

# **Annual Corporate Governance Report, 2003**

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## a. Introduction.

### Corporate Governance

The commencement of the Financial System Reform Act and the publication of the report on security and transparency in the markets carried out by the Aldama committee and the recent Transparency Act, have amended and improved – or recommended – in so far as corporate governance practices – via a group of rules and regulations, some of them clearly innovative, the system that has prevailed to date. And there are still more pending commencement in the near future.

From a formal perspective, corporate governance in small and medium sized listed companies was understood, until the aforementioned reforms, to be the minimum requirements needed to allow a complete response to the questionnaire that the National Securities Market Commission demanded as a result of the Olivencia Report and the recommendations included in it. Today, following the reform, listed companies can not merely take a passive or explanatory stance. Some of the Aldama Report recommendations have already been incorporated into prevailing law and must be complied with. The current measures, rulings and recommendations to date, form a single coherent and complete group, whose objective is to offer a real and transparent representation of the listed company, as an additional element for the investor to consider.

Corporate governance, as a group of practices – both required by law as well as being undertaken voluntarily – of each company in relation to the structure, organisation, operation, abilities and supervision of its governing bodies, is bound together in a fundamental principle, that is no other than the principle of the capital markets: the general principle of information; transparent, real, balanced, true and complete information. Only in this way can shareholders and potential investors be guaranteed an equality of treatment and opportunities.

The information obligation has two elements:

- the objective side: "What" is reported
  - Accounting or financial information
  - Relevant facts
  - Capital structure, shareholders
  - Corporate Governance legislation
  - Annual Corporate Governance Report
  
- the subjective side: "How" to report it
  - Periodic financial information
  - Relevant facts
  - Significant shareholdings
  - Issued / submitted Brochures
  - Website, etc.

Abengoa has made a significant effort within its company structure and its different components, to adapt itself and incorporate the initiatives put in place by the new legislation. Below we will briefly review each of these aspects and the innovations implemented by the company:

a) Accounting / Financial information.

This is perhaps the aspect that has suffered the least amendments. The periodic information obligations (quarterly, half yearly and annual) remain based on an information model created by the CNMV and that from the second quarter 2002 can only be submitted telematically (in coded electronic format), implemented voluntarily by Abengoa two years ago.

b) Relevant Facts.

The Financial System Reform Act has modified the previous definition, establishing it as the information whose knowledge thereof could reasonably affect an investor to purchase or transfer securities and therefore may appreciably influence the price. Nevertheless, the relevant fact concept continues to be non-specific and open (signifying that conducts or actions that warrant this consideration are not specified, partly because it is an almost impossible exercise due to the varied practices of corporate decisions that may be relevant but where a certain degree of legal uncertainty remains). There are two criteria that are used complementarily to determine the content of this concept: i) the practice followed by the CNMV on previous occasions, and ii) the practice followed by companies themselves on similar occasions. Here the basis of good governance is deduced; consistency; not only is the existence of internal and casuistic regulations of value but the consistency between this and the real conduct of the company and its administrators and senior management.

c) Related transactions.

- c.1) These are transactions carried out between the company and its shareholders, administrators or directors that entail the transfer of business resources, obligations or opportunities.

Related transactions have a dual information channel:

- a) Those that are relevant are individually reported as a relevant fact.
- b) All transactions are summarised in the half yearly reporting.

- c.2) Related transactions may potentially be a source of so-called conflicts of interest. In these cases, good governance practice recommends a series of measures in resolving them whenever possible: i) the abstention from voting for the adoption of the corresponding resolution by the people affected by the conflict of interest; ii) clear and immediately distributed complete information, and iii) independent evaluation.

Aware of the limitations imposed on it by its individual characteristics arising from its history and its composition, Abengoa wanted to adopt these transparency criteria and the criteria for the resolution of these potential conflicts as far as possible. Therefore on 24 February 2003, the Board of Directors adopted, among other measures, the modification of the Board of Directors regulations and the Advisory Board's regulations.

d) Annual Corporate Governance Report

The questionnaire on the level of take-up of the Olivencia Report's recommendations proposed by the CNMV to be carried out by all listed companies has been fulfilled through the obligation to create and disseminate an annual corporate governance report.

The Annual Report reflects the specific principles of the company's governance structure (who and how are decisions made and what is decision making based on) in the same way that the periodic financial reporting is a summary of the main economic characteristics of the company for the period under consideration, collated in the balance sheet and the profit and loss account for this period.

Abengoa had already considered implementing this recommendation in 2002, and a specific chapter relating to the company's governance was therefore included in the 2002 Annual Report – and we have been doing so in subsequent years – completed with the new items included in the Aldama Report and in the Financial System Reform Act, distinguishing those actions already taken from those that were being finalised for their upcoming implementation. Therefore:

- a) On 2 December 2002 the Audit Committee was constituted.
- b) On 24 February 2003 the Appointments and Remunerations Committee was constituted.
- c) On the same day, 24 February 2003, the Board of Directors drafted a proposal modifying the Company Bylaws for the purpose of incorporating the provisions relating to the Audit Committee, the proposal relating to the Regulation on the administration of shareholders' meetings, the partial amendments to the Regulations of the Board of Directors and the Regulations of the Advisory Board and, finally, the rules governing the Internal Regulations of the Audit Committee and the Appointments and Remunerations Committee, approved by the General Meeting of 29 June 2003.

