



12

	Page
Corporate Governance	190
Transparent Practices	194
Risk and Crisis Management	194
The Universal Risk Model	197
Integrity and Compliance	199
Transparency and the Fight against Corruption	199
Abengoa Values	200
Abengoa Code of Conduct	201
Whistleblowing Channel	201



Abengoa is unflinchingly committed to **transparency in its management processes and to good governance**, both of which underpin its relations with stakeholders and provide the cornerstones for successful business relationships.

The application of good governance practices that help increase the transparency of the information published by Abengoa generates **added value** for the company when **communicating** with third parties, while also **minimizing risk** and **maximizing profits**.



Corporate Governance

In line with its commitment to transparency, managerial control and ethical conduct when engaging in business, Abengoa has opted for the following structure within its governing bodies¹:

Board of Directors

Abengoa has devised its own Internal Regulations of the Board of Directors, which complement the provisions of the Spanish Public Limited Companies Act (“Ley de Sociedades Anónimas”) and the Regulations of the Companies House (“Reglamento del Registro Mercantil”) by subjecting the actions of directors to a raft of rules on accepted conduct, guided by the principles of business ethics and geared towards upholding the overriding priority of corporate interests, while ensuring the transparency of Board resolutions.

¹ For further information on the structure and categories of director and governing bodies, please consult the Annual Corporate Governance Report

Membership of the Board of Directors is currently as follows:

Personal or corporate name of the director	Post on the Board
Felipe Benjumea Llorente	Chairman
Aplicaciones Digitales, SL	Vice-Chairman
Manuel Sánchez Ortega	Chief Executive Officer
Alicia Velarde Valiente	Board member
Carlos Sebastián Gascón	Board member
Carlos Sundheim Losada	Board member
Daniel Villalba Vilá	Board member
Fernando Solís Martínez-Campos	Board member
Ignacio Solís Guardiola	Board member
Javier Benjumea Llorente	Board member
José Joaquín Abaurre Llorente	Board member
José Luis Aya Abaurre	Board member
María Teresa Benjumea Llorente	Board member
Mercedes Gracia Díez	Board member
José Borrell Fontelles	Board member
Total number of directors: 15	

Audit Committee

As with the Board of Directors, and given the need for control mechanisms to function properly and efficiently, the Audit Committee is also subject to its own internal regulations.

Membership of the Audit Committee is currently as follows:

Name	Post	Type of member
Carlos Sebastián Gascón	Chairman	Independent
Daniel Villalba Vilá	Member	Independent
Aplicaciones Digitales, SL	Member	Executive
José Joaquín Abaurre Llorente	Member	Proprietary
Mercedes Gracia Díez	Member	Independent

The Audit Committee primarily comprises non-executive members, thereby meeting the requirements prescribed by applicable law and regulations on good governance and, in particular, the Financial System Reform Act (Ley de Reforma del Sistema Financiero). Likewise, and in accordance with Article 2 of the Internal Regulations, the office of committee chairman must be vested in a non-executive member.

The **duties** and **powers** of the Audit Committee are as follows:

- Report on the annual accounts and half-yearly and quarterly financial statements that must be submitted to regulatory bodies and market watchdogs, with reference paid to the internal control systems, the control mechanisms to monitor implementation and compliance through internal audit procedures and, where appropriate, the accounting principles applied.

