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Annual Report from the Appointments and Remunerations Committee

Annual Report 2011

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Annual Report from the Appointments and Remunerations Committee

Introduction

The Appointments and Remunerations Committee was created by Abengoa SA's Board of Directors on 24th February 2003 pursuant to Article 28 of the Board of Directors Regulations, with the aim of incorporating the recommendations on the Appointments and Remunerations Committee in Law 44/2002 on the Reform of the Financial System. Said Board of Directors also approved its Internal Regimen Regulations.

Composition

The current composition of the Committee is as follows:

■ Daniel Villalba Vilá (Until 25.07.11)	Chairman. Non-executive independent Board Member
■ Mercedes Gracia Diez (From 24.10.11)	Chairman. Non-executive independent Board Member
■ Aplicaciones Digitales, S. L. (Represented by José B. Terceiro Lomba)	Member. Executive Board Member
■ José Luis Aya Abaurre	Member. Non-executive Nominee Board Member
■ Alicia Velarde Valiente	Member. Non-executive independent Board Member
■ Carlos Sebastián Gascón	Member. Non-executive independent Board Member
■ José Marcos Romero	Non-Board. Member Secretary

The Secretary was appointed during the Appointments and Remunerations Committee meeting held on 28th January 2004 through a meeting by circular resolution; the Chairman was however appointed during the Appointments and Remunerations Committee meeting held on 24th October 2011.

The Appointments and Remunerations Committee is consequently comprised of one executive and four non-executive board members, in compliance with the requirements set forth in the Law on the Reform of the Financial System. Likewise, in accordance with the provisions of Article 2 of its Internal Regulations, the post of Committee Chairman is compulsorily held by a non-executive board member.

Duties and competencies

The following are the duties and competencies of the Appointments and Remunerations Committee:

- Inform the Board of Directors about appointments, re-elections, terminations and remunerations of the Board and of their posts, as well as about the general policy on remunerations and incentives for them and for the top management.
- To inform the Board of Directors beforehand on all proposals it may submit to the General Meeting for the appointment or dismissal of board members, even in cases of co-optation by the Board of Directors itself; annually checking to ensure the upholding of the conditions that led to the appointment of a board member and the nature or type thereof. Said information shall be included in the Annual Report. When filling in new vacancies, the Appointments and Remunerations Committee will ensure that the selection procedure is void of implicit biases prone to be obstacles to the selection of female board members and also that women who meet the required profile are included as potential candidates.
- To prepare an annual report on the activities of the Appointments and Remunerations Committee, to be included in the management report.

Sessions and convening

To execute the duties listed above, the Appointments and Remunerations Committee shall meet as many times as necessary and, at least, once every six months. They shall also meet on the behest of the Chairman. Lastly, a meeting shall be deemed valid if all its members are present and they decide to hold a session.

The Committee held five meetings during the 2011 financial year; the most relevant among the issues dealt with on the agenda were the proposals of appointment and renewal of the Board of Directors, as well as the verification that the conditions that were basis for the appointment of the board members and the nature or type thereof continued to be upheld.

Quorum

The Committee is considered validly constituted if the majority of its members are present. Only non-executive board members may act as representatives.

Decisions taken shall be deemed valid if favourably voted by the majority of the committee members, present or represented. Situations of tie shall be resolved by Chairman's vote.

The company's head of remunerations shall act as secretary in the Committee meetings.

Committee analyses and proposals

- Follow-up and progress of remunerations of the members of the Board of Directors and the company's top management.
- Proposal of remunerations for the members of the Board of Directors and the company's top management.
- Preparation of the relevant information to be included in the financial statement.
- Proposal to the Board of Directors for the cooptation appointment of board member Mr. Ricardo Martínez Rico, following the resignation of Mr. Daniel Villalba Vilá.
- Proposal to the Board of Directors for the re-election of Aplicaciones Digitales, S.L., Ms. M^a Teresa Benjumea Llorente, Mr. Fernando Solís Martínez-Campos, Mr. Ignacio Solís Guardiola and Mr. Carlos Sundheim Losada as board members because previous mandates had expired.
- Proposal to the Board of Directors for the approval of the annual report on the Remuneration of Board Members (RAR, remunerations annual report).

