# Audit Committee Report

## 1. Composition and Appointments

Abengoa's Audit Committee was created by the Board of Directors of Abengoa, S.A. on December 2, 2002 under article 44 of the By-Laws, in order to meet the provisions on the Audit Committee set forth in Law 44/2002 on the Reform of the Financial System. Its Internal Regime Regulations were approved by the Board of Directors on February 24, 2003. Both these events were duly notified to the Stock Market National Commission as relevant fact.

The Audit Committee is entirely composed of non-executive directors, being its current composition, along with the date of appointment of each director, included below.

| | | |
|---|---|---|
| Chairman | Mr. Daniel Villalba Vilá | February 28, 2005 |
| Member | Mr. José B. Terceiro Lomba | February 24, 2003 |
| Member | Mr. José J. Abaurre Llorente | February 24, 2003 |
| Member | Ms. Mercedes Gracia Díez | December 12, 2005 |
| Member | D  Miguel Martín Fernández | April 15, 2007 |
| Secretary | D. Miguel Angel Jiménez-Velasco | February 24, 2003 |

Strengthening and efficiency in the performing of functions of the Board of Directors require the incorporation of Specialist committees. Thus, work is diversified, and it is guaranteed that with specific, relevant issues, proposals and resolutions go through a specialist and independent body beforehand, which is able to filter and report on its decisions, in order to reinforce guarantees of objectivity and reflection on its resolutions.

## 2. Activities Executed

During the year 2007, the Audit Committee met 4 times.

To comply with its essential function of acting as support to the Board of Directors, the main activities that have been handled and analysed by the Audit Committee can be grouped in four different areas of competence:

**Financial Reporting**
Quarterly Information Stock Exchange
Appropiate accounting policies
Other requirements

**Risk and Internal Control**
Analysys of main areas of risk
Efficiency of controls
Risk of fraud

**Audit Comitee Main Areas**

**External Audit**
Appointment and remuneration
Scope of the audit work
Independence requirements
Significant audit point
Review of the E.A. actions
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**Internal Audit**
Rules, responsibility and resources
Scoped the audit work
Implementation of I.A. recommendations
Eficiency of I.A.

2.1. Financial Reporting

The Group's financial information consists basically of the consolidated financial statements, drawn up quarterly, and the full consolidated Annual Accounts, drawn up annually.

This information is prepared on the basis of the reporting that all the Group companies are obliged to submit.

The information sent by each one of the individual companies is verified by both the Group's internal auditors and the external auditors, in order to ensure that the information is true and provides an accurate picture of the company.

Although Abengoa has made a significant effort over recent years to reduce the time taken to submit group financial information, we believe that the aforementioned time periods can be further reduced; in order to achieve this, work is continuing on developing new tools and information systems.

One of the recurrent and most important activities of the Audit Committee is the verification of the economic and financial information prepared by the Group, prior to its submission to the Board of Directors of Abengoa and the Stock Market regulatory bodies (Stock Market National Commission).

Furthermore, in connection with these tasks of reviewing the financial statements and the processes followed in preparing them, the Committee has been informed of all the relevant changes in international accounting and financial reporting standards.

2.2. Risk and Internal Audit and Control

The Audit Committee's functions include "to supervise the internal audit services" and "to know the financial information and "to know the company's financial information system and internal control systems".

In order to supervise the adequacy, adaptation and efficient functioning of the internal control systems, the Committee has been systematically informed during financial year 2007 by the person responsible within Corporate Internal Auditing, in relation to the following activities:

- the Annual Internal Audit Plan and the extent to which it is met;
- the extent to which the recommendations issued have been implemented;
- an adequate description of the main areas reviewed and the most significant conclusions;
- any other more detailed explanations that the Audit Committee may require.

In 2007, the Audit Committee recorded and supervised the Internal Audit Department's execution of a total of 578 missions -The Annual Audit Plan established for the year accounted for 573 missions-. The missions not provided for in the Plan relate mainly to general reviews of companies that had not been included in the initial planning.