- Inform the Board of Directors of any changes in accounting principles, balance sheet risk and off-balance sheet risk.
- To report to the General Shareholders' Meeting on those matters requested by shareholders that fall within its remit.
- To propose the appointment of the external financial auditors to the Board of Directors for subsequent referral on to the General Shareholders' Meeting.
- To oversee the internal audit services. The Committee will have full access to the internal audit and will report during the process of selecting, appointing, renewing and removing the head auditor. It will likewise control the remuneration of the head auditor, and must provide information on the budget of the internal audit department.
- To be fully aware of the financial information reporting process and the company's internal control systems.
- To liaise with the external audit firm in order to receive information on any matters that could jeopardize the latter's independence and any others related to the financial auditing process.
- To summon those Board members it deems appropriate to its meetings, so that they may report to the extent that the Audit Committee deems fit.
- To prepare an annual report on the activities of the Audit Committee, which must be included as part of the annual accounts for the year in question.
- Supervise the preparation process and monitor the integrity of the financial information on the company and, if applicable, the group, and to verify compliance with regulatory requirements, the appropriate boundaries of the scope of consolidation and the correct application of accounting principles.
- Periodically review the internal control and risk management systems so that the principal risks are appropriately identified, managed and reported.
- Supervise the internal audit function, through full access to it, and monitor and supervise its independence and effectiveness; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service and set the remuneration for its manager; receive periodic information on its activities and the budget for the service; and verify that senior management takes into account the conclusions and recommendations of its reports.
- Establish and oversee a mechanism whereby employees may confidentially and anonymously, if deemed necessary, communicate potential irregularities, especially financial and accounting, which they may detect within the company, proposing the appropriate corrective measures and approvals to the Board of Directors.
- Submit proposals regarding the selection, appointment, re-appointment and replacement of the external auditor to the Board of Directors, including the terms of engagement.
- Receive regular information on the audit plan and the results of its implementation from the external auditor, and verify that the senior management takes the recommendations thereof into account.
- Safeguard the independence of the external auditor.
- Ensure that the group auditor is tasked with conducting the audits for the individual group companies.
- Oversee and resolve conflicts of interest. Pursuant to the Regulations of the Board of Directors, Board members are under the obligation to inform the Board of any situation of potential conflict, in advance, and to abstain until the committee has reached a decision.



Appointments and Remuneration Committee

The **structure** and members of the Appointments and Remuneration Committee are as follows:

Name	Post	Type of member
Daniel Villalba Vilá	Chairman	Independent
Alicia Velarde Valiente	Member	Independent
Aplicaciones Digitales, SL	Member	Executive
Carlos Sebastián Gascón	Member	Independent
José Luis Aya Abaurre	Member	Proprietary

The Appointments and Remuneration Committee comprises a majority of non-executive directors, thereby fulfilling the requirements prescribed by the Spanish Financial System Reform Law (Ley de Reforma del Sistema Financiero). Likewise, the position of committee chairman must be vested in a non-executive director, in accordance with that envisaged in Article 2 of the company's Internal Regulations.

The Appointments and Remuneration Committee is entrusted with the following **functions** and **responsibilities**:

- To report to the Board of Directors on appointments, reappointments, removals and the remuneration of the Board and its component posts, as well as on the general policy of remunerations and incentives for positions on the Board and within the senior management.
- To report, in advance, on all proposals that the Board of Directors presents to the General Shareholders' Meeting regarding the appointment or removal of directors, even in cases of co-optation by the Board itself; to verify, on an annual basis, continuing compliance with the requirements governing appointments of directors and the nature or type thereof, all of this being information to be included in the Annual Report. The Appointments Committee will ensure that, when vacancies are filled, the selection procedures do not suffer from implicit bias that hinders the selection of female directors and that women who meet the required profile are included among the potential candidates.
- To prepare an annual report on the activities of the Appointments and Remuneration Committee, which must be included in the Management Report.

Strategy Committee

This committee comprises the Executive Chairman, the Executive Vice-Chairman, the heads of the various business units, the Head of Organization, Quality and Budgets, the Technical Secretary, the General Secretary for Sustainability, the Head of Human Resources, the Financial Director, the Head of Investor Relations, the Head of Institutional Relations, the Head of Corporate Strategy and Development and the General Secretary.

This particular committee, which meets monthly, is governed by the Internal Code of Conduct in Stock Markets, which contains a raft of obligations to protect information and uphold the duty of secrecy, while addressing preliminary decision-making and publication 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.

