

# **Annual Corporate Governance Report**

**Listed Public Limited Companies**

**Identification Details of the Issuer**

**End of year Date: 31/12/2010**

**Tax ID code (CIF): A-80689052**

**Company Name: Befesa Medio Ambiente, S.A.**

## Annual Corporate Governance Report Form for Listed Public Limited Companies

In order to better understand the form and to subsequently complete it, please read the instructions that appear at the end of this report.

### A. Structure of the Company

A.1 Complete the following table regarding the share capital of the company:

Date of last modification	Share capital (Euros)	No. of shares	No. of voting rights
21/06/2001	81,611,572.00	27,113,479	27,113,479

Indicate if different share classes exist with different associated rights:

No

A.2 Give details of direct and indirect significant shareholders in your company as at the end of the year, excluding directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Proyectos De Inversiones Medioambientales, S.L.	22,597,338	0	83.344
Abengoa, S.A.	3,805,639	0	14.036

Indicate the most significant events in the shareholding structure of the company during the year:

A.3 Complete the following tables about the members of the company's Board of Directors that hold voting rights from shares in the company:

<b>Name or company name of the director</b>	<b>Number of direct voting rights</b>	<b>Number of indirect voting rights (*)</b>	<b>% of total voting rights</b>
Mr Javier Molina Montes	27,669	0	0.102
Mr Manuel Barrenechea Guimon	1,000	0	0.004
Mr Manuel Alejandro Blanco Losada	720	0	0.003
Ms Mercedes Sundheim Losada	10	0	0.000
Mr Rafael Escuredo Rodríguez	100	0	0.000

<b>% of total voting rights attributable to the Board</b>	0.109
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Complete the following tables about members of the company's Board of Directors that hold rights from shares in the company:

A.4 Indicate, if appropriate, the relationships of a family, commercial, contractual or corporate nature that exist between the significant shareholders, in so far as they are known by the company, unless they have little relevance or are derived from the ordinary commercial business of the company:

A.5 Indicate, if appropriate, the relationships of a commercial, contractual or corporate nature that exist between the significant shareholders, and the company and/or its group, unless they have little relevance or are derived from the ordinary commercial business of the company:

A.6 Indicate if the company has been notified of any shareholder agreements that affect it, according to Article 112 of the Spanish Securities Market Act (LMV). If appropriate, describe them briefly and list the shareholders connected by the agreement:

No

Indicate if the company is aware of the existence of arranged actions among its shareholders. Give a brief description, if appropriate:

No

In the event of any modification or termination of these pacts, agreements or agreed actions during the year, please describe them below:

Not applicable.

A.7 State if any individual or legal entity exercises or could exercise control over the company according to Article 4 of the LMV. State the detail here, if appropriate:

Yes

Name or company name
Proyectos de Inversiones Medioambientales, S.L.

Comments
Proyectos de Inversiones Medioambientales, S.L. holds more than 50% of the company's share capital with the right to vote, in accordance with Article 4 of the LMV.

A.8 Complete the following tables regarding the company's treasury stock:

At the end of the year:

Number of direct shares	Number of indirect shares (*)	% total of share capital
0	0	0.000

(\*) Through:

<b>Total</b>	0
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Describe the significant changes, according to Royal Decree 1362/2007, carried out during the year:

<b>Capital gain/(loss) from disposals of treasury stock during the period (€000s)</b>	0
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A.9 Describe the conditions and the term of the current mandate from the Shareholders' Meeting to the Board of Directors to carry out acquisitions or transfers of treasury stock.

As at 31.12.2010 the company held no treasury stock, nor had it acquired any of its own shares during 2010.

The Ordinary General Shareholders' Meeting of 15 April 2010 agreed to authorise the Board of Directors to make derivative trading acquisitions of shares in the company, directly or via subsidiary or investee companies, up to the maximum limit established in the prevailing provisions, at a price between 5 Euros and 100 Euros per share, making use of this authorisation during a period of eighteen (18) months from the above date, and subject to the provisions in Section 4 of Chapter Four of the Consolidated Text of the Spanish Public Limited Companies Act (Texto Refundido de la Ley de Sociedades Anónimas), annulling the authorisation granted by the previous Ordinary General Shareholders' Meeting, which was not used.

To date, the Board of Directors has not made use of the above authorisation.

A.10 Indicate, if appropriate, the legal and statutory restrictions on exercising voting rights, as well as the legal restrictions on acquiring or transferring shareholdings in the company. State if there are legal restrictions on exercising voting rights:

No

<b>Maximum percentage of voting rights that a single shareholder can exercise due to legal restrictions</b>	0
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Indicate if there are statutory restrictions on exercising voting rights:

No

<b>Maximum percentage of voting rights that a single shareholder can exercise due to statutory restrictions</b>	0
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Indicate if there are legal restrictions on acquiring or transferring shareholdings in the company's capital:

No

A.11 State if the General Shareholders' Meeting has agreed to adopt neutralisation measures against takeover bids, pursuant to Law 6/2007.

No

If yes, explain the approved measures and the terms under which the restrictions would be lifted.

## B. Administrative Structure of the Company

### B.1 Board of Directors

B.1.1 State the maximum and minimum number of directors established in the bylaws:

<b>Maximum number of directors</b>	12
<b>Minimum number of directors</b>	3

B.1.2 Complete the following table with the members of the Board:

<b>Name or corporate name of director procedure</b>	<b>Representative</b>	<b>Position on Board</b>	<b>First Appt.</b>	<b>Last Appt.</b>	<b>Election</b>
Mr Javier Molina Montes	--	Chairman	11/07/2000	17/04/2008	Vote at General Shareholders' Meeting
Mr Manuel Barrenechea Guimon	--	Vice-chairman	11/07/2000	17/04/2008	Vote at General Shareholders' Meeting
Mr Antonio Marín Hita	--	Director	15/04/2009	15/04/2009	Vote at General Shareholders' Meeting
Mr Jorge Guarner Muñoz	--	Director	22/06/2004	15/04/2009	Vote at General Shareholders' Meeting

Name or corporate name of director procedure	Representative	Position on Board	First Appt.	Last Appt.	Election
Mr Manuel Alejandro Blanco Losada	--	Director	18/06/2002	15/04/2010	Vote at General Shareholders' Meeting
Ms Maria José Rivero Menéndez	--	Director	25/04/2006	15/04/2010	Vote at General Shareholders' Meeting
Ms Mercedes Sundheim Losada	--	Director	21/10/2009	15/04/2010	Vote at General S'holders' Meeting
Mr Rafael Escuredo Rodríguez	--	Director	17/04/2008	17/04/2008	Vote at General Shareholders' Meeting
Mr Salvador Martos Hinojosa	--	Director	11/07/2000	17/04/2008	Vote at General Shareholders' Meeting

<b>Total number of directors</b>	<b>9</b>
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Indicate if any directors have left the Board of Directors during the period:

Name or corporate name of director	Type of director at time of departure	Date of Departure
Ms Mercedes Sundheim Losada	Shareholder Director	31/12/2010

B.1.3 Complete the following tables about the members of the Board and their different statuses:

#### Executive Directors

Name of director	Committee that proposed their appointment	Position in the company's organisation chart
Mr Javier Molina Montes	Appointments and Remuneration Committee	Chairman
Mr Antonio Marín Hita	Appointments and Remuneration Committee	General Counsel and General Secretary

<b>Total number of executive directors</b>	2
<b>Total % of Board</b>	22.222

#### External Shareholder Directors

<b>Name or corporate name shareholder</b>	<b>Committee that proposed their appointment</b>	<b>Name or corporate name of the significant represented or that proposed the appointment</b>
Mr Manuel Barrenechea Guimon	Appointments and Remuneration Committee	Proyectos de Inversiones Medioambientales, S.L.
Ms Mercedes Sundheim Losada	Appointments and Remuneration Committee	Abengoa, S.A.
Mr Salvador Martos Hinojosa	Appointments and Remuneration Committee	Proyectos de Inversiones Medioambientales, S.L.

<b>Total number of shareholder directors</b>	<b>3</b>
<b>Total % of Board</b>	<b>33.333</b>

#### Independent External Directors

**Director name**

Mr Jorge Guarner Muñoz

**Profile**

Independent External Director

Jorge Guarner Muñoz holds a doctorate in industrial engineering and an MBA from the IESE business school. He has been a member of the Management Committee of Acerinox, S.A. and Chairman of the European Stainless Steel Association. He is currently President of AESTE (State association for the senior citizen's sector), a member of the Board of Directors of the CEOE (Confederation of Employers and Industries of Spain) and General Manager and Director of Grupo SAR (the leading residential services management company in Spain).

**Director name**

Mr Manuel Alejandro Blanco Losada

**Profile**

Independent External Director

Doctor of Economic Sciences from the Universidad Autónoma de Madrid. He has been the General Manager for Planning of Tabacalera, General Manager for Corporate Planning of Telefónica and a Director of Telefónica Móviles, Telefónica de Argentina and Telefónica Internacional. He has also held the position of First Vice-chairman of Cajamadrid and has been a Director of the financial corporation of Cajamadrid. He is currently Chairman of Predicciones Macroeconómicas and writes articles and features on economics.

**Director name**

Ms. Maria José Rivero Menéndez

**Profile**

Independent External Director

Maria José Rivero Menéndez holds a doctorate in economics and business studies from the Universidad Complutense of Madrid specialising in Financial Economics and Accounting II 1988, with Extraordinary Prize. Her thesis was entitled "American corporate valuation methods". She is a Certified Public Accountant and a member of the Official Register of Auditors of Spain, titular lecturer of Financial Economics and Accounting II at the Universidad Complutense of Madrid.

1989. Accounting Area and titular lecturer of management accounting and analysis of financial statements at CUNEF, the University Centre for Financial Studies. She also writes articles on finance and accounting matters and is an executive partner of Dimasoft S.L., which specialises in IT security and internet consultancy.

**Director name**

Mr Rafael Escuredo Rodríguez

**Profile**

Independent External Director

Rafael Escuredo Rodríguez is a lawyer and a writer. Former President of the regional government of Andalusia. He is currently a member of the Advisory Board of the regional government of Andalusia, Chairman of the Economic Forum of Andalusia (*Tribuna Económica de Andalucía*), a member of the Spanish Advisory Board for the Modernisation of the Status of the Autonomous Regions, and a member of the Advisory Board of Accenture.

<b>Total number of independent directors</b>	4
<b>Total % of Board</b>	44.444

Other External Directors

State the reasons why they cannot be considered as shareholder or independent directors, and their relationships, either with the company, its managers or its shareholders:

Indicate the changes that, if appropriate, have occurred to the status of each director during the period:

B.1.4 Explain, if appropriate, the reasons why shareholder directors have been appointed at the request of shareholders whose holding is less than 5% of the capital.

Indicate if formal requests for representation on the Board from shareholders whose shareholding is equal to or greater than other shareholders at whose request shareholder directors have been appointed, have not been acted upon. Explain the reasons why they have not been acted on, if appropriate.

No

B.1.5 Indicate if any director has left his/her position prior to the completion of his/her term; if the director has explained his/her reasons and by what means, to the Board; and, in the event that a written communication was sent to every Board member, explain the reasons given:

Yes

**Name of the director**

Ms. Mercedes Sundheim Losada

**Reason for departure**

She submitted her resignation directly to the Board of Directors for personal reasons.

B.1.6. State the powers that have been delegated to the CEO(s), if they exist:

B.1.7 Identify, if appropriate, the members of the Board that hold directorships or management positions in other companies that form part of the group of the listed company:

<b>Name or corporate name of director</b>	<b>Corporate name of the group entity</b>	<b>Position</b>
Mr Javier Molina Montes	Alianza Medio Ambiental. S.L.	Chairman
Mr Javier Molina Montes	Befesa Agua. S.A.	Chairman
Mr Javier Molina Montes	Befesa Gestion de Residuos Industriales. S.L.	Chairman
Mr Javier Molina Montes	Befesa Reciclaje de Residuos de Aluminio. S.L.	Chairman
Mr Javier Molina Montes	Befesa Servicios Corporativos. S.A.U.	Chairman
Mr Javier Molina Montes	MRH Residuos Metálicos. S.L.U.	Chairman
Mr Manuel Barrenechea Guimon	Alianza Medio Ambiental. S.L.	Member

<b>Name or corporate name of director</b>	<b>Corporate name of the group entity</b>	<b>Position</b>
Mr Manuel Barrenechea Guimon	Befesa Desulfuración. S.A.	Chairman
Mr Manuel Barrenechea Guimon	Befesa Servicios Corporativos. S.A.U.	Member
Mr Antonio Marín Hita	Befesa Agua. S.A.	Member
Mr Antonio Marín Hita	Befesa Desulfuración. S.A.	Member
Mr Antonio Marín Hita	Befesa Gestión de Residuos Industriales. S.L.	Member
Mr Antonio Marín Hita	Befesa Reciclaje de Residuos de Aluminio. S.L.	Member
Mr Antonio Marín Hita	Befesa Servicios Corporativos. S.A.U.	Member
Mr Antonio Marín Hita	MRH Residuos Metálicos. S.L.U.	Member

B.1.8 State, if appropriate, the directors of your company that are members of the Board of Directors of other entities listed on official stock markets in Spain, other than companies in your group, and that the company has been notified of:

B.1.9 State, and if appropriate explain, if the company has rules on the number of boards that its directors may sit on:

No

B.1.10 In relation to Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that the plenary sessions of the Board has the right to approve:

<b>The investment and financing policy</b>	<b>Yes</b>
<b>The definition of the structure of the corporate group</b>	<b>Yes</b>
<b>The corporate governance policy</b>	<b>Yes</b>
<b>The corporate social responsibility policy</b>	<b>Yes</b>
<b>The strategic or business plan, as well as the annual management and budget objectives</b>	<b>Yes</b>
<b>The remuneration policy and the performance appraisals of senior managers</b>	<b>Yes</b>
<b>The risk management and control policy, as well as the periodic monitoring of the internal information and control systems</b>	<b>Yes</b>
<b>The dividend policy, as well as the policy on treasury stock, and their limits in particular</b>	<b>Yes</b>

B.1.11 Complete the following tables regarding the directors' combined remuneration accrued during the year:

a) In the company subject to this report:

Remuneration concept	Figures in €000s
Fixed Remuneration	458
Variable Remuneration	301
Allowances	358
Statutory Benefits	0
Share options and/or other financial instruments	0
Others	0

<b>Total</b>	1,117
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Other Benefits	Figures in €000s
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: Contractual obligations	0
Life insurance premiums	0
Guarantees given by the company in favour of directors	0

b) For the participation of company directors on other boards of directors and/or in the senior management of group companies:

Remuneration concept	Figures in €000s
Fixed Remuneration	0

Remuneration concept	Figures in €000s
Variable Remuneration	0
Allowances	0
Statutory Benefits	0
Share options and/or other financial instruments	0
Others	0

<b>Total</b>	<b>0</b>
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Other Benefits	Figures in €000s
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: Contractual obligations	0
Life insurance premiums	0
Guarantees given by the company in favour of directors	0

c) Total remuneration by type of director:

Type of director	By company	By group
Executive	778	0
External Shareholder	22	0
External Independent	317	0
Other External	0	0

<b>Total</b>	<b>1,117</b>	<b>0</b>
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d) In relation to the income attributable to the parent company

<b>Total directors' remuneration (in €000s)</b>	1,239
<b>Total directors' remuneration/income attributable to the parent company (expressed as a %)</b>	2.8

B.1.12 Identify the members of the senior management team that are not also executive directors and indicate their total remuneration for the year:

<b>Name or corporate name</b>	<b>Position</b>
Mr Federico Barredo Ardanza	General Manager of the Aluminium Waste Recycling Business Unit
Mr Guillermo Bravo Mancheño	General Manager of the Water Business Unit
Mr Ignacio García Hernández	Chief Financial Officer
Mr Alfredo Velasco Erquicia	General Manager for Planning and Corporate Development for Industrial Waste
Ms Carmen Medina Ariza	Human Resources Manager
Mr Juan Abaurre Llorente	General Manager of the Latin America Business Unit
Mr Santiago Ortiz Domínguez	General Manager of the Industrial Waste Management Business Unit
Mr Asier Zarronandia Ayo	General Manager of the Steel and Galvanisation Waste Business Unit
Mr Juan Albizu Etxebarria	Consolidation Manager and Management Control
Mr Rafael Pérez Gómez	Strategic Development Manager
Mr Gorka Ezquerro Tojo	Internal Audit Manager

<b>Total remuneration of senior management (€000s)</b>	1,908
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B.1.13 Indicate if, in general, there are guarantee or compensation clauses for cases of dismissal or changes in control, in favour of members of the senior management team, including executive directors of the company or its group. State if these contracts must be notified and/or approved by representative bodies of the company or its group:

<b>Number of beneficiaries</b>	0
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	<b>Board of Directors</b>	<b>General Shareholders' Meeting</b>
<b>Body that authorises the clauses</b>	No	No

<b>Is the General Shareholders' Meeting notified of the clauses?</b>	No
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B.1.14 State the process for determining the remuneration of the members of the Board of Directors and the relevant bylaw clauses:

<b>Process for determining the remuneration of members of the Board of Directors and the relevant bylaw clauses</b>
Set by the Appointments and Remuneration Committee (Article 27 of the Regulations of the Board of Directors, and Article 3 of the Regulations of the Appointments and Remuneration Committee), Article 17 of the company's bylaws and the report on the remuneration policy for directors, submitted to the General Meeting.

Indicate if the plenary sessions of the Board are reserved for approving the following decisions:

<b>The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the CEO of the company.</b>	Yes
<b>The remuneration of directors, as well as in the case of executives, any additional remuneration for executive responsibilities and any other conditions that their contracts should reflect.</b>	Yes

B.1.15 Indicate if the Board of Directors approves a detailed remuneration policy, and specify the issues that it decides on:

Yes

<b>Amount of the fixed components, with a breakdown, if appropriate, of the expenses for participating on the Board and on its committees and an estimate of the annual fixed remuneration provided</b>	Yes
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<b>Variable remuneration concepts</b>	Yes
<b>Principal characteristics of the income security programs with an estimate of their amount or equivalent annual cost</b>	Yes
<b>Conditions that must apply to the contracts of those who hold senior management positions, such as executive directors</b>	Yes

B.1.16 Indicate if the Board submits a report on the remuneration policy of the directors as a separate point on the agenda to be voted on by the General Shareholders' Meeting, for consultation purposes. If appropriate, explain the aspects of the report in relation to the remuneration policy approved by the Board for future years, the most significant changes in these policies compared to the policy applied during the year and an overview of how the remuneration policy was applied during the year. Describe the role carried out by the Remuneration Committee and if external advice has been used, identify the external consultants that may have provided it:

Yes

<b>Issues defined in the remuneration policy</b>
<p>The remuneration policy establishes the amount of the fixed components and the variable remuneration concepts.</p> <p>During 2010 the Appointments and Remuneration Committee reported on the following:</p> <ul style="list-style-type: none"> <li>(i) Monitoring and evolution of the remuneration of the members of the Board of Directors and of the senior management of the Company.</li> <li>(ii) Analysis and approval of the plans for retaining Befesa's managers.</li> <li>(iii) Proposal for the remuneration of the members of the Board of Directors and of the senior management of the Company.</li> <li>(iv) Preparation of the corresponding information to be included in the financial statements.</li> <li>(v) Reports on market studies carried out by independent experts and remuneration comparisons.</li> <li>(vi) Proposals of appointments and removals of directors and the Secretary of the Board: <ul style="list-style-type: none"> <li>i. Proposal to the Board to re-elect as directors Ms. María José Rivero Menéndez and Mr Manuel Alejandro Blanco Losada.</li> <li>ii. Proposal to the Board to appoint Ms Mercedes Sundheim Losada as a new Director.</li> <li>iii. Proposal to appoint Ms. Guadalupe Sundheim Losada as a new director, by co-optation, effective 1 January 2011 until the next General Shareholders' Meeting, to replace Ms. Mercedes Sundheim Losada who resigned with effect on 31 December 2010.</li> <li>iv. Resignation of Mr. Alfonso Castresana Alonso de Prado from his position as Director and Secretary of the Board of Directors and of the Audit Committee.</li> <li>v. Re-appointment of Mr Antonio Marín Hita as Secretary of the Board of Directors and of the Audit Committee</li> </ul> </li> <li>(vii) Proposal to the Board of Directors to approve the annual report on the Directors' Remuneration Policy.</li> <li>(viii) The report to verify that the conditions for appointing directors and the characteristics and type of directorships, have been met.</li> <li>(ix) The proposal to the Board of Directors on the remuneration of Board members and the CEO.</li> <li>(x) Report to assess the functioning of the Board of Directors and its committees and the degree of compliance with the rules established in the regulations of the Board and of the Shareholders' General Meeting and other internal regulations.</li> </ul>

<b>Role of the Remuneration Committee</b>
Preparing the reasoned proposal to the Board of Directors.

<b>Has it used external advice?</b>	Yes
<b>Identity of the external consultants</b>	
Three independent external consultancy firms.	

B.1.17 Indicate, if appropriate, the identity of the members of the Board that may also be members of the Board of Directors, managers or employees of companies that hold significant shareholdings in the listed company and/or in entities of its group:

<b>Name or corporate name of the director</b>	<b>Company name of the significant shareholder</b>	<b>Position</b>
Mr Javier Molina Montes	Proyectos de Inversiones Medioambientales, S.L.	Chairman of the Board of Directors
Mr Javier Molina Montes	Abengoa, S.A.	Manager of the Environmental Services Business Group
Mr Javier Molina Montes	Gestión Integral de Recursos Humanos S.A.	Member
Mr Javier Molina Montes	Simosa IT, S.A.	Member
Mr Manuel Barrenechea Guimon	Proyectos de Inversiones Medioambientales, S.L.	Member
Mr Antonio Marín Hita	Proyectos de Inversiones Medioambientales, S.L.	Secretary of the Board of Directors
Mr Antonio Marín Hita	Asa Environment & Energy Holding AG, ZUG	Chairman of the Board of Directors

State, if appropriate, the relevant relationships other than those in the point above, of members of the Board of Directors that links them with significant shareholders and/or in entities in the group:

**Name of the connected director**

Mr Manuel Barrenechea Guimon

**Name of connected significant shareholder**

Befesa Medio Ambiente, S.A.

**Description of relationship**

Termination of the employment relationship due to retirement.

**Name of the connected director**

Mr Salvador Martos Hinojosa

**Name of connected significant shareholder**

Abengoa, S.A.

**Description of relationship**

Termination of the employment relationship due to retirement.

B.1.18 State if there has been any modification to the regulations of the Board during the year:

Yes

Description of the modifications
In its meeting of 29 July 2010, the Board of Directors agreed on a protocol governing related transactions and activities agreed between Abengoa, S.A. and the Company governing relations between both companies, their respective operating scopes and information flows, and the related operations that they may agree between them, in accordance with Recommendation Two of the Unified Code of Good Governance.
Likewise, the Board of Directors agreed to modify the regulations of the Board of Directors to adapt its content to the aforementioned protocol, in Article 4, 5 and 26.
The protocol was signed on 22 December 2010 when the modifications of the regulations of the Board came into effect.

B.1.19 State the procedures for appointing, re-electing, assessing and removing directors. Give the competent bodies, the procedures to be followed and the criteria used in each of the procedures.

The Appointments and Remuneration Committee is the competent body in all cases and prepares the reasoned proposal to the Board of Directors, based on criteria of independence and professionalism established in the Regulations of the Board and the Regulations of the Committee.

The evaluation of the performance of directors and executive directors is made at the request of the Appointments and Remuneration Committee by means of a reasoned report to the Board at its meeting in the following first quarter of the year. This is carried out once the previous year has ended and at least the estimates for the end of the accounting year have been obtained, or are at least known, as well as the audit report, which are essential as evaluation criteria.

B.1.20 State the cases in which directors are obliged to resign.

In accordance with Article 12 of the Internal Regulation of the Board of Directors, directors shall step down from the position when the term for which they were appointed has expired, and in all other cases in accordance with the law, the bylaws and the aforementioned regulation.

Directors must surrender their position to the Board of Directors and agree to the corresponding resignation, if the Board deems it appropriate, in the following cases:

- a) When they may be involved in any of the legally established cases of incompatibility or prohibition.
- b) When they are significantly sanctioned by a public authority for having failed in their obligations as a director.
- c) When the Board requests their resignation for having failed in their obligations as a director.

Once this period has been completed or upon resignation or termination from the position for any other reason, the person may not provide his/her services to another competing entity for a period of two years, unless the Board of Directors agrees to waive this obligation or reduces the duration.

B.1.21 Explain if the function of chief executive of the company is held by the chairman of the Board. If yes, state the measures that have been taken to limit the risks of concentration of power in a single person:Yes

### Measures to limit risks

In accordance with Article 20 of the Regulations of the Board, the function of the chief executive of the company is held by the Chairman of the Board of Directors, and as such this position entails the effective management of the businesses of the company, always pursuant to the decisions and criteria set by the General Shareholders' Meeting and the Board of Directors. This position is also responsible for implementing the resolutions of the Board of Directors.

In accordance with Article 22 and following articles of the Company's bylaws, the Board of Directors created the Audit Committee and the Appointments and Remuneration Committee on 18 December 2002 and 24 April 2003 respectively.

These committees may not delegate their inherent powers appointed to them according to law, the Company's bylaws and their respective internal regulations, and are constituted as bodies for control and supervision bodies of the areas within their mandate.

Both committees comprise three independent non-executive directors and the chairman of each committee is therefore an independent non-executive director.

State and explain, if appropriate, if rules have been established to authorise one of the independent directors to call meetings of the Board or to include new points on the agenda, in order to coordinate and represent the concerns of the external directors, and to manage the evaluation by the Board.

Yes

### Explanation of the rules

The Board of Directors currently comprises nine members. The regulations of the Board of Directors govern the composition, functions and internal structure of the Board. There is also an internal code of conduct on matters relating to the stock market which is applicable to the members of the Board of Directors, senior management and all those employees who could be affected by its content due to their position or responsibilities in the company. The Regulation on General Shareholders' Meetings governs the formal aspects and internal procedures of holding shareholders' meetings. Finally, the Board of Directors is supported by the Audit Committee and the Appointments and Remuneration Committee, which have their own respective internal regulations. All of these regulations form part of a consolidated text of the Internal Regulations for Corporate Governance, which is available on the website of the company, [www.befesa.es](http://www.befesa.es). Since it was created, the Appointments and Remuneration Committee has analysed the structure of the company's administrative bodies and has sought to adapt them to the recommendations on corporate governance, with special emphasis on the historic and special configuration of these bodies in Befesa. In line with this analysis, in December 2007 the Committee recommended the creation of the figure of a Coordinator Director, which was approved by the Board of Directors on 18 December 2007. Mr Manuel Blanco Losada was appointed as Coordinator Director in his role as an independent director.

B.1.22 Are supermajorities required, except when legally, for any type of decision?

No

State how resolutions of the Board of Directors are adopted, indicating at least the minimum quorum and the type of majority required to pass resolutions:

#### Description of the resolution:

All, except those established by law

Quorum	%
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Half plus one	51.00
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Type of majority	%
Simple	51.00

**Description of the resolution:**

Delegation of powers

Quorum	%
Half plus one	51.00

Type of majority	%
Two thirds	66.67

B.1.23 State if there are specific requirements, other than those relating to directors, in order to be appointed as chairman.

No

B.1.24 State if the chairman has the casting vote:

No

B.1.25 State if the bylaws or the regulations of the Board establish a limit on the age of directors:

No

Age limit chairman	Age limit CEO	Age limit directors
0	0	0

B.1.26 State if the bylaws or the regulations of the Board establish a limited term for independent directors:

No

<b>Maximum number of years in term</b>	0
--	---

B.1.27 In the event of few or no female directors, explain the reasons and initiatives taken to correct this situation.

<b>Explanation of the reasons and initiatives</b>
<p>The Board of Directors of the company comprises seven male directors and two female directors, Ms María José Rivero Menéndez, appointed by the General Shareholders' Meeting of 25 April 2006 and re-elected at the General Shareholders' Meeting of 15 April 2010, and Ms. Mercedes Sundheim Losada, who was initially co-opted following the resignation of the director Ms. Guadalupe Sundheim Losada, for personal reasons, and appointed by the General Shareholders' Meeting of 15 April 2010.</p> <p>The internal policy of the company, which is principally reflected in the company's Code of Conduct and in its recruitment and employment procedures, prohibits any measure, action or omission based on discriminatory grounds.</p>

In particular, indicate if the Appointments and Remuneration Committee has established procedures so that selection processes do not suffer from implicit bias that hinders the selection of female directors, and deliberately seeks candidates that match the profile required:

Yes

<b>Indicate the principal procedures</b>
There are no discriminatory measures. Of the nine members currently on the Board, two are female (22%).

B.1.28 State if there are formal processes for delegating votes in the Board of Directors. Describe them here briefly, if appropriate.

