

Annual Corporate Governance Report

Public Limited Companies

Identification details of the Issuer End of year date: **2007**

Tax ID Code (CIF)

Company Name:

Befesa Medio Ambiente, S.A.
c/ Buen Pastor, s/n
Luchana-Baracaldo
48903
Vizcaya

Public Limited Companies Annual Corporate Governance Report Draft

A Structure of the Company

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

Last modification date	Capital (€)	Number of shares	Number of voting rights
21-06-2001	81,611,571.79	27,113,479	27,113,479

Indicate if there are different share classes with different associated rights:

Yes No **X**

Class	Number of shares	Unit face value	Unit number of voting rights	Other rights
--	--	--	--	--

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

Shareholder name	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Proyectos de Inversiones Medioambientales, S.L.	22,597,338	--	83.344
Abengoa, S.A.	3,805,639	--	2.620

(*) Through:

Name of direct shareholder	Number of direct voting rights	% of total voting rights
--	--	--

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

Shareholder name	Transaction date	Transaction description
Abengoa, S.A.	11.12.07	Transfer to Proyectos de Inversiones Medioambientales of 276,560 shares (1.02%)

A.3 Complete the following table about members of the Company's Board of Directors that hold voting rights on shares in the Company:

Director name	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr Javier Molina Montes	27,669	--	0.102
Mr Manuel Barrenechea Guimón	1,000	--	0.004
Mr Manuel Blanco Losada	720	--	0.003
Mr Rafael Escuredo Rodríguez	10	--	0.0004

(*) Through:

Name of direct shareholder	Number of direct voting rights	% of total voting rights
--	--	--

% of total voting rights attributable to the Board of Directors	0.1094
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Complete the following table about the members of the Company's Board of Directors that hold rights over shares in the Company:

Director name	Number of direct option rights	Number of indirect option rights	Number of equivalent shares	% of total voting rights
--	--	--	--	--

A.4 Indicate, if appropriate, the relationships of a family, commercial, contractual or corporate nature that exist among the significant shareholders, as far as they are known by the Company, unless they have little relevance or derive from ordinary commercial operations:

Related names	Type of relationship	Short description
--	--	--

A.5 Indicate, if appropriate, the relationships of a commercial, contractual or corporate nature that exist among the significant shareholders, and the Company and/or its group, unless they have little relevance or derive from ordinary commercial operations:

Related names	Type of relationship	Short description
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- A.6 Indicate if the company has been notified of any shareholder agreements that affect it under Article 112 of the Securities Market Act (Ley de Mercados de Valores; LMV). If appropriate, describe them briefly and list the shareholders connected through the agreement:

Yes No X

Participants in the shareholder agreement	% capital affected	Short description of the agreement
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Indicate if the Company is aware of the existence of arranged actions among its shareholders. Describe them here briefly, if appropriate:

Yes No X

Participants in arranged actions	% capital affected	Short description of the agreement
--	--	--

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

There is no record.

- A.7 Indicate if any individual or company exercises or could exercise control over the company according to Article 4 of the LMV. If appropriate, indicate it here:

Yes X No

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

Comments
It owns more than 50% of the capital with the right to vote.

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

At the end of the year:

Number of direct shares	Number of indirect shares (*)	total % of capital
--	--	--

(*) Through:

Name of direct shareholder	Number of direct shares
--	--
Total:	--

Describe the significant changes, according to Royal Decree 1362/2007, carried out during the year:

Notification date	Total direct acquired shares	Total indirect acquired shares	total % of capital
--	--	--	--

Capital gain / (loss) from treasury stock disposals during the period	--
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A.9. Describe the current conditions and mandate term of the Board of Directors to carry out acquisitions or transfers of treasury stock.

As at 31.12.2007 the company held no treasury stock, nor had it acquired any of its own shares during 2007.

The Ordinary General Shareholders Meeting held on 19 April 2007 agreed to authorise 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 at a price between €1 and €100 per share, this authorisation being valid for a period of eighteen (18) months from said date, and subject to the provisions in Section 4 of Chapter IV of the Consolidated Text of the Spanish Public Limited Companies Act (Texto Refundido de la Ley de Sociedades Anónimas).

The Board of Directors has not made use of this authorisation to date.

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.

Indicate if there are legal restrictions on exercising voting rights:

Yes No X

Maximum percentage of voting rights that a single shareholder can exercise due to legal restrictions	--
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Indicate if there are statutory restrictions on exercising voting rights:

Yes No X

Maximum percentage of voting rights that a single shareholder can exercise due to statutory restrictions	--
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Description of the legal and statutory restrictions on exercising voting rights
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Indicate if there are legal restrictions on acquiring or transferring shareholdings in the company's capital:

Yes No X

Description of the legal restrictions on acquiring or transferring shareholdings in the company's capital
--

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

Yes No X

If appropriate, explain the approved measures and the terms under which the lifting of the restrictions would occur.

No restrictions.

B Structure of the Administration of the company

B.1 Board of Directors

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

Maximum number of Directors	12
Minimum number of Directors	3

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

Director name	Representative	Position on the Board	Date of first appointment	Date of last appointment	Selection procedure
Mr Javier Molina Montes	--	Chairman	11-07-2000	22-06-2004	Shareholders' Meeting
Mr Manuel Barrenechea Guimón	--	Vice-Chairman	11-07-2000	22-06-2004	Shareholders' Meeting
Mr Manuel Blanco Losada	--	Director	18-06-2002	25-04-2006	Shareholders' Meeting
Mr Rafael Escuredo Rodríguez	--	Director	14-06-2007	14-06-2007	Board of Directors (co-opted)
Mr Jorge Guarner Muñoz	--	Director	22-06-2004	22-06-2004	Shareholders' Meeting
Ms María José Rivero Menéndez	--	Director	25-04-2006	25-04-2006	Shareholders' Meeting
Mr Salvador Martos Hinojosa	--	Director	11-07-2000	22-06-2004	Shareholders' Meeting

Number of Directors	7
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Indicate any departures from the Board of Directors that have occurred during the period:

Director name	Status of the Director upon removal	Departure date
Mr Alvaro Castro Cabeza de Vaca	Shareholder director	14-06-2007

B.1.3 Complete the following table about members of the Board and their different status:
Executive Directors

Director name	Committee that proposed his/her appointment	Position in the company organisation chart
Mr Javier Molina Montes	Appointments and Remuneration Committee	Chairman
Mr Manuel Barrenechea Guimón (*)	Appointments and Remuneration Committee	Vice-Chairman

Total number of executive directors	2
% of Board	28.57

(*) The Vice-Chairman of the Company's Board of Directors, Mr Manuel Barrenechea Guimón, executive director, has left the company due to his resignation on January 15, 2008, upon termination of the labour relation with the Company and is still a director and Vice- Chairman, although his status or classification as a director has changed from this date on, to shareholder director and external director representing the company Proyectos de Inversiones Medioambientales, S.L.

External Shareholder Directors

Director name	Committee that proposed his/her appointment	Name of the significant shareholder represented or that has proposed his/her appointment
Mr Salvador Martos Hinojosa	Appointments and Remuneration Committee	Proyectos de Inversiones Medioambientales, S.L.

Total number of shareholder directors	1
% of Board	14.29

Independent External Directors

Director name	Profile
Mr Manuel Blanco Losada	Independent external director
Mr Rafael Escuredo Rodríguez	Independent external director
Mr Jorge Guarner Muñoz	Independent external director
Ms María José Rivero Menéndez	Independent external director

Total number of independent directors	4
% of Board	57.14

Other External Directors

Director name	Committee that proposed his/her appointment
--	--

Total number of other external directors	--
% of Board	--

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:

Director name	Reasons	Company, manager or shareholder with which there is a link
--	--	--

State the changes that may have occurred to the status of any of the directors during the period:

Director name	Change date	Previous status	Current status
--	--	--	--
--	--	--	--

Note. (*) The Vice-Chairman of the Company's Board of Directors, Mr Manuel Barrenechea Guimón, executive director, has left the company due to his resignation on January 15, 2008, upon termination of the labour relation with the Company and is still a director and Vice- Chairman, although his status or classification as a director has changed from this date on, to shareholder and external director representing the company Proyectos de Inversiones Medioambientales, S.L.

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:

Shareholder name	Justification
--	--

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. If appropriate, explain the reasons why they have not been upheld:

Yes

No

Shareholder name	Explanation
--	--

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

Name of the director	Reason for departure
Mr Álvaro Castro Cabeza de Vaca	Dismissal for personal reasons.

- B.1.6 Indicate, if they exist, the powers that the Board or CEO has delegated:

Director name	Short description
--	--

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

Director name	Name of group entity	Position
Mr Javier Molina Montes	Alianza Medioambiental, S.L.	Chairman
Mr Javier Molina Montes	Proyectos de Inversiones Medioambientales, S.L.U.	Chairman
Mr Javier Molina Montes	Befesa Servicios Corporativos, S.A.U	Chairman
Mr Javier Molina Montes	MRH Residuos Metálicos, S.L.U.	Chairman
Mr Javier Molina Montes	Befesa Agua, S.A.U.	Chairman
Mr Javier Molina Montes	Befesa Gestión de Residuos Industriales, S.L.U.	Chairman
Mr Javier Molina Montes	Asa Environment and Energy Holding, AG.	Chairman
Mr Manuel Barrenechea Guimón	Befesa Desulfuración, S.A.	Chairman
Mr Manuel Barrenechea Guimón	Alianza Medioambiental, S.L.U.	Director
Mr Manuel Barrenechea Guimón	Befesa Servicios Corporativos, S.L.U.	Director
Mr Manuel Barrenechea Guimón	Proyectos de Inversiones Medioambientales, S.L.U.	Director

- 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, which the company has been notified of:

Director name	Name of listed entity	Position
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B.1.9 State, and if appropriate explain, if the company has rules on the number of boards that their directors may belong to:

Yes No

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

	Yes	No
The investment and financing policy	X	
The definition of the corporate group structure	X	
The corporate governance policy	X	
The corporate social responsibility policy	X	
The strategic or business plan, as well as the management objectives and annual budget	X	
The policy on remuneration and performance evaluations of senior managers	X	
The risk control and management policy, as well as the regular monitoring of internal information and control systems	X	
The dividend and treasury stock policy(s), and their limits in particular.	X	

B.1.11 Complete the following table regarding the combined remuneration of the directors accrued during the year:

a) In the company subject to this report:

Remuneration concept	Data in € thousands
Fixed remuneration	508
Variable remuneration	274
Expenses	200
Statutory Benefits	--
Options on shares and/or other financial instruments	--
Others	12
Total:	994

Other Benefits	Data in € thousands
Advances	--
Granted loans	--
Pension plans and funds: Contributions	--
Pension plans and funds: Contract obligations	--
Life insurance premiums	--
Guarantees given by the company in favour of Directors	--

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

Remuneration concept	Data in € thousands
Fixed remuneration	-
Variable remuneration	-
Expenses	-
Statutory Benefits	-
Options on shares and/or other financial instruments	-
Others	-
Total	-

Other benefits	Data in € thousands
Advances	--
Granted loans	--
Pension plans and funds: Contributions	--
Pension plans and funds: Contract obligations	--
Life insurance premiums	--
Guarantees given by the company in favour of Directors	--

c) Total remuneration by type of director:

Director type	By company	By group
Executives	806	--
External shareholder directors	25	--
External independent directors	163	--
Other external directors	--	--
Total	994	--

d) In relation to the income attributable to the parent company:

Total remuneration of directors (in € thousands)	994.03
Total remuneration of Directors/income attributable to the parent company (expressed as a %)	2.1 %

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

Name or company name	Position
Mr Juan Abaurre Llorente	Manager, Latin America Business Unit
Mr Federico Barredo Ardanza	Manager, Aluminium Waste Recycling Business Unit
Mr Guillermo Bravo Mancheño	Manager Director, Water Area Business Unit
Mr Santiago Ortiz Domínguez	Manager, Industrial Waste Management Business Unit
Mr Alfredo Velasco Erquicia	Manager, Industrial Waste Corporate Development Business Unit
Mr Asier Zarraonandia Ayo	Manager, Aluminium Waste Recycling Business Unit
Ms. Carmen Medina Ariza	Manager, Human Resources
Mr Ignacio García Hernández	Chief Finance Officer
Mr Juan Albizu Etxebarria	Manager, Consolidation and Auditing
Mr Antonio Marín Hita	Manager, Legal Counsel

Total remuneration of senior management (in € thousands)	1,337
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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 groups of the company or its group:

Number of beneficiaries	--
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	Board of Directors	Shareholders' meeting
Group that authorises the clauses	--	--

	YES	NO
Is the General Shareholders' Meeting notified of the clauses?	--	--

- B.1.14 State the process for determining the remuneration of the members of the Board of Directors and the relevant bylaw clauses:

Process for determining the remuneration of members of the Board of Directors and clauses in the bylaws
<p>According to Article 17 of the Company's bylaws, the position of director is paid. Directors' remuneration consists of a fixed amount that is agreed by the General Shareholders' Meeting, and other remunerative concepts allowed under prevailing legislation, such as remuneration systems based on the provision of company shares and/or stock options, which are also approved by the General Shareholders' Meeting, and under the terms allowed by law. Each director's remuneration may differ. In addition to this remuneration, travel expenses for actions that are the responsibility of the Board are also paid.</p> <p>In accordance with Article 27 of the Regulations of the Board of Directors and with Article 4 of the Internal Regulation of the Appointments and Remuneration Committee, it is the duty of this Committee to (i) draft and propose the remuneration policy of the Company's directors and senior managers to the Board of Directors; (ii) ensure that the remuneration policy established by the Company is adhered to, and (iii) prepare an annual report on the remuneration policy of the executive directors.</p>

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

	Yes	No
The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the CEO of the company.	X	
The remuneration of directors as well as any additional remuneration for executive responsibilities in the case of executives and any other conditions that their contracts should reflect.	X	

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

Yes X

No

	Yes	No
Amount of the fixed components, with a breakdown if appropriate, of the expenses for participating on the Board and its in committees and an estimate of the annual fixed remuneration provided.	X	
Variable remunerative concepts.	X	
Principal characteristics of the income security programs with an estimate of their amount or equivalent annual cost.	X	
Conditions that must apply to the contracts of those who hold senior management positions such as executive directors.	X	

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. State the role carried out by the Remunerations Committee and, if external advice has been used, identify the external consultants that may have provided it:

Yes X

No

The following should be highlighted:

1. Remuneration for the position of director.

The position of Director is paid, pursuant to the contents of Article 17 of the Company Bylaws. The amount paid to directors consists of a fixed amount for attending Board Meetings, approved by the General Shareholders' Meeting of July 17, 1997 and of other remuneration permitted by the legislation in force, such as remuneration systems through the awarding of Company shares and/or share options, approved by the General Shareholders' Meeting and under the terms allowed by Law. Directors' remuneration may vary between directors.

Independent of this remuneration, travel expenses for actions that are the responsibility of the Board are also paid.

This remuneration is fixed for all directors, independent of their status as executive, non-executive, shareholder, internal or external.

The amount of expenses corresponding to external directors, as independent directors or as shareholder directors, for attending each meeting of the Board, the Audit Committee or the Appointments and Remuneration Committee for 2007 is €3,500 per session and €1,370 for internal directors.

2. Remuneration applicable to executive directors.

Corresponds to the general remuneration policy of the company, applicable to employees that hold duties with a high level of responsibility.

This remuneration policy is structured taking into account the following concepts.

(a) Fixed remuneration

The amount is set in line with market comparables, and reflects the leadership position to which the company aspires. Market studies from external consultants are taken into account in its calculation.

Fixed remuneration comprises the following concepts:

- 1) Salary level. Defined as the basic fixed salary received on a monthly basis, corresponding to each category and level.
- 2) Extra responsibility payment. This is a supplementary amount freely set by the company's management, paid monthly and therefore based on, linked to and conditional upon performance of a specific function or responsibility.

(b) Annual variable remuneration (bonus)

The annual variable remuneration or bonus of executive directors is primarily linked to meeting objectives. These objectives are linked to gross revenues/EBITDA for certain directors or to income after tax for others. At the beginning of each year the range of the variable remuneration of the executive directors is set based on these criteria.

The fixed remuneration is therefore comprised of the sum of the amounts corresponding to the salary level and the extra responsibility payment payable monthly.

The variable remuneration corresponds to the annual bonus and is paid in a single payment.

<p>c) Retention plans</p> <p>The remuneration policy of Befesa Medio Ambiente also contains two retention or seniority plans for managers, also applicable to executive directors.</p> <p>(i) Share acquisition plan in the parent company Abengoa, S.A.</p> <p>This is based on meeting Befesa's objectives and linked to the company's strategic plan.</p> <p>The duration of the plan is five (5) years, beginning in 2006 and ending in 2010. It is paid in the first half of 2011 through the sale of shares.</p> <p>Each individual must meet the annual targets set in order to receive the annual bonus as well as his/her seniority in the company during the period of the plan.</p> <p>(ii) Plan Dos. This consists of a variable extraordinary remuneration payment.</p> <p>This plan is based on recognition by the company of certain managers (beneficiaries) of a specific or calculable and extraordinary payment.</p> <p>Its accrual depends on the personal achievement of the objectives set in the Befesa Medio Ambiente strategic plan.</p> <p>The plan is cumulative, as far as it is additional to any other variable remuneration accrued or to be accrued by the beneficiary and is not exclusive.</p> <p>The remuneration is accrued and consolidated at the end of the five year period (5 years), commencing in 2007 and ending in 2012. It is paid in the first half of 2013 upon verification of completion of the personal objectives by the corresponding audit report.</p>

Role of the Remuneration Committee

	Yes	No
Has it used external advice?	X	
Identity of the external consultants	Mercer and PWC	

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:

Director name	Name of significant shareholder	Position
Mr Javier Molina Montes	Abengoa, S.A.	Manager of the Environmental Services Business Group

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

Name of the connected director	Name of connected significant shareholder	Description of relationship
Mr Salvador Martos Hinojosa	Abengoa, S.A.	Termination of the labour relationship for retirement.

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

Yes **X** No

Modification description
<p>The session of the Board of Directors of the Company on 18 December 2007 agreed, in accordance with Article 4 of its regulations, to review its regulations in order to adapt its internal rules to the recommendations of the Spanish National Securities Commission (CNMV), approved on 22 May 2006:</p> <ul style="list-style-type: none"> (i) to include two new sections in Article 4 (duties and powers); (ii) to add a section 6 to Article 8 in order to allow the appointment of a Coordinator Director in the event that the Chairman of the Board is also the company's CEO; (iii) to add a new section to Article 19, establishing the obligation of the Board to present a report on the remuneration policy to the General Shareholders' Meeting for consultation; and (iv) to extend the duties and powers of the Audit Committee and the Appointments and Remuneration Committee.

B.1.19 State the procedures for appointment, re-election, evaluation and removal of directors. Give the competent bodies, the procedures to be followed and the criteria used in each of the procedures.