Good Governance Practices

Following a favorable report from the committee, the Board of Directors sitting in plenary session will approve the following company policies and strategies:

- Investment and financing policy.
- Defining how the business units are structured.
- Corporate governance policy.
- Corporate social responsibility policy.
- Strategic or Business Plan, as well as the budget and management targets.
- Remuneration and performance assessment policy for senior executives.
- Risk control and management policy, as well as the periodic monitoring of internal information and control systems.
- Dividends and treasury stock policy and, in particular, limits thereto.

Transparent Practices

One of the cornerstones of the company's strategy is its unflinching commitment to transparency and rigor. To reflect and strengthen this undertaking, the company set itself an objective several years back to the effect that all information appearing in the Annual Audit Report must have its corresponding external audit report.

In 2007, the company's Corporate Social Responsibility Report underwent an external audit for the first time. The following year, the Greenhouse Gas Emissions Report was also audited by an independent third party, and in 2009, the Corporate Governance Report underwent the same procedure. All three documents have been audited externally once again this year round.

Abengoa's objective is to ensure reasonable assurance for its reports, the most stringent type of verification that a company can aspire to. Last year, the company secured reasonable assurance for all the GRI (Global Reporting Initiative) indicators reported in its Corporate Social Responsibility Report.

In 2010, the company commissioned no less than **6 reports** from its external auditors, all of which form an integral part of the Annual Report:

- Audit report on the consolidated accounts of the group, in accordance with applicable law.
- Voluntary audit report on internal control compliance under PCAOB (Public Company Accounting Oversight Board) standards, pursuant to the requirements imposed by section 404 of the Sarbanes-Oxley Act (SOX).
- Voluntary reasonable assurance audit report on the Corporate Governance Report, with Abengoa being the first listed company in Spain to obtain a report of this nature.
- Voluntary reasonable assurance audit report on the Corporate Social Responsibility Report.
- Voluntary audit report on the Greenhouse Gas (GHG) Emissions Inventory.
- Voluntary audit report on the design of the Risk Management System pursuant to ISO 31000 standards.

Risk and Crisis Management

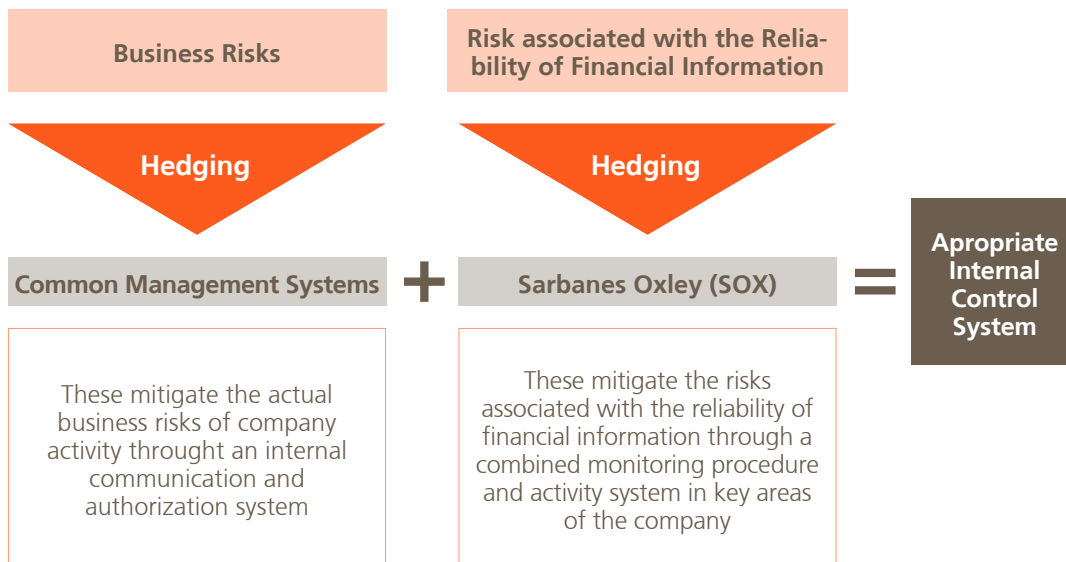
Risk Control and Crisis Management

Abengoa groups together more than 600 companies, all operating in over 70 countries and employing more than 26,000 workers. With this in mind, it is essential to define a common business management system enabling the group to work effectively, coherently and in a coordinated fashion.