Finally, following another of the Aldama Report recommendations, the Internal Corporate Governance Regulation was rewritten as a complete single text and was duly notified to the CNMV and is available on Abengoa's website.

e) Website

The obligation to provide the market with useful, truthful, complete and balanced information in real time would not be sufficient if the appropriate means of transmitting this information are not adequate, guaranteeing that it is disseminated effectively and usefully. Therefore, as a result of new technology, the Aldama Report, the Financial System Reform Act and the Transparency Act recommend and impose the use of listed companies' websites as an information

tool (including historical, qualitative and quantitative company data in it) and as a distribution tool (including current or personalised information in real time that may be accessed by investors).

Abengoa has therefore introduced a new website since the end of the first quarter 2002, characterised firstly by a more direct, rapid and efficient on-screen presentation and secondly by a broad and comprehensive information content and documentation made available to the shareholders in particular and to the general public.

In conclusion, we should say that both the available information as well as its actual distribution portal – the website – are continuously being updated; corporate governance, the rules that regulate it and the laws that govern or recommend it continue, and will continue to constantly develop. In the same way that all companies engaged in growing must adapt themselves and anticipate the development of the markets, so must they also be forward looking, in relation to self regulation (that is, adopt their own code of conduct so that their operation and decisions may be evaluated from the outside), development, transparency and information in order to reassure market confidence and with it, their growth.

## **b. The Company's Shareholding Structure**

### i) Significant shareholdings

Abengoa S.A.'s share capital is represented by book-entry records managed by Iberclear (Sociedad de Gestión de los Sistemas de Registro, Comparación y Liquidación de Valores, S.A.), and comprises 90,469,680 shares of 0.25 Euro nominal value of the same class and series, representing 22.627.420 Euros of share capital. All the shares are admitted to official trade in the Madrid and Barcelona Stock Exchange Markets and in the Spanish Stock Exchange Interconnection System as of November 29, 1996.

As the capital is represented by book-entry records, there is no shareholders' registry separate to the significant shareholdings communications and the list (X-25) provided by Iberclear on the occasion of Shareholders' General Meetings. Pursuant to this information (Shareholders List as of June 25, 2003, provided by Iberclear and Significant Shareholdings Communications including the one received on September 11, 2003, from Vinuesa Inversiones, S.L.), the situation is as follow:

- Inversión Corporativa, I.C., S.A.:	50.00%
- Finarpisa, S.A. (Grupo Inversión Corporativa):	6.04%
- Vinuesa Inversiones, S.L.:	5.08%

The number of registered shareholders at the Shareholder's General Meeting held on 29 June 2003 was 7,707.

The Company is not aware of the existence of any agreements between shareholders undertaking to adopt, by means of joint voting, a common politics regarding the management of the company nor to significantly influence it.



ii) Shareholdings of members of the Board of Directors

In accordance with the register of significant shareholdings and of directors' shareholdings that the company maintains and pursuant to the Internal Conduct Regulation in relation to the stock market, directors' shareholdings in the company's capital as at 31 December 2003 is as follows:

	Direct	Indirect	Total
Felipe Benjumea Llorente	0.059	-	0.059
Javier Benumea Llorente	0.002	-	0.002
José Joaquín Abaurre Llorente	0.013	-	0.013
José Luis Aya Abaurre	0.061	-	0.061
José B. Terceiro Lomba	0.111	0.111	0.222
Ignacio de Polanco Moreno	-	-	-
Corp. CaixaGalicia S.A.U.	0.001	-	0.001
<b>Total .....</b>	<b>0.247</b>	<b>0.111</b>	<b>0.358</b>

iii) Shareholders' Agreements

The company has no evidence of the existence of any shareholders' agreements or prevailing trade union agreement among its shareholders.

iv) Treasury stock

At 31 December 2003 the company does not possess any of its own shares as treasury stock, nor has it acquired any of its own shares during 2003.

The Shareholders' General Meeting held on 29 June 2003 agreed to authorise the Board of Directors to make derived acquisitions, through purchases, of shares in the company that may be made either directly or via subsidiary companies or investees up to the maximum limit specified under current provisions at a price of between three Euro cents (0.03 Euros) per share minimum and one hundred and twenty Euros and twenty cents (120.20 Euros) per share maximum, being able to make use of this facility during a period of eighteen (18) months from this date and subject to that specified in Section Four of Chapter IV of the Revised Text of the Spanish Companies Act, expressly revoking the authorisation conferred to the Board of Directors, for the same purposes, by virtue of the agreement adopted by the Shareholders' General Meeting held on 30 June 2002. To date, the Board of Directors has not made use of the prior authorisation.

**c. Administrative Structure of the Company.**

i) The Board of Directors.

i.1) Composition: number of members and their names.

Following the modification of Article 39 of the Company Bylaws by agreement of the General Shareholders' Meeting held on 29 June 2003, the maximum number of seats on the Board of Directors, which to date has been four, was increased to seven. The aim of this modification was fundamentally intended to provide this administrative body with the number of directors that would on the one hand allow for a potentially more diverse composition and, on the other, facilitate delegation, attendance and the adoption of resolutions with minimum attendance and that would guarantee a multiple and plural presence on the Board of Directors.