The General Shareholders' Meeting, or if appropriate the Board of Directors within the legally established powers and limits, is the competent body for appointing members of the Board. In addition to meeting the legally established requirements, people liable for appointment must have the recognized ability, knowledge, reputation and professional references appropriate for carrying out such duties.

The duties of the Appointments and Remuneration Committee include the obligation to notify the Board of Directors about appointments, re-elections and removals from the Board, the responsibilities of these positions, their remuneration, as well as the general remuneration and incentives policy regarding them and the senior management, as well as notifying the General Shareholders' Meeting in advance, of all the proposals made by the Board regarding the appointment or removal of directors.

Directors will hold their position for a maximum term of four years, notwithstanding their possible renewal or re-election.

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

Directors will resign their position at the end of the term of their mandate and in other legally established cases. Furthermore, they should offer their resignation to the Board in the event of incompatibility, prohibition, serious offences or non-compliance of their obligations as directors.

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

Yes **X** No

Measures to limit risks
<p>The Board of Directors created the Audit Committee and the Appointments and Remuneration Committee on 18 December 2002 and 24 April 2003, respectively, according to Article 22 and pursuant to the Company's bylaws.</p> <p>These committees are attributed with the inherent authority, which cannot be delegated, to undertake the tasks assigned by law, the company's bylaws and their respective internal regulations, existing as control and supervision bodies for the issues within their scope.</p> <p>Both comprise three independent directors and the Chairman of each committee is therefore independent.</p>

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 of the Chairman of the Board.

Yes **X** No

Explanation of the rules
<p>According to Article 8.6 of the Regulations of the Board of Directors, when the Chairman of the Board is also the CEO of the Company, an independent director shall be authorised to (i) coordinate and hear the concerns of the external directors; (ii) request that the Board meets or to include new points on the agenda; and (iii) be responsible for the evaluation process of the Chairman.</p> <p>On 18 December 2007 the Board of Directors of the company appointed the independent director Mr Manuel Blanco Losada as the Coordinating Director at the proposal of the Appointments and Remuneration Committee.</p>

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

Yes

No

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

Adoption of resolutions		
Description of the resolution	Quorum	Type of majority
All, except for legal exceptions.	Half plus one	Simple

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

Yes

No

Description of the requirements
--

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

Yes

No

Issues on which there is a casting vote
--

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

Yes

No

Age limit Chairman

Age limit CEO Age limit director

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

Yes

No

Maximum number of years	--
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B.1.27 In the event of few or no directors, explain the reasons and initiatives adopted to correct this situation.

Explanation of the reasons and initiatives
<p>The Company's Board of Directors is comprised of one female director, Ms. María José Rivero Menéndez, who is independent and was appointed by the General Shareholders' Meeting on 25 April 2006, and by 6 male directors.</p> <p>The meeting of the Board of Directors held on 18 December 2007 agreed to expand Article 1 of the Regulations of the Appointments and Remuneration Committee (Composition. Appointment of members) in order to incorporate what was already in practice, the intention relating to ensuring that the selection procedures were not biased against the selection of female directors and that, furthermore, the company includes women that match the professional profile sought, among the potential candidates.</p>

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

Yes **X**

No

Indicate the principal procedures
<p>The independent director Ms María José Rivero Menéndez was appointed as a director by the General Shareholders Meeting held on 25 April 2006, at the proposal of the Appointments and Remuneration Committee, also being appointed as a member of the Audit Committee and since that date there have been no new vacancies on the Board. Pursuant to regulatory provisions, in the event of new vacancies arising on the Board, the selection process must take into account not only the equitable selection of female directors but also to search for candidates that meet the profile required.</p>

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.

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:

Number of Board meetings	8
Number of Board meetings not attended by the Chairman	0

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

Number of meetings of the Executive or Delegate Committee	--
Number of meetings of the Audit Committee	6
Number of meetings of the Appointments and Remuneration Committee	3
Number of meetings of the Appointments Committee	--
Number of meetings of the Remuneration Committee	--

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. Non-attendance includes representations made without specific instructions:

Number of non-attendances by directors during the year	1
Non-attendances as a percentage of total votes during the year	1.78

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 **X** No

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

Name	Position
Mr Juan Albizu Etxebarria	Manager, Consolidation and Auditing

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 Shareholder's Meeting with reservations in the audit report.

According to the Financial System Reform Act (Ley Financiera), Befesa's Board of Directors created the Audit Committee in December 2002 and approved its internal regulations.

In accordance with the Regulations of the Board of Directors (Article 26) and the Regulations of the Audit Committee (Article 3), the duties and responsibilities of this committee include, among others, to report the annual accounts as well as the quarterly and six monthly financial statements that must be submitted to the regulatory or market supervision entities, commenting on the internal control systems, control of their monitoring and compliance through the internal audit function, as well as the accounting criteria applied, when appropriate.

The responsibilities of the Audit Committee therefore aim to ensure that the individual and consolidated accounts of the Company are presented to the General Shareholder's Meeting without qualifications.

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

Yes No

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.

Appointment and removal procedure
<p>The Secretary is appointed by the Board of Directors at the 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.</p>
<p>The Secretary is responsible for his/her duties under mercantile legislation and the aforementioned regulations.</p>
<p>The Secretary of the Board is the company's legal adviser and must ensure that the requirements in relation to calling the meeting, its constitution and the decision-making process are observed.</p>
<p>The Secretary is also responsible for advising on the legality of the deliberations that take place.</p>
<p>The legally attributable duties of the legal adviser as upholder of the principle of legality of the agreements, decisions and deliberations of the Board, are held by the Secretary of the Board, as he/she is also a lawyer.</p>

	<u>Yes</u>	<u>No</u>
Does the Appointments Committee notify the appointment?	X	
Does the Appointments Committee notify the removal?	X	
Is the appointment approved by a plenary session of the Board?	X	
Does a plenary session of the Board approve the removal?	X	

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

Yes

No

Comments
<p>The Secretary of the Board of Directors is not expressly responsible for monitoring the recommendations on good governance since the Secretary is a professional from outside of the company, although he actively collaborates in the bodies in which he carries out this function.</p>

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

In accordance with Article 3 of the Regulations of the Audit Committee and Article 26 of the Regulations of the Board of Directors, the Audit Committee, the external auditor shall:

- a) **Make 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.
- 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 the independence of the auditors and any other issues related to the process of auditing the accounts.

B.1.36 State if during the year the Company has changed its external auditor. Identify the incoming and outgoing auditors if appropriate:

Yes No

Outgoing auditor	Incoming auditor
--	--

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

Yes No

Explanation of the disagreements
--

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 of these fees that apply to the company and/or its group.

Yes No

	Company	Group	Total
Amount from other work other than audit work (€ thousands)	--	26.00	26.00
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	--	3.60 %	3.60 %

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

Yes

No

Explanation of the reasons
--

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. Likewise, 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	15/15	15/5

	Company	Group
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	100%	100%

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

Director name	Name of the target company	% shareholding	Position or duties
--	--	--	--

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

Yes

No

Describe the procedure
The Secretary of the Board of Directors has the duties that legally correspond to him/her.
The Secretary is also the external legal advisor of the company, who among other duties, advises the members of the Board on the legality of the deliberations and

agreements that they propose, 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.

In accordance with Article 18 of the Regulations of the Board, (Right to advice and information), directors have access to all the services of the company and may obtain, under the most extensive authority, the information and advice that they may require in relation to any aspect of the company, provided that its is required in the course of their duties, through the Chairman of the Board of Directors.

Directors are authorised to propose to the Board, by majority and also through the Chairman of the Board, the use of legal, accounting, technical, financial or commercial advisers paid for by the company, or advisers of any other type that they deem necessary to the interests of the company, in order to be supported in the course of their duties when it relates to specific problems of an identifiable nature and complexity connected to the performance of their position.

B.1.42 State, and detail if appropriate, if there is a procedure through which directors may access the information required to prepare for the meetings of the administrative bodies with sufficient time:

Yes **X** No

Describe the procedure
<p>According to Article 8 of the Regulations of the Board, the Board meets at least eight times every year, when required in the interests of the company, and always within the first three months of the year in order to approve the financial statements of the previous year, the management report and the proposal for the appropriation of earnings. Likewise, it always meets to call the General Shareholder’s Meeting.</p> <p>The ordinary sessions of the Board treat general issues related to the operations of the company, the financial results, the balance sheet, the cash situation and their comparisons against the approved budgets, and in all cases to discuss the points included on the agenda.</p> <p>Prior to the meetings of the Board, with the maximum time possible and via the usual systems for issuing documentation, directors will be provided with the information subject to the points on the agenda to be discussed and the proposals regarding the agreements to be adopted by the Board.</p>

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

Yes **X** No

Obligation to report

In accordance with Article 13 of the Regulation of the Board, directors must conduct themselves with the diligence of a methodical businessperson and a loyal representative. Their actions must be solely guided by the interests of the company, interpreted with full independence, endeavouring to defend and protect the interests of all shareholders from whom their mandate comes and to whom they are accountable.

By virtue of their position, directors are obliged (i) to notify their direct or indirect shareholdings in shares or derivatives in the company; (ii) notify the company of significant changes in their professional situation, which affect the nature or conditions by virtue of which they may have been appointed as a director, or which may give rise to a conflict of interest; and (iii) notify the company of all judicial or administrative claims, or claims of any other type, which due to their significance could seriously impact the reputation of the company.

Resignation/removal

According to Article 12 of the Regulations of the Board, directors shall cease to hold their position when the period for which they were appointed has elapsed, and in all other cases pursuant to the law, the company's bylaws and the aforementioned regulations.

Directors must relinquish their position to the Board of Directors and provide, if deemed appropriate, their resignation in the following cases:

- 1) When they may be implicated in any of the cases of incompatibility or prohibition stated by law.
- 2) When they are significantly sanctioned by a public authority for having infringed their obligations as a director.
- 3) When the Board requests it for having infringed their obligations as a director.

Once this period has passed or termination has occurred for any other reason in the course of their duties, directors may not provide their services to any other competing entity during a period of two years, unless the Board of Directors releases him/her from this obligation or reduces the duration.

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 offences under Article 124 of the Spanish Public Limited Companies Act:

Yes No

Name of the director	Criminal proceedings	Comments
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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 may or may not continue in his/her position.

Yes No

Decision taken	Explanatory reason
Continue / Does not continue	--

B.2. Committees of the Board of Directors

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

Executive or Delegate Committee

Name	Position	Type
--	--	--
--	--	--

Audit Committee

Name	Position	Type
Mr Manuel Blanco Losada	Chairman	Independent; External.
Ms. María José Rivero Menéndez	Director	Independent; External
Mr Rafael Escuredo Rodríguez	Director	Independent; External.
Mr Alfonso Castresana Alonso de Prado	Secretary, non Director	--

Appointments and Remuneration Committee

Name	Position	Type
Mr Jorge Guarner Muñoz	Chairman	Independent; External.
Mr Manuel Blanco Losada	Director	Independent; External.
Mr Rafael Escuredo Rodríguez	Director	Independent; External.
Mr Juan Albizu Etxebarria	Secretary, non Director	--

Appointments Committee

Name	Position	Type
--	--	--
--	--	--

Remuneration Committee

Name	Position	Type
--	--	---
--	--	--

_____ **Committee**

Name	Position	Type
--	--	---
--	--	--

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

	Yes	No
Supervise the drafting process and the integrity of the financial information relating to the company and, as appropriate, to the group, reviewing compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.	X	
Periodically review the internal control and risk management systems so that the principal risks are identified, managed and appropriately recorded.	X	
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.	X	
Establish and supervise a mechanism that allows employees to confidentially and, if appropriate, anonymously communicate potential irregularities, especially financial and accounting, which they may identify within the Company.	X	
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.	X	
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.	X	
Ensure the independence of the external auditor	X	
In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.	X	

B.2.3 Give a description of the organisation, operating rules and the responsibilities of each committee of the Board.

A) Audit Committee

Functions

The functions and responsibilities of the Audit Committee are:

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

a) Supervise the preparation process and the integrity of the financial information relating to the Company and to the Group, as appropriate.

b) Report on the annual, half-yearly and quarterly financial statements that should be submitted to regulatory or market supervision entities.

c) Periodically review the internal control and risk management systems.

d) Supervise the internal audit function and monitor and supervise its independence and effectiveness; propose the selection, appointment, re-election and removal of the manager of the internal audit service; and propose the budget, if appropriate.

e) Summon any employee or director of the Company, including appearances without the presence of another manager.

f) 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. The Committee must ensure that the interim accounts are prepared using the same accounting criteria as the annual accounts, and therefore consider the relevance of a partial review by the external auditor.

(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 that, due to their complexity, could reduce the transparency of the Group.

(iii) Related operations.

g) Supervise compliance with the Internal Code of Conduct and the rules of corporate governance.

h) Notify the Board of any change in accounting criteria and of the risks on and off the balance sheet.

i) To report to the General Shareholders' Meeting on questions raised by shareholders in relation to matters of its competence.

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

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

II. 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.
 - (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 the 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 the independence of the auditors and any other issues related to the process of auditing the accounts.

Organization and operation.

The Audit Committee shall meet as frequently as is necessary in order to carry out its duties, and at least once a quarter.

The Audit Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Director.

Its resolutions shall be validly adopted when voted for by a majority of the Committee members present or represented. In the event of a tie, the Chairman shall have the casting vote.

B) Appointments and Remuneration Committee

Duties

The duties and powers of the Appointments and Remuneration Committee are as follows:

1. Inform the Board of Directors of all proposals to be made to the General Shareholders' Meeting regarding appointments, re-elections and resignations from the Board and the responsibilities of these positions, including the case of individuals co-opted to the Board of Directors. In the case of non-executive Directors, the Committee will propose their appointments, re-elections and resignations, including the case of individuals co-opted to the Board of Directors.
2. Evaluate the skills, knowledge and experience required by the Board; to define the abilities and functions required by candidates to cover vacancies;

and to assess the time and dedication required by Board members to fully carry out their functions;

3. Examine and organise the succession of the Chairman and CEO;
4. Inform the Board of any appointments or resignations of senior managers proposed by the CEO.
5. Inform the Board about gender diversity issues.
6. Propose to the Board of Directors:
 - i) The remuneration policy for directors and senior management;
 - ii) The individual remuneration of the directors and the approval of the contracts that the Company signs with each executive director;
 - iii) The basic conditions of contracts for senior management.
7. Ensure that the remuneration policy established by the Company is followed.
8. Verify annually the character of the Directors.
9. Draft an annual report on the activities of the Appointments and Remuneration Committee and an annual report on the remuneration policy of the directors.

Organization and operation

The Appointments and Remuneration Committee shall meet as frequently as is necessary in order to carry out the foregoing duties, and at least once every six months.

The Appointments and Remuneration Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Director.

Its resolutions shall be validly adopted when voted for by a majority of the Committee members present or represented. In the event of a tie, the Chairman shall have the casting vote.

During the 2007 financial year, the Appointments and Remuneration Committee met on a total of three (3) occasions.

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

Committee name	Short description
Audit Committee	<p>(see section B.2.3 above).</p> <p>a) Supervise the preparation process and the integrity of the financial information relating to the Company and to the Group, as appropriate.</p> <p>b) Report on the annual, half-yearly and quarterly financial statements that should be submitted to regulatory or market supervision entities.</p> <p>c) Periodically review the internal control and risk management systems.</p> <p>d) Supervise the internal audit function and monitor and supervise its independence and effectiveness; propose the selection, appointment, re-election and removal of the manager of the internal audit service; and propose the budget, in case.</p> <p>e) The Audit Committee shall notify the Board (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 that, due to their complexity, could reduce the transparency of the Group; (iii) Related operations and (iv) any change in accounting criteria and of the risks on and off the balance sheet</p> <p>f) To report to the General Shareholders' Meeting on questions raised by shareholders in relation to matters of its competence the appointment of the external auditor, and the conditions for his recruitment.</p>
Appointments and Remuneration Committee	<p>(See section B.2.3 above).</p> <p>a) Inform the Board of Directors of all proposals to be made to the General Shareholders' Meeting regarding appointments, re-elections and resignations from the Board.</p> <p>b) Evaluate the skills, knowledge and experience required by the Board; to define the abilities and functions required by candidates to cover vacancies; and to assess the time and dedication required by Board</p>

	<p>members to fully carry out their functions;</p> <p>c) Examine and organise the succession of the Chairman and CEO;</p> <p>d) Inform the Board of any appointments or resignations of senior managers proposed by the CEO.</p> <p>e) Inform the Board about gender diversity issues.</p> <p>f) Propose to the Board of Directors:</p> <p style="padding-left: 40px;">i) The remuneration policy for directors and senior management;</p> <p style="padding-left: 40px;">ii) The individual remuneration of the directors and the approval of the contracts that the Company signs with each executive director;</p> <p style="padding-left: 40px;">iii) The basic conditions of contracts for senior management.</p> <p>g) Ensure that the remuneration policy established by the Company is followed.</p> <p>h) Verify annually the character of the Directors.</p>
--	--

B.2.5 Indicate, if appropriate, the existence of regulation of the Board's committees, the location in which they are available for consultation and any modifications that have been carried out during the year. Also state if an annual report is voluntarily drafted on the activities of each committee.

The creation of the Audit Committee and the Appointments and Remuneration Committee is foreseen in the section 3 of the Bylaws, Articles 22, 23 and 24.

The complete text of the Rules of Operation, competences and faculties are in their respective Regulations, which are available on Befesa's website at www.befesa.es and www.befesa.com (Information for Shareholders and Investors / Corporate Governance), and deposit in the CNMV. In this site it appears as well the current composition of the members of both Committees.

The Regulations, since their approval by the Board of Directors, both on April 24, 2003, were modified by the Board of Directors on February 28, 2005, to replace the annual rotary character of the Chairmen of the Committees by the time of 4 years foreseen for the appointment of the Directors. By Agreement of the Board of Directors on December 18, 2007, they have been again in

order to adapt to the recommendations established in the Unified Code for Proper Governance, approved by the Board of Directors of the NSEC on May 22, 2006.

B.2.6 State if the composition of the Executive Committee reflects the participation of the different directors on the Board based on their status:

Yes

No

If not, explain the composition of its executive committee
The company has not assigned 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 their representatives on the Board, or with people related to them, upon receipt of a recommendation from the Audit Committee or any other committee to which the responsibility may have been designated:

Yes **X**

No

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

Name of significant shareholder	Name of the company or entity in its group	Nature of the relationship	Type of operation	Amount (€ thousands)
Abengoa, S.A.	Befesa Medio Ambiente, S.A.	Service provision agreement	Provision of professional services	7,750

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

Name of the administrator or manager	Name of the company or entity in its group	Nature of the operation	Type of operation	Amount (€ thousands)
--	--	--	--	--

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

Name of entity in its group	Short description of the operation	Amount (€ thousands)
--	--	--

(*) Befesa is head of a group of companies and it operates as such.