The current scene is characterized by dizzying growth in technology, rapid social, economic and political changes and the overriding need to generate value.

To tackle the threats stemming from this situation, while also harnessing business opportunities as they arise, Abengoa believes that **risk management** is an essential function for adopting **strategic decisions**, and that the company must have criteria and approaches in place to pave the way for **secure** business growth.

Abengoa's Risk Management Model comprises two core elements:



■ Common Management Systems (NOC)

These comprise the internal rules governing Abengoa and the approach to assessing and controlling risks. They represent a common and shared culture when managing Abengoa business, in that they share accumulated knowledge and define criteria and guidelines for the entire organization.

The systems envisage a host of specific procedures covering any action that could be seen as a risk for the company, regardless of whether it has economic or financial implications. They are available electronically to all employees, irrespective of geographic location or job category.

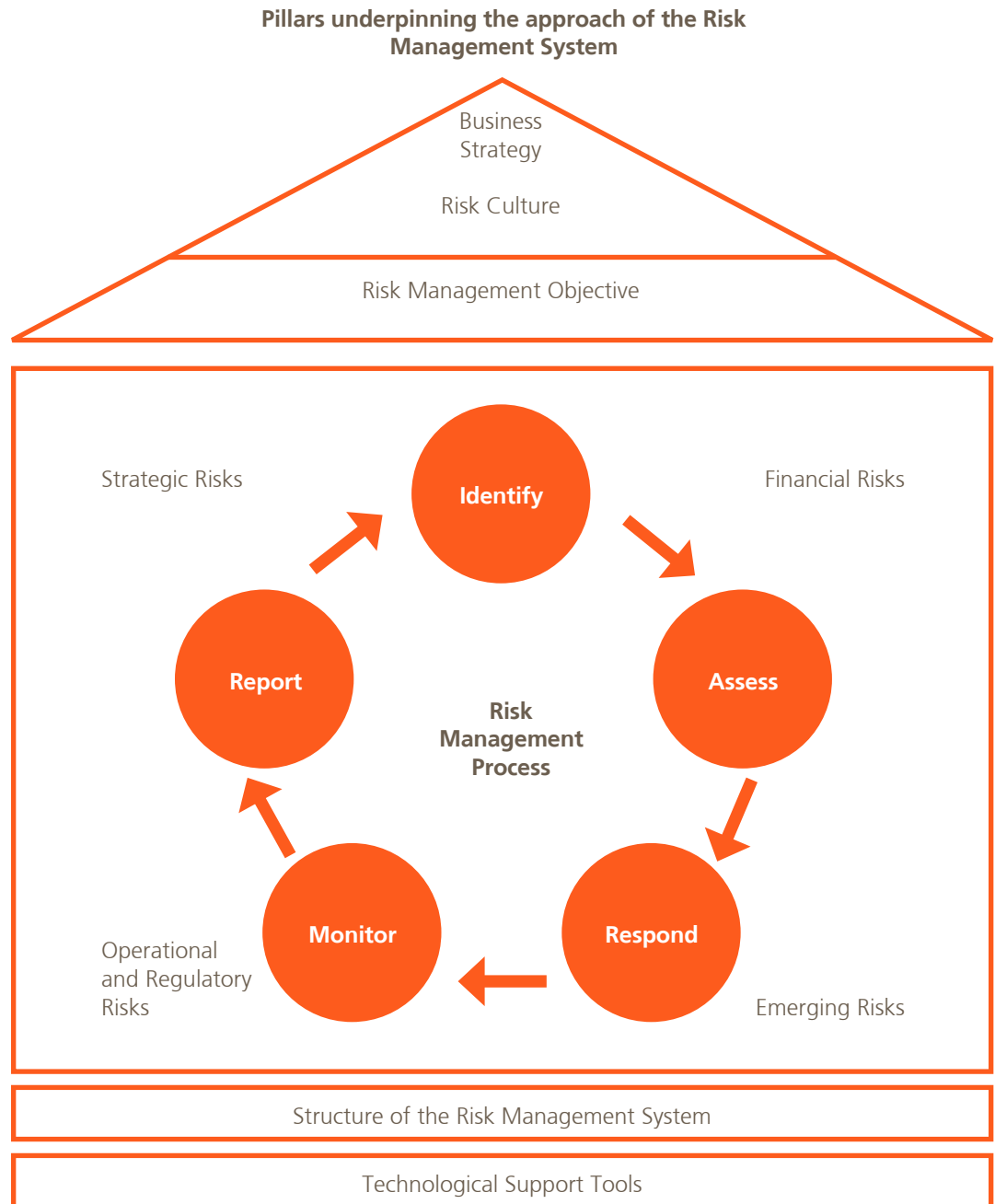
■ Obligatory Compliance Procedures- SOX

Obligatory Compliance Procedures (OCP) are employed to mitigate risks relating to the reliability of financial information. The company adopts a system combining control procedures activities in key areas for the company, the ultimate aim being to ensure the reliability of financial information and prevent fraud.

As a product of our firm commitment to transparency, and so as to continue guaranteeing the reliability of the financial information prepared by the company, we have continued to strengthen our internal control structure and to tailor it to the requirements prescribed by Section 404 of the North American Sarbanes-Oxley Act (SOX). Following on from previous years, the company has once again this year voluntarily submitted the internal control system for the entire group to an independent audit entrusted to an external auditing firm in accordance with PCAOB (Public Company Accounting Oversight Board) auditing rules.

Abengoa is full aware of the importance of managing its risks in achieving a **suitable degree of strategic planning** and accomplishing the **objectives** it has set itself.

The approach to risk management, which comprises a raft of common beliefs and attitudes, is contained within and applied through Abengoa’s Risk Management System, which is based on the Universal Risk Model. Schematically, this can be represented as follows:



The responses designed and included within the compulsory compliance norms (Normas de Cumplimiento Obligado, or NOC) and the OCP aim towards one of the following risk management scenarios:

- **Elimination.** Complete elimination of the risk.
- **Reduction and control.** Reduction of the risk to the fullest extent possible by adopting strategic or security-related measures (diversification of supply, quality systems, maintenance, prevention, etc.).
- **Transfers to third parties.** Transfer the risk to an insurance firm or third party (supplier, subcontractor, etc.), without Abengoa assuming any liability in relation thereto.
- **Financial withholding.** Assumption of the risk, if it has not been controlled in any other way.

Abengoa defines risk as any potential event that could prevent or hinder the company from accomplishing its business objectives.

The company believes that risks can arise as a loss of opportunities or strengths, or otherwise materialize as a threat or a deteriorating weakness.

Abengoa's approach to risk is firmly based on awareness, involvement and anticipation, and with this in mind:

- In order to attain pre-determined business objectives, risks must be managed throughout **all levels** of the company, without exception.
- The **Board of Directors** is tasked with **overseeing the efficiency** of the company's internal control and risk management systems.
- Decisions must always be taken with **shared and mutually agreed responsibility**.
- Abengoa's Risk Management System has been fully integrated into:
 - The strategic planning process.
 - The process of defining business objectives.
 - The daily operations required to reach these objectives.
- Risk management embraces risk identification, assessment, response, oversight or follow-up and reporting, in accordance with the procedures in place for such purposes.
- Responses must be consistent and fully tailored to existing business conditions and the prevailing economic climate.
- The management must periodically assess the valuation of its risks and the responses designed.
- The company shall also periodically monitor and, where appropriate, report that the risk identification, assessment, response, oversight and reporting processes included within Abengoa's Risk Management System are working as intended.

Over the course of 2010, the company continued to develop its Universal Risk Model, a methodology capable of quantifying the risks present in the Risk Management System.

Working Processes within Risk Management

The risk management process at Abengoa is a continuous cycle featuring **five key phases**.

