

Report from the Chairman

The year 2008 was yet another one of profitable growth for Abengoa. We ended the year with pro forma sales (including Telvent) totaling 3,769 M€ up 17% from 2007; a pro forma gross operating cash flow of 627 M€ (+39%), pro forma EBITDA of 541 M€ (+41%), and a net profit of 140 M€ (+17%).

At the end of 2008 we put Abengoa's majority stake in Telvent up for sale. Telvent is the subsidiary through which we consolidate most of our information technology business. This decision reflects the strategy of accentuating our activity in sustainability and the opportunity proffered in terms of enhanced resource availability. This potential divestiture would enable us to drive forward our plans for businesses with a high potential, such as solar energy and water, areas in which we will create more value for our shareholders.

Recording Telvent as an "interrupted" activity, as required by the accounting criteria we apply, our activities brought in a total of 3,115 M€ (+17% from 2007) in revenue, 545 M€ (+39%) in gross operating cash flow, EBITDA totaling 459 M€ (+42%), and a net profit of 140 M€ (+17%).

Thanks to this progress, Abengoa has stepped up its activity in high-growth businesses based on offering innovative solutions for sustainability. We are concentrated on three major global markets with a high potential for growth: solar power, bioenergy and environmental services (including water and industrial waste recycling), areas in which sales have increased by 26%, making up 57% of the total figures; with operating cash flow totaling 310 M€, up by 45%. We maintain our industrial engineering and construction activity involving both our own and third-party projects.

Abengoa continues to diversify geographically, with higher growth in America and Africa and lower growth in Spain, representing 35% of total consolidated revenue. Latin America totals 25%; Europe (excluding Spain), 16%; the United States, 11%; Africa, 10%; and Asia, 3%.

As far as risk profile diversification is concerned, Abengoa currently has a highly diversified portfolio that combines businesses and geographical areas involving a low degree of co-related risk and enables us to maintain a profile of growth and cash flow generation with a low level of volatility:

- Recurrent, low-risk businesses, such as solar energy, water and desalination plants and electrical assets (primarily transmission lines and cogeneration plants) which we hold either through ownership or concession account for 49% of gross cash flow.
- Businesses involving risk in terms of the price of raw materials, where we include our bioenergy business and some metal recycling businesses, make up 27%.
- Remainder of our engineering businesses, which are subject to the standard risks involved in the contract and execution of projects using technologies in which we have a great deal of expertise make up 24% of cash flow.

Financing new projects has become more difficult and costly, and various geographical locations where we operate have shown a slowdown in growth. The impact on our businesses has been limited until now, but if the financial crisis, which has already turned into an economic crisis, proves to be deep and broad enough, it will have an effect on our engineering and construction businesses, as well as some waste recycling businesses, and it will slow down the rate of launching new projects. The impact in 2009 will be limited, however, as a result of our diversification of businesses and geographies.

At Abengoa we have made the decision to operate under the assumption that the economic situation is not going to show improvement in Europe and North America in 2009, and will be characterized by significant decreases

in gross domestic product and investment, as well as lower growth in Latin America and Asia. We are facing this context from a very favorable position and through a solid strategy that does not require substantial modifications to the way in which we manage our businesses.

We believe that we must uphold our strategy because the chief sustainability-related markets in which we operate (solar power, bioenergy, desalination, recycling) will continue to grow in most geographical locations, thereby benefiting the industrial engineering and construction business. The world has a need to ensure that development is sustainable and to combat climate change. A more complicated financial and economic scenario does not alter that need in any way.

In what we refer to as our Horizon 1 businesses (cash flow and short-term profitability generators), where we include industrial engineering and construction and industrial waste recycling, we are proceeding under the assumption that the economic situation will affect us in 2009. Thus, in 2008, we prepared ourselves for a more arduous context by increasing our order portfolio and lowering costs. Continued cost reduction, higher profitability, even at the expense of growth, and aggressive management of working capital with the aim of maximizing the generation of cash flow will be our priorities in 2009.