It combines a series of complementary activities for the integral product that one or several business units jointly offer its clients. The different companies and business units therefore share clients and one or several companies may operate jointly, depending on the case, as the lead company. This produces cross selling between companies (intragroup).

Likewise, the parent company for the firm (Abengoa) coordinates and manages, through a centralised treasury system, the financial resources in the businesses financed from funds that are generated from the payment/collection cycle using factoring and supplier payments by the bank, which allows these payments to be optimised.

As a result of the commercial operations carried out within the scope of the above (in purely market terms) and derived from the ordinary business of the company and of a financial nature, the resulting balances appear in the balance sheets of the individual companies, although they are eliminated in the consolidation process of the annual accounts.

- 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)

Yes

No

Director name	Description of the conflict of interest
--	--

- 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.

In relation to possible conflicts of interest between the company and its directors, it should be noted that in accordance with Article 13 of the Regulations of the Board of Directors in relation to directors' obligations, directors are obliged to prevent the concurrence of conflicts of interest and in all cases to communicate their possible existence to the Board of Directors via the Secretary of the Board.

Likewise, directors must: (i) not hold positions in companies that compete with the company or its group; (ii) not use the company's unpublished information for personal means; (iii) not improperly use the company's assets or take

advantage of their position in the company to obtain benefits from assets without making the appropriate payment; (iv) not use business opportunities for their own ends that they are only aware of through their position as a director; (v) abstain from voting on proposals for appointments, removals and remuneration, when they are affected.

Since 12 December 2000, the company's Board of Directors has approved an internal regulation in relation to the stock market and a policy on the use of relevant information, reviewed on 24 April 2003 and 22 June 2004, so that the latter strengthens the regulation of specific issues such as conflicts of interest, certain aspects relating to privileged information and to trading in the company's shares.

Following the company's desire to extend the rules of good governance to all aspects of the company's operations, on 26 April 2005 the Board of Directors agreed to modify the Code of Conduct implemented in 2003, which applied generally, so that it would specifically apply to all actions and working relations of managers, directors and certain employees, who due to their position or responsibility, could be affected by its content, in their relations with clients and potential clients, with colleagues, administrative bodies, the media and with any other person or institution with which the company has contact.

In accordance with Article V, Section B of the Internal Code of Conduct in relation to the stock market, the Company considers it of the highest importance that all insiders conduct themselves in accordance with the policy established on this issue. All directors, managers and employees are responsible for adhering to this policy and for the procedures related to it.

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

Yes No

Identify the subsidiary companies that are listed in Spain: (*)

Listed subsidiary companies
--

(*) The parent company Abengoa, S.A. has been listed in Spain on the Ibex 35 since 2 January 2008. It was previously listed in the New Market segment.

Indicate if the respective business areas and the relations between them have been publicly and precisely defined, as well as the areas and relations of the listed subsidiary company with the other companies in the Group;

Yes

No

Define the business relationships between the parent company and the listed subsidiary; and between this company and the other companies in the Group

(pending answer from Abengoa)

Identify the mechanisms planned for resolving any conflicts of interest between the listed subsidiary and other companies in the Group:

Mechanisms for resolving conflicts of interest
--

(pending answer from Abengoa)

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 effectiveness of these systems for each type of risk profile.

Befesa's risk control structure is based on two foundations: the common management systems and the internal audit services, whose definitions, objectives, characteristics and functions are described below.

(i) Common Management Systems

Definition

The Common Management Systems develop the internal rules of the company and its methodology for evaluating and controlling risks and represent a genuine guide for managing businesses, sharing the accumulated knowledge and setting criteria and operational standards.

Objectives

- To identify possible risks, because, although they are associated to any business, it shouldn't renounce to the minimizing and be aware of them.
- To optimize day-by-day management, applying procedures designed for financial efficiency, cost reduction, and information and management systems homogenization and compatibility.
- To foment the synergy and the creation of value for the different Business Units of, working in a collaborative ambience.
- To reinforce the corporate identity, respecting the shared values of all the companies within Befesa.

- To grow through strategic development seeking innovation and new options for the medium and long terms.

The systems cover the whole organization at three levels:

- all business units and business lines;
- all levels of responsibility;
- all types of transactions.

Compliance with the Common Management Systems is obligatory for the whole of the organisation, and all members of the organisation must be aware of them. Exceptions to this compliance must be communicated to the corresponding person and must be appropriately authorised.

The Common Management Systems are subject to continuous updates that allow best practices to be incorporated into each of their areas of action. The organisation is immediately notified of successive updates to these systems in electronic format, which significantly facilitates their dissemination.

The people responsible for each of the regulations that comprise the Common Management Systems must verify and certify compliance with these procedures.

In addition, since 2005 Befesa has adapted its internal control structure for financial information to the requirements of the Sarbanes Oxley Act (SOX – Section 404). The company is therefore currently reviewing the whole of the general control environment, including policies and procedures, corporate internal control culture, codes of ethics, etc. to adapt them to the requirements of this law, as a part of the recommendations of the SOX.

Although the SOX is obligatory legislation for listed groups and companies in the North American market, as required by the Securities and Exchange Commission, Befesa believes that it is important to meet these requirements since they lead to improvements in controls and mitigating risks.

Befesa is analysing and documenting all of the processes that affect the different sections of the Group's balance sheet and income statement; it is identifying the risks that affect the different activities that comprise each process; and it is recording the existing control objectives and their corresponding activities in order to mitigate these risks. It should be noted that the procedures being defined are interrelated with the existing operating regulations so that the controls for managing the businesses are unified with the controls for obtaining financial information.

Likewise, and also pursuant to the SOX recommendations, the general control environment is being reviewed, including policies and procedures, the corporate culture for internal control, codes of ethics, etc. to adapt them to the requirements of this law.

The COSO framework is being used as the reference methodology (processes to determine if internal controls are adequately designed and implemented and are effective; processes that ensure that the relevant information is identified and communicated; general guidelines on existing internal controls, etc.), which is the closest framework to the approach required by the SOX and in which

internal control is defined as the process carried out in order to provide a reasonable degree of security in terms of achieving objectives such as legal and regulatory compliance, financial information reliability and operational efficiency and effectiveness.

ii) Internal Audit

Definition

The function of Internal Audit is structured around the Pooled Audit Services that encompass the audit teams of the companies, business units and corporate services that act in a coordinated way and which are responsible to the Audit Committee of the Board of Directors.

General Objectives

- To anticipate the audit risks of the group's companies, projects and activities, such as frauds, financial damages, inefficient operations and risks that may affect the healthy operation of business in general.
- To control the application of, and promote the development of adequate and efficient management rules and procedures in accordance with the common Corporate Management Systems.
- To create value for Befesa, promoting the construction of synergies and the monitoring of optimal management practices.
- To coordinate the criteria and the focus of the external auditors' work, seeking the best efficiency and profitability of both functions.

Specific Objectives

- To evaluate the audit risk of Befesa's companies and projects in accordance with 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, which is linked to the Audit Risk Assessment, determines the Work Plans to be used and implies a type of appropriate recommendation and report and should therefore be used explicitly in these documents.
- To steer and coordinate the planning process for audit work and internal control in the companies and business groups, to define a notification procedure for these tasks and communication with the affected parties and to establish a method of coding these tasks for their adequate control and monitoring.
- To define the communication process of each audit job's results, the people that are affected and the format of the documents in which they appear.

- To review the application of the plans, the adequate implementation and supervision of the tasks, the timely distribution of the results and the monitoring of the recommendations and their corresponding implementation.

Audit Committee

As has been indicated previously in this Report, pursuant to Article 47 of Law 44/2002 of December 22, of the Financial System Reform Measures, Befesa's Board of Directors appointed an Audit Committee on December 18, 2002, whose functions include the "supervision of the internal audit services" and the "understanding of the financial reporting process and the company's internal control systems".

The Corporate Internal Audit manager reports systematically to this Committee in relation to his own responsibilities of:

- the Annual Internal Audit Plan and its degree of completion;
- the level of implementation of the issued recommendations;
- a sufficient description of the principle areas reviewed and the most significant conclusions;
- other more detailed explanations that the Audit Committee may require.

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

Yes No

If yes, indicate the circumstances that caused this to occur and if the control systems established worked.

Risk arising during the year	Circumstances that caused it	Functionality of the control systems
--	--	--

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

Yes No

If yes, describe its functions.

Name of the committee or body	Description of functions
Audit Committee	See sections B.2.2, B.2.3, B.2.4 above and other references contained in this report.

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

(Pending answer from Abengoa)

E General Shareholders' Meeting

E.1 Indicate, and if appropriate give details, if differences exist compared to the minimum requirements established in the Spanish Public Limited Companies Act (LSA) in relation to the quorum of the General Shareholder's Meeting.

Yes No

	% quorum different to Article 102 of the LSA for general cases	% quorum different to Article 103 of the LSA for the specific cases of Art. 103
Quorum required for 1st notice	--	--
Quorum required for 2nd notice	--	--

Description of the differences
No differences.

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:

Yes No

Describe how it differs from the LSA.

	Supermajority different to Article 103.2 of the LSA for the cases of 103.1	Other cases of supermajority
% established by the company for passing resolutions	--	--
Description of the differences		
No differences.		

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

No differences.

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

All legally established measures have been adopted, as well as in the Regulation on General Shareholder's Meetings approved by the General Shareholder's Meeting of 24 June 2003 and revised on 25 April 2006, filed with the Spanish National Securities Commission (CNMV) and recorded in the Mercantile Registry of Vizcaya; as well as those measures relating to the announcement of the General Shareholder's Meeting and its agenda in the Official Gazette of the Mercantile Registry and in a mass circulation newspaper in the home municipality of the company's headquarters; the documentation of the meeting is made available to shareholders (proposals for resolutions and consultation reports); and it is published on the company's website and the website of the CNMV.

- E.5 Indicate if the position of Chairman of the General Shareholder's 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 Shareholder's Meeting:

Yes **X** No

State the measures
<p>In accordance with the Company's bylaws (Article 15) and the Regulation on General Shareholder's Meetings (Article 13), the Chairman or Vice-chairman of the Board of Directors will act as Chairman of the General Shareholder's Meeting. In the event of the absence of the Chairman and Vice-chairman, the shareholder appointed by the General Shareholder's Meeting itself will chair the meeting.</p> <p>The Chairman shall chair the discussions, controlling the floor in strict order by shareholders that have requested in writing the opportunity to address the meeting; those who verbally request permission to address the meeting shall take second precedence and the Chairman shall determine the duration of the successive speakers and resolve any regulatory doubts that may arise, by requesting (or not) the opinion of the Board's legal adviser.</p> <p>Each of the points that form part of the agenda are subject to a separate vote.</p> <p>The Company's General Shareholder's Meetings are held in the presence of a notary, required by the Board of Directors to take the minutes of the meeting.</p>

- E.6 Indicate, if appropriate, the modifications introduced during the year in the regulations of the General Shareholder's Meeting.

None.

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

Meeting date	Attendance details				Total %
	% physical presence	% representation	% distance voting		
			Electronic vote	Others	
19.04.07	0.503	1.007	--		1.510

E.8 Indicate briefly the resolutions adopted in the General Shareholder's Meetings held during the year to which this report refers and the percentage of votes with which each resolution was adopted.

The following resolutions were adopted (unanimity of the 97.992% of the total share capital present and represented):

1. Approval of the financial statements of Befesa Medio Ambiente, S.A. for 2006, comprising the balance sheet, the income statement and notes, the management report and the proposed appropriation of earnings for the year.
2. Approval of the financial statements of the consolidated Group, comprising the consolidated balance sheet, income statement and notes, and the consolidated management report for 2006.
3. Approval of the appropriation of earnings of the total income after tax of €2,691,332,00, comprising €269.133,00 to the legal reserve and €2,422,199,00 to voluntary reserves.
4. Appointment of Deloitte S.L. as auditor of the accounts for 2007, to review the financial statements and the management report of Befesa Medio Ambiente, S.A. and the consolidated financial statements and management report.
5. Ratification of the authorisation given to the Board of Directors agreed by the last general shareholders' meeting of 21 June 2005 authorising the Board to increase the Company's share capital, once or several times, up to a limit equivalent to 50% of the share capital, within the legal limits.
6. Authorisation to the Board of Directors to issue fixed income or equity based debentures or securities, within the legal limits.
7. Authorisation to the Board of Directors for derivative purchases of treasury stock, directly or indirectly through subsidiaries or investee companies, up to the maximum limit established under prevailing provisions.
8. To grant the Board of Directors, the Chairman, Vice-Chairman and Non-Executive Secretary the authority to formalise and execute the resolutions adopted.

E.9 State if there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholder's Meeting:

Yes

No

Number of shares required to attend the General Meeting	--
---	----

E.10 State and justify the policies followed by the Company in relation to delegating votes in the General Shareholder's Meeting.

In accordance with Article 14 of the Company's bylaws, all shareholders that are registered in the corresponding Securities Register at least five days prior to the day of the meeting may personally attend the General Shareholder's Meeting or be represented by another person, even through this person is not a shareholder. Compliance with this requirement will be verified by the presentation of the appropriate certificate issued by the entity responsible for the Securities Register. Representation must be conferred in writing and made for each specific meeting. This last requirement shall not apply when the representative is the spouse, ascendant or descendent of the person represented, or in cases of a general power of attorney granted by public deed with authority to administer all of the assets that the represented person owns in Spanish territory. Representation obtained via public request must comply with the requirements expressly stated in Article 107 of the Consolidated Text of the Spanish Public Limited Companies Act.

Likewise, Article 3 of the Regulations on General Shareholder's Meetings establishes that all shareholders that have the right to attend may be represented at the meeting by another person, even though this person is not a shareholder and therefore benefit from the right to attendance. Representation must be conferred in writing in all cases and made for each specific meeting. Entities, minors and those lacking civil legal capacity may attend via their legal representatives who shall accredit their position to the Chairman of the meeting, without prejudice to family representation and the granting of general powers of attorney, regulated by Article 108 of the Consolidated Text of the Spanish Public Limited Companies Act.

E.11 Indicate if the Company is aware of the policy regarding the participation of institutional investors in the Company's decisions:

Yes

No

Describe the policy
--

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

F Degree of Compliance with the Corporate Governance Recommendations

Please indicate the degree of compliance of the company in relation to the recommendations of the Unified Code of Good Governance.

If the event of not complying with a particular recommendation, 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 Explain

2. When the parent company and a subsidiary company are listed, both companies 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 in place for resolving any conflicts of interest that may arise.

See sections: C.4 and C.7

Complies Partially complies Explain Not applicable

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

- a) The conversion of listed companies into holding companies through "subsidiarisation" (the incorporation of essential activities into subsidiary entities, which were previously carried out by the parent, even though the parent maintains full control over them);
- b) The acquisition or disposal of essential operational assets when it implies an effective modification to the company's corporate purpose;
- c) Operations whose effect is equivalent to winding up the company.

Complies Partially complies Explain

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

Complies Explain

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, to each article or group of articles that are essentially independent.

See section: E.8

Complies Partially complies Explain

6. Companies allow the vote to be split so that financial intermediaries that legitimately attend as shareholders, but are acting on behalf of various clients, can cast their votes according to their clients' instructions.

See section: E.4

Complies X Explain

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

It also ensures that in its relations with interest groups, 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 accepts voluntarily.

Complies X Partially complies Explain

8. The principal objective of the Board is to approve the Company's strategy and the specific organisation 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, plenary sessions of the Board reserve the right to approve:

- a) The policies and general strategies of the company, especially:
- 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 corporate group structure;
 - iv) The corporate governance policy;
 - v) The corporate social responsibility policy;
 - vi) The policy on remuneration and performance evaluations of senior managers;
 - vii) The risk control and management policy, as well as the regular monitoring of internal information and control systems.
 - viii) The dividend and treasury stock policy, especially their limits.

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 in the case of executive directors, any additional remuneration for executive responsibilities and any other conditions that their contracts should reflect.

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 standardised 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 goods or services;
3. Operations whose quantity does not exceed 1% of the company's annual revenues.

It is recommended that the Board approves related operations following the favourable endorsement of the Audit Committee, or from any other committee that has been authorised for this function; and that directors that are involved not only forgo their right to vote (without the right to representation), but also leave the meeting room while the Board deliberates and votes on the issue.

It is recommended that the authorizations attributed to the Board in these matters cannot be delegated, except in aforementioned points b) and c), which may be passed 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 X Partially complies Explain

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

See section: B.1.1

Complies X Explain

10. External shareholder directors and independent directors comprise the 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 Partially complies Explain

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

See section: B.1.3

Complies X Explain Not applicable

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

This criterion of strict proportionality can be extenuated 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 no 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 numerous shareholders are represented on the Board but these shareholders are wholly unrelated.

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

Complies Explain

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

See section: B.1.3

Complies Explain

14. The nature of each director 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 Partially complies Explain

15. When this number of 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 directors;
 - b) The company deliberately seeks and includes women among the potential candidates, who match the professional profile sought.

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

Complies X Partially complies Explain Not applicable

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 head of the company, if appropriate.

See section: B.1 42

Complies X Partially complies Explain

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 X Partially complies Explain Not applicable

18. The Secretary of the Board places special emphasis on monitoring the Board so that its actions:
- a) Comply with the stipulations 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 notified 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 X Partially complies Explain

19. The Board meets with the required frequency to efficiently carry out its duties, following a 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 X Partially complies Explain

20. Non-attendance by directors is limited to essential cases only 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 X Partially complies Explain

21. When directors or the Secretary state 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 stating them.

Complies X Partially complies Explain 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 X Partially complies Explain

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

See section: B.1.42

Complies X Explain

24. All directors have the right to receive advice from the company required to fulfil their duties. And the company facilitates the appropriate channels to comply with this right, which under special circumstances may involve external advice at the expense of the company.

See section: B.1.41

Complies X Explain

25. Companies establish an orientation programme that provides new directors with a quick and 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.

Complies X Partially complies Explain

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

- a) Directors notify the Appointments Committee of their other professional obligations, which could interfere with the dedication required;
- b) 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

Complies X Partially complies Explain

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

- a) At the proposal of the Appointments Committee in the event of independent directors.
- b) Upon prior endorsement by the Appointments Committee in the case of other directors.

See section: B.1.2

Complies X Partially complies Explain

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

- a) Professional profile and biography;
- b) Other boards which they sit on, for listed and unlisted companies;
- c) The type of directorship, stating in the case of shareholder directors, the shareholder that they represent or with which they have relations.
- d) Date of their first appointment as a director in the company as well as the date of subsequent appointments, and;
- e) Shares and share options held by them in the company.

Complies X Partially complies Explain

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

See section: B.1.2

Complies Explain

30. Shareholder directors present their resignation when the shareholder that they represent fully sells its shareholding. And that, shareholder directors are reduced by the corresponding number 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 X Partially complies Explain

31. The Board of Directors does not propose the removal of any independent director before the statutory period has been completed for which he/she 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 incurred through 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 said 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 X Explain

32. Companies establish rules that oblige directors to report 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 any criminal actions in which they may be involved, as well as any subsequent procedural actions taken.