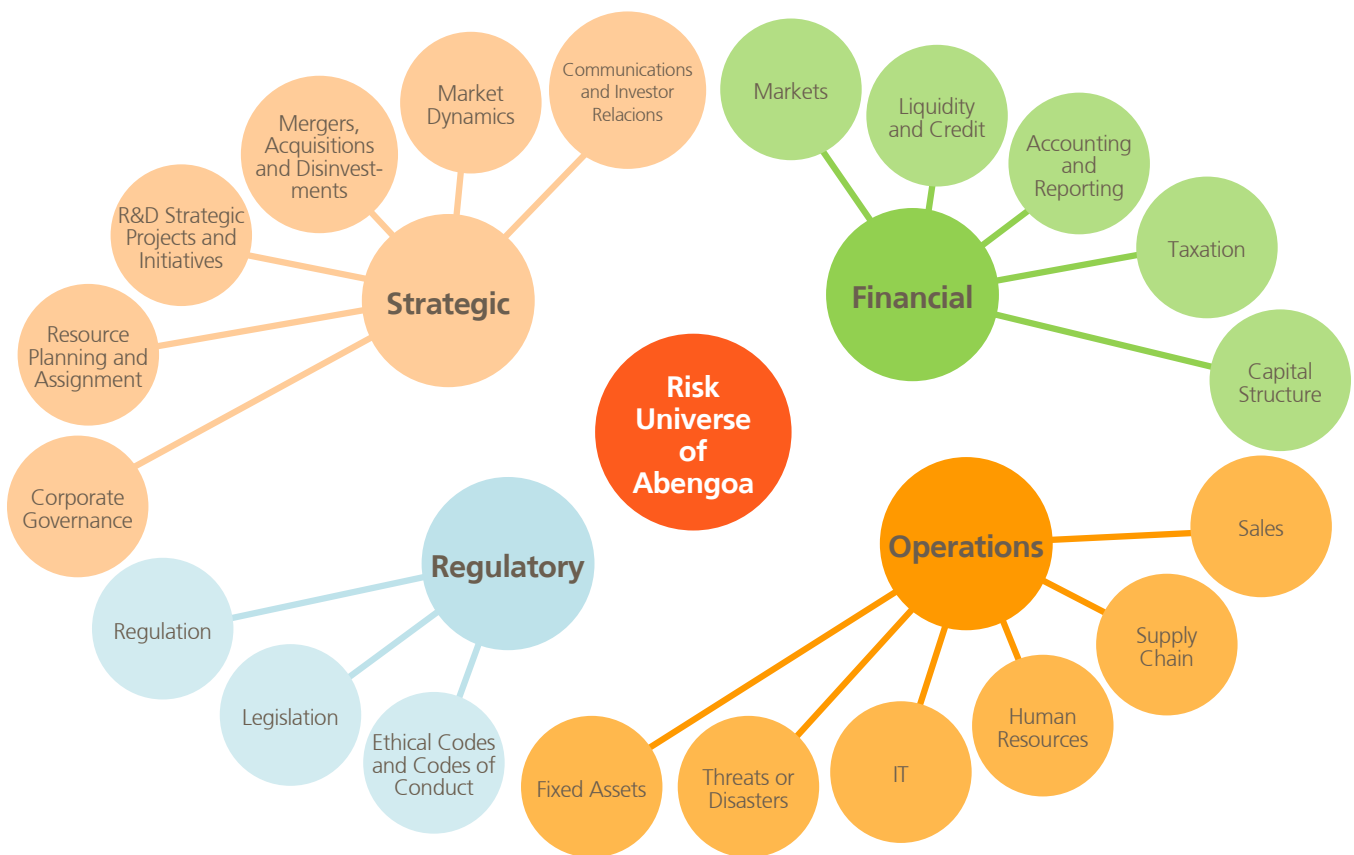


Reliable and periodic communication is essential during each phase to ensure a healthy outcome.