The Board's composition takes the company's shareholding structure into account, so that it may firmly represent the highest possible percentage of the share capital and protect the general interests of both the company and its shareholders, while also being granted the degree of independence that is appropriate to the professional practices and requirements of any company. Pursuant to the appointments agreed at the same General Meeting, the Board currently comprises the following members:

Abaurre Llorente, José Joaquín.

Aya Abaure, José Luis.

Benjumea Llorente, Felipe.

Benjumea Llorente, Javier.

Méndez López, José Luis (\*)

Polanco Moreno, Ignacio de

Terceiro Lomba, José B.

(\*) Representing Corporación Caixa Galicia, S.A.U., legal entity Director of the Company.

Secretary non-Director and Legal Counsel: Miguel A. Jiménez-Velasco Mazarío.

i.2) Condition and Representation.

The total number of board members is considered to be sufficient in order to ensure the proper representation and effective operation of the Board of Directors.

Notwithstanding the fact that independence is a quality that must be common to all directors without exception, regardless of their origins or the reason for their appointment, and that they must be judged on the reliability, integrity and professionalism of their performance, pursuant to the guidelines included in the Olivencia and Aldama reports, Law 26/2003 and Ministerial Order 3722/2003, the current directors are classified as follows:

Felipe Benjumea Llorente	- Executive (Chairman)
Javier Benjumea Llorente	- Executive (Chairman)
José Joaquín Abaurre Llorente	- Dominial; External - Member of the Audit Committee.
José Luis Aya Abaurre	- Dominial; External Member of the Appointments and Remuneration Committee.
José Luis Méndez López (*)	- Independent ; External. Chairman of the Audit Committee.
José B. Terceiro Lomba	- Independent; External. Chairman of the Advisory Board. Member of the Audit Committee. Member of the Appointments and Remuneration Committee.
Ignacio de Polanco Moreno	- Independent; External Chairman of the Appointments and Remuneration Committee.

(\*) Representing Corporación Caixa Galicia, S.A.U., legal entity Director of the Company.

As a result, the Board comprises a majority of external, non-executive directors who are equally divided between dominial and independent directors. Independent directors hold one third of the seats on the Board.

The first four directors listed are also members of the Board of Directors of Inversión Corporativa IC, S.A., a reference shareholder of Abengoa (56% share), and their appointment as directors was made at the proposal of this shareholder.

### iii.3) Rules governing organisation and operation.

The Board of Directors is governed by the Board Regulations, the Company Bylaws and the Stock Exchange Code of Conduct. The Board Regulations were initially approved in the meeting of the Board of Directors held on 18 January 1998, with the clear aim of anticipating the current Good Governance regulations and ensuring effective internal regulation. They were last modified on 29 June 2003, in order to incorporate provisions relating to the Audit Committee established in the Financial System Reform Act.

#### - Structure.

The Board of Directors has seven members today. The Rules governing the Board of Directors rule the duties and internal organization of the Board of Direction. The Advisory Board of the Board of Directors has ten members

and is an auxiliary board for advising the Board. It has its own internal Rules. Additionally, there exists the Internal Rules governing the Conduct regarding Stock Exchange, with which the members of the Board of Directors, the senior management and all those employees affected due to their duties or title have to comply with. The Rules of the General Shareholders Meetings governs the formal aspects and the internal regime of the holding of the shareholders meetings. Finally, the Board of Directors is assisted by the Audit and Appointments and Remuneration Committees, both with their own Internal Regime Rules. All these Rules, put together into the joint body of Corporate Governance Internal Rules is available on the Company's web site, [www.abenga.com](http://www.abenga.com).

- Duties:

It is the duty of the Board of Directors to take any action that may be necessary in order to pursue the company's corporate objective, and it is empowered to establish the company's financial targets, agree any relevant measures proposed by the Senior Management in order to achieve these targets, and ensure the future viability and competitiveness of the company, along with the presence of a suitable management and leadership team, supervising the development of the company's business.

- Appointments:

The General Meeting or, where applicable, the Board of Directors, within the powers and limits set out in law, is the competent body for appointing members of the Board of Directors. In addition to meeting the requirements set out in law, appointees shall demonstrate that they are known to be trustworthy and have the knowledge, reputation and professional references that are relevant to the performance of their duties.

Directors shall be appointed for a maximum of four years, without prejudice to the renewal of their appointment or their re-election.

- Removal

Directors shall be removed from their position at the end of their tenure and under any other circumstance set out in law. They must furthermore relinquish their seat in cases involving their incompatibility, veto, serious sanction or any breach of their obligations as directors.

- Meetings:

As per article 42 of the Company By-Laws, the Board of Directors meets whenever it is required in the interest of the Company and, at least, three times a year. During 2003 it met on a total of twelve occasions.

- Duties of Directors:

It is the duty of Directors to participate in the direction and monitoring of the company's management in order to maximise the value of the company to the benefit of its shareholders. Each Director shall act with the proper care of a dedicated professional and loyal representative, guided by the interests of the company, with complete independence, defending and protecting the interests of all shareholders to the best of their abilities.