- In industrial engineering and construction we are taking on the challenges of this context with our largest order portfolio ever (2,640 M€) accompanied by a plan for lowering costs under way.
- In the area of electrical power transmission, in 2008 we put the ATE III line into operation and contracted two new lines in Peru and Brazil, in this case through a joint venture with Eletronorte, with a combined investment totaling more than one thousand million dollars.
- As far as industrial waste recycling is concerned, we completed the integration of acquired zinc businesses and of the aluminum business.

In horizon 2 businesses (profitable growth in the coming years), including solar power, bioenergy and water, our goal is to invest and grow in a way that is profitable. We are one of the world's leaders in size, capability and technology in these three markets and this will enable us to keep growing, even within the context of the anticipated economic environment. In 2009 our priorities for these high-growth businesses are to move forward in our projects under construction and launch new ones in the solar energy and desalination segments:

Solar Energy. In 2009 we will move forward with our five company-owned thermosolar plants which are under construction in Spain and Algeria, and we intend to launch new projects, making the most of existing regulatory frameworks, as well as those we expect to be set into motion shortly in different geographical locations.

Bioenergy. We will continue construction on three plants in the United States and Holland, as well as two co-generation plants in Brazil that will utilize sugar cane-based biomass. The directive that was approved in the European Union will accelerate the development of this market and our European business in the medium term.

Water. Our priorities are to complete the four plants currently under construction in Algeria and India, to begin building a plant in China, and to finalize new project contracts.

In Horizon 3 businesses (generators of future growth), including the efficient and "storable" solar energy of the future, bioethanol from biomass, hydrogen, emissions management, energy efficiency and new renewable energies, we will continue to stand by R&D&i, focusing primarily on solar power and bioenergy. We are not going to reduce investment in these businesses. We firmly believe that in our markets the creation of long-term value will depend on success in R&D&i, and we will therefore take advantage of this juncture to prepare our next generation of new technologies, utilizing existing public funds to share risk in the geographical areas in which we conduct our business.

Finally, over the course of 2008 we continued to make progress in key areas such as Human Resources and quality. More than 2,500 new employees joined our companies; we conducted nearly 1 M hours of training, and we carried out an international internship grant program involving over five hundred participants in collaboration with universities and other academic institutions in the geographical areas where we operate. We also continued to invest in Corporate Social Responsibility, promoting the social and cultural development of the communities where we carry out our activities, with an emphasis on the disabled and the underprivileged, investing a total of more than 10 M€.

We manage the emission of gases that cause the greenhouse effect, anticipating more stringent regulations to go into effect in the markets and geographical areas in which we operate. These regulations will promote technologies and business models that are based on lower levels of contamination. To prepare ourselves we have begun to implement an ambitious plan that seeks to quantify and audit, on an annual basis, both the emissions we produce as well as those of our suppliers, to subsequently take action in order to cut down on these emissions. At the end of 2008 more than 4,900 suppliers had signed the agreement to collaborate in this initiative.

Following our commitment to transparency, and with the aim of continuing to guarantee the reliability of the financial information issued by the company, we have kept strengthening our internal control structure and tailoring it to the stipulations of the Sarbanes-Oxley Act. Once again this year, we have voluntarily submitted the entire group's internal control system to an independent evaluation process carried out by external auditors in accordance with PCAOB audit standards.

We are ready, therefore, for a difficult environment. We are taking the necessary steps to ensure that we face 2009 head on from the position of having ample cash flow; we have an order portfolio at an all-time high, and a plan for cutting costs in horizon 1 businesses (the maturest) in motion. We have projects to be financed that would allow us to continue growing and investing in our horizon 2 and 3 businesses. Thus, in light of these prospects, we maintain our targets for profitable growth and the creation of value, at a similar rate to that achieved over the past ten years.

A balanced set of activities

