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Report from
the chairman



Once again the global economy and the Eurozone in particular had a difficult year in 2012. At Abengoa however, our innovative technology solutions for sustainable development have enabled us to maintain sustainable and recurrent growth. The protracted nature of the global crisis has had a negative impact on the global fight against climate change, but it continues to be a pressing issue for humanity, which is increasingly looking to advances in renewable energy. At the same time, the high risks associated with nuclear energy, the astonishing costs of a foreign energy dependency and the environmental impacts of fossil energy have once again highlighted the importance of tackling the major challenges of sustainability and the development of renewable energy.

The 2012 report by the International Energy Agency predicts that around 31 % of electricity will be generated from renewable sources by 2035 and that demand for biofuels, mainly second-generation bioethanol, will triple. Desalination and water reuse will be decisive factors in ensuring society's access to this primary resource. All of this comes together in the vital role that must be played by renewable energy and lays the foundations for Abengoa to become one of the leading players in global energy development and environmental improvements that will benefit future generations.

The ongoing creation of knowledge and a commitment to technological innovation form the basis of our competitive advantage in the energy and environment sectors. This has led Abengoa to become a major scientific and technological forum and a privileged space for training professionals in R&D+i.

Abengoa Research (AR), the research institute that we launched in 2011, is making significant progress in areas such as the production and storage of solar and marine energy; the development of energy vectors such as hydrogen and bioethanol; the creation of new technologies for recycling waste; desalination; and the reuse of water from industry and other sources.

We are carrying out the scheduled investments in our strategic plan and arranging financing for the corresponding projects. Abengoa's projects map has grown in 2012 to encompass countries such as Oman, Turkey, Ghana and South Korea, and it has consolidated its leadership position in countries such as Brazil, US and Germany.

Demand for Abengoa's products and services continues to rise, since we are a global company that specializes in dynamic sectors. In 2012 we recorded an 10 % increase in revenues to €7,783 M compared to 2011, which is also reflected in our margins with an increase of 13 % in ebitda to €1,246 M.

The issue of new Class B shares and the conversion rights of Class A shares into Class B shares has been a key element in providing Class B shares with sufficient liquidity to be included in the IBEX 35 index and for a potential listing on the NASDAQ. The support at the General Shareholders' Meeting in September of 2012 regarding the proposal to split Class A shares into Class B shares have encouraged us to continue working in the same direction.

Last year the company successfully refinanced €1,663 M of its long-term syndicated bank debt. Corporate net debt at the end of 2012 was 1.8 times corporate ebitda, totaling €1,408 M, while total net debt, including non-recourse financing primarily associated with our concessions, was 6.6 times consolidated ebitda, at €8,282 M. We ended the year with a cash position of €3,451 M, which will allow us to confidently meet our investment and debt commitments scheduled for 2013.

In 2013 we intend to continue to grow and strengthen our financial structure.

Engineering and construction

Revenues in this area grew by 19 % to €4,512 M. At the end of the year the order book totaled €6,679 M.

In the US, Abengoa will carry out the engineering, development and start-up of one of the largest photovoltaic plants in the world, in California, while the works on the concentrating solar power plants in Arizona and the Mojave Desert are progressing satisfactorily.

We have also been selected to construct the largest combined cycle plant in Poland, power transmission lines in Latin America and Australia, and new desalination plants in the Middle East and North Africa.

Concession-type infrastructures

At the end of 2012 we had generated more than 4,324 GWh of energy in solar, hybrid and cogeneration plants, and we brought into operation 6 new plants with an installed capacity of 300 MW during the year. We have also produced 97,435 ML of desalinated water, after new plants in Algeria and China came into operation.

The total capacity installed and under construction of our power plants in the US, Abu Dhabi, South Africa, Algeria, Mexico, Brazil, Uruguay, Spain, India and Holland totals 2,432 MW. We are also currently developing new desalination plants in Algeria and Ghana, and various power transmission lines in Brazil, Peru and Chile.

Industrial production

The construction in Kansas (US) of the first industrial plant to produce second-generation ethanol using Abengoa's proprietary technology and the development of the first bio-refinery pilot plant in Salamanca (Spain) are examples of our research from recent years becoming a reality, as well as demonstrating our technological leadership in this sector. In addition to biofuels, our industrial recycling activity also continues to grow, with revenues of €2,798 M and ebitda of €215 M.

Diversification and growth

Our growth model is based on the simultaneous management of businesses with different profiles and characteristics, which we refer to as our "three horizons". We invest the cash flows from our traditional activities into growth in our emerging businesses, while we have numerous options for the future that will evolve until reaching maturity. Asset rotation is part of our business model.

Our options for the future are Abengoa Water, Abengoa Hydrogen, Abengoa Seapower and Abengoa Energy Crops, in addition to numerous technological opportunities that Abengoa Research and the business groups obtain from their research.

The company's international activities account for 75 % of total revenues, including our businesses in Latin America that represent 27 %, Asia 4 %, Europe 15 %, Africa 3 %, and the US with 26 %.

Human capital, employment and innovation

We at Abengoa know that our future success depends on us being creative now, while this depends on training and ensuring the devotion of everyone of us at Abengoa. There are now over 26,000 of us in 2012, 19 % more than 2011.

In 2012 we invested more than 1.7 M hours in training and we launched joint programs with acclaimed universities in every country where we are present.

Abengoa also increased its number of patent applications to 203 and was recognized as the leading Spanish company in the international patent applications ranking. These achievements are due to the efforts of the team comprising 747 company researchers, as well as investment in R&D+i projects totaling €91.3 M.

Audit

Once again we have subjected our internal control system to an independent audit process, in accordance with PCAOB standards. Our Annual Report therefore includes five independent verification reports on the following areas: financial statements, SOX (Sarbanes Oxley) internal control system, Corporate Social Responsibility Report, Corporate Governance Report and the design and application of the company's risk management system in accordance with the specifications of the ISO 31000 standard.

CSR sustainable development

As companies we have an obligation to ensure that our actions contribute to economic development and social progress. The sustainable and responsible policies that we apply to these activities reduce the risks and the social and environmental impacts of man's actions, and strengthen our corporate governance and relations with stakeholders, demonstrating that we are a reliable, profitable and secure company. They also contribute to the development of the communities where we are present through the People, Education and Communities Program (PEyC).

Abengoa's social actions, to which we allocated €10 M this year, are channeled via the Focus-Abengoa Foundation.

We use the Corporate Social Responsibility Report, prepared in accordance with the principles of the Global Reporting Initiative (GRI) and the AA1000 sustainability assurance standard, to inform all our stakeholders of our social, environmental and financial performance during 2012, as well as the objectives, challenges and areas for improvements that we will work on during the coming year.

In order to continue to improve through your recommendations, and to achieve our objectives of commitment with sustainable development, we provide you with our Corporate Social Responsibility e-mail address (csr@abengoa.com), our website (www.abengoa.com), our twitter profile and our corporate blog (blog.abengoa.com).

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