By virtue of their appointment, Directors are under the following obligation:

- To gather information and prepare properly for each meeting session.
  - To attend and participate actively in meetings and the decision-making process.
  - To avoid the occurrence of any conflict of interest and notify the Board of any potential conflict of interest, where applicable, through the Secretary.
  - Not to undertake duties with competitor companies.
  - Not to use company information for private purposes.
  - Not to use the company's business opportunities for their own interests.
  - To maintain the confidentiality of any information received as a result of their appointment.
  - To abstain in any votes on resolutions that may affect them.
- The Chairman:

In addition to the duties set out in law and in the Company Bylaws, the Chairman is the company's most senior executive, and as such is responsible for the effective management of the company, though always in accordance with the decisions and criteria established by the Shareholders' General Meeting and the Board of Directors. He/she is responsible for implementing the decisions taken by the company's administrative body, by virtue of the powers permanently delegated to him/her by the Board of Directors, which he represents in all its aspects. The Chairman also has the casting vote on the Board of Directors.

- The Secretary:

It is the Secretary's duty to exercise the powers attributed to him/her in law. Today, the titles of Secretary of the Board and Legal Adviser rely on the same person, who is responsible for ensuring that meetings are called and resolutions adopted by the company's administrative body in a valid manner. In particular, he/she will advise members of the Board regarding the legality of their deliberations and any resolutions they adopt, and is responsible for observing the Internal Corporate Governance Regulations, as both formal and material guarantor of the principle of legality which governs the actions of the Board of Directors.

The Secretary to the Board, as a specialised guarantor of the formal and material legality of the Board's actions, has the full support of the Board in performing his/her duties entirely independently of any criteria or the constancy of his/her position, and he/she is entrusted with defending the internal Corporate Governance regulations.

i.4) Remuneration and other rights.

- Payment:

The position of Director is paid, pursuant to the contents of Article 39 of the Company Bylaws. The amount paid to directors may consist of a fixed amount agreed by the General Meeting, though it is not necessary that this amount be the same for all of them. They may also receive a share of the company profits of between 5 and 10% maximum of annual profits, after dividends have been subtracted, and may have their travel expenses reimbursed when such expenses relate to work carried out at the behest of the Board.

The payments made during the 2003 financial year to all the members of the Board of Directors in their capacity as members of both the Board and the Advisory Board to the Board of Directors of Abengoa, S.A. amounted to 0,388M euros in the form of allocations and expenses, and 0,078 M euros for other items.

In addition, the payment made during the 2003 financial year to the company's senior management, this being understood to include the group of seventeen people who form part of the Chairman's Office, the Strategy Committee and the Directors of the Corporate Departments amount in total, including both fixed and variable amounts, to 4,765 M euros.

- Resolutions:

Resolutions are adopted by a simple majority of the board members present (either in person or by proxy) at each session, with the exception of those cases specifically set out in law.



## ii) The Advisory Board to the Board of Directors.

The Advisory Board to the Board of Directors of Abengoa, S.A. was established by agreement of the Extraordinary General Meeting held in January 1998 as an advisory body whose duties include the provision of professional advice to facilitate the adoption of decisions by the company's administrative bodies, and whose powers include examining the development of the company's business through consultations submitted by the Board of Directors and through proposals presented for its consideration.

The creation of the Advisory Board in January 1998, again with the clear aim of anticipating and opening up new channels of internal self-regulation in pursuit of the effective, transparent and professional management of the company, involved the regulation of a process for the channelling of information provided by the company management, in order to ensure that this information was accurate, verifiable and complete.

The Advisory Board is configured as a management and decision-making body with complete autonomy. It has powers of consultation and specific technical assessment duties governed by criteria of independence and professionalism. The majority of its members are of known reputation, experience and qualifications and have no significant relationship with the company's executive management, in order to underline the independence inherent in the Advisory Board.

The Advisory Board contributes effectively to the defence of the company's general interests, independently of the company's actual management team, and its main duty is to provide professional and independent models and criteria so that the Board of Directors may make a proper evaluation and take the correct decisions.

### ii.1) Composition

Pursuant to the contents of Article 46 of the Company Bylaws, Article 26 of the Board Regulations and Articles 3 and 6 of the Rules governing the Internal Regulation of the Advisory Board, the Advisory Board is currently composed of the following members:

José B. Terceiro Lomba	- Chairman
María Teresa Benjumea Llorente	- Member
Maximino Carpio García	"
Rafael Escudero Rodríguez	"
José M. Fernández-Norniella	"
Ignacio Solís Guardiola	"
Fernando Solís Martínez-Campos	"
Carlos Sundheim Losada	"
Cándido Velásquez-Gaztelu Ruiz	"
Daniel Villalba Vila	"
Secretary and non-Director: Miguel Ángel Jiménez-Velasco Mazarío	

ii.2) Condition and Representation.

- Appointment:

At the proposal of the Board of Directors, the Advisory Board comprises a maximum of ten members, of which more than half must be independent, something which is fulfilled by the present members, as per the list above.

The recent appointment of Maximino Carpio García and Daniel Villalba Vila to the Advisory Board has consolidated the professional and independent nature of the Board inherent since its initial establishment in 1998.

- Term:

Each member's appointment remains valid for a period of four years, without prejudice to the renewal of the position or the member's re-election. Removal may occur upon expiry of the term, resignation or dismissal, among other reasons.

- Payment:

The position of board member is a paid position, the amount of their remuneration being established for each financial year by the Board of Directors, pursuant to the contents of Article 39 of the Company Bylaws. This amount is shown in the Annual Financial Statements. In addition, any expenses incurred as a result of work carried out at the behest of the Board are reimbursed. (See point II, a.4) above).