As a consequence of this audit activity, 449 recommendations were issued, which either have already been implemented or are in the process of implementation by the different companies.

The increase in the number of recommendations issued with regard to prior periods was mainly due to the fact that, for the first time in 2007, the Internal Audit function conducted audits in accordance with the Public

Company Accounting Oversight Board (PCAOB) audit standards to evaluate the effectiveness of the internal control over financial reporting in business groups not required to comply with the Sarbanes-Oxley (SOX) Act.

The Sarbanes Oxley Act was passed by the United States Congress in 2002 to guarantee transparency and truthfulness of financial information submitted by companies quoted on the US stock market ("SEC registrants"), thereby restoring trust lost by investors in the financial system following the financial scandals which occurred in 2001. Section 404 of the Act requires company management to assess and report on the effectiveness of the company's internal control. It also requires a company's independent auditor, registered with the Public Company Accounting Oversight Board (PCAOB) to evaluate and issue an opinion on the effectiveness of the company's internal control.

Despite only one of the business groups of Abengoa – Information Technologies – is currently required to comply with SOX, the aim has been for the whole group to be part of this project.

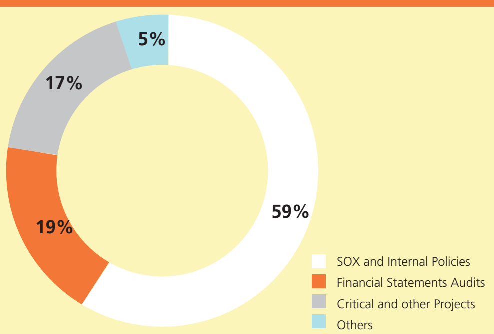
This is the result of Management response to the rapid expansion experienced by the group over recent years - as well as expectations of future growth - and the commitment to continue to guarantee investors the preparation of accurate, timely and comprehensive financial statements in accordance with generally accepted accounting principles.

The process of adapting the internal control over financial reporting to the requirements set out by the SOX Act has been completed in 2007.

During the course of the financial year the Audit Committee has been kept informed in a timely manner of the progress and conclusions of the SOX audits.

The following table shows the structure by Business Group of the internal audits performed during the 2007 financial year:

## Internal Audit Tasks 2007




| | SOX and Common Mgmt Systems | Financial Stat Audits | Critical projects and works | Others |
|---|---|---|---|---|
| **Solar** | 36 | 28 | 0 | 4 |
| **Eng and Construction** | 21 | 40 | 58 | 4 |
| **Bioenergy** | 145 | 17 | 0 | 0 |
| **Information Technologies** | 121 | 11 | 24 | 0 |
| **Environmental Services** | 21 | 13 | 21 | 16 |
| **Corporate Level** | 13 | 9 | 0 | 8 |
| | **357** | **118** | **103** | **32** |
| | | **610** | | |

2.3. External Audit

The Audit Committee's functions include ensuring the independence of the external auditor, proposing the appointment or renewal thereof to the Board of Directors and approving its fees.

The auditor of the Abengoa, S.A. individual and consolidated annual accounts is PricewaterhouseCoopers, also the main auditor of the group. The Audit Committee proposed the appointment of PricewaterhouseCoopers to be brought up in the General Shareholders' Meeting due to the knowledge of the group it has proven and to its prior performance, which has been regarded as very positive by the Committee itself, as well as by company management.

Nonetheless, a significant part of the group, basically that corresponding to the business units Environmental Services (Befesa) and Information Technologies (Telvent), is being audited by Deloitte. In addition, other audit companies are working in partnership in small companies, both in Spain and abroad, although their scope may not be considered significant.

The same distribution has been set for SOX audits, so that integrated audits – both financial and internal control – could be performed by the external auditors.

The policy of Abengoa is that all group companies be audited by external auditors, even when it is not required by law.