If a director is indicted for any of the offences set out in Article 124 of the Spanish Public Limited Companies Act (Ley de Sociedades Anónimas), or if the courts order proceedings to commence against a director in relation to such offences, the Board examines the case as soon as possible and, based on its specific circumstances, may decide if the director continues or not. The board reports all of this in a reasonable way in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

Complies X Partially complies Explain

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 the 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.

Complies X Partially complies Explain Not applicable

34. When, by resignation or for other reasons, a director leaves his position before the end of his term, the reasons shall be explained in a letter that he/she shall send 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 X Partially complies Explain Not applicable

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

- a) Amount of the fixed components, with a breakdown of the expenses per member of the Board and their fees and an estimate of the annual fixed remuneration provided, if appropriate;
- b) Variable remunerative concepts, including:
 - i) The types of directors to which they apply, as well as an explanation of the relevant percentage of the variable remunerative concepts compared to the fixed.
 - ii) Results evaluation criteria on which any right to remuneration in shares, share options or any variable component is based;
 - 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 premises or targets.
- c) Principal characteristics of the income security programs (for example, pension contributions, 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 includes:
 - 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 X Partially complies Explain

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, and 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, B.1.3

Complies X Explain

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 X Explain

38. Remuneration related to the results of the company takes into account any reservations expressed in the external auditors report and that diminish such results.

Complies X Explain Not applicable

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 its beneficiaries and is not simply derived from the general evolution of the markets, the company's business sector or from other similar circumstances.

Complies X Explain Not applicable

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 place special emphasis on the remunerations 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 in those cases that involve the disclosure of sensitive commercial information. It will emphasise the most significant changes in those policies compared to the policy applied during the year prior 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 carried out by 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 are stated.

See section: B.1.16

Complies X Partially complies Explain

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

a) The individual breakdown of the remuneration for each director, which will include, if appropriate:

- i) The attendance expenses or other fixed remuneration as a director;
- ii) Any additional remuneration as chairman or as a member of another committee of the Board;
- iii) Any remuneration from profit-sharing or bonuses and the reason why they have been granted;
- iv) Contributions to pension plans on behalf of the director; or the increase in the consolidated rights of the director 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 remunerative 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 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 between the remuneration received by executive directors during the previous year and the results or other performance indicators of the company.

Complies X Partially complies Explain

42. When there is a Delegate or Executive Committee (hereafter "Executive Committee"), its structure in relation to the participation of the different types of directors 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

Complies Partially complies Explain Not applicable X

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.

Complies X Explain Not applicable

44. In addition to the Audit Committee, under the Securities Market Act, the Board of Directors 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 form part of 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 on their activities and the work carried out, at the first plenary session of the Board following their meetings;
- 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 recorded in minutes and copies are sent to every Board member.

See sections: B.2.1 and B.2.3

Complies X Partially complies Explain

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

Complies X Explain

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

Complies X Explain

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 X Explain

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

Complies X Partially complies Explain

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 risk level 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 section: D

Complies X Partially complies Explain

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 communicate 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 submitted 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 existence of disagreements with the outgoing auditor and the content of such disagreements if they exist.
 - ii) That the company and the auditor follow the applicable 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 X Partially complies Explain

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

Complies X Explain

52. The Audit Committee notifies the Board, prior to it adopting 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 limited review by the external auditor.
- b) 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) 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 Partially complies Explain

53. The Board of Directors endeavours to present the accounts to the General Shareholders' Meeting without reservations or provisos in the audit report and that, in the exceptional cases that they 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 provisos.

See section: B.1.38

Complies Partially complies Explain

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 Explain Not applicable

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 functions 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 and organise, as required, the succession of the Chairman and 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 Partially complies Explain Not applicable

56. The Appointments Committee consults the Chairman and 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 Partially complies Explain Not applicable

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 contracts for senior managers.
- b) Ensure that the remuneration policy established by the Company is followed.

See sections: B.1.14, B.2.3

Complies X Partially complies Explain Not applicable

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

Complies X Explain Not applicable

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 them below.

You may include any other information, clarification or table in this section, related to the previous sections of the report.

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.

Corporate Management Report 2007

◆ Annual Corporate Management Report 2007.

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a. Introduction.

Corporate Management.

The enactment of the Financial Systems Reform Act, the publication of the Report on Stock Market Security and Transparency elaborated by the Aldama Commission and finally the Transparency Act have amended and improved the system up until then accepted or recommended for Corporate Management through a combination of rules and regulations, some of which are of a clearly innovative nature.

Thus, up until the afore-mentioned reforms, Corporate Management in small and medium sized listed companies was understood from a formal point of view as compliance with the minimum requirements needed to allow for a full response to the questionnaire required by the National Securities Market Commission as a result of the Olivencia Report and all the recommendations contained therein. Today, according to the reforms, listed companies cannot merely adopt a passive or explanatory position. Some of the Aldama Report recommendations have already been incorporated into the prevailing laws and must be complied with.

The current measures, rulings and recommendations to date form a single coherent and complete group, whose objective is to offer a real and transparent representation of the listed company, as an additional element for the investor to consider.

More recently, according to Order no. ECO/3722/2003 of December 26, the NSEC was entrusted with the elaboration of a single document on Corporate Management utilizing the existing recommendations from the Olivencia and Aldama Reports. It did not restrict itself to a mere harmonization of its recommendations, but also included the updating of the same while taking into consideration the recommendations of the European Commission and any others of an international nature. On May 22, 2006, the Board of the NSEC approved the Single Document on Corporate Management Recommendations (Unified Code) that listed companies must utilize as a reference for presenting their Annual Corporate Management Reports for the current 2007 financial year.

Corporate Management, as the set of practices of each company – those required by law as well as those being undertaken voluntarily – in relation to the structure, organization, operation, competencies and supervision of its governing bodies, is bound together under a fundamental principle, that is none other than the principle of the capital markets: the general principle of information; transparent, real, balanced, true and complete information. Only in this way can stockholders and potential investors be guaranteed equal treatment and opportunities.

There are two sides to the information obligation:

- The objective side: "What" is reported
 - Accounting or financial information
 - Relevant events
 - Capital Structure and Stockholders
 - Corporate Management Legislation
 - Annual Corporate Management Report

- The subjective side: "How" to report it
 - Periodic financial information
 - Relevant events
 - Significant stockholdings
 - Issued and submitted brochures
 - Website, etc.

Befesa Medio Ambiente, S.A. (hereinafter, Befesa) has made a significant effort, while still maintaining its company structure and its differentiating components, to adapt itself and incorporate the initiatives established by the new legislation. We will briefly put forth below each of these aspects and the innovations implemented by the Company:

a) Accounting / Financial Information.

The periodic informative obligations (quarterly, half-yearly and annually) continue to be based on an information model created by the NSEC. As of the second quarter of 2002, this information can only be submitted telematically (in a coded electronic format).

b) Relevant Events.

The Financial Systems Reform Act has modified the previous definition of this concept, establishing it as the information whose knowledge thereof could reasonably lead an investor to purchase or transfer securities and therefore may appreciably influence the price. Nevertheless, the Relevant Event concept continues to be non-specific and open, and can create a degree of legal uncertainty. As a result, the conducts or actions that warrant this consideration are not specified, in part because it would be an almost impossible task in view of the diverse corporate decisions that may be considered relevant. There are two criteria that are used complementarily to determine the content of this concept: i) the criteria followed by the NSEC on previous occasions, and ii) the criteria followed by the companies themselves on similar occasions. Here the basis for Good Corporate Management can be deduced: Coherency. The existence of internal and casuistic regulations is not valued as much as the coherency between these regulations and the real conduct of the company, its administrators and its senior management.

c) Related Transactions.

- c.1) These are operations carried out between the company and its stockholders, administrators and Board Members that entail the transfer of business resources, obligations or business opportunities.

The related operations have a dual information channel:

- a) Those that are relevant are individually reported as a relevant event.
- b) All transactions are summarized in the half-yearly informative report.

- c.2) Related transactions may be a potential source of a so-called conflict of interest. In these cases, good management practices recommend that a series of measures be adopted to resolve them whenever possible: i) the abstention from voting for the adoption of the corresponding resolution by the individuals affected by the conflict of interests; ii) the furnishing of complete, transparent and immediate information; and iii) independent evaluations.

Befesa has adopted these transparency criteria and the criteria for the resolution of these potential conflicts. For this reason, the Board of Directors modified its regulations; the Auditing Committee, with a majority of independent Board Members, is the body entrusted with supervising these operations.

d) Annual Corporate Management Report.

The questionnaire on the level of adoption of the recommendations proposed by the NSEC to be carried out by all the listed companies has been fulfilled through the obligation to create and disseminate an Annual Corporate Management Report.

The Annual Report reflects the specific principles of the Company's managerial structure (who and how decisions are made and what the decision-making process is based upon), in the same way that the periodic financial reporting is a summary of the main economic characteristics of the Company for the period under consideration. This information is collated on the Balance Sheet and on the Profit and Loss Account for this period.

Befesa implemented this recommendation in 2002, including a specific chapter relating to the Company's Management, which was therefore incorporated into the 2002 Annual Report and we have followed this practice in subsequent years. We have also included the new items covered in the Aldama Report and in the Financial Systems Reform Act, distinguishing the actions already taken from those that were being finalized for their upcoming implementation. As a result:

- a) On December 18, 2002, the Auditing Committee was constituted.
- b) On April 24, 2003, the Appointments and Remuneration Committee was constituted. (today, the Appointments and Remunerations Commission)
- c) On the same day, April 24, 2003, the Board of Directors drafted a proposal modifying the Company By-laws for the purpose of incorporating the provisions related to the Auditing Committee and the Appointments and Remuneration Committee. On the same date, the Board of Directors approved a partial modification of the Regulations of the Board of Directors and the Regulations of the Advisory Board, as well as the Internal Regulations governing the Auditing Committee and the Appointments and Remunerations Committee.
- d) On June 22, 2004, the Board of Directors revised the Internal Rules of Conduct in order to reinforce the regulation of certain matters such as those relating to conflicts of interest, specific aspects regarding privileged information and transactions with the Company's own shares.
- e) On April 26, 2005, the Company considered that the Good Management Regulations must extend their application to the functioning of the Company in all of its different spheres. Consequently, the Board of Directors resolved to establish for this purpose, a Code of Conduct for general application that would govern all the actions and working relationships of its managers, Board Members and employees, whose position and competencies could be affected in their relationships with customers and potential customers, with

colleagues, with government bodies, the media and any other individuals and institutions with which the Company may come into contact.

The approval of the new Code of Conduct required the adaptation of the existing Internal Regulations governing Conduct in matters relating to the Stock Market and the Policy on the Use of Relevant Information. Therefore, given that the existing Regulations were the result of several modifications, the Board of Directors agreed on a new and complete formulation of their content.

- f) On December 18, 2007, the Board of Directors modified as required by the Regulations governing the Board of Directors, the Internal Regulations pertaining to the Auditing Committee and the Internal Regulations regarding the Appointments and Remunerations Commission in order to adapt them to the recommendations established in the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006.

These regulations, globally known as the Internal Corporate Management Regulations, have been duly notified to the NSEC. The afore-mentioned Internal Regulations have been updated after the modifications were made in order to adapt them to the recommendations of the Unified Code and then a new single text was filed at the NSEC. This text is also available on Befesa's website.

e)The Website (www.befesa.es) / (www.befesa.com).

The obligation to provide the market with valuable, true, complete and balanced information in real time would not be sufficient if the means for transmitting this information were not appropriate and able to guarantee that it is distributed in a useful and efficient manner. Therefore, the Corporate Management Regulations recommend or impose the use of the websites of the listed companies as an informative tool (including the historical, qualitative and quantitative company data on the page) and as a means for distribution (including current or personalized information in real-time that may be accessed by investors).

The Eco Order no. 3722/2003 established the minimum content for a listed company's website and, for this purpose, Befesa includes on its website, www.befesa.es / www.befesa.com, all the information required under said regulation.

Moreover, Befesa developed, in the third quarter of 2004, a new website characterized on one hand by a more direct, rapid and efficient on-screen presentation and on the other, by a wide-ranging and comprehensive informative content and documentation, made available to the stockholders in particular and to the general public as well. This website undergoes continuous revision, enhancement and updating.

In conclusion, we should say that both the available information and its actual distribution channel – the website – are being continuously updated, along with data on the Corporate Management, the Regulations that govern it, the Laws in force and the corresponding recommendations, and they will continue to be developed. Just as every company wishes to grow and develop, it must also anticipate the development of the markets, set their sights on the future and adapt their own management accordingly (that is, adopt their own code of conduct so that their operations and decisions may be properly evaluated from outside the company). With this transparent behavior, they can be sure of earning the confidence of the market and, at the same time, achieve their own growth and development.

b. The Company's Stockholding Structure.

i) Significant Stockholdings.

Befesa Medio Ambiente's share capital is recorded in the accounting books managed by Iberclear (Sociedad de Gestión de los Sistemas de Registro, Comparación y Liquidación de Valores, S.A.), and comprises 27,113,479 shares of € 3.01 face value of the same class and series, representing € 81,611,571.79 of the share capital. All the shares are admitted to official trading on the Madrid and Bilbao Stock Exchanges and in the Spanish Stock Exchange Interconnection System (Continuous Market) as of July 1, 1998.

In December 2007, upon the Company's request, the Stock Exchange Society issued a favorable report on the change of the price for the segment of the New Market to the modality of General Contracting, effective as of January 2, 2008. Therefore, as of this date, Befesa's shares are quoted on the segment of General Contracting.

The last modification of the share capital was made in accordance with a resolution approved at the Ordinary General Stockholders' Meeting of June 21, 2001, consisting of a € 12,287,418.99 increase in the capital by the issue and putting into circulation of 4,082,199 new shares, each of a face value of € 3.01, with a € 2.84 premium per share. Preferential subscription rights were excluded and Abengoa, S.A. subscribed to their totality through the non-monetary contribution of the 171,205 shares it holds in its 100% owned subsidiary Abensur Servicios Urbanos, S.A., Sociedad Unipersonal (now called Befesa Agua, S.A.U.). Each share is valued at € 60.10 and this comprises the total amount subscribed to and paid up in share capital of said Company. As a result, Articles 5 and 6 of the Company By-laws were modified to adapt them to the new number of shares along with the simultaneous admission of these new shares for their quotation.

Date of the last modification	Share capital (€)	Number of shares
June 21, 2001	81,611,571.79	27,113,479

As the accounting books record the capital, there is no other Stockholders' Registry except for the regular stockholding communications and the List (X-25) provided by Iberclear for the General Stockholders' Meetings.

Pursuant to the information received (the List of Stockholders on April 19, 2007, issued by Iberclear and the notification of Significant Stockholdings), the situation is as follows:

<u>Stockholder</u>	<u>Number of direct shares</u>	<u>Number of indirect shares</u>	<u>% / Share Capital</u>
Proyectos Inversiones Medioambientales	22,597,338	--	83.344%
Abengoa, S.A.	3,805,639	-	14.036%
Total	26,402,977	-	97.380%

- Significant movements during the financial year.

<u>Stockholder</u>	<u>Transaction Date</u>	<u>Description</u>
Abengoa (Seller)	December 11, 2007	Sale of 276.560 shares (1.020%) to Proyectos Inversiones Medioambientales
Proyectos Inversiones Medioambientales (Buyer)		

The number of stockholders registered for the Stockholders' General Meeting on April 19, 2007 was 1,788.

Befesa is not aware of the existence of any agreements among the Stockholders undertaking to adopt a common policy or by means of joint voting, aimed at significantly influencing the management and operations of the company.

ii) Stockholdings of the Members of the Board of Directors.

On June 21, 2001, the Company's General Stockholders' Meeting approved the implementation of a Program of Incentives for Managers and Employees to enable the beneficiaries to acquire Befesa shares. This system of remuneration was duly notified to the NSEC on August 14, 2001.

The Program of Incentives was liquidated upon its expiration, which was notified to the NSEC on April 12, 2007.

With the register of the significant stock belonging to the Company and pursuant to the Internal Conduct Regulations in relation with the Stock Market, the stock held by the Board Members in the Company's capital as at December 31, 2007 is as follows:

	% Direct	% Indirect	% Total
Mr. Javier Molina Montes	0.1020	0	0.1020
Mr. Manuel Barrenechea Guimón	0.0040	0	0.0040
Mr. Manuel Blanco Losada	0.0030	0	0.0030
Mr. Alvaro Castro Cabeza de Vaca	0.0004	0	0.0004
Mr. Jorge Guarner Muñoz	0.0000	0	0.0000
Ms. María José Rivero Menéndez	0.0000	0	0.0000
Mr. Salvador Martos Hinojosa	0.0000	0	0.0000
Total	0.1094	0	0.1094

<u>Board Member</u>	<u>Date of First Appointment</u>	<u>Date of Last Appointment</u>	<u>Number of direct shares</u>	<u>Number of indirect shares</u>	<u>%/ Share Capital</u>
Mr. Javier Molina Montes	July 11, 2000	June 22, 2004	27,669	0	0.1020
Mr. Manuel Barrenechea Guimón	July 11, 2000	June 22, 2004	1,000	0	0.0030
Mr. Manuel Blanco Losada	June 18, 2002	April 24, 2006	720	0	0.0030
Mr. Rafael Escuredo Rodríguez	June 14, 2007	--	100	0	0,0004
Mr. Jorge Guarner Muñoz	June 22, 2004	--	0	0	0.0000
Mss. Maria Jose Rivero Menendez	April 24, 2006	--	0	0	0.0000
Mr. Salvador Martos Hinojosa	July 11, 2000	June 22, 2004	0	0	0.0000

iii) Stockholders' Agreements

The Company has no evidence of the existence of any stockholders' agreements or of any syndication agreements among its stockholders.

- Notice of any natural or legal person that may exercise control in accordance with Article 4 of the Stock Exchange Act (LMV).

Name	Observations
Proy. Inv. Medioambientales	Holder of more than 50% of the capital

iv) Treasury Stock.

On December 31, 2007, the Company did not possess any of its own shares as Treasury Stock, nor has it acquired any of its own shares during the 2006 financial year.

The General Stockholders' Meeting, held on April 19, 2007, agreed to authorize the Board of Directors to make derived acquisitions, through purchases of shares in the Company made either directly or through subsidiary companies or investors up to the maximum limit specified under the current provisions and at a price between one Euro per share minimum and one hundred per share maximum. They can make use of this option during a period of eighteen (18) months as of that very date and subject to what is specified in Section Four of Chapter IV of the Revised Text of the Spanish Companies Act

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

c. The Company's Administrative Structure.

i) The Board of Directors.

i.1) Composition: Number and Identity.

As established in Article 18 of the Company By-laws, which sets the number of Members of the Befesa's Board of Directors at a minimum of three (3) and a maximum of twelve (12), as of December 31, 2006 and to-date, there are seven (7) members on the Board.