- Meetings:

The Advisory Board meets at least once a quarter, and on any occasion that it is asked to do so by the Chairman in order to deal with urgent or extraordinary matters. The Board met four times during the 2003 financial year.

- Resolutions:

Resolutions are adopted by simple majority of the board members present (either in person or by proxy) at each session.

iii) Committees formed by the Board of Directors.

### iii.1) The Audit Committee.

Pursuant to the provisions of the Financial System Reform Act, on 2 December 2002 Abengoa's Board of Directors established an Audit Committee and at the same time approved the Internal Regulations governing the Committee's operation. These Rules were ratified by the Shareholders' General Meeting on 29 June 2003, which at the same time approved the modification of Article 44 of the Company Bylaws, in order to incorporate the provisions relating to the operation, composition and organisation of this Committee.

#### Composition

Following the inclusion as independent committee members of José B. Terceiro Lomba, Ignacio de Polanco Moreno and Mr. José Luis Méndez López (Corporación Caixa Galicia), pursuant to the resolution adopted by the Shareholders' General Meeting on 29 June 2003, the Audit Committee currently comprises the following members:

- José L. Méndez López (\*) Chairman and independent non-executive director
- José B. Terceiro Lomba Member and independent non-executive director
- José J. Abaurre Llorente Member and dominial non-executive director
  
- Secretary and non-director: Miguel A. Jiménez-Velasco Mazarío

(\*) Representing Corporación Caixa Galicia, S.A.U., legal entity Director of the Company.

As a consequence, the Audit Committee is entirely composed of non-executive directors, thus surpassing the requirements set out in the aforementioned Financial Systems Reform Act. Furthermore, the position of Chairman of the Committee must be held by a non-executive director, as set out in Article 2 of its Internal Regulations.

#### Duties

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

1. To announce the Annual Financial Statements as well as the quarterly and half-yearly financial statements, which must be submitted to the bodies that regulate or supervise the markets, with reference to any internal monitoring systems, the monitoring procedures followed and compliance through internal auditing processes, including where applicable, the accounting criteria applied.
2. To inform the Board of any change to the accounting criteria and any risks, whether on or off the balance sheet.

3. To inform the Shareholders' General Meeting regarding any questions raised by shareholders on issues falling within its competence.
4. To propose the appointment of external Accounts Auditors to the Board of Directors, so that the latter may submit this proposal to the Shareholders' General Meeting.
5. To supervise internal auditing procedures. The Committee shall have complete access to the internal auditing process, and shall provide information during the process for the selection, appointment, renewal and removal of its director, and when his or her payment is being established, with the duty to provide information about this department's budget.
6. To have knowledge of the company's financial information procedure and its internal monitoring systems.
7. To maintain relations with the company's external auditors in order to remain informed regarding any matters that may place the independence of said auditors at risk, and regarding any other matters relating to the procedure followed in order to audit the company's accounts.
8. To summon the Directors it considers appropriate to Committee meetings so that they may provide any information that the Audit Committee itself deems relevant.
9. To prepare an annual report on the activities of the Audit Committee, which must be included in the management report.

#### Organisation and operation.

The Audit Committee shall meet as frequently as is necessary in order to carry out its duties, and at least once a quarter.

The Audit Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Director.

Its resolutions shall be validly adopted when voted for by a majority of the Committee members present. In the event of a tie, the Chairman shall have the casting vote.

#### iii.2) Appointments and Remuneration Committee.

The Appointments and Remuneration Committee was established by Abengoa's Board of Directors on 24 February 2003, and its Internal Regulations were approved at the same time.

## Composition

Following the inclusion as independent committee members of Mr. José B. Terceiro Lomba, Mr. Ignacio de Polanco Moreno and Mr. José Luis Méndez López (Corporación Caixa Galicia), pursuant to the resolution adopted by the Shareholders' General Meeting on 29 June 2003, the Committee currently comprises the following members:

- Ignacio de Polanco Moreno      Chairman and independent non-executive director
- José B. Terceiro Lomba      Member and independent non-executive director
- José Luis Aya Abaurre      Member and dominial non-executive director
  
- Secretary and non-member:      José Marcos Romero

As a consequence, the Appointments and Remuneration Committee is entirely composed of non-executive directors, thus surpassing the requirements set out in the Financial Systems Reform Act. Furthermore, the position of Chairman of the Committee must be held by a non-executive director, as set out in Article 2 of its Internal Regulations.

## Duties

The duties and powers of the Appointments and Remuneration Committee are as follows:

1. To inform the Board of Directors regarding the appointment, re-election, dismissal and payment of members of the Board of Directors and the Advisory Board, and the positions held on these Boards, and to provide information on the general payment and incentive policy for members of these boards and for senior management.
2. To provide prior information regarding all the proposals prepared by the Board of Directors for the General Meeting in relation to the appointment or removal of Directors, including cases of co-option by the Board of Directors itself.
3. To prepare an annual report on the activities of the Appointments and Remuneration Committee, which must be included in the management report.

## Organisation and operation.

The Appointments and Remuneration Committee shall meet as frequently as is necessary in order to carry out the foregoing duties, and at least once every six months.

The Appointments and Remuneration Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Director.

Its resolutions shall be validly adopted when voted for by a majority of the Committee members present. In the event of a tie, the Chairman shall have the casting vote.