The global amount of the fees agreed with the external auditors for the audit of the year 2007, including the review of the periodic information and the audit of the company listed in the USA applying US GAAP, and the distribution thereof is shown in the chart below:

**Global fees paid to auditing firms**

| | Firm | Fee | Companies |
|---|---|---|---|
| Spain | PwC | 827,031 | 19 |
| Spain | Deloitte (*) | 1,562,394 | 27 |
| Spain | Oher firms | 68,875 | 25 |
| Rest of the world | PwC | 797,735 | 64 |
| Rest of the world | Deloitte | 1,020,642 | 24 |
| Rest of the world | Other firms | 261,054 | 14 |
| **Total** | | **4,537,731** | **173** |

(*) It includes, among other figures, the fees corresponding to the review of the quarter financial results under US GAAP of the subsidiary

The Audit Committee is also responsible for supervising the results of the work of the external auditors. In order to do this, it is promptly informed of their conclusions and any incidents detected in the course of their reviews.

When required in this regard, the external auditor has attended Audit Committee meetings in order to report on its field of competence, which are basically as follows:

- The review of the financial statements of the consolidated group and its companies and the issuance of an audit opinion thereon.

  Although the opinion refers to the financial statements closed on 31 December of each financial year, the work performed by the auditors in each company includes a review of a previous accounting period end, usually that of the third quarter of the year (September), in order to anticipate any significant matters or operations that have arisen up to that date. In addition, reviews were performed of the quarterly financial statements prepared in order to present the information required by official bodies.

  Likewise, we highlight the fact that the consolidated financial statements of the following parent companies of their respective business units (and subsidiaries) have likewise been audited: Abeinsa, Befesa, Telvent GIT, Abengoa Bioenergy and Abengoa Solar.

- Evaluation of the internal control over financial reporting and issuance of an audit opinion in accordance with PCAOB standards (SOX compliance audit).

  An advanced auditing approach is the use of prior analysis of the company's internal control in order to reduce the performing of substantive procedures in areas in which controls are appropriate.

  Although external auditors have already been using this approach, it has been reinforced during the 2007 financial year with the implementation of SOX and the performing of an audit of internal control based on PCAOB (Public Company Accounting Oversight Board) audit standards, applicable to companies quoted on the stock market in the United States (SEC registrants). The specific PCAOB guidelines imply the performance of a series of additional audit procedures. The SEC (Security Exchange Commission), delegates the PCAOB to draft and issue the standards to be complied with by external auditors in their evaluation of internal control as part of an integrated audit.

  In 2007, external auditors performed an integrated audit in accordance with PCAOB standards, and adapted their methodology to AS5 (Audit Standard No. 5), which was recently approved in 2007. In applying this standard, they have evaluated internal control, following the "Top-Down risk-based" approach. External auditors identify areas of significant risk and evaluate internal control over these areas starting with those controls performed by Management at the entity level - corporate and monitoring controls -. When entity-level controls do not provide enough comfort over a specific area, the auditor should then perform additional procedures at the process level.

  As a result of the SOX audit, external auditors have issued an opinion containing the conclusions of their evaluation of internal control. This audit opinion is additional to that issued in regard with annual accounts, although the PCAOB allows both opinions to be included in the same document.

- Matters of special interest

  For certain specific matters or operations, a preview of the auditors' opinion on the accounting principles adopted by the company is obtained, so that to an agreement on those principles can be reached ahead.

### 3. Audit Committee Internal Regime Regulations

The Internal Regime Regulations of the Audit Committee were approved by the Board of Directors on February 24, 2003. They state that:

- Composition and Appointment:

  It shall be formed permanently by three members of the Board of Directors as a minimum. At least two of them will be non-executive Board Members, thus complying with the majority of non-executive members provided for in Law 44/2002.

  Members shall be appointed for a maximum term of office of four years, which may be renewed for further terms of the same duration.

- Chairman and Secretary:

  The Audit Committee will initially elect its Chairman from among all its members who are non-executive Board Members.