There are none.

Section Three of Article 20 of the company's bylaws establishes that any director can expressly confer his/her representation in writing to another director for a specific meeting.

B.1.29 State the number of meetings that the Board of Directors has held during the year. Also indicate, if appropriate, the number of times that the Board has met without its chairman attending:

<b>Number of meetings of the Board</b>	11
<b>Number of meetings of the Board without the presence of the Chairman</b>	0

State the number of meetings that the various committees of the Board have held during the year:

<b>Number of meetings of the Executive or Delegate Committee</b>	0
--	---

<b>Number of meetings of the Audit Committee</b>	7
<b>Number of meetings of the Appointments and Remuneration Committee</b>	3
<b>Number of meetings of the Appointments Committee</b>	0
<b>Number of meetings of the Remuneration Committee</b>	0

B.1.30 State the number of meetings that the Board of Directors has held during the year without the attendance of all its members. The calculation of non-attendance includes representations made without specific instructions:

<b>Number of absent directors during the year</b>	0
<b>% absences of the total number of votes during the year</b>	0.000

B.1.31 State if the individual and consolidated financial statements that are presented to the Board to be approved are certified in advance:

Yes

Identify, if appropriate, the person(s) that have certified the Company's individual and consolidated financial statements to be drafted by the Board:

<b>Name</b>	<b>Position</b>
Mr Juan Albizu Etxebarria	Consolidation Manager and Management Control

B.1.32 Explain, if they exist, the mechanisms established by the Board of Directors to prevent the individual and consolidated financial statements drafted by it from being submitted to the General Shareholders' Meeting with reservations in the audit report.

The risk control system, the internal audit services and the Audit Committee to which they both report, are the mechanisms for control and periodic and recurrent supervision, which anticipate, and if appropriate, resolve potential situations that if left unchecked, could give rise to an incorrect accounting treatment.

B.1.33 Is the Secretary of the Board also a director?

Yes

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating if the appointment and removal are notified by the Appointments Committee and approved by a plenary session of the Board.

<b>Appointment and removal procedure</b>
Justified proposal of the Appointments and Remuneration Committee, in accordance with Article 27.1 of the Regulations of the Board and Article 3 of the regulations of this committee.

<b>Does the Appointments Committee report on appointments?</b>	Yes
<b>Does the Appointments Committee report on removals?</b>	Yes
<b>Does a plenary session of the Board approve appointments?</b>	Yes
<b>Does a plenary session of the Board approve removals?</b>	Yes

Is the Secretary of the Board responsible for monitoring the recommendations on good governance in particular?

Yes

B.1.35 State, if they exist, the mechanisms established by the company to ensure the independence of the auditor, the financial analysts, the investment banks and the ratings agencies.

The Audit Committee is wholly comprised of independent, non-executive directors, in compliance with the requirements of the legislation on good governance and the Financial System Reform Act (*Ley de Reforma del Sistema Financiero*) in particular. Furthermore, the position of chairman of this committee must also be held by an independent director in accordance with Article 2 of the internal regulations.

The Audit Committee has the following duties and responsibilities, among others, in accordance with Article 3 of the aforementioned regulation:

- (i) Report on the annual, half-yearly and quarterly financial statements that must be submitted to the regulatory or market supervision entities, mentioning the internal control systems, the control over their monitoring and compliance through internal audit, as well as the accounting criteria applied, when applicable.
- (ii) Inform the Board of any change in accounting criteria and about on and off-balance sheet risks.
- (iii) Explain any issues that shareholders may raise in the General Shareholders' Meeting in relation to its area of competence.
- (iv) Propose the appointment of the external accounts auditors to the Board of Directors to be put to the vote at the General Shareholders' Meeting.

(v) Supervise the internal audit services. The Committee will have full access to the internal audit and will report during any process to select, appoint, re-elect and remove its manager. It will also control the setting of the Audit Manager's remuneration, and must report on the budget of the Audit Department.

(vi) Understand the financial information process and the company's internal control systems.

(vii) Maintain contact with the external auditors in order to receive information about any issues that may prejudice the independence of the auditors and any other issues related to the process of auditing the accounts.

(viii) Summon the directors that it deems appropriate to the meetings of the Committee to report on the issues that the Audit Committee agrees.

(ix) Draft an annual report on the activities of the Audit Committee that must be included in the management report.

B.1.36 State if during the year the Company has changed its external auditor. If yes, please identify the incoming and outgoing auditors:

No

Outgoing auditor	Incoming auditor

In the event that there were disagreements with the outgoing auditor, explain the content of such disputes:

No

B.1.37 State if the audit firm carries out other work for the company and/or its group, other than audit work and if relevant, state the amount of fees paid for these tasks and the percentage that these fees represent of the total invoiced to the company and/or its group:

Yes

	Company	Group	Total
<b>Amount for other work other than that of the audit (€000s)</b>	0	15	15
<b>Amount for other work other than that of the audit/ Total amount invoiced by the audit firm (as %)</b>	0.000	1.59	1.59

B.1.38 State if the audit report of the financial statements for the previous year included qualifications or reservations. If appropriate, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of these qualifications or reservations.

No

B.1.39 State the number of consecutive years that the current audit firm has carried out the audit of the financial statements of the company and/or its group. Furthermore, indicate the percentage represented by the number of years audited by the current audit firm over the total number of years that the financial statements have been audited.

	Company	Group
Number of consecutive years	2	2

	Company	Group
Nº of years audited by the current audit firm / Nº of years that the company has been audited(as a %)	11.1	11.1

B.1.40 Indicate the shareholdings of the members of the Board of Directors of the company in the capital of entities that have the same, similar or complementary type of activity as the company's corporate purpose, both in relation to the company and its group, and that the company has been notified of. Please also state the positions or duties that they hold in these companies:

B.1.41 State, and if relevant describe, if there is a procedure through which directors may access external advice:

Yes

Description of the procedure
<p>The Secretary of the Board of Directors has the duties that legally correspond to him, including correctly calling meetings and validly adopting the resolutions of the Board. The Secretary also advises the members of the Board on the legality of their deliberations and the agreements that they propose and on observing the Internal Regulations on Corporate Governance, as the formal and material upholder of the principle of legality, which governs the actions of the Board of Directors. The Secretary of the Board has the full support of the Board to carry out the functions that correspond to him, with full independence of criteria and stability, and is also responsible for ensuring adherence with the Internal Regulations on Corporate Governance. The role provides, <i>ex officio</i> or on behalf of the directors, the external advice required for the proper formation of the Board.</p> <p>The second paragraph of Article 18 of the Regulations of the Board states that, through the chairman of the Board of Directors, directors shall have the authority to propose to the Board of Directors, as a majority, to employ legal, accounting, technical, financial, commercial advisers, payable by the firm, or advisers of any other kind that it deems necessary in the interests of the company in order to help the directors carry out their duties in relation to specific problems of an identifiable nature and complexity connected to the performance of their role.</p> <p>In practice, the mere request for advice by a director of the Board, and more importantly by a director on the Audit Committee or on the Appointments and Remuneration Committee, implies an implicit consent to that request despite the literal text of the aforementioned Article 18.</p>

B.1.42 State, and describe if appropriate, if there is a procedure through which directors may access the information required to prepare for the meetings of the company's administrative bodies, sufficiently in advance:

Yes

#### **Description of the procedure**

The documentation is sent in advance of the meeting of the Board and/or made available to the Board in advance at the offices of the Board.

B.1.43 State, and if appropriate describe, if the company has established rules that require directors to report and, if appropriate, resign in those cases that may harm the company's credibility and reputation:

Yes

#### **Explain the rules**

In accordance with Article 12 of the Regulations of the Board, Directors must surrender their position to the Board of Directors and offer, if deemed appropriate, their resignation in the following cases:

- 1) When they may be involved in any of the legally established cases of incompatibility or prohibition.
- 2) When they have been significantly sanctioned by a public authority for having failed in their obligations as a director.
- 3) When the director so requests, for having infringed his/her obligations as a director.

Once the term has been completed or upon termination from the position for any other reason, the person may not provide services to another competing entity for a period of two years, except if the Board of Directors agrees to waive this obligation or reduces the duration.

Likewise, Section (p) of Article 13 of the aforementioned regulation establishes the obligation of directors to inform the company of all legal or administrative claims, or claims of any other type that, due to their significance, may have important consequences for the company.

B.1.44 State if any member of the Board of Directors has notified the company that he/she has been indicted or that the courts have ordered proceedings to commence against him/her in relation to the offences indicated in Article 124 of the Spanish Public Limited Companies Act:

No

Indicate if the Board of Directors has studied the case. If the response is yes, explain and give the reasons for the decision taken about whether the director continues or not in his/her position.

No

Decision taken	Justified explanation

## B.2. Committees of the Board of Directors

B.2.1 List all the committees of the Board of Directors and their members:

### Audit Committee

Name	Position	Type
Ms. Maria José Rivero Menéndez	Chairman	Independent
Mr Manuel Alejandro Blanco Losada	Member	Independent
Mr Rafael Escuredo Rodríguez	Member	Independent

### Appointments and Remuneration Committee

Name	Position	Type
Mr Rafael Escuredo Rodríguez	Chairman	Independent
Mr Jorge Guarner Muñoz	Member	Independent
Mr Manuel Alejandro Blanco Losada	Member	Independent

B.2.2 Indicate if the following duties correspond to the Audit Committee.

<b>Supervise the drafting process and the integrity of the financial information relating to the company, and to the group, as appropriate, reviewing the compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria</b>	Yes
<b>Periodically review the internal control and risk management systems so that the principal risks are identified, managed and appropriately recorded.</b>	Yes
<b>Monitor the independence and the efficiency of the internal audit function; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.</b>	Yes
<b>Establish and supervise a mechanism that allows employees to confidentially and, if appropriate, anonymously communicate potentially important irregularities, especially financial and accounting matters, which they may identify within the Company</b>	Yes
<b>Present the proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract, to the Board of Directors.</b>	Yes
<b>Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.</b>	Yes
<b>Ensure the independence of the external auditor</b>	Yes
<b>In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.</b>	Yes

B.2.3 Give a description of the rules governing the organisation and functioning, as well as the responsibilities of each committee of the Board.

**Committee name**

Appointments and Remuneration Committee

**Short description**

The Appointments and Remuneration Committee is wholly comprised of independent directors, in accordance with the requirements of the Financial System Reform Act (*Ley de Reforma del Sistema Financiero*). Furthermore, the position of chairman of this committee must be held by a non-executive director in accordance with Article 2 of its internal regulations.

A) The basic responsibilities and duties of the Appointments and Remuneration Committee include the following, in accordance with its internal regulations:

1. To notify the Board of Directors about appointments, re-elections and resignations from the Board and their responsibilities; and to inform the Board about the general policy on remuneration and incentives for directors and senior management.
2. To announce all the proposals that the Board of Directors makes to the Shareholders' Meeting to appoint or remove directors, including in cases of co-optation by the Board, in advance; and to annually verify that the conditions for appointing a director and those relating to the type and nature of the directorships assigned, are being upheld, all of which will be included in the Annual Report. The Appointments Committee shall ensure that, in the case of new vacancies, the selection procedures do not suffer from implicit bias that may hinder the selection of female directors and that women are included among the potential candidates that match the profile sought.
3. Draft an annual report on the activities of the Appointments and Remuneration Committee that must be included in the management report.

B) Organisation and functioning:

To complete its duties, the Appointments and Remuneration Committee will meet when necessary and at least once every six months.

- It shall be considered as validly constituted when the majority of its members are present. Attendance may only be delegated to other non-executive directors. The resolutions adopted shall be valid when the majority of the Committee's members, present or represented, vote in favour. In the case of a tie, the Chairman shall have the casting vote.

- To fulfil its duties, the Committee will meet when necessary and at least once every three months. In 2010, it met three times.

- The resolutions adopted shall be valid when the majority of the Committee's members, present or represented, vote in favour. In the case of a tie, the Chairman shall have the casting vote.

#### **Committee name**

Audit Committee

#### **Short description**

The Audit Committee is wholly comprised of independent directors, in compliance with the requirements of the legislation on good governance and the Financial System Reform Act (*Ley de Reforma del Sistema Financiero*) in particular. Furthermore, the position of chairman of this committee must be held by a non-executive director in accordance with Article 2 of the internal regulations.

A) Functions.

The Audit Committee has the following duties and responsibilities, in accordance with Article 3 of its regulations, among others:

1. In relation to information and internal control systems.

- a) Supervise the process of drafting the financial information and its integrity.
- b) Report on the annual, half-yearly and quarterly financial statements that must be filed with the regulatory or market supervision entities
- c) Periodically supervise the independence and efficiency of the internal control and risk management systems.
- d) Monitor and ensure the independence and effectiveness of the internal audit function, and supervise this area, with full access to the internal audit; propose the selection, appointment, re-election and dismissal if the manager of the internal audit service; propose the budget for this service and the remuneration of its manager; receive periodic information about its activities and on the budget for the service; and verify that the senior management takes the conclusions and recommendations in its reports into account.
- e) Establish and supervise a mechanism that allows employees to confidentially report potentially important irregularities, especially financial and accounting, proposing the appropriate corrective measures and approvals to the Board of Directors.
- f) Summon any employee or director of the Company.
- g) The Audit Committee shall notify the Board prior to adopting the corresponding decisions on the following issues:
  - (i) The financial information that the Company must periodically publish, as a listed company.
  - (ii) The creation or acquisition of shareholdings in special purpose vehicles or entities registered in countries or territories considered as tax havens, as well as any other similar transactions or operations.
  - (iii) Related transactions. For transactions within the ordinary course of company business, which are habitual or recurrent in nature, the report only has to refer to the generic authorisation of the Board of Directors for the line of operations and its terms and conditions.  
All transactions that simultaneously comply with the following three conditions shall be exempt from the need to be authorised by the Board of Directors, as well as from the report by the

Audit Committee:

