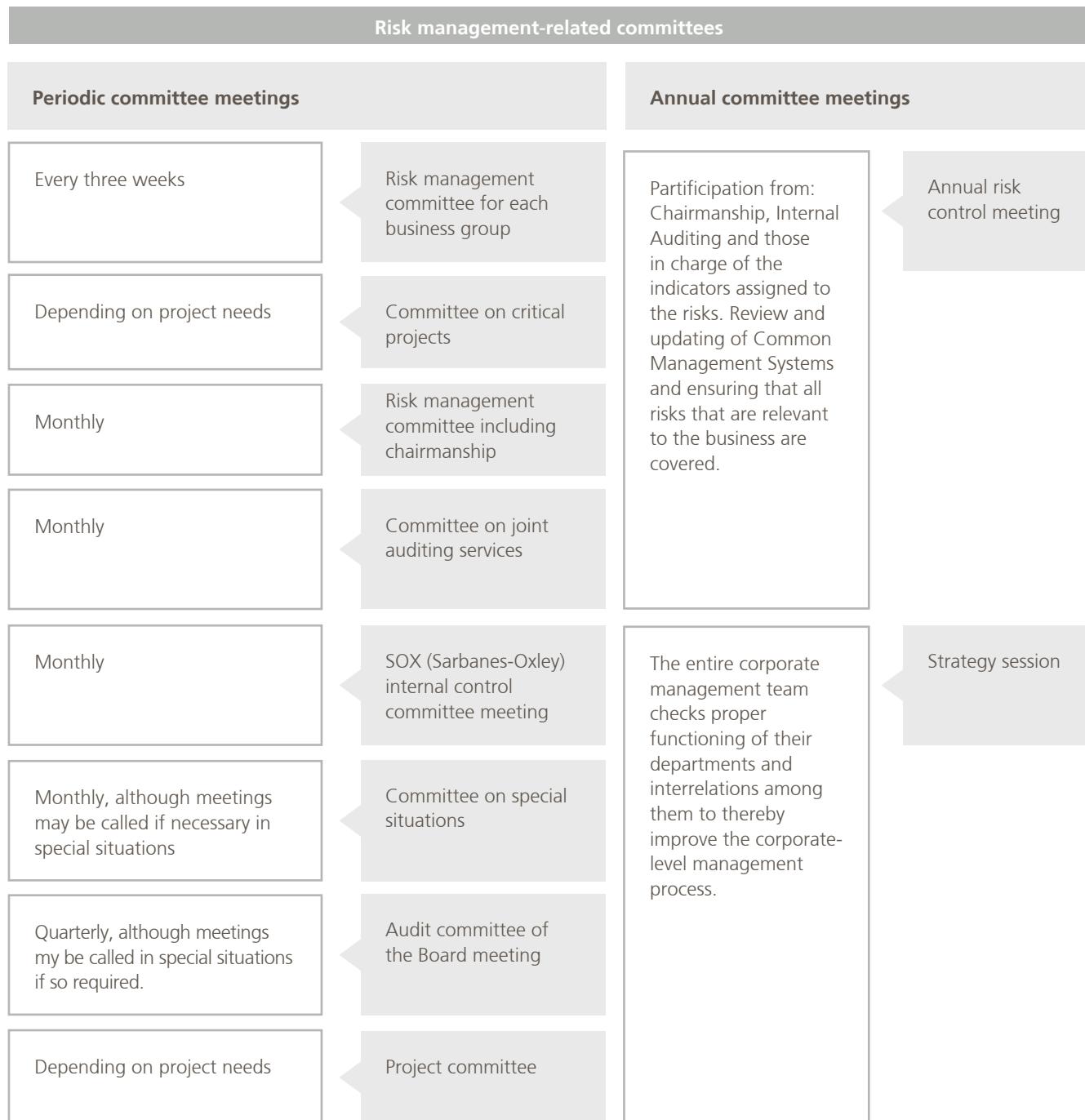
08

**Corporate governance,
transparency
and rigor in
management**

Risk management manual

In 2011, the new risk management manual was prepared with the aim of helping the company to identify the different elements comprising the Abengoa Risk Management System, the basic tool for achieving strategic objectives and effective day-to-day company management.

Abengoa risk management organization chart:



08

Corporate
governance,
transparency
and rigor in
management

2011 milestones

- More members appointed to the International Advisory Board.
- Ratification of the appointment of Manuel Sánchez Ortega as chief executive officer.
- Entry of First Reserve as a strategic shareholder.
- Rise in the number of women in executive positions.
- 138 training sessions on the company's Common Management Systems held in 73 cities in 23 different countries, with a total of over 8,000 attendees.
- Training on the whistleblower channel and the requirements of the US Foreign Corrupt Practices Act.
- Implementation of the Archer CRM tool to quantify the company's exposure to different business risks, enabling the organization to obtain a dynamic risk map in real time.
- Verification by an independent expert of Internal Auditing competencies in accordance with the standards of the Institute of Internal Auditors.

Improvement areas

- Enhancing alignment with international corporate governance practices.
- Reinforcing the international nature of the organization's corporate governance.
- Gauging the degree of stakeholder awareness of the company's whistleblower channel mechanisms.

Future goals and challenges

- Being one of the pioneering companies in transparency and rigor in management.
- Adapting to new international standards on a voluntary basis.
- Submitting corporate governance activity to future benchmarking on international indexes in order to foster company transparency.
- Driving forward and strengthening the Common Management Systems in order to mitigate the company's business risks.