  The Secretary to the Board of Directors shall act as Secretary to the Committee.

- Functions and Competencies:

  The functions and competencies of the Audit Committee are as follows:

  1. To inform on the Annual Accounts and the six-monthly and quarterly Financial Statements that must be sent to the market regulatory or supervisory bodies, mentioning the internal control systems, the control of the monitoring thereof and compliance therewith through internal audit and, when appropriate, the accounting principles applied.
  2. To inform the Board of any change in accounting principles and the balance sheet and off-balance sheet risks.
  3. To inform the General Shareholders' Meeting on the issues raised thereat by shareholders in relation to matters that fall within its competency.
  4. To propose the appointment of the external Account Auditors to the Board of Directors, in order for the proposal to be submitted to the General Shareholders' Meeting.
  5. To supervise the Internal Audit services. The Committee will have full access to the Internal Audit and will inform during the process of choosing, appointing, renewing and/or removing the manager thereof and fixing his remuneration, likewise informing on the budget of this Department.
  6. To know the company's financial information system and internal control systems.
  7. To be in contact with the external auditors to receive information on any issues that may jeopardize said auditors' independence and/or any other issues related to the account auditing process.

8. To call the Board Members it sees fit to attend to the Committee meetings, so that they can inform to the extent decided by the Committee.
9. To prepare an annual report on the Audit Committee's activities, which must be published together with the Annual Accounts for the year.

- Meetings and Notice:

  The Audit Committee shall meet on the occasions required to perform the functions stated in the preceding article, which must be at least once a quarter. In general, the meetings will be held at the company's registered office, although the members may designate a different place for a specific meeting.

  The Audit Committee shall also meet whenever a meeting is called by the Chairman, at his own initiative or at the request of any member of the Committee. Members of the Committee may, in any case, inform the Chairman of the advisability of including a certain matter on the Agenda of the following meeting. Notice shall be given sufficiently in advance, not less than three days, and in writing, including the Agenda. However, a meeting of the Audit Committee will be valid when all its members are present and they agree to hold the meeting.

- Quorum:

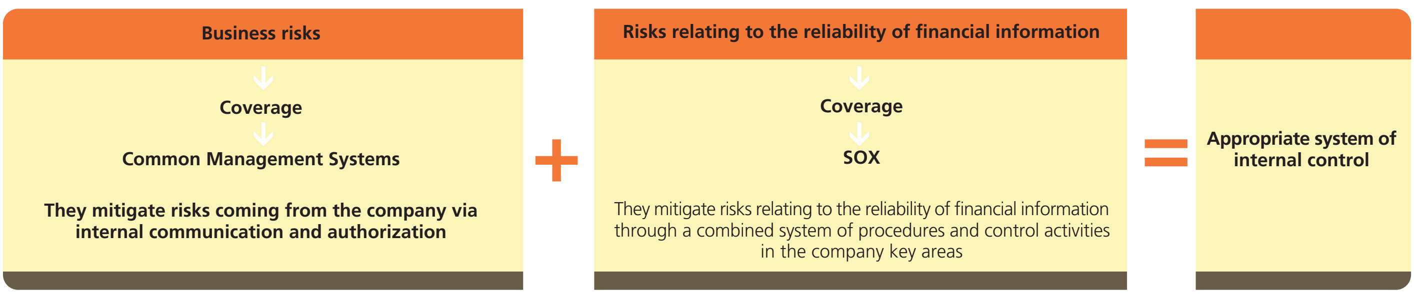
  The Audit Committee shall be considered to have a valid quorum when a majority of its members are present. Attendance may only be delegated to a non-executive Board Member.

  A resolution is deemed valid where a majority of the Committee members in attendance vote in favour. In the event of a tie, the Chairman shall have the casting vote.

**4. The Risk Management Model in Abengoa**

In a Group like Abengoa, with more than 500 companies, presence in more than 70 countries and more than 23,900 employees, it is indispensable to define a common business management system that allows it to work effectively on a coordinated and consistent basis.