Maximum number of members	12
Minimum number of members	3

The Board's composition, in accordance with the recommendations established in the Unified Code for Proper Management, takes into account the Company's stockholding structure, so that it may better represent the highest possible percentage of the share capital and protect the general interests of both the Company and its stockholders. The Board is also endowed with sufficient independence of action so that it can take the pertinent professional actions in order to best meet the needs of the entire company.

The Board's current composition is as follows:

<u>Name</u>	<u>Representative</u>	<u>Position</u>	<u>Date of first Appointment</u>	<u>Date of last Appointment</u>	<u>Election procedure</u>
Mr. Javier Molina Montes	--	Chairman. of the Board of Directors.	July 11, 2000	June 22, 2004	Share. Meeting
Mr. Manuel Barrenechea Guimón	--	Vice-chairman	July 11, 2000	June 22, 2004	Share. Meeting
Mr. Manuel Blanco Losada	--	Board Member. Chairman of the Auditing Committee and Member of Appointments and Remuneration Committee.	June 18, 2002	April 24, 2006	Share. Meeting
Mr. Rafael Escuredo Rodríguez	--	Board Member, Member of the Auditing Committee and Member of Appointments and Remuneration Committee	June 14, 2007	-	Appointed by the Board of Directors by Co-optation
Mr. Jorge Guarner Muñoz	--	Board Member. Chairman of Appointments and Remuneration Committee.	June 22, 2004	-	Share. Meeting
Mr. Maria Jose Rivero Menendez	--	Board Member. Member of the Auditing Committee.	April 24, 2006	-	Share. Meeting
Mr. Salvador Martos Hinojosa	--	Board Member	July 11, 2000	June 22, 2004	Share. Meeting

The Secretary who is not a Member of the Board of Directors and the Legal Counselor is Mr. Alfonso Castresana Alonso de Prado.

On June 14, 2007, the Board Member Mr. Alvaro Cabeza de Vaca presented his resignation to the Board and on that same date, Mr. Rafael Escuredo Rodríguez was appointed to replace him.

i.2) Condition and Representation.

The total number of Board Members is considered to be sufficient to ensure the proper representation and effective operation of the Board of Directors.

Notwithstanding the fact that independence is a quality that must be common to all the Board Members without exception, regardless of their origins or the reason for their appointment, they must be judged on the reliability, integrity and professionalism of their performance, pursuant to the Guidelines included in the Law no. 26/2003, the Ministerial Order no. 3722/2003, and the Unified Code for Proper Management approved by the Board of Directors of the NSEC on May 22, 2006. The current Board Members are classified as follows:

Mr. Javier Molina Montes	<ul style="list-style-type: none"> • Executive (Chairman).
Mr. Manuel Barrenechea Guimón	<ul style="list-style-type: none"> • Executive (Vice- chairman)
Mr. Manuel Blanco Losada	<ul style="list-style-type: none"> • Independent; External. • Coordinating Manager • Chairman of the Auditing Committee • Member of the Appointments and Remunerations Commission
Mr. Rafael Escuredo Rodríguez	<ul style="list-style-type: none"> • Independent; External. • Member of the Auditing Committee. • Member of the Appointments and Remunerations Commission
Mr. Jorge Guarner Muñoz	<ul style="list-style-type: none"> • Independent; External. • Chairman of the Appointments and Remunerations Commission.
Ms. María José Rivero Menéndez	<ul style="list-style-type: none"> • Independent; External. • Member of the Auditing Committee.
Mr. Salvador Martos Hinojosa.	<ul style="list-style-type: none"> • Proprietary; External.

(*) The Vice-Chairman of the Company's Board of Directors, Mr. Manuel Barrenechea Guimón, the Executive Director, has resigned from the Company due to his retirement on January 15, 2008. He is still a Member of the Board and is Vice-Chairman, although his classification as a Member has changed as of this date to Proprietary and External Member representing the company Proyectos de Inversiones Medioambientales, SL.

Accordingly, the Board comprises a majority of external, non-executive Members.

The Chairman of the Company's Board of Directors, Mr. Javier Molina Montes, is also the Chairman of the Board of Proyectos de Inversiones Medioambientales, a reference stockholder of Befesa (with 82.344% of the stock), and Mr. Manuel Barrenechea Guimón is also a Member thereof, and was appointed to the same as a member upon the proposal of said stockholder.

In accordance with the policy established by the Company, the Chairman or Vice-chairman of the Board of Directors should occupy the Chairmanship of the Boards of Directors of the leading companies belonging to the Parent Company or they should be Members of the Boards of these Business Units or of the Boards of other companies belonging to the Group.

- The Members of the Board of Directors and their positions:

Executive Directors:

<u>Name</u>	<u>Commission that proposed him</u>	<u>Position</u>
Mr. Javier Molina Montes	Appointments and Remunerations Commission	Chairman
Mr. Manuel Barrenechea Guimón	Appointments and Remunerations Commission	Vice-chairman

Proprietary External Directors:

<u>Name</u>	<u>Commission that proposed him</u>	<u>Represented stockholder</u>
Mr. Salvador Martos Hinojosa	Board of Directors (*)	Abengoa, S.A.

Independent External Directors:

<u>Name</u>	<u>Commission that proposed him</u>	<u>Profile</u>
Mr. Manuel Blanco Losada	Appointments and Remunerations Commission	Independent
Mr. Rafael Escuredo Rodríguez	Appointments and Remunerations Commission	Independent
Mr. Jorge Guarner Muñoz	Appointments and Remunerations Commission	Independent
Ms. María José Rivero Menendez	Appointments and Remunerations Commission	Independent

Delegated Powers:

None of the Company's Board Members has any delegated powers,

Board Members who are Members of other listed companies:

<u>Board Members Fiscal Identification No.</u>	<u>Board Member's Name</u>	<u>Quoted Entity</u>	<u>Position Held</u>
--	--	--	--

i.3) Regulations governing the Organization and Operations

The Board of Directors is governed by the Regulations of the Board of Directors, the Company By-laws and the Stock Exchange Code of Conduct, as well as by the Policy on the Use of Relevant Information.

The Regulations of the Board of Directors were initially approved at the Meeting of the Board of Directors held on December 13, 2001, with the purpose of respecting the current Good Management regulations and ensuring effective internal control. They were last modified on April 24, 2003, in order to incorporate the provisions relating to the Auditing Committee established in the Financial Systems Reform Act and those relating to the Appointments and Remuneration Committee. On December 18, 2007, the Board of Directors modified the Internal Board of Directors Regulations in order to adapt them to the recommendations established in the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006.

- Structure:

The Board of Directors currently has seven members. The Regulations governing the Board of Directors determine the composition, duties and internal organization of this administrative body.

In addition, there are Internal Conduct Regulations in relation with the Stock Market and the Policy on the Use of Relevant Information, with which the Members of the Board of Directors, the Senior Management and all the employees whose positions or competencies could be affected, have to comply.

The Operating Regulations for the General Stockholders' Meetings govern the formal aspects and those pertaining to the internal functioning and celebration of the Stockholders' Meetings.

And finally, the Board of Directors is assisted by the Auditing Committee and by the Appointments and Remunerations Committee, which are governed by their respective Internal Regulations. All of these Regulations, integrated within the amended Internal Corporate Management Regulations, are available on the Company's website, www.befesa.es and www.befesa.com.

Ever since its creation, the Appointments and Remunerations Commission (previously the Appointments and Remuneration Committee) has analyzed the structure of the governing bodies of the Company and has adapted them to the recommendations received from the Corporate Management. Consequently, the Commission agreed in its Meeting held on December 18, 2007, to create the position of Coordinating Director and to confer upon him the faculties of convoking the sessions of the Board of Directors and including new points on the Agenda. The afore-mentioned Board of Directors appointed Mr. Manuel Blanco Losada, the Chairman of the Auditing Commission and Member of the Appointments and Remunerations Commission, as the Coordinating Director.

- Duties:

It is the duty of the Board of Directors to take any action that may be necessary in order to pursue the Company's corporate objectives, and it is empowered to establish the Company's financial targets, agree upon any relevant measures proposed by the Senior Management in order to achieve these targets, and ensure the future viability and competitiveness of the Company, along with the presence of a suitable management and leadership team. In other words, he is responsible for supervising the Company's business activities.

- Appointments:

The General Meeting or, wherever applicable, the Board of Directors, within the powers and limits put forth in the Law, is the competent body for appointing Members to the Board of Directors. In addition to meeting the requirements set out in the pertinent legislation, appointees shall demonstrate that they are known to be trustworthy and have the knowledge, reputation and professional references that are relevant to the performance of their respective duties.

Directors shall be appointed for a maximum of four years, without detriment to the possible renewal of their appointment or their re-election.

- Dismissals:

Directors shall be dismissed from their position at the end of their tenure or due to any other circumstances established by law. They must furthermore relinquish their seat on the Board in cases involving their incompatibility, veto, serious sanctions or any breach of their obligations as Board Members.

- Meetings. Frequency:

As per Article 20 of the Company By-laws, the Board of Directors shall meet whenever it is required to do so in the best interests of the Company and the first meeting must be held during the first quarter of each financial year to approve the Annual Accounts for the previous year, the Management Report and the resolution regarding the application of the results.

On the other hand, Article 8 of the Board of Directors' Regulations establishes the obligation for it to meet at least five times a year.

During 2007, the Board met on a total of eight (8) occasions.

- Duties of the Board Members:

It is the duty of the Board Members to participate directly in the administration and monitoring of the Company's Management in order to enhance the value of the Company to the benefit of its stockholders. Each Board Member shall act as a dedicated professional and loyal representative, guided by the best interests of the Company, and with total independence to protect and defend the best interests of all the stockholders to the extent of their abilities.

By virtue of their appointment, the Board Members are under the following obligations:

- To be properly informed and prepared for each meeting and session.
- To attend and participate actively in the meetings and the decision-making process.
- To avoid incurring in any conflict of interests and to notify the Board of any potential conflict of interest, whenever applicable, through the Secretary.
- Not to undertake duties with competitor companies.
- Not to use Company information for private purposes.
- Not to make use of the Company's business opportunities for their own personal interests.
- To maintain the confidentiality of any information received as a result of their appointment.
- To abstain in any voting on resolutions that may affect them directly.

- The Chairman:

In addition to the duties established by law and in the Company By-laws, the Chairman is the Company's most Senior Executive, and as such he/she is responsible for the effective management of the Company, although he must always abide by the decisions and criteria established by the General Stockholders' Meeting and the Board of Directors. He/she is responsible for implementing the decisions adopted by the Company's administrative body which he/she represents permanently and with the broadest of powers.

The position of chief executive corresponds to the Chairman and he/she holds the broadest reaching powers. The measures adopted to prevent the accumulation of powers are:

- In accordance with that established in Article 22 and the subsequent articles of the Company By-laws, the Board of Directors proceeded to constitute the Auditing Committee and the Appointments and Remuneration Committee, respectively, on December 18, 2002 and April 24, 2003.
- The powers of these Commissions inherent to the commitments they have assigned under Law and by the Company By-laws and their respective Internal Regulations cannot be delegated, and the Committees are constituted as control and monitoring bodies for the matters falling under their competence.
- Both Commissions shall be chaired by an independent, non-executive Board Member and shall be composed of a majority of independent, non-executive Board Members.

- The Secretary to the Board of Directors:

It is the Secretary's duty to exercise the powers attributed to him/her under law. At present, the posts of Secretary to the Board and Legal Counsel correspond to the same person, who is responsible for ensuring that proper notice is given of Meetings and that resolutions are adopted by the Company's administrative body in a valid manner. In particular, he/she will advise members of the Board regarding the legality of their deliberations and any resolutions they adopt, and in compliance with the Internal Corporate Management Regulations. He/she is both the formal and material guarantor of the principle of legality which governs the actions of the Board of Directors.

The Secretary to the Board, as a specialized guarantor of the formal and material legality of the Board's actions, will receive the full support of the Board in performing his/her duties with total independent criteria and stability.

- Agreements:

The Agreements will be adopted by a simple majority of the Board Members present (either in person or by proxy) at each session, with the exception of those cases specifically established under Law.

i.4) Remunerations and other rights

The position of Board Member is paid, pursuant to the contents of Article 17 of the Company By-laws. The amount paid to Board Members consists of a fixed amount for attending Board Meetings, as approved by the General Stockholders' Meeting of July 17, 1997, and of other remunerations permitted by the legislation in force, such as remuneration systems through the awarding of Company shares and/or option rights thereon. These rights and options would be approved upon by the General Stockholders' Meeting and under the terms allowed by Law. The remuneration of the Board Members does not have to be the same for all of them.

The payments made during the 2007 financial year to all the Members of the Board of Directors in their capacity as Board Members amounted to k€ 212.11 in salaries and allowances.

In addition, the payment made during the 2007 accounting period to the Company's Senior Management, this being understood to include the group of 13 people who form part of the Chairman's Office, Strategy Committee and the Board Members of the Corporate Departments, amounted in total, including both fixed and variable amounts, to k€ 2,119.

Joint Remuneration of the Board Members earned during this financial year, in the individual company which is the object of this report (Befesa Medio Ambiente, S.A.); (figures expressed in k€):

Remunerated concept	Data expressed in (k€)o
Established remuneration	508
Variable remuneration	274
Expense allowances	200
Statutory issues	--
Options on shares and/or other financial instruments	--
Others	12
Total:	994

Other Benefits	Data in (k€)
Advance payments	--
Loans provided	--
Pension Funds and Plans: Contributions	--
Pension Funds and Plans: Acquired obligations	--
Life insurance premiums	--
Constitutional guarantees by the Company in favor of the Board Members	--

Joint Remuneration of the Board Members earned during this financial year, when they are Members of other Boards of Directors and/or of Senior Management of the Companies belonging to the Group (figures expressed in k€):

Remunerated concept	Data expressed in (k€)
Established remuneration	--
Variable remuneration	--
Expense allowances	--
Statutory issues	--
Options on shares and/or other financial instruments	--
Others	--
Total:	--

Other Benefits	Data expressed in (k€)
Advance payments	--
Loans provided	--
Pension Funds and Plans: Contributions	--
Pension Funds and Plans: Acquired obligations	--
Life insurance premiums	--
Constitutional guarantees by the Company in favor of the Board Members	--

Total Joint Remuneration (all of the Board Members) (for all the concepts), according to the type of Member (figures expressed in k€):

Type of Member	Befesa Medio Ambiente Data expressed in (k€)	Group Data in (k€)
Executive	806	--
Proprietary External	25	--
Independent External	163	--
Other External	--	--
Total:	994	--

Total Joint Remuneration (all the Board Members). Year 2007; (figures expressed in k€):

Name	Expense allowances	Remuneration as Member of a Commission	Remuneration as a Board Member of other companies of the Group	Remuneration for functions of Senior Management – Executive Board Members	Total
Mr. Javier Molina Montes	9.42	5.35	--	417,02	431.79
Mr. Manuel Barrenechea Guimón	9.42	--	--	364,90	374.32
Mr. Manuel Blanco Losada	34.00	17.99	--	--	51,,99
Mr. Alvaro Castro Cabeza de Vaca (1)	6.90	--	--	--	6.90
Mr. Rafael Escuredo Rodríguez (2)	25.00	10.50	12,50	--	48.00
Mr. Jorge Guarner Muñoz	20.90	5.55	--	--	26.45
Ms. María José Rivero Menéndez	24.20	12.43	--	--	36.63
Mr. Salvador Martos Hinojosa	17.95	--	--	--	17.95
Total	147.79	51.82	12.50	781,92	994.03

The percentage of the total Remuneration (for all the concepts) and the Joint Remuneration (all of the Board Members) represented in relation to the Profits attributed to the Parent Company; (figures expressed in k€):

Total Remuneration of the Board Members (k€)	994,03
Total Remuneration of the Board Members / Profits attributed to the Parent Company (expressed as a %)	2,1%

Members of Senior Management, that are not executive Board Members, and the total remuneration earned by them during the financial year (figures expressed in k€):

Name or Company Name	Position
Mr. Juan Abaurre Llorente	Manager, Latin American Business Unit
Mr. Federico Barredo Ardanza	Manager, Aluminum Waste Recycling Business Unit
Mr. Guillermo Bravo Mancheño	Managing Director, Water Area Business Unit
Mr. Santiago Ortiz Domínguez	Manager, Industrial Waste Management Business Unit
Mr. Alfredo Velasco Erquicia	Manager, Industrial Waste Corporate Development Business Unit
Mr. Asier Zarraonandia Ayo	Manager, Steel and Galvanization Waste Recycling Business Unit
Ms. Carmen Medina Ariza	Manager, Human Resources
Mr. Ignacio García Hernández	Chief Finance Officer

Mr. Juan Albizu Etxebarria	Manager, Consolidation and Auditing
Mr. Antonio Marín Hita	Manager, Legal Counsel
Senior Management's total remuneration (k€)	1,337

On December 18, 2007, the Board of Directors decided to modify the Regulations of the Auditing Committee once again, in order to adapt them to the recommendations established in the Unified Code for Proper Management, as approved by the Board of Directors of the NSEC on May 22, 2006.

ii) The Commissions of the Board of Directors.

ii.1) The Auditing Committee

Pursuant to the provisions of the Financial Systems Reform Act, Befesa's Board of Directors established, on December 18, 2002, the Auditing Committee (today, Auditing Commission), and the Board of Directors also approved its Internal Regulations in its Meeting of April 24, 2003, which was ratified by the General Stockholders' Meeting of June 24, 2003, which also approved the modification of the Company By-laws. A new Section was included and identified as the Third, under Heading III, in relation to the Regulations governing the Auditing Committee and the Appointments and Remuneration Committee. The corresponding Articles were drawn up to cover these new bodies, which were then renumbered Articles 22 to 28, including both, and the rest of the contents remained the same but with the corresponding consecutive numbering.

The original version of the Internal Auditing Committee Regulations established an annual rotating Chairmanship among the non-executive Board Members on said Committee and, given that this Committee is made up of three members, two of whom are non-executive Board Members, a simultaneous alternation each year was obligatory to avoid the Chairmanship being held by the same person. For this very reason, on February 28, 2005, the Board of Directors resolved that, in the future, the Auditing Committee would elect its Chairman from among its members who are non-Executive Board Members for a period not to exceed four years, and that a minimum of one year must have elapsed prior to the reelection of the same Director as Chairman. As a result, Article 2 of said Regulations was modified.

On December 18, 2007, the Board of Directors decided to modify the Auditing Committee Regulations again and agreed on calling it henceforth the Auditing Committee, in order to adapt them to the recommendations established by the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006

Composition

The composition of the Auditing Committee as of December 31, 2007 to-date, is as follows:

Mr. Manuel Blanco Losada. Chairman.	Independent non-executive Board Member.
Ms. Maria Jose Rivero Menendez.	Member. Independent non-executive Board Member.
Mr. Rafael Escuredo Rodríguez.	Chairman. Independent non-executive Board Member.
Mr. Alfonso Castresana Alonso de Prado.	Secretary and not a Member of the Board

On June 14, 2007, the Board of Directors of the Company appointed Mr. Rafael Escuredo Rodríguez as a Member of the Auditing Committee, instead of Mr. Javier Molina Montes.