- (1) That they are carried out under agreements with standardised conditions and that apply in a general way to numerous clients;
  - (2) That they are carried out at established rates or prices, which in general are set by the entity acting as the supplier of the good or service; and
  - (3) That their quantity does not exceed two per cent (2%) of Befesa's consolidated revenues in accordance with the audited annual accounts from the last year to have been finalised prior to the date of the transaction in question
- 
- (iv) Information regarding related transactions, which must be included in the six-monthly information and in the company's annual corporate governance report.
  - (v) The decision to (1) reject business opportunities, and/or (2) accept or reject sales offers of businesses or divisions that are dedicated to environmental activities belonging to companies that Abengoa, S.A. could eventually acquire, which in both cases will be communicated to the Company by Abengoa, S.A. in accordance with the protocol governing related transactions and activities agreed between Abengoa, S.A. and the Company (the "Protocol")
- 
- h) Supervise compliance with the Internal Code of Conduct in relation to the securities market and the policy on the Use of Relevant Information and the rules of corporate governance.
  - i) Supervise compliance of the Protocol signed with Abengoa, S.A. and periodically report to the Board about this compliance.
  - j) Inform the Board in advance about any proposal to modify this Protocol.
  - k) Make recommendations and formulate proposals to the Board to improve the Protocol within the framework of its competences.
  - l) Inform the Board of any changes in accounting criteria and about on and off-balance sheet risks.
  - m) Explain any issues that shareholders may ask about in the General Shareholders' Meeting in relation to its area of competence.
  - n) Summon the directors that it deems appropriate to the meetings of the Committee to report on the issues that the Audit Committee decides.
  - o) Draft an annual report on the activities of the Audit Committee that must be included in the management report.
- 
2. In relation to the external auditor:
- a) The proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract, shall be presented by the Board of Directors to the Shareholders' General Meeting.
  - b) Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.
  - c) Ensure the independence of the external auditor and therefore:
    - (i) That the Company notifies the CNMV of the change of auditor as a significant event and accompanies this disclosure with a statement about the existence of disputes with the outgoing auditor and the content of such disputes, if they exist;
    - (ii) That it ensures that the Company and the auditor comply with the prevailing regulations on the provision of services, other than audit services, the restrictions on the concentration of business with an auditor and, in general, any other regulations established to ensure auditors' independence;
    - (iii) In the case of the resignation of an external auditor, to examine the circumstances that may have caused it.
  - d) Support the Group auditor in taking responsibility for the audits of the companies that comprise it.
  - e) Maintain contact with the external auditors in order to receive information about any issues that may prejudice their independence, to be examined by the Audit Committee. It should receive an annual written confirmation from the external auditors regarding their independence in relation to the Company or companies that are directly or indirectly related to it, as well as information about additional services of any kind provided to these companies by the aforementioned auditor or by

g) persons or entities related to it in accordance with Law 19/1998 of 12 July on the auditing of accounts.

f) Annually issue, prior to issuance of the accounts audit report, a report expressing an opinion about the independence of the external auditor.

B) Organisation and functioning

To fulfil its duties, the Committee will meet when necessary and at least once every three months. In 2010, it met seven times.

The Audit Committee shall be considered as validly constituted when the majority of its members are present. Attendance may only be delegated to other non-executive directors.

B.2.4 State the powers that each committee has to advise, consult and, if appropriate, to delegate:

**Committee name**

Appointments and Remuneration Committee

**Short description**

To notify the Board of Directors about appointments, re-elections and resignations from the Board and their salaries and responsibilities; and to inform the Board about the general policy on remuneration and incentives for directors and senior management. To announce in advance all the proposals that the Board of Directors makes to the General Shareholders' Meeting to appoint or remove directors, including in cases of co-optation by the Board; and to annually verify that the conditions for appointing a director and those relating to the type and nature of the directorships assigned, are being upheld, all of which will be included in the Annual Report. The Appointments Committee shall ensure that, in the case of new vacancies, the selection procedures do not suffer from any implicit bias that may obstruct the selection of female directors and that women are included among the potential candidates that match the profile sought. Draft an annual report on the activities of the Appointments and Remuneration Committee that must be included in the management report.

**Committee name**

Audit Committee

**Short description**

Report on the annual, half-yearly and quarterly financial statements. Inform the Board of any changes in accounting criteria and about on and off-balance sheet risks. Explain any issues that shareholders may ask about in the General Shareholders' Meeting in relation to its area of competence. Propose the appointment of the external accounts auditors to the Board of Directors, to be put to the vote at the General Shareholders' Meeting.

B.2.5 Indicate, if appropriate, the existence of the regulations of the Board's committees, where they are available to be consulted and any modifications that have been carried out during the year. Also state if an annual report has been voluntarily drafted of the activities of each committee.

**Committee name**

Appointments and Remuneration Committee

**Short description**

The Regulations of the Appointments and Remuneration Committee are available on the company's website and from the Spanish Securities Market Commission (CNMV). They were last modified on 18 December 2007. The Committee prepares an annual activity report that is published as part of the Annual Report.

**Committee name**

Audit Committee

**Short description**

The Regulations of the Audit Committee are available on the company's website and from the Spanish Securities Market Commission (CNMV).

The most recent modifications were approved by the company's Board of Directors on 29 July 2010 to approve a protocol governing related transactions and activities between Abengoa, S.A. and the Company, governing relations between both companies, their respective operating scopes and flows of information, and the related transactions that may be agreed between them since they are both listed companies, in accordance with Recommendation Two of the Unified Code of Good Governance.

The Audit Committee regulations were amended to adapt them to the provisions of the aforementioned protocol as well as to the changes in the regulation of audit committees of listed companies introduced by Law 12/2010 of 30 June, which modifies Law 19/1988 of 12 July on accounts auditing; Law 24/1988 of 28 July on the securities market; and the consolidated text of the Spanish Public Limited Companies Act approved by Legislative Royal Decree 1564/1989 of 22 December, to adapt it to EU law.

The aforementioned protocol was signed on 22 December 2010, which also marked the date that the modifications (Article 3) agreed to the Audit Committee regulations came into effect.

The Committee prepares an annual activity report that is published as part of the Annual Report.

B.2.6 State if the composition of the executive committee reflects the participation of the different directors in the Board based on their status:

No

**If not, explain the composition of its executive committee**

The Company does not have an executive committee.

**C. Related Operations**

C.1 Indicate if the plenary session of the Board has the right to approve the operations that the company carries out with directors, significant shareholders or representatives on the Board, or with people related to them, upon prior receipt of a favourable report from the Audit Committee or any other committee to which the responsibility may have been allocated:

Yes

C.2 Describe the relevant operations that involve a transfer of funds or debentures between the company or entities in its group and the company's significant shareholders:

Name or corporate name of the significant shareholder	Name or corporate name of the company or entity of its group	Nature of the relationship	Type of operation	Amount (€000s)
Abengoa, S.A.	Befesa Medio Ambiente, S.A.	Service Contract	Provision of Services	8,028
Abengoa, S.A.	Befesa Medio Ambiente, S.A.	Reciprocal credit agreement	Financing agreements: loans and capital contributions (lender)	160,000

C.3 Detail the relevant operations that involve a transfer of funds or debentures between the company and entities in its group and the company's directors or managers:

C.4 Describe the relevant operations carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the normal operations of the company in relation to its purpose and conditions:

C.5 State if any of the members of the Board of Directors have found themselves in a position of conflict of interest during the year, according to Article 127 ter of the Spanish Public Limited Companies Act (LSA).

No

C.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and their directors, managers or significant shareholders.

The Audit Committee is the body responsible for supervising and resolving conflicts of interest. According to the Internal Regulations of the Board of Directors, Directors have an obligation to inform the Board of any potential conflicts of interest in advance and to abstain until the Committee has reached a decision.

On 29 July 2010 the Board of Directors approved a protocol governing related transactions and activities between Abengoa, S.A. and the Company governing relations between both companies, their respective operating scopes and flows of information, and the related transactions that may be agreed between them, in accordance with Recommendation Two of the Unified Code of Good Governance. The protocol was signed on 22 December 2010 and reported to the CNMV.

Pursuant to this protocol, in the event that Befesa's Board of Directors had to take a corporate decision that entails a conflict with the interests of Abengoa and its group of companies, the members of Befesa's Board of Directors appointed at Abengoa's request shall abstain from participating in any way in the corporate decision in question, in order to ensure that the objectivity and independence of the decisions taken by Befesa's Board are not potentially affected or influenced by external interests to Befesa. This rule shall also apply to any member of Befesa's Board of Directors that forms part of the administrative bodies of any Abengoa company, with regard to decisions that may involve a conflict with the interests of that company. The obligation to abstain mentioned in the above paragraph affects both participation in discussions as well as voting, whether it arises at a personal level or due to positions of representation.

The Audit Committee is responsible for supervising compliance with the protocol and periodically reporting to the Board on this matter.

C.7 Is more than one company in the Group listed in Spain?

No

Identify the subsidiary companies that are listed:

## D. Risk Control Systems

D.1 General description of the risk policy of the company and/or its group, detailing and evaluating the risks covered by the system, together with the justification of the appropriateness of these systems for each type of risk profile.

Befesa manages its risk using a model that aims to identify the potential risks in a business. This model considers four fundamental areas that are sub-divided into 20 risk categories, which contemplates more than 130 potential risks for a business.

Our model takes into account the following risk categories and areas:

- (i) Strategic Risks: corporate governance, strategic projects and R&D+i projects, mergers, acquisitions and divestments, planning and allocation of resources, market dynamics, and communications and relationships with investors.
- (ii) Operational Risks: human resources, information technology, physical assets, sales, supply chain, threats and catastrophes.
- (iii) Financial Risks: liquidity and credit, markets, taxation, capital structure, accounting and reporting.
- (iv) Regulatory Risks: regulations, legislation and codes of ethics and conduct.

Befesa's risk management structure is based on two fundamental pillars:

- a) the Common Management Systems
- b) Obligatory procedures (Sarbanes-Oxley Act)

a) the Common Management Systems

The SCGs include specific procedures that cover any action that may generate a risk to the organisation, both financial and non-financial. Furthermore, they are available to all employees in electronic format regardless of their geographical location or role.

Objectives

- Identify possible risks, which although inherent in all businesses, must be identified, mitigated and monitored.
- Optimise daily management, applying procedures that support financial efficiency, the reduction of expenses, and the standardisation and compatibility of information systems and management.
- Promote synergies and the creation of value by Befesa's various business units.
- Strengthen corporate identity, respecting the values shared by all Befesa companies.
- Achieve growth through strategic development, seeking innovation and new opportunities in the medium and long term.

The systems cover the whole of the organisation at three levels:

- All activity areas
- All levels of responsibility
- All types of operations

Our Common Management Systems represent a common culture for Befesa's different businesses and they comprise eleven rules. These systems identify the risks, the appropriate coverage as well as defining the control mechanisms.

Over the last few years the Common Management Systems have evolved and adapted to the new situations and environments in which Befesa operates, principally aimed at strengthening the risks, establishing the appropriate coverage for these risks and defining the control activities.

#### b) Obligatory Procedures (SOX)

The obligatory procedures are used to mitigate risks relating to the reliability of financial information through a combined system of procedures and control activities in key areas of the company, which aim to guarantee the reliability of the financial information and to prevent fraud.

As a result of our commitment to transparency, and in order to continue guaranteeing the reliability of the financial information produced by the company, we have continued to strengthen our internal control structure, adapting it to the requirements of Section 404 of the US Sarbanes Oxley Act (SOX). Once again we therefore wish to voluntarily submit the internal control system for the whole group to an independent evaluation process carried out external auditors in accordance with the auditing standards of the PCAOB (Public Company Accounting Oversight Board).

Compliance with the SOX is obligatory for all listed companies in the USA, which aims to guarantee the reliability of the financial information of these companies and to protect the interests of shareholders and investors by establishing an adequate control system. Befesa therefore believes that all its companies should comply with these requirements, which supplements the risk control model used by the company.

At Befesa we view this legal requirement as an opportunity to improve and instead of merely complying with the precepts included in the law, we have tried to develop our internal control structures, our control procedures and the evaluation procedures applied, as much as possible.

In order to comply with the requirements of Section 404 of the SOX, Befesa has redefined its internal control structure following a top-down approach based on risk analysis.

This analysis involves the initial identification of the important risk areas and the evaluation of the controls that the company has for them, beginning with those carried out at the highest level (corporate and supervision controls) and proceeding to evaluate the operational controls present in every process.

#### Risk management

Befesa is aware of the importance of managing its risks for appropriate strategic planning and to achieve the business objectives defined. It therefore has a philosophy that is structured around a series of shared beliefs and attitudes, which define how risk is taken into account, from the development and implementation of the strategy through to the company's daily activities.

Befesa defines risk as any potential event that may stop the company from achieving its business objectives. Befesa believes that risk arises as a loss of opportunities and/or strengths as well as being the realisation of a threat and/or the consolidation of a weakness.

Befesa's attitude with regards risk is to be aware and involved and to anticipate risks and the company's key risk management principles are as follows:

- To achieve the business objectives set, risks must be managed at all levels of the company, without exception.
- The Board will be responsible for supervising the efficiency of the company's internal control and risk management systems.

- Decisions are always taken in a consensual way with shared liability.
- Befesa's risk management system is fully integrated in
  - The strategic planning process
  - The definition of the business objectives
  - The daily operations to achieve these objectives
- The management of risks include their identification, evaluation, response, monitoring or tracking, and reporting them in line with the procedures designed for this purpose.
- Responses to risks must be consistent and fully appropriate for the business conditions and the economic environment.
- The management must regularly review the evaluation of its risks and the responses that it has designed.
- The activities of identifying, evaluating, addressing, tracking and reporting included in Befesa's risk management system should be monitored and reported on a regular basis.

Processes in the management of risk

The management of risk in Befesa is a continuous cycle based on five key stages:

1. Identify
2. Evaluate
3. Respond
4. Monitor
5. Report

Coherent and regular communication is essential in each stage to achieve good results. Being a continuous cycle, permanent feedback is important in order to continuously improve the risk management system. These processes are aimed at all of the company's risks.

D.2 Indicate if any of the different types of risk (operational, technological, financial, legal, reputational, tax...) have materialised during the year, which affect the company and/or its group:

No

If yes, indicate the circumstances that caused them and if the control systems established worked.

D.3 State if there is a committee or other governing body responsible for establishing and supervising these control mechanisms.

Yes

If yes, describe its functions.

**Name of the committee or body**

Audit Committee

**Description of functions**

See above sections B.2.2, B.2.3, B.2.4 and other references contained in this report.

The Audit Committee reports to the Board about any changes in accounting criteria and about on and off-balance sheet risk.

#### D.4 Identification and description of the processes to comply with the various regulations that affect your company and/or its group.

##### A) Design of the internal control systems:

Befesa understands that an appropriate internal control system must ensure that all the relevant financial information is reliable and available to the management. It therefore believes that the model developed and adapted to the Sarbanes Oxley Act (SOX) supplements and completes the company's Common Management Systems, which primarily aim to control and mitigate business risks.

The COSO model is used as the reference conceptual framework, since it is the closest to the approach required by the SOX, and it has also been presented to the Audit Committee. In this model, internal control is defined as the process carried out in order to provide a reasonable degree of security for achieving objectives such as compliance with laws and standards, the reliability of financial information and the effectiveness and efficiency of operations.