Our Risk Management model is composed of two fundamental elements:



Abengoa manages its risks using the following model, which is intended to identify any potential risks in a business.

## Environmental Risk

- Catastrophic Losses
- Relations with Shareholders

## Internal Procedures Risks

| Operations | Management | Financial |
|---|---|---|
| Compliance / Environment | Authority | Credit |
| Product Failures | Communications | Currency |
| Interruptions | **Information Processes** | Liquidity |
| Efficiency | Access | |
| Human Resources | Availability | |
| Erosion of the Commercial Framework | Relevance | |
| | **Integrity** | |

## Decision-Making Information Risks

| Operations | Financial | Strategic |
|---|---|---|
| Contractual Undertaking | Regulator Report | Environm . Evaluation |
| Price Setting | Erroneous Information | Strategic Planning |
| | Taxes | |

The procedures aimed at eliminating the above business risks identified are instrumented through the so-called Shared Management Systems.

"Shared Management Systems" are there to identify both the risks included in the current model, and the monitoring activities mitigating them. They therefore put the internal rules for action into practice and represent a common culture in the management of Abengoa's businesses.

Through the Shared Management Systems, it is also possible to:

- Optimize day-to-day management, applying procedures favouring financial efficiency, a reduction in expenses and the standardization and compatibility of information and management systems.

- Promote synergies and value creation by Abengoa's business units, working in an environment of co-operation.

- Reinforce the corporate identity, with all the Abengoa companies respecting the shared values.

- Attain growth by strategic development seeking innovation and new options in the medium- and long-term.

The Systems cover the whole organization at three levels:

- all the Business Units and areas of activity
- all levels of responsibility
- all kinds of operations

Meeting the provisions of the Shared Management Systems is compulsory for the whole organization and, therefore, they must be known to all the members thereof. Any exceptions to the fulfillment of these Systems must be made known to the person concerned and appropriately authorized.

The Shared Management Systems are submitted to a permanent updating process, which allows the best practices to be included in each one of its fields of action. In order to enable dissemination the successive updates are immediately notified to the organization using computing media.

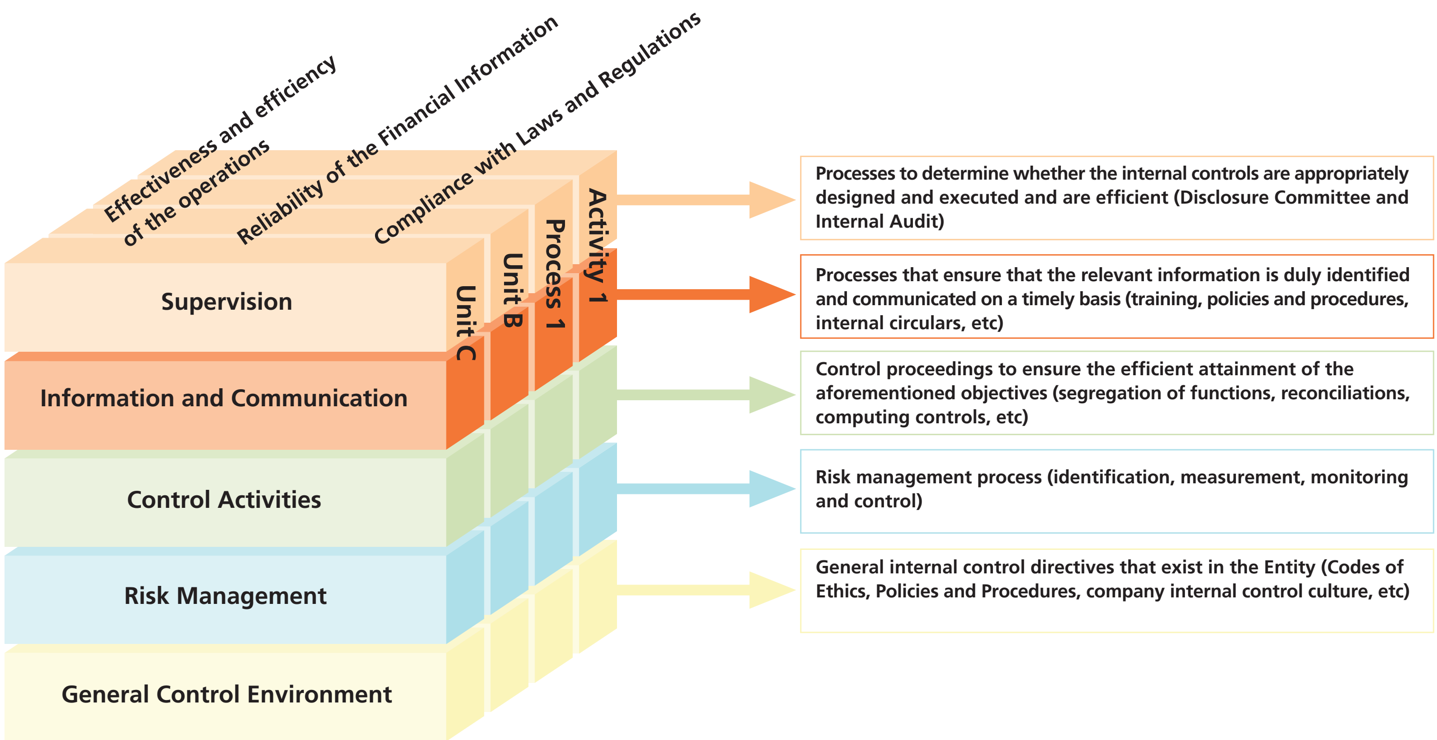
Those responsible for each one of the rules that form the Shared Management Systems must verify and certify compliance with said procedures. Each year's certification is issued and presented to the Audit Committee during January of the following year.