As a result, the majority of the Auditing Committee is made up of three non-executive Board Members, which complies with the requirements established in the Corporate Management Regulations and particularly in the Law 44/2002 on Financial System Reform Measures. Furthermore, the position of Chairman of the Commission is held by a non-Executive Board Member, as set out in Article 2 of its Internal Regulations.

Duties:

The duties assigned by the Board of Directors to the Auditing Committee or Commission shall be, at least, the following:

1º. In relation to internal control and the informative systems:

(i) To supervise the account preparation process and the integrity of the financial information relating to the Company and the Group.

(ii) To report on the annual, half-yearly and quarterly financial statements that should be submitted to regulatory or market supervision entities, whenever applicable.

(iii) To periodically review the internal control and risk management systems.

(iv) To supervise the internal auditing functions, with full access to them and to monitor and supervise their independence and accuracy. To propose the selection, appointment, re-election and dismissal of the Manager of the Internal Auditing Service and the Budget for this service, if pertinent.

(v) To summon any employee or manager of the Company.

(vi) The Auditing Committee or Commission shall notify the Board of the following issues:

- The financial information that the Company must periodically publish, as a listed company.
- The creation or acquisition of stockholdings in special purpose entities or those registered in countries or territories considered as tax havens, as well as any other similar transactions or operations which, due to their complexity, could diminish the transparency of the Group.
- Related operations.

(vii) To supervise compliance with the Internal Code of Conduct and the Regulations on Corporate Management.

(viii) To notify the Board of any changes in the accounting criteria and the risks included or not on the Balance Sheet.

(ix) To report to the General Stockholders' Meeting on questions raised by the stockholders in relation to matters of its competence.

(x) To summon the Board Members that it deems appropriate to the Committee Meetings.

(xi) To draft an annual report on the activities of the Auditing Committee or Commission.

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 his/her contract, shall be presented by the Board of Directors to the Stockholders' General Meeting.

b. To receive information about the Auditing Plan and its results from the External Auditor.

c. To ensure the independence of the External Auditor and as a result:

(i) That the Company notifies the CNMV of a change in the Auditor;

(ii) That it ensures that the Company and the Auditor comply with the prevailing regulations on the provision of services, other than the auditing services, the restrictions on the concentration of business with an auditor and, in general, any other regulations established to ensure the Auditor's independence;

(iii) In the case of the resignation of an External Auditor, to examine the circumstances that may have caused it.

d. To support the Group Auditor in assuming responsibility for the audits of the companies that comprise it.

e. To maintain contact with the External Auditors in order to receive information about any matters that may prejudice the independence of the auditors.

Organization and Operations:

The Auditing Committee shall meet as frequently as is necessary in order to carry out its duties, and at least once a quarter.

The Auditing Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Board Member.

Its resolutions shall be validly adopted when voted for by a majority of the Committee Members either present or represented. In the event of a tie, the Chairman shall cast the deciding vote.

During the 2007 financial year, the Auditing Committee met on 5 occasions.

- Amounts paid to the Auditing firm for other work; (figures expressed in k€)

	<u>Group</u>	<u>Total</u>
Amounts paid for work other than auditing	3	3
Previous / Total amount billed (%)	3.60%	3.60%

	<u>Group</u>
No. of years audited by the firm / Total no. of years it has been audited	15/15

ii.2) The Appointments and Remuneration Committee

Befesa's Board of Directors established the Appointments and Remuneration Committee on April 24, 2003 and its Internal Regulations were also approved on that day.

As in the case of the Auditing Committee (vid supra) as regards the annual rotation of its Chairmanship, on February 28, 2005, the Board of Directors resolved that in the future, the Appointments and Remuneration Committee would elect its Chairman from among its members who are not Executive Board Members for a period not to exceed four years, and that a minimum of one year must have elapsed prior to the reelection of the same Director as Chairman. As a result, Article 2 of the Internal Appointments and Remuneration Committee Regulations was modified.

On December 18, 2007, the Board of Directors decided to modify the Appointments and Remunerations Commission Regulations again, in order to adapt them to the recommendations established by the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006.

Composition

The composition of the Appointments and Remunerations Commission as of December 31, 2007 to date, is as follows:

Mr. Jorge Guarner Muñoz.	Chairman. Independent non-executive Board Member.
Mr. Rafael Escuredo Rodríguez.	Member, Independent non-executive Board Member.
Mr. Javier Molina Montes.	Board Member. Executive.
Mr. Juan Albizu Etxebarria.	Secretary and not a Member of the Board

On December 18, 2007, the Board of Directors, under a proposal from the Appointments and Remunerations Commission, has appointed Mr. Rafael Escuredo Rodríguez as a Member, instead of Mr. Javier Molina Montes. Likewise, Mr. Juan Albizu Etxebarria was appointed as the Secretary of this Commission.

As a result, the majority of the Appointments and Remuneration Committee is made up of three non-executive Board Members, which fulfills the requirements established in the Law on Financial System Reform Measures. Furthermore, the position of Chairman of the Commission is held by a non-executive Board Member, as set out in Article 2 of its Internal Regulations.

Duties

The duties and powers of the Appointments and Remuneration Committee are as follows:

The minimum responsibilities entrusted to the Appointments and Remuneration Committee or Commission by the Board of Directors are:

1. To inform the Board of Directors of all the proposals to be made to the General Stockholders' Meeting regarding appointments, re-elections and resignations from the Board and the responsibilities of these positions, including the case of individuals who co-opted to the Board of Directors. In the case of non-executive Board Members, the Commission or Committee will propose their appointments, re-elections and resignations, including the case of individuals who co-opted to the Board of Directors.
2. To evaluate the skills, knowledge and experience required by the Board; to define the abilities and functions required by candidates to cover vacancies; and to assess the time and dedication required by Board Members to fully carry out their functions.
3. To examine and organize the succession of the Chairman and the CEO;
4. To inform the Board of any appointments or resignations of Senior Managers proposed by the CEO.
5. To inform the Board about gender diversity issues.
6. To propose the following to the Board of Directors:
 - i) The remuneration policy for Board Members and the Senior Management;
 - ii) The individual remuneration of the Board Members and the approval of the contracts that the Company signs with each Executive Manager;
 - iii) The basic Contract conditions for the Senior Management.
7. To ensure that the remuneration policy established by the Company is followed.
8. To verify the character of the Board Members annually.
9. To draft an Annual Report on the activities of the Appointments and Remuneration Committee and an Annual Report on the remuneration policy of the Manager.

Organization and Operations

The Appointments and Remuneration Committee shall meet as frequently as is necessary in order to carry out the foregoing duties, and at least once every six months.

The Appointments and Remuneration Committee shall be considered validly formed when a majority of its members are present. Attendance may only be delegated to a non-executive Board Member.

Its resolutions shall be validly adopted when voted for by a majority of the Committee members present or represented. In the event of a tie, the Chairman shall cast the deciding vote.

During the 2007 financial year, the Appointments and Remuneration Committee met on a total of three (3) occasions.

ii.3) The Strategy Committee:

It is made up of the Chairman of the Board of Directors, the Managers of the Business Units and Corporate Service Managers.

It meets on a monthly basis.

ii.4) The Internal Stock Exchange Code of Conduct and Policy on the Use of Relevant Information:

This was implemented in December 2000.

It is applied to all the Board Members, to all the Members of the Strategy Committee and to some employees according to the activity they carry out and the information to which they have access.

It establishes obligations regarding the protection of information, the obligation to secrecy, the relevant aspects relating to stages prior to decision-making and publication. It also establishes the procedure for maintaining internal and external confidentiality, the registration of share ownership and the transactions relating to securities and conflicts of interest.

The monitoring and supervising body is the Legal Counsel Officer.

ii.5) The Professional Code of Conduct:

These Regulations were revised by an agreement reached by the Company's Board of Directors on April 24, 2003, to adapt them to what is established in Act no. 44/2002, dated November 22, 2000, of the Finance Reform System Measures and its Additional Provision Number Four. On June 22, 2004, the Board of Directors revised once again these Regulations in order to tighten the controls on certain matters such as those relating to conflicts of interest, specific aspects of privileged information and operations involving the Company's own shares. This Code includes the main values that must guide the actions of any Company employee, regardless of his/her position or responsibility. The integrity of his/her behavior, the strict observance of the current legislation, professional rigor, confidentiality and quality performance are what have characterized Befesa's work culture since it was first founded.

On April 26, 2005, the Board of Directors resolved to modify the Code of Conduct implemented in the 2003 financial year and to adapt the same to the Internal Regulations governing Conduct in matters related to the Stock Exchange and the Policy on the Use of Relevant Information. Therefore, given that the existing regulations were the result of several modifications, the Board of Directors agreed on a new and complete formulation of their content.

The Code of Conduct

A I - General Philosophy

The honesty, integrity and good judgment of Befesa's employees, executives and Board Members is essential to the company's reputation and success.

The existing Code of Conduct governs the working activities and relationships of Befesa's employees, executives and Board Members with its customers and potential customers, with colleagues at work, the competition, government bodies, the media, and any other individuals or institutions the company may come in contact with. These relations are essential to attain Befesa's continued success. When mention is made in this Code of Conduct of "Befesa", it also refers to Befesa Medio Ambiente, S.A. and each and every one of its subsidiaries.

The existing Code of Conduct:

- Demands the highest standards of honesty and ethical conduct, including suitable and ethical procedures for dealing with real or possible conflicts of interest between professional and personal relationships;
- Demands complete, true, precise, timely and intelligible communication in the periodic Reports Befesa must present to the Administrative bodies and in any other communications made;
- Demands abidance of all the applicable laws, rules and regulations;
- Covers real or possible conflicts of interests and provides guidance so that the employees, managers and Board Members report said conflicts to Befesa;
- Covers the wrong use or wrong application of Befesa's goods and business opportunities;
- Demands the highest degree of confidentiality and fair treatment inside and outside of Befesa; and

- Demands immediate internal communication of breaches of this Code of Conduct and suitable communication of any illegal behavior.

II - Corporate Culture and Common Management Systems

- Befesa values its Corporate Culture and Common Management Systems as key assets. They define the way Befesa conducts business, establishing a series of Required Compliance Rules (NOC). Following them correctly is a source of profitability and security for the development of Befesa's activities.
- Non-compliance with the Common Management Systems will be determined by the Board of Directors, which can delegate this power to its Chairman, delegated commissions or, whenever appropriate, the delegated management.
- In any event, non-compliance in any area that directly affects the results of the activity or assumes uncontrolled risks is considered a very grave offence.

III- Professionalism

- The concept of professionalism at Befesa is closely linked to the dedication to rendering a service or to carrying out any activity and to a direct involvement with the business project at hand.
- All actions carried out in conjunction with the assigned duties must be characterized by a sense of professional responsibility and guided by the principles established in the Code of Conduct.

IV - Quality

- Befesa is committed to quality in all of its activities, both internal and external. This task is not assigned to a specific group of people, or to Senior Management, but rather it affects all the members of the organization in their daily work.
- Befesa has established specific Quality Regulations, which are the result of carrying out activities with knowledge, common sense, rigor, order and responsibility.

B. Conflicts of Interest

A "conflict of interest" occurs when one's private interests interfere in any way or appear to interfere with Befesa's interests. One is expected to avoid all situations that might lead to a real or apparent material conflict between one's self-interests and one's duties and responsibilities as an employee, officer or manager of Befesa. Employees, officers or Board Members who have questions or concerns about a potential conflict of interest should contact the Secretary of the Board of Directors. Befesa's Internal Code of Conduct on matters relating to the Stock Exchange specifically regulates these questions.

C. Confidentiality

Non-public information regarding Befesa or its business, employees, customers and suppliers is considered confidential and, as an employee, officer or manager, one is trusted with such confidential information. One is only allowed to use such confidential information for the specific business purposes of Befesa. One is not allowed to share confidential information with anyone outside of Befesa, including family and friends, or with other employees of Befesa who do not need the information to carry out their duties. One's obligation to keep all information confidential continues even if one ceases to be employed by Befesa.

The following is a non-exclusive list of confidential information:

- Material, non-public financial information regarding Befesa or any of its subsidiaries or affiliates.
- Trade secrets, which include any business or technical information, such as a program, method, technique, compilation or information that is valuable because it is not generally known.
- All rights to any invention or process developed by an employee using Befesa's facilities or trade secrets, resulting from any work done for Befesa, or relating to Befesa's business, that belongs to or is assigned by law to Befesa, and,
- Proprietor information such as customer lists.

All public and media communications involving Befesa must have prior clearance from the Board of Directors or the Chairman of the Board of Directors, or compliance officer.

D. Gifts and Entertainment

In many industries and countries, gifts and entertainment are common practices used to strengthen the bonds of business relationships. Throughout the world, Befesa's position is clear. No gifts, favors or entertainment should be accepted or provided if it will obligate or appear to obligate the individual who receives it. The receiving or giving of gifts of cash or cash equivalents is never allowed.

Befesa employees may accept or give gifts, favors and entertainment only if they meet all of the following criteria:

- They are not against the law or the policy of the other party.
- They are consistent with customary business practices in the country or industry.
- They are reasonably related to business relationships.
- They are consistent with any existing business guidelines.
- They cannot be construed as a bribe, payoff, or improper influence, and
- They do not violate Befesa's business values or ethics in any other manner.

E. Financial Reporting

One is required to report promptly to Befesa's Legal Department Manager all information in one's possession that may be necessary to ensure that Befesa's

financial reports and disclosures, as filed with or submitted to the National Securities and Exchange Commission (NSEC) or for other public communications, are complete, fair and accurate.

F. Insider Trading

The Code of Conduct does not allow for the buying, selling, trading or participating in any way in operations that may affect Befesa's assets or which may be illegal, while in possession of any substantial information concerning Befesa that has not been released to the general public and which when released may have an impact on the market price of Befesa's securities. This Code of Conduct also considers it illegal to buy, sell, trade or otherwise participate in transactions involving the securities of any other company while in possession of similar substantial non-public information concerning such a company. Any questions concerning the legality of effecting a transaction with Befesa's (or any other company's) securities should be directed to Befesa's Legal Counsel or compliance officer.

G. External Business Relationships

Before agreeing to act as a director, officer, consultant or advisor for any other business organization, one should notify one's immediate superior. Board Members should disclose all new directorships or potential directorships to the Chairman of the Appointments and Remuneration Committee.

H. Fair and Equitable Dealings

Each employee, officer and manager should undertake to deal fairly with Befesa's customers, suppliers, competitors and employees.

I. Legality

Complying with the law is not only an external requirement but also an obligation of the organization and its personnel. The law provides security to our activities and reduces the risks to our business. Any action that breaks the law is expressly and firmly prohibited. When in doubt about the legality of any action, it is essential to consult with the Legal Department in advance.

J. Reporting of Illegal or Unethical Behavior

Befesa requires its employees, officers and Board Members to talk to supervisors, managers or other appropriate personnel to report and discuss any known or suspected criminal activity involving Befesa or its employees. If, during the course of one's employment, one should become aware of any suspicious activity or behavior, including concerns regarding questionable accounting or auditing matters, it is necessary to report violations of laws, rules, regulations or the existing Code of Conduct to Befesa's Legal Department Manager. Reporting the activity will not subject the employee to disciplinary action unless the report is deliberately false. All reports shall be treated confidentially and will be the object of a full inquiry.

K. United States Foreign Corrupt Practices Act / Political Contributions

In addition to the provisions of the existing Code of Conduct and other policies of Befesa, employees working with any government entity in any country have an obligation to know, understand and abide by the laws and regulations that apply to the conducting of business with those entities. If a government agency, whether national, state or local, has adopted a more stringent policy than Befesa's policies regarding gifts and gratuities, Befesa's employees and representatives must comply with that more stringent policy.

Specifically, the U.S. Foreign Corrupt Practices Act (FCPA) makes it a crime for companies as well as their officers, Board Members, employees and agents, to pay, promise, offer or authorize the payment of anything of value to a foreign official, foreign political party, officials of foreign political parties, candidates for foreign political office or officials of public international organizations for the purpose of obtaining or retaining business. Similar laws have been or are being adopted by other countries. Payments of this nature are strictly against Befesa's policy even if the refusal to make them may cause Befesa to lose business.

The FCPA also requires companies to maintain accurate books, records and accounts and to devise a system of internal accounting controls, sufficient to provide reasonable assurance that, among other things, the company's books and records fairly reflect in reasonable detail transactions and dispositions of its assets.

Befesa will not give or encourage anyone else to give inducements of any kind to any government employee, or to any supplier under government or non-governmental contracts or sub-contracts, in order to gain any business advantage or contract.

L. Administration, Enforcement and Waiver of the Code of Conduct

The existing Code of Conduct shall be managed and monitored by Befesa's Board of Directors. Any doubts regarding or questions concerning the existing Code of Conduct should be directed to the Manager of Befesa's Legal Department.

Befesa's employees, officers and Board Members are expected to adhere to this existing Code of Conduct at all times. Under rare circumstances, situations may arise in which a waiver may be appropriate. Waivers shall be determined on a case-by-case basis by Befesa's Board of Directors for directors and officers. Any waiver for Board Members or officers and the grounds thereof shall be disclosed to stockholders in accordance with the applicable laws and regulations.

Failure to comply with this Code of Conduct may result in disciplinary action up to and including termination, depending upon the nature and seriousness of the violation. In addition, any supervisor, manager, officer or director who directs, approves or condones infractions, or has knowledge thereof and does not promptly report and correct them, will be subject to disciplinary action up to and including the termination of his/her working relationship with the Company.

d. Inter-group and related transactions in the 2007 financial year.

- i) Transactions with significant stockholders:

During the 2007 financial year, there were no transactions with significant stockholders, except that the agreement signed between Abengoa, S.A. and Befesa Servicios Corporativos, S.A.U. (a 100% subsidiary of Befesa Medio Ambiente) remains in force, in relation to Abengoa providing the Befesa Group with assessment, collaboration and technical support services, for which Abengoa receives 1% of Befesa's total annual sales, as reported to the NSEC on March 22, 2001, entry record number 20,373. In the 2005 financial year, the agreement was signed by Befesa Medio Ambiente instead of by its 100% owned subsidiary Befesa Servicios Corporativos, S.A.U., and on December 31, 2007, it is still in force.

Name	Nature	Type	(k€)
Befesa Medio Ambiente, S.A.	Provision of professional services	5 years	7.750

ii) Transactions with managers and executives:

There are no significant transactions between the company and its managers, executives or senior management.

iii) Significant intra-group transactions.