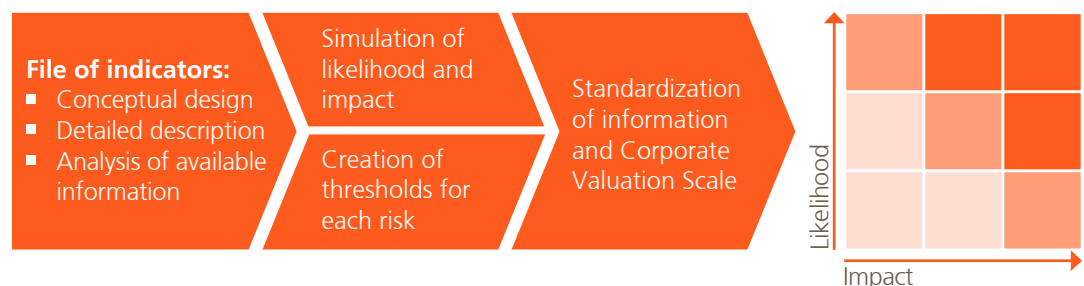
As we are dealing with a continuous cycle, permanent feedback is needed in order to make continuous improvements to the Risk Management System. These processes are applied universally throughout the entire company.

The Universal Risk Model

Abengoa's Universal Risk Model comprises four categories, twenty sub-categories and a total of ninety-four principal business risks. Each risk has a raft of indicators assigned to it, enabling the company to determine the likelihood of them occurring, their impact and the degree of tolerance towards them.



The following diagram illustrates how Abengoa's Universal Risk Model works. The model is periodically reviewed and updated jointly by the Internal Audit departments, the heads of each area involved and the Risk Management Division:



After applying both probability and impact indicators, risks are grouped into 4 types, each of which has its own pre-determined risk management strategy:

- **Minor Risk.** Arise frequently but have little economic impact. These are managed accordingly to reduce the likelihood of them arising only if managing them proves economically viable.
- **Tolerable Risk.** Arise rarely and have little economic impact. These risks are monitored to ensure that they remain at tolerable levels.
- **Severe Risk.** Frequent and with a harsh impact on business, these must be managed immediately. The processes in place at Abengoa make it difficult for the company to address this kind of risk.
- **Critical or Emerging Risk.** Although these occur rarely, their economic impact can be very harsh. These risks are subject to their own contingency plan, given the severity of their impact. The Corporate Risk Management Department is directly involved in assessing this kind of risk. The following measures are rolled out in an attempt to prevent them:
 - Relating emerging risks with strategic lines of business.
 - Seeking out and analyzing information by assigning resources accordingly.
 - Adapting traditional risk indicators and controls to reflect prevailing market conditions.
 - Addressing signs of "weakness" (no matter how many there are) and investing in technology to control emerging risks.
 - Learning from the management team's experience and past lessons involving risks.
 - Providing information for risk management strategies through relevant data and proper analysis.

Integrity and Compliance

Each of the company's activities are performed in accordance with its **model of sustainable development**, which attempts to strike a happy balance that maximizes the benefits for everyone while observing applicable law and upholding the strictest levels of **integrity and transparency**. Corporate social responsibility at Abengoa therefore forms part of its business strategy and its daily operations.

In keeping with Abengoa's unwavering commitment to management transparency, integrity and good governance, all of which underpin relations with its stakeholders, and following on from the approach initiated in 2008, an Independent Panel of Experts in Sustainable Development (IPESD) will conduct an assessment of the company and draw up a raft of conclusions, which Abengoa will publish in this report².

Transparency and the Fight against Corruption

In 2007, the decision was made to officially include within Abengoa's Professional Code of Conduct an express declaration on the company's adherence to the United Nations Convention against Corruption, as approved by the UN General Assembly in 2003.

This text is intended to foster and bolster measures to prevent and combat corruption more effectively, while encouraging, facilitating and supporting international cooperation and technical assistance in preventing and fighting against corruption, including the recovery of assets, and promoting integrity, the obligation to render accounts and proper management of public affairs and assets.