### iii.3) The Strategy Committee.

This comprises the directors of the Business Groups, the Director of Organisation, Quality and Budgets, the Technical Secretary, the Director of Human Resources and the General Secretary.

It meets every month.

### iii.4) The Stock Exchange Internal Code of Conduct.

This was implemented in August 1997. It applies to all directors, members of the Strategy Committee and to other employees on the basis of the activities they carry out and the information to which they have access.

It establishes obligations regarding the protection of information, the duty of secrecy, relevant aspects relating to stages prior to decision-making and publication, establishing the procedure for the maintenance of internal and external confidentiality, the registration of share ownership and transactions relating to securities and conflicts of interest.

The monitoring and supervising body is the General Secretary office.

### iii.5) The Professional Code of Conduct.

At the request of the Human Resources department, during year 2003 the company has implemented a Professional Code of Conduct, which establishes the fundamental values that should govern the actions of all the company's employees, regardless of their position or responsibilities. Integrity of conduct, the strict observance of the law in force, professional rigour, confidentiality and quality have formed part of Abengoa's culture since its establishment in 1941, and these values still form an essential part of the company's corporate identity.

## **Professional Code of Conduct**

Throughout its history, Abengoa has grown on the basis of a series of shared values, the most important of which are explicitly listed below. These principles constitute the structure for our Ethical Code. The organization must use all channels to foster the knowledge and enforcement of the same, as well as establish mechanisms for monitoring and reviewing the situation so as to ensure the appropriate respect and updating of the Code.

### 1. Integrity.

Honorable behavior in professional activities forms part of the very identity of Abengoa and this attitude must be apparent in all actions by our personnel, both inside and outside the company. Demonstrable integrity becomes credibility in the eyes of our clients, suppliers, shareholders and other third parties with which we are connected and creates value in itself for both the individual concerned and the entire organization.

### 2. Legality.

The fulfillment of legal obligations is not merely an external requirement and therefore an obligation of the organization and its personnel. The law gives us security in our actions and reduces our business risk. Any action which implies a breach of current legality is expressly and absolutely prohibited. If there is any doubt as to the legally correct course of action to be taken, then the corresponding consultation must be made to the Legal Department.

### 3. Professional rigor.

The concept of professionalism at Abengoa is closely tied to our vocation for service in carrying out activities and to close involvement with the business project being developed.

All actions effected in the course of professional functions entrusted to personnel must be governed by professional responsibility and the principles established in the present NOC.

### 4. Confidentiality.

Abengoa expects that all personnel in its organization will uphold criteria of discretion and prudence in their communications and dealings with third parties (NOC 10/002).

The appropriate safekeeping of information in the possession of the Company requires all of Abengoa's employees to maintain strict control of all data, adequately guarding documents and not sharing this information with any person inside or outside of the organization who is not authorized to access the same.



In addition, the NOC establish specific policies to be followed in this regard for specific matters requiring high degrees of confidentiality (NOC 03/001).

#### 5. Quality.

Abengoa is committed to quality in all of its actions, both internal and external. This is not a task for a specific group of individuals, or for the senior management, but rather it affects the daily activities of all the members of the organization.

Abengoa has implemented specific norms on quality (NOC 05/001) and these are the result of doing things with expertise, common sense, rigor, order and responsibility.

#### 6. Corporate Culture and Common Management Systems.

Abengoa places great value on its corporate culture and the Common Management Systems as a key business asset. These define Abengoa's way of doing business, through the establishment of a series of Norms of Obligatory Compliance. The proper respect for these is a source of security and profitability for the development of Abengoa's activities.

It shall be the prerogative of the Presidency or of the Management Body delegated by the same to classify the severity of any breaches of the NOC.

In all cases, breaches of the same referring to those areas with a direct impact on the results of the activity or on the assumption of uncontrolled risks will be considered as Very Serious Faults.

#### **d. Intergroup and Related Transactions**

##### i) Transactions with significant shareholders.

Explotaciones Casaquemada, S.A. (an affiliate company of Inversión Corporativa, I.C., S.A., shareholder of reference of Abengoa) has granted a right on the surface of the land ("*derecho de superficie*") in favour of Sanlúcar Solar, S.A. (an affiliate company of Abengoa, S.A.), by means of a public deed granted on January 15, 2003, for thirty years on a plot of land of 70 Has, for a cumulative rent of 1,256 millions of euros for the whole duration of the right granted. Said plot shall be devoted by Sanlúcar Solar to the promotion, erection and running of a solar energy plant.

Also, Explotaciones Casaquemada, S.A. and Herrería La Mayor, S.A. (both companies being affiliate companies of Inversión Corporativa, I.C., S.A.) sold barley grown in set asides to Ecoagrícolas, S.A. (an affiliate company of Abengoa, S.A.) for a total amount of 28.400 euros. Said barley was used for the production of biofuels, within the U.E. Grants Program.

##### a) Transactions with administrators and directors

During 2003 there were no personal or company transactions between the company and its administrators or senior management.

##### b) Significant intra-group transactions

Abengoa, S.A. is (and acts as so) the parent company of a group of entities. As such, it performs a certain amount of activities and roles that complement the integral product that one or several Business Groups jointly offer to their clients. Thus, different companies and Business Groups share clients and they jointly develop their businesses acting one or other companies as head, on a case by case basis. This causes the companies to cross-selling within the Group.