##### B) Supervision and control of the risk management model:

The supervision and control of Befesa's risk management model is structured around the joint audit services. These group together the audit teams of the companies, business units and corporate services, which act in a coordinated way and report to the Audit Committee of the Board of Directors.

##### General objectives

- . To prevent audit risks in companies, projects and activities in general, such as fraud, financial losses, operating inefficiencies and in general, any risks that could affect the performance of the business.
- . To control the application and promote the development of appropriate and efficient management procedures, in accordance with the corporate Common Management Systems.
- . To create value for Befesa, promoting the creation of synergies and the monitoring of optimal management practices.
- . To coordinate the criteria and approaches of the tasks carried out with the external auditors, in order to improve the efficiency and performance of both services.

##### Specific objectives

- . To evaluate the audit risk of Befesa's companies and projects based on 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 ties in with the evaluation of audit risks, it defines the work plans and requires an appropriate type of recommendation and report, and it must therefore be explicitly used in these documents.
- To steer and coordinate the planning process of the audit and internal control tasks of the companies and business groups; to define a notification procedure for those tasks and a communication procedure with the parties involved; and to establish a coding system for the tasks to allow them to be correctly controlled and monitored.
- . To define the communication process for the results of each audit task, the people that it affects, and the format of the documents in which the results are recorded.
- . To review the application of the plans, the appropriate execution and supervision of the tasks, the timely distribution of the results and the follow-up of the recommendations and their corresponding implementation.

#### 1. Financial Reporting.

The financial information of the group primarily consists of the consolidated financial statements that are published every quarter, as well as the complete individual and consolidated financial statements that are drafted annually.

This information is produced from the accounts reporting that all companies in the group are obliged to provide.

The information sent by each of the individual companies is verified by the internal auditors of the group as well as by the external auditors in order to ensure that the information is accurate and a true representation of the image of the company.

In the last few years, Befesa has made a significant effort to shorten the deadlines for presenting its financial information and it continues to work on developing new tools and information systems in response to the constant updates and changes in the reporting requirements for listed companies.

One of the most important and recurrent activities of the Audit Committee is the verification of the financial-economic information drawn up by the group before it is presented to the Board of Directors of Befesa and to the regulatory bodies of the Spanish stock market (CNMV).

The Committee has also been informed of all the relevant changes relating to the international accounting and financial reporting standards with regard to the work to review the financial statements and the processes followed to produce them.

## 2. Internal Audit.

The Audit Committee's functions include the "supervision of the internal audit services" and "understanding the financial information process, the internal control systems and the corresponding risks to the company".

In order to supervise the proficiency, suitability and effective functioning of the internal control and risk management systems, the Committee has been systematically informed during 2010, by the Corporate Internal Audit Manager, with regard to its activities, of the following:

- the Internal Audit Annual Plan and its degree of completion;
- the level of implementation of the issued recommendations;
- a description of the main areas reviewed and of the most significant conclusions, which include the risks audited and satisfactorily mitigated.
- other more detailed explanations that the Audit Committee has requested.

During 2010 the Audit Committee has received evidence of and has supervised some 75 tasks carried out by the Internal Audit Department (the Annual Audit Plan had 71 tasks scheduled for the year).

During the year, the Audit Committee has been periodically informed of the progress and conclusions of the internal audit tasks carried out that mainly comprise the auditing tasks of the financial statements, SOX internal control audits, audits of the Common Management Systems, reviews of critical projects and works, reviews of specific areas, as well as other tasks.

As a result of this work, some 28 recommendations have been issued, most of which were implemented by the end of the year.

One factor that has had a decisive influence on the number of recommendations issued has been the internal control audits carried out in accordance with PCAOB (Public Company Accounting Oversight Board) standards, based on the requirements of Section 404 of the Sarbanes-Oxley Act (SOX).

### 3. External Audit.

The functions of the Audit Committee include overseeing the independence of the external auditor, as well as proposing its appointment or renewal to the Board of Directors and approving its fees.

The auditor of the individual and consolidated financial statements of Befesa Medio Ambiente, S.A. is PricewaterhouseCoopers.

Other firms also collaborate in carrying out the audit, especially in the smaller companies in Spain and abroad, although their scope is not significant within the group as whole.

The assignment of audit tasks for the SOX (Sarbanes-Oxley Act) internal control has been carried out by the lead auditor, PricewaterhouseCoopers, since PCAOB (Public Company Accounting Oversight Board) rules require the firm that issues the opinion on the financial statements to be the same company that assesses the internal controls regarding their preparation, as a key factor in "integrated audits".

It is Befesa's policy that all the companies in the group receive an annual external audit, even though it may not be required as they do not fulfil the necessary legal requirements.

The total amount of the fees agreed with the external auditors for the 2010 audit, including the review of periodic information and the SOX audit, and its distribution, is shown in the following table:

Firm		Fees	Companies
Spain	PwC	409,943	21
Abroad	PwC	227,250	19
Abroad	Other firms	26,091	2
Total		663,284	42

A reduction of more than 33% has been negotiated in the audit fees compared to 2008, as a result of the aforementioned process to appoint the accounts auditor.

When assigning different tasks of the financial audit to any of the "Big Four" audit firms, the company uses a prior verification procedure to detect the existence of possible incompatibilities according to SEC (Securities and Exchange Commission) or ICAC (the Spanish Accountancy and Accounts Audit Institute) regulations.

The Audit Committee is also responsible for supervising the results of the work of the external auditors. It is therefore informed of the auditor's conclusions and of the incidents detected in its reviews, without delay.

The external auditor also attends the meetings of the Audit Committee, when required by it, to report on its area of responsibility, which is primarily the following:

. Review of the financial statements of the consolidated group and its companies, and issuing the corresponding audit opinion.

Although the auditors must issue their opinion on the financial statements ending 31 December of each year, the

work that they carry out in each of the companies includes a review of a previous close of an accounting period, which is usually the period corresponding to the third quarter of the year (ending September) in order to anticipate those significant operations or matters that had arisen as at that date.

Since 2008, and on a voluntary basis, the half-yearly financial statements of Befesa have included a limited review report issued by the corresponding auditor.

. Evaluation of the internal control system and issuing an audit opinion based on PCAOB (Public Company Accounting Oversight Board) standards (Sarbanes-Oxley Act audit).

A progressive approach to the audit process includes the use of the previous analysis of the company's internal control to reduce the need for substantive tests in areas in which this is adequate.

Although external auditors have been using this approach, it has been strengthened since 2007 with the implementation of the SOX and the internal control audit based on PCAOB auditing standards applicable to listed companies in the United States (SEC registrants).

The specific regulations of the PCAOB involve carrying out a series of additional audit procedures. The SEC (Securities and Exchange Commission) delegates the task to the PCAOB of drafting and issuing the standards to be followed by external auditors during their internal control evaluation in an integrated audit.

In 2010, the external auditors carried out an integrated audit under PCAOB standards.

As a result of this work, the external auditors also issued a report that included the conclusions of their evaluation of the internal control. This opinion is in addition to that issued in the audit report on the financial statements, although the PCAOB allows both opinions to be included in the same document.

. Areas of special interest

The opinion of the external auditor is sought in certain areas or for specific or significant operations, regarding the criteria used by the company in order to reach a consensus.

#### External Audit Reports

In 2010 four reports were issued by the external auditors that form an integral part of the Annual Report.

Audit report of the consolidated accounts of the group, as required by prevailing legislation.

Voluntary audit report, on compliance of internal control with PCAOB (Public Company Accounting Oversight Board) standards, based on the requirements of Section 404 of the Sarbanes-Oxley Act (SOX).

Voluntary reasonable assurance verification report of the company's Corporate Social Responsibility report.

Voluntary verification report on the design of the risk management system according to ISO 31000 specifications.

#### 4. Risk and Internal Control

The main objectives of the Audit Committee in relation to internal control regarding the preparation of the financial information are:

- Determine the risks of a possible significant error in the financial information caused by fraud or the risk of a possible fraud.
- Analysis of the procedures to evaluate the efficiency of the internal controls regarding the financial information.
- Capacity of the internal controls on the processes that affect Befesa.
- Identify the deficiencies and material weaknesses in internal controls relating to financial information and the company's response capacity.

- Supervise and coordinate the significant modifications made to the internal controls associated with the quarterly financial information.
- Develop the quarterly end of period processes for the financial statements and the differences identified in relation to the end-of-year processes.
- Establish plans and monitor the actions implemented to correct the weaknesses identified in the audits.
- Measures to identify and correct possible internal control weaknesses in relation to financial information.
- Analysis of procedures, activities and controls that aim to guarantee the reliability of the financial information and to prevent fraud.

#### Internal Control Model

In February 2010, the CNMV published the document entitled "Internal control on financial information in listed companies", which includes two new legal obligations that listed companies must comply with from 2011:

- Audit committees will be responsible for supervising the financial information and the efficiency of the company's internal control and risk management systems.
- Companies must inform the markets about their financial information internal control systems in their annual corporate governance report.

The CNMV's document is based on COSO and incorporates 30 recommended practices divided into five components:

Internal control environment  
 Risk evaluation of the financial information  
 Control activities  
 Information and communication  
 Supervision of the functioning of the system

Befesa has voluntarily submitted its internal control systems to external evaluations since 2007, by means of an audit opinion based on PCAOB standards and an audit to check compliance with Section 404 of the Sarbanes-Oxley Act (SOX).

This means that Befesa has fully complied with the benchmark indicators included in the document on internal control systems for financial information from the CNMV for the last four years.

At Befesa, an adequate internal control system must ensure that all the relevant financial information must be reliable and known by the management. The model developed and adapted to the SOX is therefore considered as supplementary and completes the Common Management Systems, which are primarily designed to control and mitigate business risks.

The COSO model has been taken as the conceptual reference framework since it is the model that is closest to the approach required by the SOX. In this model, internal control is defined as the process carried out in order to provide a reasonable degree of security to achieve various objectives such as compliance with laws and regulations, reliability of the financial information, and the efficiency and effectiveness of operations.

#### 5. Governance and Compliance.

To carry out its functions, the Audit Committee has the following supervision tools at different levels in the organisation.

- In relation to the control environment:
  - Code of Conduct
  - "Whistleblower" channels
  - Internal auditor training programmes
  - Training conference for the Audit Committee

- In relation to the identification and valuation of risks:  
Risk identification and management systems (Risk Map)
  
- In relation to information and communications systems:  
Accounting policies, updating and training manual  
Accounting Policies Department  
Internal standards and procedures manual  
Integrated information systems  
Reporting systems
  
- In relation to control activities:  
Processes and controls for all areas  
Closing procedures  
Procedures relating to information systems (IT)  
Collaboration of independent experts  
Mechanisms for validating opinions, estimates and forecasts.
  
- In relation to supervision:  
Independent internal audit unit  
Global scope: All areas / procedures / locations  
Handling of weaknesses / recommendations

The Company's management has implemented a Code of Professional Conduct based on a philosophy of honesty, integrity and sound judgement of its employees, managers and directors, as reflected in Befesa's Annual Corporate Governance Report which describes the administrative structure of the company, the risk control systems, the degree of follow-up of the recommendations on governance, and the information instruments; and which highlights the commitment of the management to maintain an adequate system of internal control and risk management, good corporate governance and a code of ethics of the organisation and its employees.

The Code of Conduct is available to all employees on Befesa's intranet site and is regularly updated.

Befesa's Welcome Manual makes express mention of the Code of Professional Conduct.

All departments (mainly Human Resources and Internal Audit) monitor compliance with the Code and notify the management of any improper conduct so that the appropriate measures can be taken.

#### Complaints Channel

Befesa uses a mechanism, formally established since 2007 in accordance with the requirements of the Sarbanes-Oxley Act, for making complaints to the Audit Committee.

Befesa has two complaints channels.

An internal channel, which is available to all employees to report any kind of irregularity relating to accounting, auditing or breaches of Befesa's Code of Conduct. The communication channel uses electronic mail or ordinary mail.

The second channel is available to any third party outside of the company for reporting any supposed irregularities, fraudulent acts or breaches of Befesa's Code of Conduct using the website ([www.befesa.es](http://www.befesa.es)).

Reports can be sent in full confidence or even anonymously.

With the creation of these channels, Befesa is seeking to provide a specific communications channel with the management and the company's administrative bodies, which will act as an instrument for reporting any sort of irregularity, breach or behaviour that is unethical, unlawful or that is contrary to the rules that govern this group.

Every report received leads to an investigation by the internal audit team.

In technically complex cases, independent experts are used to ensure sufficient capacity at all times for carrying out an appropriate investigation and to guarantee a sufficient level of objectivity in relation to the task.

## E. General Shareholders' Meeting

E.1 Indicate, and if appropriate give details, if there are differences between the minimum requirements established in the Spanish Public Limited Companies Act (LSA) for the quorum of the General Shareholders' Meeting.

No

	<b>% of quorum other than that established in Art. 102 of the LSA for general cases</b>	<b>% of quorum other than that established in Art. 103 of the LSA for special cases established in Art. 103</b>
Quorum required at first call	0	0
Quorum required at second call	0	0

E.2 Indicate, and if appropriate give details, if there are differences between the methods established in the LSA in relation to passing company resolutions.

No

Describe how it differs from the LSA.

E.3 List shareholders' rights in relation to General Shareholders' Meetings that are different to those established in the LSA.

The right to information, in accordance with the applicable regulatory provisions; the right to freely receive the documentation that is subject to the meeting; the right to vote in proportion to a shareholders' stake, with no maximum limit; the right to attend the meeting; financial rights (to the dividend, if appropriate, and to company distributions); the right to representation, delegation and association; and the right to take legal actions, attributable to the shareholder.

E.4 Indicate, if appropriate, the measures adopted to promote the participation of shareholders in General Shareholders' Meetings.

The documentation subject to the meeting is made available and can be sent to shareholders free of charge. It is also included on the website when the notice of the meeting is published. Voting can be delegated or made remotely through the accredited completion of attendance cards.

The bylaws do not limit the maximum number of votes that a single shareholder may cast, nor contain restrictions that make it difficult to take control of the company through the acquisition of shares.

The proposals for resolutions to be put to the Meeting are published at the time of the notice of the Meeting and are included on the Company's website and the website of the CNMV.

The Meeting votes separately on the points of the agenda, which are treated independently, so that shareholders can separately exercise their voting preferences, especially when they relate to the appointment or ratification of directors and modifications of the company's bylaws.