Befesa is the parent company of a group of companies and it operates as such. It assembles a series of companies offering complementary activities for the integral product or several Business Units which join forces to cover their client's complete needs either acting on their own, on a case by case basis, or as a parent company. Thus, different companies and Business Units share customers and they jointly develop their businesses with one of them acting as the head company. This situation results in cross selling between the companies (intra-group).

Moreover, Abengoa co-ordinates and manages the financial resources through a centralized administration system, which allows for the optimization of said resources in the businesses financed with resources which are produced in the collection - payment cycle with the use of factoring and the payment of suppliers through the bank. This system makes it possible to optimize the combined resources.

As a result of the commercial operations carried out under the foregoing system – speaking in exclusive market terms –, which are derived from ordinary mercantile activity of a financial nature, the final sums appearing on the Balance Sheets of the individual companies are highlighted although they may be eliminated in the final process of the Consolidated Annual Accounts.

e. Risk Control Systems.

Befesa's risk control structure is based on two fundamental pillars: the Common Management Systems and the Internal Auditing Services, whose definitions, objectives, characteristics and functions are described below.

i) Common Management Systems:

Definition:

The Common Management Systems develop the Company's internal regulations and its methodology for evaluating and controlling risks and they represent a genuine guide for managing businesses, sharing the accumulated knowledge and establishing the criteria and operational standards.

Objectives:

- To identify possible risks, because even though they are associated with a business endeavor, every effort should be made to be aware of them and try to minimize their negative effects as much as possible.
- To optimize the day-by-day management, applying procedures designed for financial efficiency, cost reduction, the uniformity of information and management systems and compatibility.
- To foment the synergy and the creation of the value of the different Business Units working together in close collaboration.
- To reinforce the corporate identity, respecting the shared values of all the companies within Befesa.
- To grow through strategic development seeking innovation and new options for the medium and long terms.

The systems cover the whole organization at three different levels:

- All the business units and business lines;
- All the levels of responsibility;
- All kinds of transactions.

Compliance with the Common Management Systems is obligatory for the entire organization and all the members of the organization must be aware of them. Exceptions to this compliance must be communicated to the corresponding person and must be appropriately authorized.

The Common Management Systems are subject to continuous updates that allow the best practices to be incorporated into each of their areas of action. The organization is immediately notified of successive updates to these systems in an electronic format, which would significantly facilitate their dissemination.

The individuals responsible for each of the regulations that comprise the Common Management Systems must verify and certify compliance with these procedures.

In addition, as of 2005, Befesa has adapted its internal control structure for financial information to the requirements of the Sarbanes Oxley Act (SOX – Section 404). The Company is therefore currently reviewing its whole general control environment, including policies and procedures, corporate internal control culture, codes of ethics, etc., in order to adapt them to the requirements of this Law, as a part of the recommendations of the SOX.

Even though the SOX is obligatory legislation for listed groups and companies on the North American market, as required by the Securities and Exchange Commission, Befesa believes that it is important to meet these requirements since they lead to improvements in controls and mitigate risks.

Befesa is analyzing and documenting all of the processes that affect the different sections of the Group's Balance Sheet and Income Statement; it is identifying the risks that affect the different activities that comprise each process; and it is recording the existing control objectives and their corresponding activities in order to mitigate these risks. It should be noted that the procedures being defined are interrelated with the existing operating regulations so that the controls for managing the businesses are unified with the controls for obtaining financial information.

Likewise, and also pursuant to the SOX recommendations, the General Control Environment is being reviewed, including policies and procedures, the corporate culture for internal control, codes of ethics, etc., to adapt them to the requirements of this Law.

The COSO framework is being used as the reference methodology (processes to determine if internal controls are adequately designed and implemented and are effective; processes that ensure that the relevant information is identified and communicated; general guidelines on existing internal controls, etc.), as it the one which best satisfies the requirements established by the SOX. This framework for internal control is defined as the process carried out in order to provide a reasonable degree of security in terms of achieving objectives such as legal and regulatory compliance, reliability of financial information and operational efficiency and effectiveness.

ii) Internal Auditing:

Definition:

The function of Internal Auditing is structured around the Pooled Auditing Services that encompass the auditing teams of the companies, business units and corporate services that act in a coordinated way and which are responsible to the Auditing Committee of the Board of Directors.

General Objectives:

- To anticipate the auditing risks of the Group's companies, projects and activities, such as frauds, financial damages, inefficient operations and risks that may affect the satisfactory operations of the business in general.
- To control the application of and promote the development of adequate and efficient management regulations and procedures in accordance with the common Corporate Management Systems.
- To enhance Befesa's value, by promoting the creation of synergies and the monitoring of optimal management practices.

- To coordinate the criteria and the specific focus of the external auditors' work in order to attain the maximum efficiency and profitability of both functions.

Specific Objectives:

- To evaluate the auditing risks of Befesa's companies and projects in accordance with an objective procedure.
- To define various types of standard auditing and internal control tasks in order to draw up the corresponding Work Plans with the appropriate scope for each situation. This classification, which is linked to the Auditing Risk Assessment, determines the Work Plans to be used and implies a specific type of recommendation and report, which should then be used explicitly in these documents.
- To orient and coordinate the planning process for the auditing work and internal controls in the companies and business groups, to define an appropriate notification procedure for these tasks and communications with the involved parties and to establish a method for coding these tasks for their adequate control and monitoring.
- To define the communication process of each auditing job's results, the people who are affected and the format of the documents in which these results will be presented.
- To review the application of the plans, the adequate implementation and supervision of the tasks, the timely distribution of the results and the monitoring of the corresponding recommendations and their subsequent implementation.

The Auditing Committee

As has been indicated previously in this Report, pursuant to Article 47 of Law no. 44/2002 of December 22, on the Financial Systems Reform Measures, Befesa's Board of Directors appointed an Auditing Committee on December 18, 2002, whose functions include the "supervision of the internal auditing services", the "specification of the financial reporting process" and the "company's internal control systems".

The Internal Corporate Auditing Manager will report systematically to this Committee in relation with his/her responsibility for:

- the Annual Internal Auditing Plan and the degree of its fulfillment;
- the level of implementation of the indicated recommendations;
- a sufficient description of the main areas reviewed and the most significant conclusions;

- any other more detailed explanations that the Auditing Committee may require.

f. General Stockholders' Meetings.

i) Operating Rules:

In accordance with the recommendations made by the Special Commission for the Promotion of Transparency and Security on the Financial Markets and Listed Companies, in March 2003, the Board of Directors drafted a series of structured and systematic regulations for the celebration of the Stockholders' Meetings, which were submitted to the approval of the General Stockholders' Meeting held on June 24, 2003. The afore-mentioned regulations were unanimously approved and the decision was duly notified to the NSEC on June 26, 2003. In addition to the provisions included in the Spanish Companies Act, these regulations included a basic set of rules for the sake of good order and the proper celebration of the Stockholders' Meetings in order to guarantee at all times, the right to information, attendance and voting and also the stockholder's right to representation. The complete text of the Operating Rules of the General Stockholders' Meetings is available on Befesa's website at www.befesa.es and www.befesa.com (Information for Stockholders and Investors / Corporate Management).

In accordance with what is established under Article 10 and the subsequent articles of the Company's By-laws, there is no limitation on the stockholders' right to vote based on the number of shares he/she holds. Any stockholder whose ownership of the corresponding shares has been duly recorded in the Stock Registry at least five days prior to the celebration of the Meeting can personally attend the General Stockholders' Meetings, without detriment to his/her right of representation.

Quorum for Constitution: At the first convocation: 25% of the share capital. At the second convocation: whatever the amount of the share capital presented or represented. These amounts are the same as those established by corporate law. As regards the matters pertaining to Article 103 of the Spanish Companies Act, the quorum will be what is established by Law.

Quorum for Adopting Resolutions: A simple majority of the votes either present or represented at the General Meeting. In the event of matters relating to Article 103 of the Spanish Companies Law, the quorum will also be what is stipulated by Law.

The Stockholder's Rights: The right to receive information in accordance with the applicable legislation, the right to receive free of charge the documentation related to the General Meeting, the right to vote in proportion to his/her stock with no maximum limit, the right to attend the Meetings when owning a minimum of 1,500 shares, the corresponding economic rights (the right to dividends if this were the case or to sharing in the Company's assets), the right to representation and delegation, to forming groups and to taking any legal actions which may correspond to the stockholders.

Measures to Promote Stockholder Participation: Make the documentation related to the General Meeting available for sending free of cost to the stockholders, as well as the inclusion of this information on the website in time for the celebration of the

General Meeting. The possibility exists for delegating or absentee voting by filling out the Attendance Cards for this purpose in an accredited manner.

The By-laws do not limit the maximum number of votes to be held by a single stockholder, nor do they contain restrictions that would prevent taking control through the acquisition of shares.

The proposals for resolutions to be put before the General Stockholders' Meeting will be published when the convocation of the Meeting is notified and they will be included on the Company and the NSEC websites.

At the Meeting, the matters included on the Agenda which are substantially independent will be voted upon separately so that the stockholders may exercise their voting preferences in a separate manner, especially when what is being dealt with is the appointment or ratification of Board Members or a modification of the By-laws.

The Company will allow the fractioning of the vote issued by financial intermediaries acting under proxy as stockholders but who are acting on behalf of different clients so that they may issue their votes in accordance with the individualized instructions received from each of said clients.

The Company By-laws specify that the chairmanship of the General Meeting will be held by the Chairman or Vice-chairman of the Board of Directors, or, in the absence of both individuals, by the person elected on a case-to-case basis by the majority of the stockholders in attendance.

The Operating Regulations for the General Stockholders' Meetings, approved by the General Meeting of June 24, 2003, will regulate the procedures for the convocation, functioning, exercise of rights and adoption of agreements by the General Meeting, and establishes a precise and imperative framework for the celebration of the General Meetings.

Similarly, the General Meeting is normally attended by a Notary Public who will verify the fulfillment of all the necessary requirements for the valid constitution of the Meeting and the adoption of resolutions, and he/she will issue the corresponding affidavit upon the conclusion of the Meeting.

Furthermore, the Secretary to the Board (who is not a Board Member), in accordance with the Company By-laws and the Regulations of General Meetings, will act as the Secretary of the Meeting and will be responsible for ensuring compliance with all the legal and statutory obligations in regard to the convocation, celebration and adoption of resolutions by the General Meeting.

ii) Information on the last General Stockholders' Meetings:

Befesa's Ordinary General Stockholders' Meeting of April 19, 2007, was held with the attendance, either present or represented, of twenty-seven (27) stockholders. The total number of shares was 26,569,093, which represented 97.992% of the total share capital (27,113,479 shares) with a right to vote.

The following resolutions were adopted:

1. Approval of the Befesa Medio Ambiente, S.A.'s Annual Accounts Statement for the 2006 accounting period, comprising the Balance Sheet, the Profit and Loss Account, the Annual Report and the Management Report, and the proposed application of the results of said accounting period.

2. Approval of the Annual Accounts Statement of the Consolidated Group, comprising the Consolidated Balance Sheet, the Consolidated Profit and Loss Account, the Consolidated Annual Report and the Consolidated Management Report for the 2006 accounting period.

3. Approval of the proposal for the application of the results of the 2006 accounting period which totaled after taxes the sum of € 2,691,332.00, consisting of € 269.133.00 being assigned to the legal reserves and € 2,422,199.00 to the voluntary reserves.

4. Appointment of Deloitte S.L. as the auditor of the Accounts for the 2007 accounting period, in order to review the Annual Accounts Statement and the Management Report of Befesa Medio Ambiente, S.A. and the Consolidated Annual Accounts Statements and the Consolidated Management Report.

5. Ratification of the authorization granted to the Board of Directors by the last General Stockholders' Meeting of 21 June 2005 so that the Board could increase the Company's share capital, once or several times, up to a limit equivalent to 50% of the share capital, in accordance with the legal limits.

6. Authorization of the Board of Directors to issue obligations or other securities of fixed or variable income in accordance with the legal limits.

7. Authorization of the Board of Directors for the derivative purchase of treasury stock in the Company itself, either directly or indirectly, through subsidiaries or controlled companies, up to the maximum limit established under the provisions in force.

8. Empowering of the Board of Directors and its Chairman, Vice-Chairman and Executive Secretary who is not a Board Member to formalize and execute the resolutions adopted.

iii) Informative Tools – Website (www.befesa.es) (www.befesa.com):

The Company will continually update its website in Spanish and in English, at www.befesa.es and www.befesa.com.

The resolutions adopted in the last General Stockholders Meeting held on April 19, 2007 will be recorded on the website. Similarly, the full text of the notice of the Meeting, the Agenda and the resolutions that were proposed for approval in the Meeting will also be incorporated.

As regards the notification of future Meetings, the Company will make this information available and keep it updated in order to assure the equal rights of all the stockholders to information as well as voting.

And finally, the right to vote electronically will be guaranteed in accordance with all the legal and technical developments established.

g. Degree of Monitoring of the Recommendations relating to Corporate Management.

As the information contained in the recommendation reports is less detailed and developed than what is contained in the Annual Corporate Management Report, the current Report should be consulted and it is available at www.befesa.es and www.befesa.com.

Similarly and pursuant to the Ministerial Order of December 22, 1999, further developed by Circular 1/2000 from the CNMV, in regard the business development and prospects of the listed companies assigned to the New Market segment, the Company furnishes annually the relevant information required, as well as with the notification of the celebration of the Ordinary General Stockholders' (April 24, 2006). Said information is available at www.befesa.es and www.befesa.com (Information for Stockholders and Investors / Relevant Events / Relevant Events 2006 / New Market Report).

h. Informative tools.

- i) Website (www.befesa.es) (www.befesa.com):

The obligation to provide useful, true, complete and balanced information to the market in real-time would not be sufficient if the suitable methods for transmitting this information were not appropriate and can assure that said information is distributed effectively and usefully. As a result, the Aldama Report and the Financial Systems Reform Act recommend, as a result of new technologies, the use of listed companies' websites as an informative tool (including historical, qualitative and quantitative company data on it) and also as a distribution tool (including timely or individualized information in real-time that may be accessed by the investors).

The Transparency Act on Informative Tools established that listed companies must fulfill the informative obligations established in Corporate Law, by any technical, computerized or telematic means, and Eco Order no. 3722/2003, of December 26, established the minimum content for a listed company's website.

Pursuant to the above, Befesa has included new contents on its website, especially those established in the afore-mentioned Eco Order no. 3722/2003.

In the third quarter of 2004, Befesa implemented a new Company Website, characterized on one hand by a more direct, quick and efficient on-screen presentation, and on the other, by informative content and documentation made available to the general public. It focused on three fundamental aspects:

- a) Commercial: the presentation of the Company and its Business Units, news releases, newsletters, etc.
- b) Legal: communications, relevant events, internal regulations of the Corporate Management, structure of the capital, structure of the governing bodies, different kinds of Board Members, significant holdings, etc.
- c) Economic: periodic reporting, financial statements, stock quotations, etc.

The available information as well as the website for its diffusion should be continuously updated, along with the Corporate Management, the rules that regulate it and the corresponding legislation and recommendations to be followed. At the present time, there is a subject of special importance which is being developed in the legislation: the regulation of stockholders' rights (information, voting, etc.) by means other than those that are customary. Just like any company which is concerned with its growth and development, Befesa must adapt to and anticipate the evolution of the markets as well

as everything regarding self-regulation (that is, it should adopt its own code of conduct by which its actions and decisions may be assessed from the outside). Also important are the evolution, transparency and information in order to ensure the confidence of the marketplace and hence the growth of the Company.

ii) Stockholder Services Department:

In order to facilitate permanent contact with the Company's stockholders, a stockholders' mail box should be made available on the website (www.befesa.es and www.befesa.com), with the objective of establishing flowing and transparent communications with its stockholders and also allow the institutional investors timely access to the formatted information, in order to assure them equal treatment. Special attention will be focused on the distribution of true and reliable information on relevant events, news releases and periodic financial-economic information.

iii) Investor Relations Department:

With the same objective as the Stockholder Service but intended specifically for investors, the Company has set up an Investor and Market Analyst Relations Department, which will be responsible for the designing and implementing of the communications program with the national and international financial markets in order to provide information on the main characteristics of the Company and the strategic actions it adopts.

This Annual Corporate Management Report has been approved by the Board of Directors of Befesa Medio Ambiente, S.A. at its meeting held on February 25, 2008, with the favorable vote of all of its members

i. Auditing Committee Activity Report 2007.

1. Composition and Appointments:

Befesa's Auditing Committee was set up by the Board of Directors of Befesa Medio Ambiente, S.A. on December 18, 2002, under Article 44 of its By-laws, in order to incorporate the provisions pertaining to the Auditing Committee in the Financial Systems Reform Act no. 44/2002. Its Internal Regulations were approved by the Board of Directors on April 24, 2003. Both events were reported to the National Securities and Exchange Commission (NSEC) as relevant events at the time. On December 18, 2007, the Board of Directors agreed to modify the Regulations governing the Board of Directors and the Internal Regulations governing the Auditing Committee in order to adapt them to the recommendations established in the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006.

The current composition of the Auditing Committee is as follows:

Mr. Manuel Blanco Losada (*)	Chairman. Non-executive independent Board Member
Ms. Maria Jose Rivero Menendez (*)	Member. Non-executive independent Board Member
Mr. Rafael Escuredo Rodríguez	Member. Non-executive independent Board Member
Mr. Alfonso Castresana Alonso de Prado	Secretary but not a Board Member

(*) On June 14 2007, the Board of Directors appointed Mr. Rafael Escuredo Rodríguez as a Director of the Auditing Committee, instead of Mr. Javier Molina Montes.

For the Board of Directors to perform its duties in a rigorous and efficient manner, specialized Commissions must be set up within the Board for the purpose of diversifying the work and ensuring that the proposals and resolutions for certain important matters have previously been approved by a specialized body which would filter and obtain information on its decisions, so as to reinforce the guarantee of objectivity and that the resolutions are given due consideration.

2. Activities Conducted:

During the 2006 accounting period, the Auditing Committee met six (6) times.

In compliance with its principal duty which is that of serving as a means of support for the Board of Directors, the main activities that have been dealt with and analyzed by the Auditing Committee can be grouped into four differentiated areas of competency:



2.1. Financial Reporting

The Group's financial information consists basically of the Consolidated Financial Statements, drawn up quarterly and the complete Consolidated Annual Accounts, drawn up annually.

This information is prepared on the basis of the Accounts Reports that all the Group's companies are obliged to submit for this purpose.

The information reported by each one of the individual companies will be verified by both the Group's internal auditors as well as the external auditors, in order to ensure that the information is true and provides a true reflection of the Company.

In recent years, Befesa has made a significant effort to reduce the deadlines for presenting the Group's financial reports, a situation which we feel can still be improved on. This represents one of the Group's permanent objectives.

One of the recurring and most important activities of the Auditing Committee is the verification of the economic-financial information prepared by the Group before it is submitted to Befesa Medio Ambiente's Board of Directors and the regulatory bodies of the National Securities and Exchange Commission (NSEC).