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- Report on the verification that the conditions that were basis for the appointment of board members and their nature and type continue to be upheld.
- Presentation of the report on the remuneration of the members of the Board of Directors and Top Executives to the Board of Directors.
- Reports on comparative salaries and market researches by independent experts.
- Proposal to the Board of Directors for the approval of the Extraordinary Variable Remuneration Plan expiring on 31-12-2015.■ Propuesta al Consejo de Administración de reelección como consejeros, por vencimiento mandato anterior, de Aplicaciones Digitales, S.L., Doña M^a Teresa Benjumea Llorente, Don Fernando Solís Martínez-Campos, Don Ignacio Solís Guardiola y Don Carlos Sundheim Losada.
- Propuesta al Consejo de Administración para la aprobación de Informe anual sobre remuneraciones de los consejeros (IAR).
- Informe sobre la verificación del mantenimiento de las condiciones que concurrieron en la designación de consejeros y de su carácter o tipología.
- Presentación al Consejo de Administración del informe sobre retribución de los miembros del Consejo de Administración y de los Primeros Ejecutivos.
- Informes sobre estudios de mercado realizados por expertos independientes y comparativas sobre retribuciones.
- Propuesta al Consejo de Administración para la aprobación de un Plan de Retribución Extraordinaria Variable con vencimiento en 31-12-2015.

Annual report on the remuneration of Board Members (RAR)

Background

This report on the Policy on Remuneration of Administrators for the 2011 financial year was prepared by the Appointments and Remunerations Committee pursuant to the stipulations of Article 28 of the Regulations governing the Board of Directors of Abengoa SA.

This report includes Abengoa SA's remuneration policy for the members of its Board of Directors. It is subject to the principles of transparency and information, and it fixes the salaries of the company's Top Management executive board members separate from the salaries of the non-executive board members, incorporated in the general remuneration policy applicable to the whole staff.

Basic principles

Abengoa deems it crucial to maintain policies geared towards proposing long-term professional careers in the Group. Given the extremely competitive nature of Abengoa's sphere of activities, the achievement of its goals and objectives greatly depends on the quality of the persons holding key posts and leading the organization, their work capacity, dedication to, and knowledge of, the business.

These premises determine the group's policy of remuneration in general, that of the Board Members in particular, and especially that of the executives, and it should make it possible to attract and retain the best amongst the professionals.

Consequently, the aim of the policy of Remuneration of Board Members is as follows:

- Remuneration for the performance of mere board-member duties that is appropriate enough to reward the necessary dedication, qualification, and responsibility required for the correct performance of such post.
- For Executive Board Members, for the performance of executive duties, it ensures that:
 - (i) The overall remuneration package and its structure are competitive in comparison with the international sector and compatible with our vocation of leadership.
 - (ii) The maintenance of an annual variable component linked to the achievement of specific and quantifiable objectives that are in line with the interests of shareholders

Structure of board members remuneration

The structure of board members remuneration, adapted to comply with the stipulations of the Law (specifically, articles 217 and following of the Corporations Act), the Bylaws (article 39) and the Regulations of the Board of Directors, is comprised of the following elements:

■ **Remuneration for non-executive board member post**

The post of board member is remunerated following the stipulations of article 39 of the Bylaws. The salary may consist of a fixed amount set by the General Meeting, not necessarily equal amounts for all members. It could also be an allotment of a share in the Company's profits, between 5 and 10 percent maximum of the annual profit after subtracting the dividend, for the financial year at hand, plus reimbursement of duty and Board-related travel expenses.

This remuneration is linked to EAT (Earnings After Tax); it may also include rewards for belonging to Board of Directors Committees and, as the case may be, for Chairmanship.

■ Remunerations for the performance of other non-board member Company duties

These include remunerations to board members for performing duties, as executive board members or otherwise, other than those of supervision and decisions executed on the Board or on its Committees.

These remunerations are compatible with the perception of the bylaws and per diems they may be paid for their mere condition as members of the Board of Directors.

Executive-duty salary packages include the following basic elements:

(a) Fixed Remuneration

This amount must be competitive in comparison to those on the market in line with the leadership position Abengoa strives for. It must be determined through market studies by external consultants. The fixed salary consists of the following:

- 1) Salary Level. This is the basic fixed monthly salary, stipulated for each category or level.
- 2) Special Responsibility Allowance (SRA). This complement is freely set by the Company's Management and paid on monthly basis, and it is therefore linked to and conditioned by the exercise of a specific duty or the performance of a given responsibility.