² See chapter titled Independent Panel of Experts in Sustainable Development.



Over the course of 2010, the Internal Audit Department issued more than **six hundred audit reports**, which included, among other aspects, the results of the audits and analyses of the risks associated with corruption in those companies classified as material. The company also conducted fifty legal audits to complement the audit reports, the aim being to unearth situations that could be classified as corrupt.

In addition to the foregoing and as a practical step, Abengoa has introduced a binding contractual clause into its collaboration, agency and intermediation agreements, requiring the collaborator to undertake in writing to not engage in any illegal practices that could be considered corrupt, abusive or biased.

In 2010, the company staged more than **135 training courses** in its **Common Management Systems**, which taught participants specific procedures for managing risks associated with corruption and for implementing anti-corruption policies within the companies.

The company has a computer application based on these Common Management Systems that can be consulted by all users at any time to broaden their awareness of the company's anti-corruption policies and procedures.

Abengoa's information channels show no record in 2010 of any corruption-related incidents within the company.

There were no significant sanctions imposed in 2010 arising from non-compliance with laws or regulations.

Abengoa Values

Abengoa's model of corporate social responsibility is also rooted in a raft of values that nowadays constitute the foundations of its Code of Ethics and form part of its business culture. By harnessing all available channels, the company fosters awareness and the application of these values and implements control and review mechanisms that ensure they are correctly monitored and updated.

Of these values, we would highlight the following due to their importance:

- **Integrity:** Honesty in professional conduct is a hallmark of Abengoa's identity and is evident in all the actions of its personnel, both within and outside the company. Integrity is a core value of

our employees and the company as a whole in dealings with customers, suppliers, shareholders, the communities in which we operate and society in general.

- **Legality:** Compliance with the law is not only an external requirement and, therefore, a binding obligation on the company, but also encompasses respect for the law, which provides our actions with added security and cushions business risks.
- **Professional rigor:** The concept of professionalism at Abengoa is closely linked to our desire to provide high levels of service when engaging in business and to become thoroughly involved in the business project at hand. All of our actions must adhere to the notion of professional responsibility and are governed by the principles set forth in the Common Management Systems.
- **Confidentiality:** Abengoa expects its employees to exercise discretion and prudence in their communications and relations with third parties, the aim being to safeguard the information to which the company has access.
- **Quality:** Abengoa is unflinchingly committed to quality in all of its internal and external endeavors. Far from being a task exclusive to the management or a specific group of people, this commitment governs the daily activities of all members of the company. Abengoa incorporates specific rules on quality, which are the product of its knowledge, common sense, rigor, order and responsibility in conducting business.

Abengoa Code of Conduct

The honesty, integrity and sound judgment of Abengoa employees, managers and board members are key to the company's continuing good reputation and success.

The Code of Conduct governs working relations within the company between employees themselves, and between Abengoa staff and stakeholders. The Code is available for consultation through the company's Intranet, Connect@, to which all employees have access, and likewise from the corporate website. All changes made to the code are duly communicated throughout the entire organization without exceptions and without delay.

Whistleblowing Channel

Abengoa has a channel in place, which was formally implemented in 2007 in accordance with the requirements of the Sarbanes-Oxley Act, whereby interested parties report irregularities to the Audit Committee.

Abengoa currently has **two whistleblowing channels in place**.

An **internal channel**, whereby all employees can communicate any supposed irregularities in matters of accounting, auditing or breaches of the company's Code of Conduct. Issues are reported via e-mail or ordinary mail.

Furthermore, Abengoa has an **external channel** enabling third parties unrelated to the company to communicate any alleged irregularities, fraudulent conduct or behavior that runs contrary to Abengoa's Code of Conduct. This is carried out through the company's web page.

The claiming party may claim confidentiality when reporting the issue, or may do so anonymously.

The aim of the company in creating these channels is to provide a means of direct communication with the management and governing bodies, whereby interested parties may report any possible irregularity, breach, or conduct deemed unethical or illegal, or any such conduct that runs contrary to the rules governing Abengoa.