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Report from the Chairman

In Befesa we provide innovative and viable solutions for the treatment and management of industrial waste, and develop activities that comprehensively encompass the integral water cycle.

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2008 was for Befesa another year of profitable growth in all dimensions, continuing the track of the past decade. We closed the year with sales at 874 M€, achieving a growth of 14% with compared to 2007; an EBITDA of 158 M€ (+27%) and net income of 59 M€ (+23%). Furthermore, sales in international markets grew by 25% with respect to 2007, representing 51% of total sales volume, reflecting the expansion and geographical diversification that we are pursuing, with stable presence in 20 countries and four out of the five continents.

A number of significant accomplishments for Befesa took place in 2008. I would like to highlight the following:

- Firstly, the acquisition of the U.S. company NRS

Consulting Engineers, devoted to engineering and the construction of water treatment plants. NRS Consulting Engineers is one of the leading engineering companies in the desalination of groundwater and brackish water in Texas, where it has designed approximately thirty percent of the installations in such state for the treatment of this type of water, and is the only one that designs, constructs and operates desalination projects. This acquisition will enable us to realize important synergies in terms of the capabilities and expertise of both companies in the technology and development of major desalination projects, specially in States with high desalination potential such as Texas, California and Florida, using sustainable technologies and solutions that improve efficiency throughout the entire water cycle.



Befesa is an international company, specialized in the integral management of industrial waste and the management and generation of water.

- In 2008 the integration of Aluminio Catalán (Alcasa) and Befesa Reciclaje de Residuos de Aluminio was successfully completed, pursuant to the 2007 agreement. The resulting company is the leader in Spain and one of the main players in the European market of aluminum waste recycling.
- Equally important for Befesa has been the award of the desalination project in Tenés (Algeria), which consolidates the position of Befesa as one of the leading desalination companies in the world. The desalination plant will use reverse osmosis technology and will have a production capacity of 200,000 m³ of water per day, enabling it to supply a population of 800,000 people.
- Lastly, in 2008, the construction of the Befesa R&D Centre started, where research will be carried out in environmental technologies applied to water treatment and industrial waste management. The Centre will be equipped with all necessary means for the development of Befesa R&D. This is a sustainable centre, not just because of the activity to be undertaken in it, but also because it will be designed and constructed according to sustainability standards and with no CO₂ emissions. Its start up is planned for mid-2009.

Although macroeconomic prospects are negative or at the very least uncertain, in Befesa we believe that the main principles that drive our activity, based on sustainable development, have been and will

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continue to be valid in the future, regardless of the global economic situation. This is why in Befesa we maintain our strategic objectives in each one of the business units and, continue to analyze opportunities that allow us to execute our strategy.

Furthermore, in Befesa we have a strong financial structure as well as robust and efficient management systems which, together with the characteristics of the businesses in which we operate, enable us to confront and prepare ourselves for difficult and uncertain situations.

Nevertheless, in Befesa we have taken and continue to take the necessary actions to manage our businesses according to the present economic environment.

Looking in detail at each of our businesses:

Aluminum Waste Recycling. In 2008 we treated 421,000 t of waste with aluminum content, representing an increase of 18% over the previous year, with all plants operating efficiently. Befesa is currently one of the European leaders in aluminum waste recycling and in salt slags recycling. It is the

only recycler that incorporates both parts of aluminum waste recycling.

Steel and Galvanization Waste Recycling. In 2008 we treated 645,000 t of steel and galvanization waste, an increase of 5% with respect to the 615,000 t treated the previous year, reflecting improvements in efficiency in the recycling processes.

In July of 2008 we inaugurated the new Befesa Zinc Aser production plant in Erandio (Biscay, Spain), as part of the plan for modernization and improvement of the plant that began in the year 2004 representing an investment of 35 M€.

Our treatment plants are strategically distributed, enabling us to be close to our customers and suppliers, which is one of our main competitive advantages. Befesa is currently one of the leaders in Spain and Europe in steel waste recycling, with a much higher market share than the rest of its competitors in the sector.