E.5 Indicate if the position of Chairman of the General Shareholders' Meeting coincides with the position of Chairman of the Board of Directors. Describe, if appropriate, what measures are taken to guarantee the independence and proper functioning of the General Shareholders' Meeting:

Yes

**Describe the measures**

The bylaws state that the role of Chairman of the Shareholders' Meeting shall be held by the Chairman or Vice-Chairman of the Board of Directors, or in their absence, the person that the shareholders attending the meeting may choose by majority.

The Regulations on General Shareholders' Meetings, approved by the General Meeting of 24 June 2003, regulate the procedures for calling a meeting, the functioning of the meeting, the exercising of rights and the passing of resolutions, establishing a precise and obligatory framework for the structure of the meetings.

The Shareholders' Meeting is usually held in the presence of a notary public to ensure that the necessary conditions for validly constituting the meeting, passing resolutions and taking the corresponding minutes are all met.

It is the responsibility of the Secretary of the Board, in accordance with the Company's bylaws and the Regulations on General Shareholders' Meetings, to act as secretary of the meeting and to ensure that the meeting complies with its legal and statutory obligations in relation to the calling and holding of the meeting and the passing of resolutions.

E.6 Indicate, if appropriate, the modifications introduced during the year in the Regulations on General Shareholders' Meetings.

There have been no amendments.

E.7 Indicate the attendance details for the General Shareholders' Meetings held during the year to which this report refers:

<b>Attendance details</b>					
Date of General Meeting	% physical presence	% representation	% remote voting		Total
			Electronic vote	Other	
15/04/2010	<b>97.514</b>	<b>0.100</b>	<b>0.000</b>	<b>0.000</b>	<b>97.614</b>

E.8 Briefly outline the resolutions adopted in the General Meetings held during the year to which this report refers and the percentage of votes with which each resolution was adopted.

The Shareholders' Ordinary General Meeting took place on 15 April 2010 and was the only meeting held during 2010.

The resolutions unanimously adopted by the share capital present and represented, were the following:

1. Approval of the financial statements of Befesa Medio Ambiente, S.A. corresponding to 2009, comprising the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows, the annual report and the management report, as well as the proposed distribution of the result for the year.
2. Approval of the financial statements of the consolidated group, comprising the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows, the annual report and the consolidated management report, corresponding to 2009.
3. Approval of the proposal for the appropriation of earnings for 2009, distributing all income after tax totalling 715,110.81 Euros (71,511.08 Euros to Legal Reserves and 643,599.73 Euros to Voluntary Reserves).
4. Re-election of the directors Ms. María José Rivero Menéndez and Mr Manuel Alejandro Blanco Losada for a new period of four years, as independent directors, and the appointment of Ms. Mercedes Sundheim Losada as a shareholder director for a period of four years, whose previous appointment by co-optation at the meeting of the Board of Directors on 21 October 2010 has expired at the date of this general meeting.
5. Approval of the special report on the remuneration policy of the directors, as well as the report relating to Article 116 bis of the Securities market Act.
6. Delegation to the Board of Directors to increase the share capital on one or more occasions, up to a figure that is equivalent of 50% of the share capital, within the legal limits.
7. Authorisation to the Board of Directors to issue debentures or similar fixed income or equity based securities within the legal limits.
8. Authorisation to the Board of Directors to make derivative acquisitions of shares in the company, directly or via subsidiary or investee companies, up to the maximum limit specified in the prevailing provisions.
9. Delegation to the Board of Directors and its Chairman, Vice-Chairman and Secretary to formalise and implement the agreed resolutions.

E.9 State if there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholders' meeting.

No

<b>Number of shares required to attend the General Meeting</b>	
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E.10 State and justify the policies followed by the company in relation to delegating votes in the General Shareholders' Meeting.

There are no specific policies relating to delegating votes in the General Shareholders' Meeting as there are no restrictions on exercising the right to vote.

In accordance with Article 14 of the Company's bylaws and Article 3 of the Regulations on General Shareholders' Meetings, all shareholders whose shares are registered in the corresponding Securities Register at least five days prior to the day of the meeting may personally attend the General Shareholders' meeting or be represented by another person, even though this person is not a shareholder.

E.11 Indicate if the company is aware of the policy of institutional investors to participate, or not, in the company's decisions:

No

E.12 State the address and access method to the content on corporate governance on your website.

The company keeps its website permanently updated in Spanish and English, at the URL [www.befesa.es](http://www.befesa.es).

This website contains the resolutions adopted by the most recent General Shareholders' Meeting of 15 April 2010. Likewise, the full text of the notice of the meeting, the agenda and the resolutions to be approved by the Shareholders' Meeting are all included.

For the notices of future meetings, the Company will keep the available information up to date in order to ensure shareholders' right to information and therefore their right to vote under equal conditions.

Finally, the right to vote or to electronic delegation will be guaranteed through the corresponding regulatory and technical provisions, with the assurance of the specific legal certainty.

## F. Degree of Compliance with the Corporate Governance Recommendations

Indicate the degree of compliance of the company in relation to the recommendations of the Unified Code of Good Governance. In the event of not fulfilling any of them, please explain the recommendations, rules, practices and criteria that apply to the company.

1. The bylaws of listed companies do not limit the maximum number of votes that a single shareholder may cast, nor contain other restrictions that make it difficult to take control of the company through the acquisition of its shares in the market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Complies

2. When the parent company and a subsidiary company are listed, both entities publicly and precisely define the following:

- a) The respective areas of activity and business relations between them, as well as the activities and relations between the listed subsidiary and the other companies in the group;
- b) The mechanisms planned for resolving any conflicts of interest that may arise.

See sections: C.4 and C.7

Complies

3. Although not expressly required under mercantile law, operations that involve a structural change to the company are subject to the approval of the General Shareholders' Meeting, especially the following:

- a) The conversion of listed companies into holding companies through "subsidiarisation" (the incorporation of essential activities into subsidiary entities, which to date had been carried out by the company itself, even though the parent maintains full control over them);
- b) The acquisition or disposal of essential operating assets when this effectively modifies the corporate purpose;
- c) Operations whose effect is equivalent to winding up the company.

Partially complies

There have been no operations of the type indicated that have been agreed by a body other than the Shareholders' Meeting. Nevertheless, the Company has not incorporated this provision as a mechanism into its internal regulations (bylaws), since in practice it would represent an obstacle to complying with the aforementioned recommendation.

4. The proposals detailed in the resolutions to be adopted by the General Shareholders' Meeting, including the information referred to by Recommendation 28, are published at the same time as the announcement of the General Meeting.

Complies

5. The General Shareholders' Meeting votes separately on those subjects that are essentially independent so that shareholders are able to exercise their voting preferences separately. And that this rule applies to the following, in particular:

- a) The appointment or ratification of directors, who must be voted for individually;
- b) In the event of amendments to the bylaws, each article or group of articles is essentially independent.

See section: E.8

Complies

6. That the companies allow votes to be separated so that financial intermediaries that legitimately appear as shareholders, but are acting on behalf of various clients, can cast their votes according to their clients' instructions.

See section: E.4

Complies

7. The Board will carry out its functions with a unity of purpose and independent criteria, treating all shareholders equally, guided by the interests of the company, which is understood to be the constant maximisation of the financial value of the company.

It will also ensure that in its relations with stakeholders, the company respects all laws and regulations; it fulfils its obligations and contracts in good faith; it respects the uses and good practices of the sectors and territories in which it operates; and it observes the principles of social responsibility that it would have accepted voluntarily.

Complies

8. The principal objective of the Board is to approve the Company's strategy and the specific organisational structure required for its operation, as well as to supervise and control the management in achieving the objectives set and fulfilling the Company's objectives and social interests. Therefore, the plenary sessions of the Board reserve the authority to approve:

- a) The general strategies and policies of the company, in particular:
  - i) The strategic or business plan, as well as the management objectives and annual budgets
  - ii) The investment and financing policy
  - iii) The definition of the structure of the corporate group
  - iv) The corporate governance policy
  - v) The corporate social responsibility policy
  - vi) The policy on remuneration and performance appraisals of senior managers
  - vii) The risk control and management policy, as well as the regular monitoring of internal information and control systems
  - viii) The policies on dividends and treasury stock, and their limits in particular.

See sections: B.1.10, B.1.13, B.1.14 and D.3

- b) The following decisions:
  - i) The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the CEO of the company.

See section: B.1.14

- ii) The remuneration of directors, as well as any additional remuneration for executive responsibilities and any other conditions that their contracts should reflect in the case of executives.

See section: B.1.14

- iii) The financial information that the company must periodically publish as a listed company.
  - iv) Investments or operations of any type considered as strategic due to their significant value or special characteristics, except for those that must be approved by the General Shareholders' Meeting.
  - v) The creation or acquisition of shareholdings in special purpose vehicles or those registered in countries or territories considered as tax havens, as well as any other similar transactions or operations that, due to their complexity, could reduce the transparency of the group.

- c) Operations that the company may carry out with directors, significant shareholders or representatives of the Board, or with any person related to them ("related operations").

The authorisation of the Board shall not be required however, for those related operations that simultaneously fulfil the following three conditions:

1. Operations carried out under agreements with standard conditions and that are applied in a general way to numerous clients;
2. Operations carried out at market rates or prices, which in general are set by the supplier of the good or service;

3. Operations whose quantity does not exceed 1% of the company's annual revenues.

It is recommended that the Board approves related operations that receive a prior favourable report from the Audit Committee, or from any other committee that has been authorised for this function; and that the directors that are involved not only abstain from voting (without the right to delegation), but also leave the meeting room while the Board deliberates and votes on the issue.

It is recommended that the competencies attributed to the Board in these matters cannot be delegated, except in the aforementioned points b) and c), which may be adopted for reasons of urgency by the Executive Committee, and subsequently ratified by a plenary session of the Board.

See sections: C.1 and C.6

Complies

9. The Board has the specific size, recommended to be no less than five and no more than 15, in order to function in a participatory and effective way.

See section: B.1.1

Complies

10. External shareholder directors and independent directors comprise a significant majority of the Board of Directors and that the number of executive directors is as few as possible, taking into account the complexity of the corporate group and the percentage shareholdings of the executive directors in the company.

See sections: A.2, A.3, B.1.3 and B.1.14

Complies

11. If there is an external director who cannot be considered as a shareholder director or an independent director, the company should explain this circumstance and his/her relationship either with the company or its managers, or its shareholders.

See section: B.1.3

Not applicable

12. Among the external directors, the relationship between the number of shareholder directors and independent directors reflects the existing ratio between the capital of the company represented by the shareholder directors and the remaining capital.

This criterion of strict proportionality can be relaxed so that the percentage of shareholder directors is greater than the total percentage of capital that they represent:

1. In large cap companies in which there are none or few shareholdings that are legally considered as significant shareholdings, but there are shareholders whose holdings have a high absolute value.
2. When it relates to companies in which there are numerous shareholders represented on the Board and these shareholders have no links between them.

See sections: B.1.3, A.2 and A.3

Complies

13. The number of independent directors represents at least one third of all directors.

See section: B.1.3

Complies

14. The type of each directorship is explained by the Board to the General Shareholders' Meeting, which must make or ratify the appointment, and is confirmed or, if appropriate, reviewed annually in the Annual Corporate Governance Report following verification by the Appointments Committee; and that this report also explains the reasons why shareholder directors may have been appointed at the request of shareholders whose holding is less than 5% of the capital; and states the reasons why formal requests for representation on the Board may not have been agreed to from shareholders whose holding is equal to or more than other shareholders, at whose requests shareholder directors have been appointed, if appropriate.

See sections: B.1.3 and B.1.4

Complies

15. When the number of female directors is few or none, the Board explains the reasons and the initiatives adopted to correct this situation; and in particular, the Appointments Committee monitors the situation so that in the case of new vacancies:

- a) The selection procedures do not suffer from implicit bias that hinders the selection of female directors;
- b) The company deliberately seeks and includes women among potential candidates, who match the professional profile sought.

See sections: B.1.2, B.1.27 and B.2.3

Complies

16. The Chairman, as the person responsible for the efficient functioning of the Board, ensures that directors receive sufficient information in advance; promotes discussion and the active participation of directors during Board meetings, ensuring their freedom to make judgements and express opinions; and organises and coordinates with the chairmen of the relevant committees to periodically evaluate the Board as well as the Chief Executive Officer or the senior executive if appropriate.

See section: B.1.42

Complies

17. When the Chairman of the Board is also the CEO of the company, an independent director shall be authorised to call meetings of the Board or to include new points on the agenda; to coordinate and represent the concerns of the external directors; and to manage the evaluation of the Chairman by the Board.

See section: B.1.21

Complies

18. The Secretary of the Board places special emphasis on monitoring the Board so that its actions:

- a) Strictly comply with the conditions and the spirit of the laws and regulations, including those approved by regulatory entities;
- b) Comply with the company's bylaws and with the regulations of the Shareholders' Meeting, the Board of Directors and any other regulations that apply;
- c) Take into account the recommendations on good governance contained in this Unified Code that the company should have accepted.

And in order to safeguard the independence, impartiality and professionalism of the Secretary, his/her appointment and removal will be announced by the Appointments Committee and approved by a plenary session of the Board; and this appointments and removal procedure shall form part of the Regulations of the Board of Directors.

See section: B.1.34

Complies

19. The Board meets with the required frequency to efficiently carry out its duties, following the schedule of dates and issues established at the start of the year, although each director may propose other unforeseen points for the agenda.

See section: B.1.29

Complies

20. Non-attendance by directors is limited to essential cases and quantified in the Annual Corporate Governance Report. And in the event that representation is essential, is it conferred with instructions.

See sections: B.1.28 and B.1.30

Complies

21. When directors or the Secretary raise concerns about a proposal or, in the case of directors, about the performance of the company, and such concerns are not resolved by the Board, these concerns are recorded in the minutes at the request of the director raising them.

Not applicable

22. Once a year, a plenary session of the Board evaluates:

- a) The quality and efficiency of the functioning of the Board;
- b) The performance of the duties of the Chairman of the Board and the Chief Executive of the company based on the report provided by the Appointments Committee;
- c) The performance of its committees based on the reports provided by them.

See section: B.1.19

Complies

23. All directors can exercise their right to receive the additional information that they deem necessary on issues that are the competence of the Board. And, except in the event that the bylaws or the regulations of the Board state to the contrary, they address their requirements to the Chairman or the Secretary of the Board.

See section: B.1.42

Complies

24. All directors have the right to receive the advice required from the company in the fulfilment of their duties. And the company facilitates the appropriate channels for exercising this right, which under special circumstances may involve external advice at the company's expense.