In addition, since 2004 Abengoa has been bringing its financial reporting internal control structure into line with the requirements of the SOX Act. As mentioned in foregoing paragraphs, the aforementioned adaptation process was completed in 2007, although it will continue to be implemented in future company acquisitions.

Although, according to the instructions of the Securities and Exchange Commission (SEC), the above-mentioned law is mandatory for companies and groups that are listed on the North American market, Abengoa considers it necessary to comply with these requirements not only in the case of its subsidiary listed on Nasdaq but for all the companies, as it entails completing its risk control model.

Abengoa considers that an appropriate internal control system must ensure that all the relevant financial information is reliable and known to Management. Thus it is considered that the model developed in the SOX complements and completes our Shared Management Systems, the main purpose of which is to control and mitigate business risks.

The conceptual reference framework taken is the COSO, which is the most similar to the approach required by the SOX and defines internal control as the process carried out in order to provide a reasonable degree of security in relation to the attainment of objectives such as compliance with laws and regulations, reliability of the financial information and effectiveness and efficiency in the operations.



Supervision and Control of the Risk Management Model.

The Abengoa supervision and control of the risk management model are structured around the Joint Audit Services, which include the audit teams of the Companies, Business Units and Corporate Services and act in a coordinated manner, reporting to the Audit Committee of the Board of Directors.

From among their strategic objectives, we can highlight:

- Forestalling the audit risks of the Group's Companies, Projects and Activities, such as frauds, capital losses, operating inefficiencies and, in general, risks that may affect the favourable progress of the business.

- Controlling the application and promoting the development of appropriate and efficient management rules and procedures, in accordance with the Shared Corporate Management Systems.

- Creating value for Abengoa, by promoting the building of synergies and the monitoring of optimal management practices.

- Coordinating and criteria and approaches of the work with the external auditors, seeking the greatest efficiency and profitability of both functions.

- As a consequence of the adoption of the Sarbanes-Oxley Act requirements described in the preceding section, the security and reliability of the financial information must be guaranteed by checking the controls put in place for this purpose and ensuring they operate correctly.