Also, Abengoa co-ordinates and manages the financial resources through a centralised administration system, allowing the optimisation of said resources in those non-recourse financed businesses that arise out of the collection/payment cycle by using factoring and confirming procedures.

As a consequence of the on market conditions commercial operations, fulfilled on the light of the above and arising out of the ordinary business, or as a consequence of the financing operations, the resulting balances appear on the balance sheets of the affiliate companies, though they are eliminated in the process of the annual accounts consolidation.

## e. Risk Control Systems

Abengoa's risk control structure is based on two foundations: the communal management systems and the internal audit services, whose definitions, objectives characteristics and functions are described below.

### i) Communal management systems

#### Definition

Abengoa's communal management systems fulfil the internal rules of the company and its methodology for evaluating and controlling risks and represent a genuine guide for managing Abengoa's businesses, sharing the accumulated knowledge and setting criteria and operational standards.

#### Objectives

- To identify possible risks that, although associated with all business, must be minimised, being aware of them.
- To optimise day-by-day management, applying procedures designed to financial efficiency, expenses reduction, and information and management systems homogenisation and compatibility.
- To foment the synergy and the value creation for the different Business Groups of Abengoa, working in a collaborative ambience.
- To reinforce the corporate identity, respecting the shared values of all the companies within Abengoa.
- To grow through strategic development seeking innovation and new options for the medium and long terms.

The systems cover the whole organisation at three levels:

- all business groups and business lines;
- all levels of responsibility;
- all types of transactions.

In a group such as Abengoa, with more than 200 companies, a presence in nearly 40 countries and approximately 4,000 employees, it is essential to define a common system for managing the business that allows work to be done in an efficient, co-ordinated and consistent way.

## ii) Internal audit

### Definition

The function of Abengoa's internal audit is structured around the Joint Audit Services that encompass the audit teams of the companies, business groups and corporate services that act in a co-ordinated way and responsible to the Audit Committee of the Board of Directors.

### General Objectives

- To anticipate the audit risks of the group's companies, projects and activities, such as frauds, financial damages, inefficient operations and risks that may affect the healthy operation of business in general.
- To control the application of and to promote the development of adequate and efficient management rules and procedures in accordance with the communal corporate management systems.
- To create value for Abengoa, promoting the construction of synergies and the monitoring of optimal management practices.
- To co-ordinate the criteria and the focus of the external auditors' work, seeking the best efficiency and profitability of both functions.

### Specific objectives

- To evaluate the audit risk of Abengoa companies and projects in accordance with an objective procedure.
- To define various types of standard audit and internal control tasks in order to develop the corresponding Work Plans with the appropriate scope for each situation. This classification which is linked to the Audit Risk Evaluation, determines the Work Plans to be used and implies a type of appropriate recommendation and report and should therefore be used explicitly in these documents.
- To steer and co-ordinate the planning process for audit work and internal control in the companies and business groups, to define a notification procedure for these tasks and communication with the affected parties and to establish a method of coding these tasks for their adequate control and monitoring.
- To define the communication process of each audit job's results, the people that are affected and the format of the documents in which they appear.
- To review the application of the plans, the adequate implementation and supervision of the tasks, the timely distribution of the results and the monitoring of the recommendations and their corresponding implementation.

## Audit Committee

Pursuant to Article 47 of Law 44/2002 of 22 December of the Financial System Reform measures, Abengoa's Board of Directors has appointed an Audit Committee that includes in its functions the "supervision of the internal audit services" and the "understanding of the financial reporting process and the company's internal control systems".

The Corporate Internal Audit manager reports systematically to this committee in relation to his own responsibilities of:

- the Annual Internal Audit Plan and its degree of completion;
- the level of implementation of the issued recommendations;
- a sufficient description of the principle areas reviewed and the most significant conclusions;
- other more detailed explanations that the Audit Committee may require.

There are Audit Committees in other group companies to which the Internal Audit manager of the corresponding business group reports.

## **f. General Shareholders' Meetings**

### i) Rules of Operation

Following the recommendation of the Special Commission for the Promotion of Transparency and Security in Financial Markets and Listed Companies, in March 2003 the Board of Directors drafted a structured and systematic regulation for the holding of shareholders' meetings, that was subject to approval at the General Shareholders' Meeting held on 29 June 2003, which unanimously approved the aforementioned regulation; a resolution that was notified to the CNMV on 30 June 2003. In addition to the provisions included in the Spanish Companies Act this regulation incorporates a basic group of rules for the good order and functioning of shareholders' meetings guaranteeing at all times, the right to information, to attendance, to vote and the right to representation for shareholders.

In accordance with that established under article 19 of the company's bylaws, there is no limitation on the shareholders' right to vote based on the number of shares held. The right to attend General Meetings is limited to a holding of 1,500 shares, without prejudice to the right to representation and grouping that applies to all shareholders.

## ii) Information on the last Shareholders' General Meeting

The Abengoa General Ordinary Shareholders' Meeting of 29 June 2003 was held with the assembly, presence or representation of 256 shareholders (43 present and 213 represented) of a total 7,707 registered shareholders. The number of shares, present or represented was 59,036,720 or 65.256% of the total share capital.