Our coverage policies on the price of raw materials enable us to have a long-term view and, to this regard, Befesa continues to advance on organic

growth projects in the portfolio, that will allow us to capture the demand that has not been covered to date. We also continue to explore any international opportunity that may arise in order to become a world leader in steel waste recycling.

Industrial Waste Management. 1,425,000 t of hazardous and non-hazardous industrial waste were treated in 2008, representing 3.5% more than the 1,338,000 t treated in 2007.

In 2008, Befesa maintained its outstanding position in the sector. We carried out some strategic acquisitions of small companies, such as the acquisition of the Tracel plant located in Guarromán (Jaén, Spain), to reinforce our hazardous waste management services, and the acquisition of the company Limpiezas Industriales Robotizadas, L.I.R.S.A. present in Spain, France, Italy, Switzerland, Portugal and the United Kingdom. Following this path, at the beginning of 2009 we have acquired the company Derpin, which will strengthen the activity of Befesa in the treatment and recycling of solvents and other industrial waste in Catalonia (Spain). We have also started an international expansion capitalizing on the experience obtained in local projects.

Water. In desalination, Befesa has significant international presence in important and strategic markets.

Throughout 2008 Befesa has continued its expansion in international markets by the construction of desalination and water treatment plants. We have established ourselves as a local company in China, India and the United States, and opened commercial offices and branches in the Persian Gulf.

At present, Befesa have a desalination capacity of 550,000 m³/day in operation and 660,000 m³/day under construction. And we continue to grow by the development of competitive tenders and proposals for new desalination plants that enable us to get new projects.

The water and the desalination activity in particular is a basic pillar in the future growth of Befesa, and this activity is precisely the least affected by the world economic downturn. The strategic priorities for 2009 include the attainment of new projects in those markets in which we are already present, as well as the consolidation of our presence in the U.S. market.

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In Befesa we continue to heavily invest in R&D, aimed at the creation of value through the development of new technologies that contribute to sustainable development.

The strategic plan for R&D in Befesa is implemented through a number of projects and initiatives in each one of the Befesa business units. We currently have a portfolio of over 30 R&D open projects, all of them in different stages of development.

The R&D investments and programs are targeted at attaining the objectives that form the strategic plan. During 2008 we invested more than 4 M€ in R&D, an increase of 115% with respect to the 1.9 M€ invested in 2007, and clearly reflecting the key role that R&D plays in Befesa.

As I mentioned earlier, among the R&D milestones, I would like to highlight the construction of the Befesa R&D Centre, which startup is planned for middle 2009.

In Human Resources, the average number of employees in the past year was 2,263 people, although at the close of 2008 the Befesa

workforce consisted of 2,362 people. We have increased our workforce by 20%, as compared to the average number of employees in 2007 of 1,969. This increase reflects the growth in the water division, where the average workforce has increased by 60%.

In Befesa we consider corporate social responsibility as one of the main pillars of our present and future strategy. This is why we incorporate corporate social responsibility values to our day-to-day activities, naturally integrating them into our strategy, culture and organization through our management, environmental policy, quality and human resource systems. Similarly, we promote and respect Human Rights in Befesa, encouraging the creation of links with the communities where we undertake our activities, serving to reinforce the long-term relationship between the company and society.

In Befesa, we manage the emissions of greenhouse gases and we have embarked upon the implementation of an ambitious plan aimed at measuring and controlling our emissions and those of our suppliers annually, as well as commence actions for the reduction of such emissions. This is

a highly demanding initiative that illustrates our commitment to sustainable development and with which we seek to remain ahead of the most demanding regulations in the future.

Following our commitment to transparency and with the aim of continuing to guarantee the reliability of the financial information reported 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.

In summary, 2008 was a year in which Befesa continued its sustainable growth, and in which we made some highly significant achievements. Furthermore, our growth strategy based on sustainable development continues to be completely valid. Therefore in Befesa we are prepared to face 2009 with the objective of continuing contributing to a more sustainable world while creating value for our shareholders.

Javier Molina Montes
Chairman of Befesa