See section: B.1.41

Complies

25. Companies establish an orientation programme that provides new directors with a quick but sufficient understanding of the company as well as its rules of corporate governance. Directors are also offered programmes to improve their knowledge when circumstances require it.

Partially complies

Although the Company carries out training activities with regards to internal procedures, organisation, composition, functions, audit, risk control, etc. and in particular, a one-day session for the Board of Directors with the senior management of the company, there is no single written document that is provided to directors when they join the Board, even though all the regulations are available to directors via the company's website and intranet pages.

26. Companies require directors to dedicate the time and effort required for their duties in order to carry them out effectively and, as a result:

a) That the directors notify the Appointments Committee of their other professional obligations, which could interfere with the commitment required;

b) That companies establish rules on the number of boards that their directors may belong to.

See sections: B.1.8, B.1.9 and B.1.17

Partially complies

The company complies with Section a) of this recommendation. The Appointments and Remuneration Committee is informed of directors' professional commitments as well as their potential needs in terms of the information they may require for their development.

In relation to Section b), there are no limitations in relation to membership of other boards, about which each individual director must exercise his/her own judgement.

27. The proposal to appoint or re-elect directors made by the Board to the General Shareholders' Meeting, as well as their provisional appointment through co-opting, is approved by the Board:

a) At the proposal of the Appointments Committee in the case of independent directors.

b) Upon prior announcement by the Appointments Committee in the case of other directors.

See section: B.1.2

Complies

28. Companies publish and maintain the following information about their directors updated via their website:

a) Professional profile and biography;

b) Other boards on which they sit and whether these are listed or unlisted companies;

c) Indication of the type of director, stating in the case of shareholder directors, the shareholder that they represent or with which they have ties.

d) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments, and;

e) Shares and share options in the company in the name of the director.

Complies

29. Independent directors do not hold their directorship for more than 12 consecutive years.

See section: B.1.2

Complies

30. Shareholder directors present their resignation when the shareholder that they represent sells its complete shareholding. These directors are also reduced by the corresponding numbers when said shareholders reduce their holdings to a level that requires a lower number of shareholder directors.

See sections: A.2, A.3 and B.1.2

Complies

31. The Board of Directors does not propose the removal of any independent director before the statutory period has been completed for which the director has been appointed, except in the case of just cause, when previously notified to the Board by the Appointments Committee. In particular, just cause shall be understood to include the case of a director that has not fulfilled the duties inherent in his/her position or that has incurred any of the circumstances described in part five of chapter III of the definitions of this Code.

The removal of independent directors may also be proposed as a result of mergers, takeovers or other similar corporate actions that involve a change in the structure of the company's capital when these changes to the structure of the Board are supported by the criteria of proportionality indicated in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. Companies establish rules that require directors to inform them and, if appropriate, resign in those cases that may harm the company's credibility and reputation, and in particular, that oblige them to notify the Board of the criminal actions in which they may be involved, as well as any subsequent procedural requirements.

If a director is indicted for any of the offences in Article 124 of the Spanish Public Limited Companies Act, or if the courts order proceedings to commence against a director in relation to such offences, the Board shall examine the case as soon as possible and, based on the specific circumstances, may decide if the director continues or not. The Board reports all of this in the Annual Corporate Governance Report, providing reasons and justifications.

See sections: B.1.43 and B.1.44

Complies

33. All directors clearly express their opposition when they believe that a proposal for a decision presented to the Board may not be in the Company's interests, but especially the independent and other directors who are not affected by the potential conflict of interest, when it relates to decisions that may be detrimental to the shareholders that are not represented on the Board.

And when the Board adopts significant or repeated decisions about which a director has serious reservations, the director draws the appropriate conclusions and, if he/she decides to resign, shall explain the reasons in the letter referred to in the following recommendation. This recommendation also applies to the Secretary of the Board, even though he/she may not be a director.

Not applicable

34. When, by resignation or for other reasons, a director leaves his/her position before the end of his/her term, he/she explains the reasons in a letter that shall be sent to all Board members. And, notwithstanding the fact that this departure is reported as a relevant fact, the reason for the departure is reported in the Annual Corporate Governance Report.

See section: B.1.5

Complies

35. The remuneration policy approved by the Board includes the minimum following issues:

- a) Amount of the fixed components, with a breakdown if appropriate, of the expenses for participation on the Board and its committees and an estimate of the annual fixed remuneration provided;
- b) Variable remunerative concepts, including in particular:
  - i) The types of directors to which they apply, as well as an explanation of the relative importance of the variable remunerative concepts compared to the fixed.
  - ii) Results evaluation criteria on which any right to remuneration in shares is based, including share options or any variable component;
  - iii) Main parameters and basis of any annual bonus system or other non-cash benefits; and
  - iv) An estimate of the absolute amount of variable remuneration arising from the proposed remuneration plan, based on the degree of fulfilment of the reference conditions or targets.
- c) Principal characteristics of the income security programs (for example, pension top ups, life-insurance and similar benefits), with an estimate of their amount and equivalent annual cost.
- d) Conditions that must apply to the contracts of those who hold senior management positions as well as executive directorships, which would include:
  - i) Duration
  - ii) Notice periods, and
  - iii) Any other clauses relating to contract bonuses as well as compensation or payments for early cessation or termination of the contractual relationship between the company and the executive director.

See section: B.1.15

Complies

36. Remuneration in shares in the company or in group companies, share options or instruments referenced to the value of the stock, variable remuneration linked to the performance of the company or income security programs are limited to executive directors.

This recommendation will not include the provision of shares when it is conditional upon directors to hold them until their departure as a director.

See sections: A.3 and B.1.3

Complies

37. The remuneration of external directors will be sufficient to compensate the dedication, qualifications and responsibility required for the position; but not so high as to compromise their independence.

Complies

38. Remuneration related to the results of the company take into account any reservations that may be included in the external auditors report and that diminish such results.

Complies

39. In the case of variable remuneration, the remuneration policy incorporates the technical limits required to ensure that such remuneration remains in line with the professional performance of the beneficiaries and is not simply derived from the general evolution of the markets or the business sector of the company or of other similar circumstances.

Complies

40. The Board submits a report on the remuneration policy of the directors as a separate point on the agenda to be voted on by the General Shareholders' Meeting, for consultation purposes. This report is made available to shareholders, either separately or in any other format that the company deems appropriate.

The report will especially focus on the remuneration policy approved by the Board for the current year as well as, if appropriate, the expectations for future years. It will include all the issues referred to in Recommendation 35, except for those cases that may involve the disclosure of sensitive commercial information. It will emphasise the most significant changes in those policies compared to the policy applied during the previous year to which the General Meeting refers. It will also include an overall summary of how the remuneration policy was applied the previous year.

The Board reports on the role of the Remuneration Committee in drafting the remuneration policy, and if external advice has been used, the identity of the external consultants that have provided it, is included.

See section: B.1.16

Complies

41. The report details the individual remuneration of the directors during the year and includes:

- a) The individual breakdown of the remuneration of each director, which will include if appropriate:
  - i) The attendance expenses or other fixed remuneration as a director;
  - ii) Any additional remuneration for the position of Chairman or for members of other committees of the Board;
  - iii) Any remuneration as profit-sharing or bonuses and the reason why they have been granted;
  - iv) Definitive contributions to pension plans on behalf of the director; or the increase in the consolidated rights of the director or when it relates to contributions to defined benefits plans;
  - v) Any compensation agreed or paid in the event of termination of duties;
  - vi) Remuneration received as a director of other companies in the group;
  - vii) Remuneration for carrying out senior management duties by executive directors;
  - viii) Any other remuneration concept other than the above, whatever its nature or the group entity that pays it, especially when it is considered as a related operation or if its omission distorts the true perception of the total remuneration received by the director.
  
- b) The individual breakdown of share awards, share options or any other instrument referenced to the value of the stock, to directors, detailing:
  - i) Number of shares or options granted for the year, and their exercise conditions;
  - ii) Number of options exercised during the year, indicating the number of shares affected and the exercise price;
  - iii) Number of options unexercised at the end of the year, indicating their price, date and other exercise conditions;
  - iv) Any modification during the year of the exercise conditions of options already granted.
  
- c) Information about the relationship during the previous year between the remuneration received by executive directors and the results or other performance indicators of the company.

Complies

42. When there is a Delegate or Executive Committee (hereafter "Executive Committee"), the structure in relation to the participation of the different classes of director will be similar to that of the main Board and its secretary will be the Secretary to the Board.

See sections: B.2.1 and B.2.6

Not applicable

43. The Board is always aware of the issues and the decisions adopted by the Executive Committee and every member of the Board receives a copy of the minutes of the Committee's meetings.

Not applicable

44. In addition to the Audit Committee, required by the Spanish Securities Market Act (LMV), the Board of Directors also creates a committee, or two separate committees, for appointments and remuneration.

The rules regarding the composition and functioning of the Audit Committee and the committee(s) for appointments and remuneration appear in the Regulations of the Board of Directors and include the following:

- a) The Board appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the objectives of each committee; it considers their proposals and reports; and they must report in the first plenary session of the Board after their meetings on their activity and the work carried out;
- b) These committees are exclusively comprised of external directors, with a minimum of three. The foregoing does not exclude the attendance of executive directors or senior managers, when the members of the committee expressly agree to it.
- c) Their chairmen are independent directors.
- d) They have access to external advice when they deem it necessary to perform their duties.
- e) Their meetings are minuted and copies are sent to every Board member.

See sections: B.2.1 and B.2.3

Complies

45. Supervision of compliance with the internal codes of conduct and the rules on corporate governance is the responsibility of the Audit Committee, the Appointments Committee, or if separate, the committees for compliance and corporate governance.

Complies

46. Members of the Audit Committee, especially its Chairman, are appointed taking into account their knowledge and experience in relation to accountancy, audit or risk management.

Complies

47. Listed companies have an internal audit function which, supervised by the Audit Committee, ensures the correct functioning of the information and internal control systems.

Complies

48. The manager of the internal audit function presents its annual work plan to the Audit Committee; he directly reports the incidents that occur; and he submits an activity report to the Committee at the end of every year.

Complies

49. The risk management and control policy identifies a minimum of the following:

- a) The different types of risk (operational, technological, financial, legal, reputational...) that the company is subject to, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks;
- b) Determination of the level of risk that the company considers acceptable;
- c) The measures planned to mitigate the impact of the identified risks in the event that they occur;
- d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance-sheet risks.

See sections: D

Complies

50. The following corresponds to the Audit Committee:

1. In relation to the internal control and information systems:

- a) Supervise the drafting process and the integrity of the financial information relating to the company and, as appropriate, to the group, ensuring compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.
- b) Periodically review the internal control and risk management systems so that the principal risks are identified, managed and appropriately recorded.
- c) Monitor the independence and the efficiency of the internal audit function; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- d) Establish and supervise a mechanism that allows employees to confidentially and, if appropriate, anonymously report potential irregularities, especially financial and accounting, which they may identify within the Company.

2. In relation to the external auditor:

- a) The proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract, are presented to the Board of Directors.
- b) Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.
- c) Ensure the independence of the external auditor and therefore:
  - i) That the Company notifies the CNMV of the change of auditor as a significant event and accompanies it with a statement about the possible existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist.
  - ii) That it ensures that the company and the auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with an auditor and, in general, any other regulations established to ensure the independence of the auditors;
  - iii) That in the case of the resignation of the external auditor, to examine the circumstances that may have caused it.
- d) In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee may summon any employee or manager of the company, including appearances without the presence of another manager.

Complies

52. The Audit Committee notifies the Board, prior to it taking the corresponding decisions, about the following issues indicated in Recommendation 8:

- a) The financial information that the company must periodically publish as a listed company. The Committee must ensure that the interim accounts are drafted using the same accounting criteria as the annual accounts, and therefore consider the appropriateness of a review by the external auditor.
- b) The creation or acquisition of shareholdings in special purpose vehicles or entities registered in countries or territories considered as tax havens, as well as any other similar transactions or operations that, due to their complexity, could reduce the transparency of the group.
- c) Related operations, except if this prior reporting function is the responsibility of another supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors endeavours to present the accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report and that, in the exceptional cases that they may exist, both the Chairman of the Audit Committee as well as the auditors clearly explain to the shareholders the content and scope of such reservations or qualifications.

See section: B.1.38

Complies

54. The majority of the members of the Appointments Committee (or Appointments and Remuneration in the case of a single committee) are independent directors.

See section: B.2.1

Complies

55. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Appointments Committee:

- a) Evaluate the skills, knowledge and experience required by the Board in order to define the abilities and competencies required by candidates to cover each vacancy, and to assess the time and dedication required so that they can correctly carry out their function.
- b) Examine or organise, as required, the succession of the Chairman and the CEO and make proposals to the Board, as appropriate, so that any succession occurs in an orderly and well planned way.
- c) Notify the appointments and removals of senior managers proposed by the CEO to the Board.
- d) Inform the Board about the gender diversity issues indicated in Recommendation 14 of this Code.

See section: B.2.3

Complies

56. The Appointments Committee consults the Chairman and the CEO of the company, especially in relation to issues regarding executive directors.

And that any director can request the Appointments Committee to take into consideration potential candidates to cover any director vacancies, if he/she considers the candidate appropriate.

Complies

57. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Remuneration Committee:

- a) Propose to the Board of Directors:
  - i) The remuneration policy for directors and senior managers;
  - ii) The individual remuneration of executive directors and the other conditions in their contracts.
  - iii) The basic conditions of the contracts of senior managers.
- b) Ensure that the remuneration policy established by the company is followed.

See sections: B.1.14 and B.2.3

Complies

58. The Remuneration Committee consults the Chairman and the CEO of the company, especially in relation to issues regarding executive directors and senior managers.

Complies

## G. Other Useful Information

If you believe that there is any relevant principle or aspect relating to the corporate governance practices applied by your company that have not been included in this report, please comment on them and explain their content below.

Additional Point One.