The resolutions adopted, all by the favourable vote of the whole of the share capital present or represented, were the following:

1. Approval of the financial statements of Abengoa S.A. for 2002, comprising the balance sheet, profit and loss account and notes and the management report and proposal for the result's distribution for 2002.
2. Approval of the group's consolidated financial statements comprising the balance sheet, the profit and loss account, the notes and the management report for 2002.
3. The re-election of PricewaterhouseCoopers as the company's auditor of the accounts and of the consolidated group for 2003;
4. The amendment of article 44 of the company's bylaws for the purpose of incorporating the provisions relating to the Audit Committee.
5. The amendment of article 39 of the company's bylaws for the purpose of increasing the maximum number of directors from four to seven.
6. The appointment and acceptance as directors, of an independent nature, for a period of four years of Mr. Ignacio de Polanco Moreno and Mr. José B. Terceiro Lomba.
7. The approval of the Regulation governing the operation of the Shareholders' General Meetings.
8. The authorisation of the Board of Directors to increase the company's capital through the issuance of bonds or similar securities and for the derived acquisition of treasury stock.
9. The delegation to the Board of Directors for the interpretation, correction, execution, drafting and registration of the adopted and approved resolutions of the minutes of the meeting.

## iii) Web

The company maintains its bilingual (Spanish and English) website permanently updated at [www.abengoa.es](http://www.abengoa.es).

The agreements adopted by the last General Meeting held on 29 June 2003 are recorded on this site. Likewise, the full text of the notice of the meeting, the agenda and the resolutions that were proposed for the meeting's approval were incorporated on the website on 9 June 2004.

On the occasion of future notice of meetings, the company will keep the information available on them updated, for the purpose of supporting the right to information, and with this, the right to vote, of the shareholders, on equal terms.

Finally, with the regulatory and technical progress to be established, the right to vote or to electronic delegation will be guaranteed under the protection of specific legal certainty.



**g. Level of monitoring of the recommendations relating to corporate governance.**

Since its establishment by the CNMV, the company completes the “report model on the governance of stock market listed companies” that is remitted to the Commission at the time of the notice of the Shareholders’ Ordinary General Meeting (9 June 2003).

In the measure by which the information contained in this form is less detailed and developed than the current Corporate Governance Annual Report, we defer to it for the issues set out therein. Said Report is available at “[www.abengoa.com](http://www.abengoa.com) (Legal and Financial Information / Reports to CNMV / Relevant Facts; Good Governance Questionnaire 2002)”

Likewise, pursuant to the Ministerial Order of 22 December 1999, actioned by Circular 1/2000 of the CNMV relating to the business development and prospects of listed companies assigned to the New Market segment, the company annually remits the relevant information required, similarly at the time of the notice of the Shareholders’ Ordinary General Meeting (9 June 2003). Said information is available at “[www.abengoa.com](http://www.abengoa.com) (Legal and Financial Information / Reports to CNMV / Relevant Facts; Other Communications (09.06.2003))”

## **h. Information tools**

### **i) Web**

The obligation to provide useful, true, complete and balanced information to the market in real time would not be sufficient if the suitable methods for transmitting this information were not appropriate, guaranteeing that it is distributed effectively and usefully. As a result, the Aldama Report and the Financial System Reform Act recommend, as a result of new technologies, the use of listed companies' websites as an information tool (including historical, qualitative and quantitative company data in it) and a distribution tool (including timely or individualized information in real time that may be accessible by investors).

At the end of the first quarter 2002, Abengoa therefore implemented a new company website, characterised on the one hand by a more direct, quick and efficient on-screen presentation, and on the other hand, with an information content and documentation made available to the general public, focussed on three fundamental aspects:

- a) Commercial: the presentation of the company and its business groups, press news, newsletters etc.
- b) Legal: communications, relevant facts, corporate governance internal regulations, etc.
- c) Economic: periodic reporting, financial statements, share price, etc.

Both the information available as well as its actual distribution portal – the website – are continually updated; corporate governance, the rules that regulate it and the continually developing legislation that governs it or recommends it adheres to, and will be adhered to. Today there is a special, far-reaching concept that is being developed in a regulatory field; the regulation of shareholders' rights (information, voting, etc.) by non-habitual methods. Similar to all companies engaged in growing, Abengoa must adapt itself and anticipate, as in fact it has been doing, to the development of the markets as well as towards self-regulation (that is, adopting its own code of conduct by which its actions and decisions can be evaluated from outside the company), progress, transparency and information, which have to be anticipated in order to reassure the confidence of the market and therefore its growth.

## ii) Shareholder Service Department

In order to establish a permanent contact with the company's shareholders, the company has a Shareholder Service Department whose manager is the General Secretary, with the objective of establishing a transparent and smooth communication with its shareholders and to allow access to the same timely and formatted information together with the institutional investors whose equal treatment is guaranteed. The distribution of true and reliable information on relevant facts, press releases and the periodic financial-economic information are supervised in particular.

A Shareholders mail box is available at [www.abengoa.com](http://www.abengoa.com)

## iii) Investor Relations Department

With the same objective as the Shareholder Service but in relation to investors, the company provides an investor relations department and stock market analysts responsible to the Director of Management Information Systems, assisted by the Finance Director, who is responsible for the design and implementation of the program for communication with the national and international financial markets for the purpose of understanding the principal characteristics and strategic actions of the company.

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