(b) Variable annual remuneration (bonus)

Variable annual remuneration (or bonus) for executive board members is basically linked to the fulfilment of objectives. Said objectives are in reference to gross cash flows / EBITDA for some board members or to earnings after tax (EAT) for others. Based on these criteria, a range of total variation of the variable remuneration of executive board members is estimated at the start of financial year.

The fixed remuneration therefore includes the salary level amount and the special responsibility allowance, payable monthly.

The variable remuneration is the annual bonus payable in bulk.

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Total remuneration of the Board of Directors for the 2011 financial year

The total remuneration of board members for the 2011 financial year follows:

Salary scale for Board of Directors in the 2011 Financial Year

(Amount in thousands of Euros)

Name	Type	Salaries	Short-term variable remuneration	Per diem	Remuneration for serving on Committees	Remuneration of Board of Directors of other Companies of group	Other items	2011 Total	2010 Total
Mr. Felipe Benjumea Llorente	Executive	586	3804	93	-	-	-	4483	3483
Aplidig, S.L. (1)	Executive	-	2804	180	-	-	-	2984	2984
Mr. Manuel Sánchez Ortega	Executive	586	3024	93	-	-	-	3703	126
Prof. José B. Terceiro Lomba	Executive	-	-	-	-	-	-	-	25
Prof. Carlos Sebastián Gascón	Independent	-	-	166	110	7	-	283	310
Mr. Daniel Villalba Vilá (2)	Independent	-	-	100	72	9	-	181	310
Prof. Mercedes Gracia Díez	Independent	-	-	127	61	-	-	188	154
Mr. Miguel Martín Fernández	Independent	-	-	-	-	-	-	-	-
Mrs. Alicia Velarde Valiente	Independent	-	-	110	66	-	-	176	154
Prof. Jose Borrell Fontelles	Independent	-	-	200	100	-	-	300	300
Mr. Ricardo Martínez Rico (3)	Independent	-	-	28		12	-	40	-
Mr. José Luis Aya Abaurre	Proprietary	-	-	110	44	-	-	154	154
Mr. José Joaquín Abaurre Llorente	Proprietary	-	-	110	44	-	-	154	154
Mrs. María Teresa Benjumea Llorente	Proprietary	-	-	78	-	24	-	102	102
Mr. Javier Benjumea Llorente	Proprietary	-	-	78	-	-	177	255	268
Mr. Ignacio Solís Guardiola	Proprietary	-	-	78	-	-	-	78	78
Mr. Fernando Solís Martínez-Campos	Proprietary	-	-	78	-	-	-	78	78
Mr. Carlos Sundheim Losada	Proprietary	-	-	78	-	-	-	78	78
		1172	9632	1707	497	52	177	13,237	8912

Note:

(1) Represented by Prof. José B. Terceiro Lomba

(2) From 25.07.11

(3) From 24.10.11

The Appointments and Remunerations Committee, in the exercise of the duties conferred thereupon, periodically reviews the policy of remuneration of the Board of Directors, updating it with proposals deemed relevant both with regards to concepts as well as to amounts.

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Reference benchmarks and bases for the annual variable remuneration system (or Bonus)

As regards the ongoing financial year, the criteria for determining the variable part of the remuneration for executive board members will be based on the following:

- Market references based on the information provided by top world consultants on remuneration.
- The essential reference for the variable annual remuneration will be the evolution of earnings after tax (EAT) and gross cash flows / EBITDA, whether for Abengoa in general or, for executive board members holding non-general responsibilities, commensurate with the degree of responsibility.
- When the financial year ends, other qualitative elements, which may vary from one year to another, and which may allow the modulation of the decision on the actual amount of the variable remuneration at that moment, will be considered together with this basic quantitative element.

The company's remuneration policy approved for the Board of Directors

The Board of Directors of Abengoa, S.A. have agreed to maintain the 2012 financial year remuneration policy in line with that of the preceding 2011.

The remuneration policies for future financial years, which will still contain fixed and variable components, shall consider market studies done by first rate consultancies specialized in compensation.

Approval of this report

This Report was approved by the Board of Directors of Abengoa SA in its session held on 23rd January 2011, on the proposal of the Appointments and Remunerations Committee. y Retribuciones.