In order to fulfil these strategic objectives, the Joint Audit Services have the following specific objectives:

- Evaluating the Audit Risk of Abengoa Companies and Projects following an objective procedure.

- Defining standard types of Internal Audit and Control work, in order to develop the pertinent Work Plans with the scope appropriate to each situation. This methodology, based on appraisal of audit risks, determines plans for audits to be performed.

- Guiding and coordinating the internal audit and control work planning processes of the Companies and Business Units, defining a procedure for notification of said work and communication with the parties involved and establishing a coding system for the work, so that it can be appropriately controlled and monitored.

- Defining the process for communicating the results of each piece of audit work, the persons affected and the format of the documents in which it materializes.

- Reviewing the application of the plans, the appropriate performance and supervision of the work, the prompt distribution of the results and the monitoring of the recommendations and the implementation thereof.

- Reviewing the correct operation of the manual and automatic controls identified in the processes, together with the evidence of control, in order to guarantee security in obtaining the financial information.

An Internal Audit Plan will be drawn up annually, its scope being determined by:

- the evaluation of the risk of the different companies, areas and projects
- the circumstances in each one of them at any given moment
- and the Audit Committee requirements

The evaluation of the audit risk is made for each project, company and Business Unit. In this respect, audit risk is defined as any possible event that might have a negative effect on the business, such as fraud, capital losses or operating inefficiencies. The risk evaluation allows us to find out the areas on which we should focus our attention and work.

Planning seeks to guarantee that the risk areas identified will be covered by work that mitigates or eliminates the risks and allows them to be adequately identified, controlled and monitored. The result of this planning is the Annual Internal Audit Plan.

The Annual Plan establishes the types of work to be performed and the scope of each one of them. Depending on the proposed scope, general company reviews, reviews of specific areas, procedure review or special work are proposed.

The Annual Plan is continually monitored by the Audit Committee, which is informed systematically on both the progress thereof and the results obtained in the reviews performed.

For each of the tasks planned, once the field work has been performed, recommendations are identified that imply, not only that both legal and internal regulations are applied, but also that the best management practices in the pertinent area of activity are incorporated. These recommendations are classified as major or minor, depending on the importance of the area affected or, if applicable, the economic impact they imply.

Traditionally, the main objective sought by internal audit has been the control of audit risk, defined as any risk that affects the business and that it is possible for Management to estimate, evaluate and control. Since the implementation of SOX, without forgetting the aforementioned objective, the correct operation of the controls put in place by the company in order to guarantee the reliability and veracity of the Abengoa's financial information must also be guaranteed.

Each Abengoa activity, project and company must have a preliminary audit risk evaluation that allows appropriate planning of the reviews to be performed. This risk estimate must follow objective criteria common to all the Group and will be the responsibility of the Internal Audit and Control Department, at the level of Joint Services that corresponds to each specific case.

In relation to the above, the Internal Audit and Control function should exceed a mere supervisory approach and, without decreasing the inspection and review activity, should actively promote improvements with immediate repercussions on the optimization of processes and businesses, the obtaining of synergies and, in short, the creation of value for Abengoa.

In both the focus of the work and the planning, performance, documentation, programs and notification of results thereof, coordination with the external auditors should prevail, so that the work of the two functions is not duplicated and Abengoa's internal audit and control procedures are validated and may be deemed to be adequate audit proof to support the external auditor in his opinion.

To attain this objective, a standardization of all the work cycles and documentation that contribute to the consistency of the work of Abengoa's internal auditors will be fomented.

Following the doctrine of The Institute of Internal Auditors and its Spanish branch, Instituto de Auditores Internos, the ultimate purpose of this structure is to provide the Management of Abengoa and of each of its Business Units with an extra “control” flow of information, running parallel to the normal hierarchical flow, but with permanent horizontal information channels between each one of the hierarchical levels of the Companies and Business Units and the pertinent Internal Audit services, applying clear and transparent criteria and safeguarding the confidential information involved.

This structure is shown in the following diagram :