

Mr. Paulino Garcia Suarez

National Securities and Exchange Commission (NSEC)
General Directorate for Markets and Investors
C/ Serrano, 47
28001 Madrid

Ref: Additional information on annual accounts

Barakaldo, September xx, 2007

Dear Sirs,

We hereby respond to your request for information issued under number 200748302, in which you ask us to provide additional information related to the audited annual accounts of Befesa Medio Ambiente, S.A. and dependent companies for the financial year ended December 31, 2006, in virtue of what is established in articles 85 and 92 of the Stock Exchange Act.

The aforementioned annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission, and we believe that the information provided in said annual accounts complies with the objective of maximum transparency, relevance and reliability thereof. In this respect, the application of the concept of materiality has been taken into consideration as detailed in IAS 1.31 which indicates that compliance with a specific information requirement, with a Standard or with an Interpretation shall not be necessary if the corresponding information was lacking in relative importance. Nonetheless, we here-below provide the information required for each of the following points:

1. Information relating to Financial Instruments

At the time of preparing the information provided in the consolidated annual accounts in relation to the detail requested, what is established in IAS 1.31 regarding materiality and in paragraph 54 of IAS 32 "Financial Instruments: Presentation and Information to be Revealed" has been taken into consideration. These establish that "the determining of the level of detail of the information to be revealed, in relation to each particular financial instrument is something that is left to the entity's judgment, and the entity must take into account the relative importance of each one of those instruments"

Based on the above, the information provided in relation to the derived financial instruments is included in the notes of report 3.n, 4 and 19 together with the Balance Sheet and the Status of Changes in Net Consolidated Patrimony.

In order to meet your requirements, we provide the following additional information:

1.1 Information required by IAS 32, paragraphs 58, 59 and 63

a) At December 31, 2006, the detail of the insured tons and their respective expiries are:

	December 31, 2006			December 31, 2005		
	2007	2008	2009 and following	2006	2007	2008 and following
Covered (in tons)						
Future Zinc Contract	71,229	73,976	222,084	14,850	18,000	-
Future Aluminum Contract	6,650	6,090	3,110	11,040	6,020	440
Total	77,879	80,066	225,194	25,890	24,020	440

1.2 Expiry of coverage instruments

We hereby confirm that in the 2005 and 2006 financial years no coverage instrument has expired without the transaction foreseen therein having been executed.

2. Information relating to the contracted derivative in interest rate fluctuation risk coverage

As mentioned in Note 16 of the report, the interest rate on the loan is Euribor plus a market differential.

The coverage instrument was contracted on November 13, 2006 for a nominal 251.6 million euro and the interest rate that has been set for the derivative varied for each covered year, with 4.16% per year been taken as the maximum limit for the lifetime thereof. As regards the evaluation of the same and its effect on the net patrimony and the profit and loss account, this information was not mentioned in the Annual Accounts because the amounts were not significant (less than 700 thousand euro).

3. Information in relation to the acquisition of BUS

3.1 (3.2 and 3.3) BUS register of its derivatives at reasonable value.

In addition to what was mentioned in the report note 2.g of the Consolidated Annual Accounts of Befesa Medio Ambiente, S.A. for the financial year ended 2006, we indicate that in the balance sheet of the acquired company (BUS Group AB), the derived financial instruments are not evaluated. At the time of acquisition of the same, said derivatives were valued at their reasonable value (18.9 million euro negative) at the time of assigning the cost of the combining of businesses.

The cancellation of the policies has been a cost directly attributable to the combination because, in the agreements reached for the acquisition of BUS, a triple obligation for the purchasers was established: the payment of a price for the shares, the taking on of the

debt and the canceling of the policies kept by BUS to that date, thus transforming it into a higher operation cost, which was necessary for its attainment.

4. Information related to the comparison of the information

The information on the consolidated balance sheet at December 31, 2005 has not been re-expressed, and the change of presentation was included in the 2006 financial year because we understand that the change in the accounting of the impact of the evaluation of the derived financial instruments was explained sufficiently with the opening of an explanatory note (Note 2.e "Comparison of the Information"), in which the origin of the change made was detailed as was the effect said change would have had on the consolidated balance sheet at December 31, 2005. The value of said reclassification, which would be 18.2 million euro, is not significant in relation to the magnitudes affected thereby (current assets and liabilities).