The table of the individual remuneration of each director for 2010 is attached as supplementary information to point B.1.11 and successive points:

A) Expenses for attendance and other remuneration as a director

Javier Molina Montes: 10.96 (Thousands of Euros)  
Manuel Barrenechea Guimón: 10.96 (Thousands of Euros)  
Manuel Alejandro Blanco Losada: 37.60 (Thousands of Euros)  
Rafael Escuredo Rodríguez: 37.60 (Thousands of Euros)  
Jorge Guarner Muñoz: 37.60 (Thousands of Euros)  
María José Rivero Menéndez: 37.60 (Thousands of Euros)  
Salvador Martos Hinojosa: 10.96 (Thousands of Euros)  
Mercedes Sundheim Losada: 37.60 (Thousands of Euros)  
Alfonso Castresana Alonso de Prado: 0 (Thousands of Euros)  
Antonio Marín Hita : 8.21 (Thousands of Euros)

B) Remuneration as a member of the Board's committees

Javier Molina Montes: 0 (Thousands of Euros)  
Manuel Barrenechea Guimón: 0 (Thousands of Euros)  
Manuel Alejandro Blanco Losada: 44.00 (Thousands of Euros)  
Rafael Escuredo Rodríguez: 44.00 (Thousands of Euros)  
Jorge Guarner Muñoz: 12.00 (Thousands of Euros)  
María José Rivero Menéndez: 32.00 (Thousands of Euros)  
Guadalupe Sundheim Losada: 0 (Thousands of Euros)  
Salvador Martos Hinojosa: 0 (Thousands of Euros)  
Mercedes Sundheim Losada: 0 (Thousands of Euros)  
Alfonso Castresana Alonso de Prado: 0 (Thousands of Euros)  
Antonio Marín Hita: 0 (Thousands of Euros)

C) Remuneration as a director of other companies in the Group

Javier Molina Montes: 0 (Thousands of Euros)  
Manuel Barrenechea Guimón: 0 (Thousands of Euros)  
Manuel Alejandro Blanco Losada: 0 (Thousands of Euros)  
Rafael Escuredo Rodríguez: 0 (Thousands of Euros)  
Jorge Guarner Muñoz: 0 (Thousands of Euros)  
María José Rivero Menéndez: 0 (Thousands of Euros)  
Guadalupe Sundheim Losada: 0 (Thousands of Euros)  
Salvador Martos Hinojosa: 0 (Thousands of Euros)  
Mercedes Sundheim Losada: 0 (Thousands of Euros)  
Alfonso Castresana Alonso de Prado: 0 (Thousands of Euros)  
Antonio Marín Hita: 0 (Thousands of Euros)

D) Remuneration for senior management roles – Executive Directors

Javier Molina Montes: 651.37 (Thousands of Euros)  
Antonio Marín Hita: 107.96 (Thousands of Euros)

E) Totals

Javier Molina Montes: 662.33 (Thousands of Euros)  
Manuel Barrenechea Guimón: 10.96 (Thousands of Euros)  
Manuel Alejandro Blanco Losada: 81.00 (Thousands of Euros)  
Rafael Escuredo Rodríguez: 81.00 (Thousands of Euros)  
Jorge Guarner Muñoz: 49.00 (Thousands of Euros)  
María José Rivero Menéndez: 69.00 (Thousands of Euros)  
Salvador Martos Hinojosa: 10.96 (Thousands of Euros)  
Mercedes Sundheim Losada: 37.00 (Thousands of Euros)  
Alfonso Castresana Alonso de Prado: 0 (Thousands of Euros)  
Antonio Marín Hita: 116.19 (Thousands of Euros)

Total: 1,117.43 (Thousands of Euros)

The comparison of directors' remuneration between 2009 and 2010 (€1.2 million in 2009 and €1.1 million in 2010) shows a 9% reduction in the total.

#### Additional Point Two

A Strategy Committee exists as an internal committee comprising members of the senior management team, made up of the Chairman of the Board of Directors, the managers of the business units and the managers of the corporate services. The committee has no executive or decision-making functions, but exists to act as a vehicle for periodically monitoring certain issues in the Company's strategic plan. It meets once a month.

#### Additional Point Three.

The Internal Code of Conduct in Relation to the Securities Market was created in December 2000 and applies to all directors, members of the Strategy Committee and to various employees due to the activity that they carry out or the information that they have access to.

It establishes the obligations to safeguard information, the duty of secrecy, relevant facts in their preliminary stages, information about decisions or disclosures, the procedure for maintaining internal and external confidentiality established for the purpose, the register of shareholdings and transactions with securities, and conflicts of interest.

The General Secretary is responsible for monitoring and supervising it.

#### Additional Point Four.

The Professional Code of Conduct was implemented in 2003, having been modified in 2005 in order to incorporate various common elements into the various companies that make up Befesa in relation to its geographical, cultural and legal diversity. This code includes the fundamental values that must govern the actions of all the Company's employees, regardless of their position or responsibilities. The integrity of their behaviour, the strict adherence to prevailing legislation, professional diligence, confidentiality and quality all form part of Befesa's culture and runs through its corporate identity.

#### Code of Conduct

##### A. I. General philosophy

The honesty, integrity and sound judgement of Befesa's employees, managers and directors are fundamental to the company's reputation and success.

This Code of Conduct governs the actions and work relations of Befesa's employees, managers and directors with clients and potential clients, with colleagues, the competition, the company's administrative bodies, the media and every other person or institution with which the company comes into contact. These relations are fundamental to Befesa's continuing success. When this Code of Conduct refers to "Befesa", it refers to Befesa Medio Ambiente, S.A. and each of its subsidiaries.

The Code of Conduct:

- . Requires the highest standards of honesty and ethical conduct, including the appropriate and ethical procedures for handling real or potential conflicts of interest between professional and personal relations;
- . Requires full, fair, accurate, timely and intelligible communication in the periodic reports that Befesa submits to the entities of the Administration and in the other communications that it makes;
- . Requires compliance with the laws, standards and applicable regulations;
- . Deals with the real or potential conflicts of interest and provides guidance so that employees, managers and directors communicate these conflicts to Befesa;
- . Deals with the incorrect use or the improper application of the Befesa's business opportunities and resources;
- . Requires the highest level of confidentiality and fair treatment inside and outside of Befesa;
- . Requires the immediate internal communication of breaches of this Code of Conduct as well as the appropriate notification of all illegal conduct.

##### II. Corporate culture and Common Management Systems

- . Befesa treats its corporate culture and Common Management Systems as essential assets. These define the way that Befesa does business, by establishing a series of obligatory rules and standards. Complying with these is a source of profitability and security in the course of Befesa's activities.
- . It is the responsibility of the Board of Directors, and therefore of its Chairman and its committees, its executive committees or, if appropriate, the management to which it may be delegated, to qualify failings in the Common Management Systems.
- . In all cases, failures in areas that directly impact the result of an activity or that lead to the assumption of uncontrolled risks shall be considered as a very serious failing of professional performance.

#### Professional diligence

- . The concept of professionalism at Befesa is intimately linked to a dedication to service in carrying out activities and to involvement in the business project being developed.
- . All actions carried out in performing the entrusted functions must be governed by professional responsibility and the principles established in this Code.

#### Quality

- . Befesa is committed to quality in all its actions, both internal and external. Compliance with this commitment is not the duty of a specific group of people or the senior management, but affects every member of the organisation in their daily activities.
- . Befesa has specific standards regarding quality, which are a consequence of its approach to knowledge, common sense, diligence, order and responsibility.

#### B. Conflicts of interest

Conflicts of interest arise when private interests collide or when they are able to overlap in any way with the interests of the Company. Anyone bound by this Code is expected to avoid all situations that could lead to a significant conflict, real or potential, in their own interests, duties and responsibilities as an employee, manager or director of Befesa. Employees, managers and directors that have a question or doubt over a potential conflict of interest must contact the Secretary of the Board of Directors. Befesa's Internal Code of Conduct in relation to the Securities Market specifically governs these issues.

#### C. Confidentiality

Information about Befesa or its businesses, employees, clients and suppliers that is not public, is confidential, and is therefore in the confidence of the employee, manager or director. These people must only use this confidential information to meet the business objectives of Befesa, and must not share it with any other person outside of the company, including family members and friends, nor with any other employee of the Company that does not require the information to carry out his/her duties. The obligation to maintain all the information strictly confidential continues, even though the employment relationship with Befesa has ended.

A list of some of the information considered as confidential is given below:

- . Significant and non-public financial information relating to Befesa or to any of its subsidiaries or companies;
- . Trade secrets, including all commercial or technical data, such as programs, methods, techniques, compilations or information that may be valuable due to not being in the public domain;
- . All rights on any invention or process developed by an employee using Befesa's facilities or trade secrets, or resulting from any work for the company or related to its businesses, which belong to Befesa or that may be transferred to it by law;
- . Exclusive information, such as client lists, for example.

All public and media communications that affect Befesa must have the prior approval of the Board of Directors or its Chairman, or of the management to whom authorisation was previously delegated.

#### D. Gifts and leisure

Gifts and leisure activities are common practices used in many sectors and countries to strengthen commercial relations.

Befesa's position on this matter is clear around the world. You may not accept or provide gifts, favours or any type of leisure activity if this obligates or appears to obligate the person that receives it. Gifts of cash or highly liquid assets may not be given or received.

Befesa's employees may only accept or give gifts, favours and leisure activities that comply with the following criteria:

- . If they do not breach the law or the policy of the other party;
- . If they are in line with the normal commercial practices of the country or sector;
- . If they are proportionate to the commercial relationship;
- . If they are in line with the existing commercial guidelines;
- . If they cannot be interpreted as a bribe, inducement or inappropriate influence;
- . If they do not infringe Befesa's values or commercial ethics, or any other area.

#### E. Financial information

The Secretary of the Board of Directors of Befesa is required to communicate in a timely way all the information in his/her possession that may be necessary to guarantee the Company's reports and financial communications that are submitted to the Spanish Securities Market Commission, or to other governing bodies of the stock market, including the Securities and Exchange Commission (SEC), and to ensure that the information included in other public communications is complete, true and accurate.

#### F. Insider dealing

It is against this Code of Conduct as well as illegal, to purchase, sell, trade or participate in any other way in operations that affect Befesa's securities when in possession of significant information relating to the Company that has not been communicated to the general public and that, when it is published, could have an impact on the market price of Befesa's securities. It is also illegal and against this Code to buy, sell, trade or participate in any other way in operations that affect the securities of any other company when in possession of similar significant information that is not public in relation to that company. Any doubts about the legality of an operation involving Befesa's securities (or of any other company) must be addressed the Secretary of the Board of Directors.

#### G. External commercial relations

Prior to agreeing to act as a director, manager, consultant or adviser for any other business organisation, the interested party must notify his/her immediate superior. Directors must notify all new or potential directorships to the Appointments and Remuneration Committee.

#### H. Fair and equitable commercial practices

Every employee, manager and director must agree to adhere to fair and equitable practices with clients, suppliers, the competition and Befesa's employees.

#### I. Legality

Legal compliance is not only an external requirement, but an obligation of the company and its personnel. The law provides the company with security in its actions and reduces risks in its business activities. Any actions that may break the law are expressly and strictly forbidden. In the case of any uncertainty about the legality of an action, the corresponding preventative enquiry must be made to the Legal Department.

#### J. Communication of illegal or immoral behaviour

Befesa requires its employees, managers and directors to talk with their corresponding supervisors, managers and staff to communicate and deal with any known or alleged illegal activity that may affect Befesa or its employees. If during the course of their employment relationship, they become aware of any suspicious activity or behaviour, including concerns regarding accounting or audit issues, they must notify these breaches of the law, rules or regulations of this Code of Conduct to the Secretary of the Board of Directors of Befesa.

Notification of this activity shall not result in disciplinary measures against the employee, except in the case that the accusation is deliberately false. All reports shall be treated in confidence and will be fully investigated.

#### K. US Foreign Corrupt Practises Act / Political contributions

In addition to the provisions of this Code of Conduct and other Befesa policies, employees that work with any part of the Administration in any country must be aware of, understand and observe the laws and regulations that apply to doing business with these entities. In the case that a national, state or local Administration has adopted a more restrictive policy than Befesa's own policy on matters of gifts and incentives, Befesa's employees and representatives must comply with the stricter policy.

Specifically, the US Foreign Corrupt Practises Act (FCPA) deems it a crime for any company or its managers, directors, employees or representatives to pay, promise, offer or authorise the payment of any article of value to any foreign official, foreign political party, foreign political party official, candidates for foreign political office or officials of international public organisations, for the purpose of obtaining or retaining business. Similar laws have been, or are being adopted by other countries. Payments of this nature are in direct contravention of Befesa's policy, including when refusing to carry out such actions results in the loss of a business opportunity.

The FCPA also requires companies to maintain precise books, files and accounts and that they design a system of appropriate internal accounting controls to reasonably guarantee that, among other issues, the books and files of the company reflect, in a reasonably detailed way, the operations and disposals of its assets.

Befesa shall not give, nor encourage any person to give, any type of incentive to any employee of the Administration, nor to any supplier that is subject to a government or non-governmental contract or subcontract for the purpose of gaining any contract or commercial advantage.

#### L. Administration, compliance and exceptions to the Code of Conduct

This Code of Conduct will be implemented and supervised by the Board of Directors of Befesa. Any doubts and requests for more information about this Code of Conduct should be addressed to the Secretary of Befesa's Board of Directors. Befesa's employees, managers and directors are expected to follow this Code of Conduct at all times. In exceptional circumstances there may be situations in which it may be appropriate to waive or exempt the Code. Befesa's Board of Directors shall determine these exceptions for directors and managers on a case by case basis. As a result, all exceptions or waivers of the Code for these directors or managers shall be notified to the General Shareholders' Meeting in accordance with the applicable laws and regulations.

Failure to comply with this Code of Conduct could result in disciplinary measures, including termination of the employment relationship, depending on the nature and the severity of the violation. Similarly, any supervisor, manager, director or responsible person that directs, approves or exempts any breach or that may be aware of a breach and does not immediately report it or correct it shall be subject to disciplinary measures, including termination of the employment relationship.

#### Additional Point Five.

In accordance with the requirements of the Sarbanes-Oxley Act, in 2007 Befesa implemented a channel for reporting potential irregular practices related to accounting, audit and internal financial reporting controls to the Audit Committee, which are recorded in a register, with the due guarantees of confidentiality, integrity and access to the information, in which all "whistleblower" communications received are recorded. Every report received is investigated by the internal audit team.

In technically complex cases, independent experts are called upon to ensure that the team has the sufficient capacity at all times to carrying out an appropriate investigation and to guarantee a sufficient level of objectivity concerning the task in question.

You may include any other information, clarification or table in this section, related to the previous sections of the report, which may be relevant but not repetitive.

Specifically, please indicate if the company is subject to legislation other than Spanish in relation to corporate governance and, if appropriate, include the information that must be provided and that is different to the information required by this report.

Binding definition of independent director:

Indicate if any of the independent directors has or has had any relationship with the company, its significant shareholders or its managers, that due to its significance or importance would have disqualified the director from being considered as independent in accordance with the definition included in section 5 of the Unified Code of Good Governance:

No

Sign and date:

This annual corporate governance report has been approved by the company's Board of Directors in its session of

23/02/2011

Indicate if any directors voted against or abstained in relation to the approval of this report.

No