5. Information required by the IFRS-EU

5.1 Associated companies

As regards the information to be revealed established in the paragraph which is referred to in this point of the requirement (IAS 28, paragraph 37 (i)), we consider it not to be material for Befesa and therefore in compliance with the principle of relative importance the decision not to detail it has been taken, to enable better understanding by the reader in relation to the information provided on the financial statements.

The total assets and liabilities of the associated companies entered in the books by the participation method at December 31, 2005 and 2006 were 52,146 thousand euro and 56,439 thousand euro. The ordinary earnings of the associated companies entered in the books by the participation method for the 2005 and 2006 financial years were 71,745 thousand euro and 74,560 thousand euro, respectively and approximately.

As regards the rest of the companies that are not consolidated in the consolidated annual accounts of Befesa Medio Ambiente, S.A. at December 31, 2005 and 2006 (Note 11 a) of the report), the total assets and liabilities of said companies at December 31, 2005 and 2006 were 13,539 thousand euro and 32,750 thousand euro, and the total ordinary earnings for the 2005 and 2006 financial years were 3,254 thousand euro and 4,246 thousand euro, respectively and approximately.

5.2 Business segments

In addition to what is indicated in Note 6 of the Consolidated Annual Accounts of Befesa Medio Ambiente, S.A. for the financial years ended December 31, 2005 and 2006, we can state that the amounts related to the cost of acquisition of assets, amortization and depreciation costs and the figure for expenses that have not resulted in a cash outlay are as follows:

Information by Segment	Aluminum Waste Recycling	Steel and Galvanization Recycling	Industrial Waste Management	Environmental and Corporate Engineering	Total
2005 Financial Year					
Cost of Assets	3,680	11,656	3,047	1,033	19,416
Amortization and Depreciation Costs	2,922	937	7,970	2,218	14,047
Expenses without cash outlay	7	-	365	2,747	3,119
2006 Financial Year					
Cost of Assets	6,010	10,502	5,724	1,787	24,023
Amortization and Depreciation Costs	2,610	1,058	7,385	1,532	12,585
Expenses without cash outlay	423	-	9	2,677	3,109

5.3 Credit risk exposure level

The balances of the entries for trade debtors and other accounts receivable, other debtors, current and cash financial assets are Befesa's main financial assets reflecting maximum credit exposure risk in the event of the counterpart third party not meeting its commitments.

It is Befesa's policy to transfer the credit risk associated to the entries included in the balance for trade debtors and other accounts receivable via the utilization of non-recourse factoring contracts. Consequentially, the potential effect of the balances of clients by executed work pending certification for which factoring contracts exist, the effect on the other balances of clients that may be factorized but that have not yet been sent to the factoring entity at the close of the financial year, and the assets that are covered by credit insurance policies and which are reflected within said balance would have to be excluded. As a consequence, with this policy, Befesa minimizes its exposure to credit risks on said assets.

5.4 Construction contracts

The figure given as earnings for the period for Befesa's construction contracts in 2006 and 2005 is detailed in Note 6 "Information by segments", corresponding to the sales achieved by the Environmental Engineering segment is 139,439 thousand euro and 103,456 thousand euro, respectively and approximately.

As regards the information relating to the accumulated amount of costs incurred and earnings for contracts in progress, which we detail in the next paragraph, at the time of preparing the annual accounts we understand that upon it being information that corresponds to only one of the four main segments Befesa is split into, it is information that is unnecessary and that could even make the accounts more difficult to understand and a decision was taken not to break it down so as not to overload the financial

statements with excessive details that could make their correct comprehension even more difficult.

Therefore, the accumulated figure for costs incurred and earnings for the contracts in progress at the closure date, reflected in the Balance Sheets at December 31, 2005 and 2006 was 19,647 thousand euro and 28,614 thousand euro, 1,481 thousand euro and 2,713 thousand euro, respectively and approximately.

Finally, in relation to the reminder information you indicate in your letter regarding the Status of Variation of Changes in Net Patrimony and on the classification of Stocks and of Construction Contracts, we are grateful for said information which will be taken into account when the Annual Accounts for the 2007 financial year are being prepared, stressing that, in relation to the figures related to the advances for work that has not been billed, these are suitably registered and classified as debits under trade debts.

In the trust of having responded sufficiently to your requirement, we remain at your disposal for any clarification you might deem necessary.

Yours sincerely,

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