Furthermore, in relation with the reviewing of the financial statements and the processes used in their elaboration, the Commission has been informed of all of the relevant changes concerning International Accounting Standards and Financial Information.

2.2. Risk and Internal Control and Internal Auditing:

The Auditing Committee's duties include "supervising the internal auditing services" and "determining the Company's financial information and internal control system processes".

With the purpose of monitoring the sufficiency, suitability and effective functioning of the Internal Control Systems, the individual responsible for the Internal Corporate Auditing has informed the Commission systematically in the 2006 accounting period year, in relation with its own activities pertaining to:

- The Annual Internal Auditing Plan and the extent to which it was being complied with;
- The extent to which the recommendations issued have been implemented;
- An adequate description of the main areas reviewed and the most significant conclusions reached;
- Any other more detailed explanations which the Auditing Committee might require.

During the 2006 accounting period, the Auditing Committee was made aware of and supervised the execution, by the Internal Auditing Department, of a total of 32 jobs, while the Annual Auditing Program established only 29 jobs for the year. The additional tasks that were not included in the Program were mainly general company inspections that had not been contemplated in the initial planning process.

As a result of these jobs, a total of 27 significant recommendations were issued, of which 15 have already been implemented, while the rest are being implemented by the different companies.

The Auditing Committee has been informed that, during the 2006 financial year, work has been initiated to adapt the Group's internal control structure to the requirements demanded by the Sarbanes Oxley Act (Sox), and the application thereof will commence in 2007.

2.3. External Auditing:

The Auditing Committee's duties include ensuring the independence of the External Auditor, and proposing the appointment or renewal thereof to the Board of Directors, and the approving of its fees.

Befesa Medio Ambiente S.A.'s statutory auditor is Deloitte, which is also the Group's main auditor. In addition, other auditing firms also provide their services in small companies, both in Spain and abroad, although their scope cannot be considered to be significant.

Befesa's policy is for all the Group's companies to be audited externally, even if they do not meet the requirements to make this compulsory.

The global amount of the fees agreed upon with the External Auditors for the 2006 financial year audit, including the review of the periodic information and the distribution thereof, is shown on the Table below:

	Firm	Fees	Companies
Spain	Deloitte	309,756	19
Spain	Other firms	5,490	2
Abroad	Deloitte	25,750	1
Abroad	Other firms	330,273	13
Total		671,269	35

The Auditing Committee is also responsible for supervising the results of the External Auditors' work. Therefore, it is promptly informed of their conclusions and of any anomalies detected in the course of their reviews.

The External Auditor has attended Auditing Committee meetings whenever required to do so, in order to report on the area of his/her competencies, relating mainly to:

- The review of the financial statements of the Consolidated Group and its companies and the issuance of the corresponding auditing opinion.

Although the scope of said opinion is based on the Financial Statements as of December 31 of each year, the work performed by the auditors in each one of the companies usually includes a study of the closing of the previous accounting period, that of the third quarter of the financial year (September), in order to anticipate any significant matters or operations that may have arisen up until that date. In addition, inspections are made of the quarterly financial statements drawn up in order to submit the pertinent information to the official bodies.

- Evaluation of the Internal Controls:

The advanced approach to the auditing practice considers this to be part of an auditor's work, since this approach places more emphasis on the evaluations of the Company's controls rather than on substantive proof. The External Auditors must issue, in addition to their standard professional opinion, an Internal Control Report that will be the basis for their presentation to the Auditing Committee. This will be reinforced with the implementation of the SOX which regulates the type, scope and activity carried out by the Company's Auditor.

- Matters of Special Interest:

For certain specific matters or operations, the auditors' opinion on the accounting principles adopted by the Company is required, in order for a prior agreement to be reached thereupon.

3. The Internal Regulations of the Auditing Committee.

The Auditing Committee's Internal Regulations were approved by the Board of Directors on April 24, 2003. They establish the following:

- Composition and Appointments:

It shall be made up of three Board Members. Two of them shall be non-executive Board Members, thus complying with the majority of non-executive Board Members provided for in Law no. 44/2002

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

- Chairman and Secretary:

The Auditing Committee shall elect its Chairman from among all of its non-executive Board Members for a term that may not exceed four years.

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

- Duties and Competencies:

The duties and competencies of the Auditing Committee will be, in accordance with what is established in its Internal Regulations, the following:

I Regarding to the Information Systems and Internal Controls:

- a) To supervise the process of preparation and the integrity of the financial information relating to the Company and to the Group.
- b) To report on the Annual Accounts and the half-yearly and quarterly Financial Statements that must be forwarded to the market's regulatory and supervisory bodies.
- c) To periodically review the Internal Control and Risk Management systems.
- d) To supervise the internal auditing functioning with full access to it and to monitor and supervise its independence and effectiveness; to propose the selection, appointment, re-election and dismissal of the Manager of the Internal Auditing Service, as well as its budget.
- e) To summon any of the Company's executives or employees.
- f) The Auditing Committee shall report to the Board on the following matters:
 - (i) The financial information that the Company must periodically publish, as a listed company.
 - (ii) The creation or acquisition of stockholdings in special purpose entities or those registered in countries or territories considered as tax havens, as well as any other similar transactions or operations which, due to their complexity, could reduce the transparency of the Group.
 - (iii) Related operations.
- h) To supervise compliance with the Internal Code of Conduct and the Regulations on Corporate Management.

- i) To inform the Board of Directors of any changes in the basic accounting principles and any risks on the Balance Sheet.
- j) To inform the General Stockholders' Meeting on the issues raised therein by the stockholders in relation to matters that fall within its competency.
- k) To summon the Board Members as it sees fit in order to attend the Committee Meetings.
- l) To draw up an Annual Report on the Auditing Committee's activities.

II. Regarding the External Auditor:

- i. To propose the selection of the External Auditor, as well as the conditions for their contracting, to the Board of Directors for subsequent submission to the General Stockholders' Meeting.
- ii. To receive information about the Auditing Plan and its results from the External Auditor.
- iii. To ensure the independence of the External Auditor and for this purpose:
 - iv) The Company will notify the CNMV of the change in the Auditor as a significant event;
 - v) To ensure that the Company and the Auditor comply with the prevailing regulations on the provision of services, other than the mere auditing services, the restrictions on the concentration of business with an auditor and, in general, any other regulations established to ensure the auditor's independence;
 - vi) In the event of the resignation of an External Auditor, to examine the circumstances that may have caused it.
- iv. To support the Group Auditor in taking responsibility for the audits of the companies that comprise it.
- v. To maintain contact with the external auditors in order to receive information about any issues that may prejudice the independence of the auditors.

- Meetings and Notifications:

The Auditing Committee shall meet whenever necessary in order to perform the duties put forth in the preceding article and this should be done at least once in each quarter. In general, the meetings shall be held at the Company's registered office, although the members may designate a different venue for a specific meeting.

The Auditing Committee shall also meet whenever a Meeting is called by the Chairman, at his own initiative or at the request of any member of the Commission. The members of the Commission may, in any case, inform the Chairman of the advisability of including a certain matter on the Agenda for the next meeting. Notice should be given with sufficient time in advance –with no less than three days prior notice-, and in writing, including the Agenda to be covered. A meeting of the Auditing Committee will be considered valid when all of its members are present and they agree to hold said meeting.

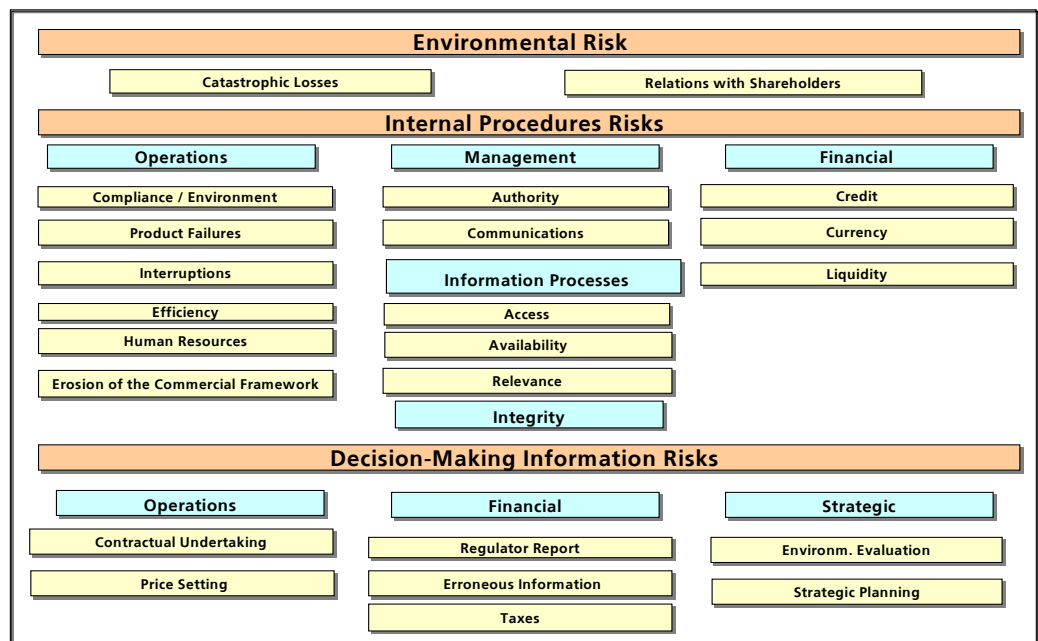
- Quorum:

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

Its resolutions shall be considered validly adopted when the majority of the Commission’s members in attendance vote in favor. In the event of a tie, the Chairman will cast the deciding vote.

4. Befesa’s Risk Management Model

In a group such as Befesa, made up of more than 50 companies, with operations in over 20 countries and more than 2,000 employees, it is essential that a common business management system be defined, which would allow for work to be performed in an efficient, coordinated and coherent manner.



Befesa’s Risk Management adheres to the above model, which is used to identify the potential risks that might exist in a business.

The procedures used to eliminate the afore-mentioned risks are instrumented through the Common Management Systems.

The Common Management Systems identify the risks included in the current model as well as the control activities to mitigate them. Therefore, they develop the internal activity standards and represent a common culture to be followed by Befesa’s business management

In addition, the Common Management Systems enables:

- Optimization of the day-to-day management, applying procedures to favor financial efficiency, cost reduction and the standardization and compatibility of information and management systems.

- Promotion of synergies and the creation of the value of Befesa's different Business Units, while working in an environment of total cooperation.
- Reinforcement of the Corporate Identity, with all of Befesa's companies respecting their shared values.
- Attainment of important growth through strategic development aimed at seeking innovations and new medium and long-term options.

The Systems cover the entire organization at three levels:

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

The entire organization must adhere to the provisions of the Common Management Systems and, so all of its members must be highly familiar with them. Any exceptions made to these Systems must be duly notified to the individuals concerned and appropriately authorized.

The Common Management Systems are subjected to a continuous updating process, which allows the best practices to be incorporated in each of their fields of action. The successive updates to which they are subjected should be immediately notified to the organization using the computer system, which would greatly facilitate its prompt dissemination.

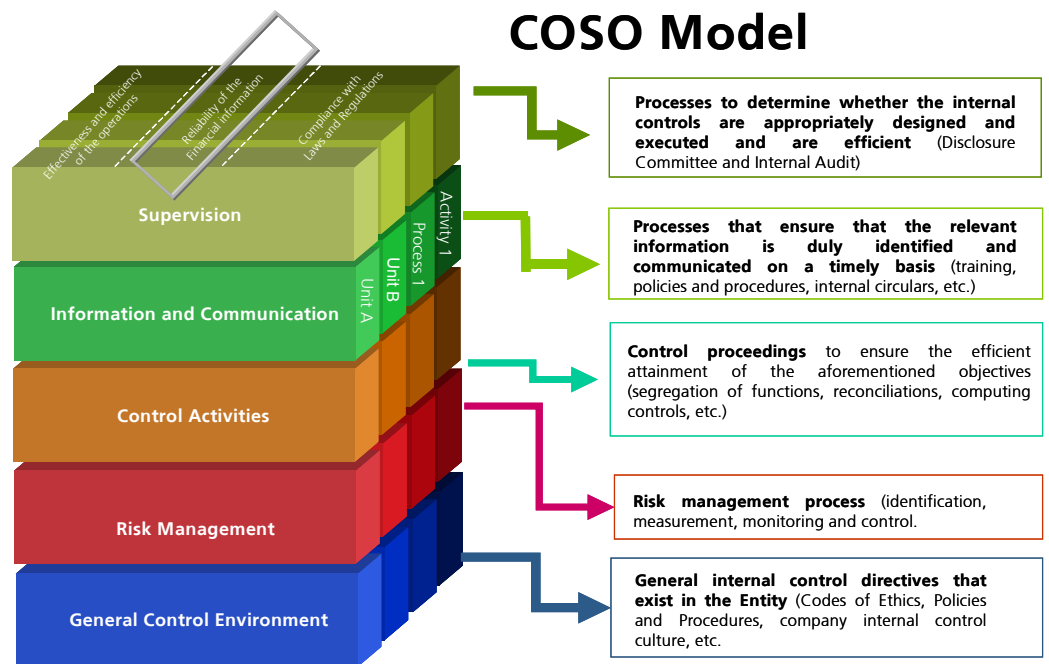
Those responsible for each one of the regulations making up the Common Management Systems should verify and certify compliance with said procedures.

In addition, this year, Befesa is adapting its internal control structure to the requirements demanded by the Sarbanes Oxley Act (SOX – Section 404).

Even though, according to instructions received from the National Securities and Exchange Commission (NSEC), this Act corresponds to the compulsory regulation of companies and groups listed on the North American Stock Exchange, Befesa believes that it is necessary for these requirements to be met.

Befesa believes that a suitable internal control system must ensure that all the relevant financial information is reliable and known to the Management. Therefore, the opinion is that the model developed in the SOX will complement and complete our Common Management Systems, the main objective of which is the control and mitigation of business risks.

The conceptual reference framework adopted is the COSO Model which is what comes closest to the focus required by the SOX and in which internal control is defined as the process executed to provide a reasonable degree of security as regards the attainment of certain objectives such as abidance of the laws and regulations, reliability of the financial information and the effectiveness and efficiency of the transactions.



In this way, the requirements of the SOX are currently being implemented in all of Befesa's Business Units. All of the processes that affect the different sections of the Group's Financial Statements and Profit and Loss Account are being analyzed and documented. The risks that affect the different activities comprised in each process are being identified and the existing control objectives that have to be mitigated and the corresponding control activities to be conducted are being detailed. Of note is the fact that the procedures that are defined interrelate with the existing Operating Regulations in such a way that the Business Management controls combine with the Financial Information Attainment controls.

Furthermore, as part of the SOX recommendations, the General Control Systems are being reviewed: Policies and procedures, the internal corporate control culture, Code of Ethics, etc., in order to adapt them to the requirements of said Act.

Supervision and Control of the Risk Management Model:

The supervision and control of the above-described Risk Management model are structured around the Pooled Auditing Services, which in turn are structured around Corporate Auditing Management, with the auditing teams acting in a coordinated manner with the individuals responsible for the internal control of the companies who report to the Board of Director's Auditing Committee.

From among their strategic objectives, we can highlight the following:

- Foreseeing the auditing risks of the Group's Companies, Projects and Activities, such as frauds, capital losses, operating inefficiencies and, in general, risks that could affect the favorable progress of the business.
- Controlling the application and promoting of suitable and efficient management regulations and procedures, in accordance with the Common Corporate Management Systems.

- Establishing the value of Befesa, by promoting the setting up of synergies and monitoring optimum managerial practices.
- Coordinating the work criteria and approaches with the External Auditors, in order to attain the greatest efficiency and profitability of both functions.
- As a result of the need to meet the requirements established by the Sarbanes Oxley Act described in the foregoing section, it is necessary to guarantee the security and reliability of the financial information by checking and ensuring the correct functioning of the controls established for this purpose.

As a result, the Internal Auditing Services must proceed in relation with the following specific objectives:

- To evaluate the Auditing Risk of Befesa's Companies and Projects, in accordance with an objective procedure.
- To define the standard types of Internal Auditing and Control work, in order to develop the pertinent Work Plans with the scope appropriate to each situation. This methodology is based on the Risk Auditing Evaluations and determines the Work Plans to be adopted.
- To guide and coordinate the internal auditing and control work of the Companies and Business Units, by defining an appropriate procedure for the notification of the work and communications with the parties concerned. A suitable coding system should be set up for the work, so that it can be properly controlled and monitored.
- To define the communications process for the results of each auditing job, the individuals involved and the format to be followed in the corresponding documentation.
- To review the application of the plans, the appropriate execution of the work, the prompt distribution of the results and the monitoring of the recommendations and their corresponding implementation.
- To review the correct functioning of the manual and automatic controls identified in the processes, as well as proof of the controls adopted in order to guarantee a safe and secure obtainment of the financial information.

An Annual Internal Auditing Plan will be drawn up each year and the scope thereof is determined by:

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

The Auditing Risk is evaluated for each Project, Company and Business Unit. In this respect, the Auditing Risk is defined as any possible event that might have a negative effect on the business, such as fraud, capital losses or operating inefficiencies. The evaluation of the Risk allows us to discover the areas on which our attention and work should be focused.

Proper planning seeks to guarantee that the risk areas identified will be covered by the appropriate actions aimed at mitigating or eliminating the risks, as well as allowing them to be adequately identified, controlled and monitored. The end result of this Planning process is the Annual Internal Auditing Plan.

The Annual Plan outlines the type of work to be carried out and the scope of each one of them. General company inspections, inspections of specific areas, procedural inspections or special tasks are established, depending upon the proposed scope.

The Annual Plan is continuously monitored by the Auditing Committee, which is informed systematically of both the progress made and the results obtained in the inspections carried out.

For each of the planned tasks, once the field work has been carried out, recommendations are made that imply, not only that both legal and internal regulations are applied, but also that the best management practices in the pertinent area of activity are incorporated. These recommendations are classified as major or minor, depending upon the importance of the area affected or, if it were the case, the economic impact they would involve.

Traditionally, the main objective has been to control the Auditing risk, which is understood as any risk that affects the business and that can be estimated, evaluated and controlled by the Management. Since the adoption of the SOX, and with the above objective in mind, it is necessary to guarantee the correct functioning of the controls established by the Company in order to guarantee the reliability and veracity of Befesa's financial information.

Each Befesa activity, project and company must have a preliminary evaluation of the auditing risk which would allow for the appropriate planning of the inspections to be performed. This risk estimate must respect objective criteria which would be common to the entire Group and which would be the responsibility of the Internal Auditing and Control Department.

In relation with the foregoing, the Internal Auditing and Control Department should carry out more than just mere supervisory activities and while continuing with its inspection and revision activities, it should also actively promote enhancements which would immediately influence the optimization of the processes and businesses, the obtaining of synergies and, in short, increase Befesa's overall value.

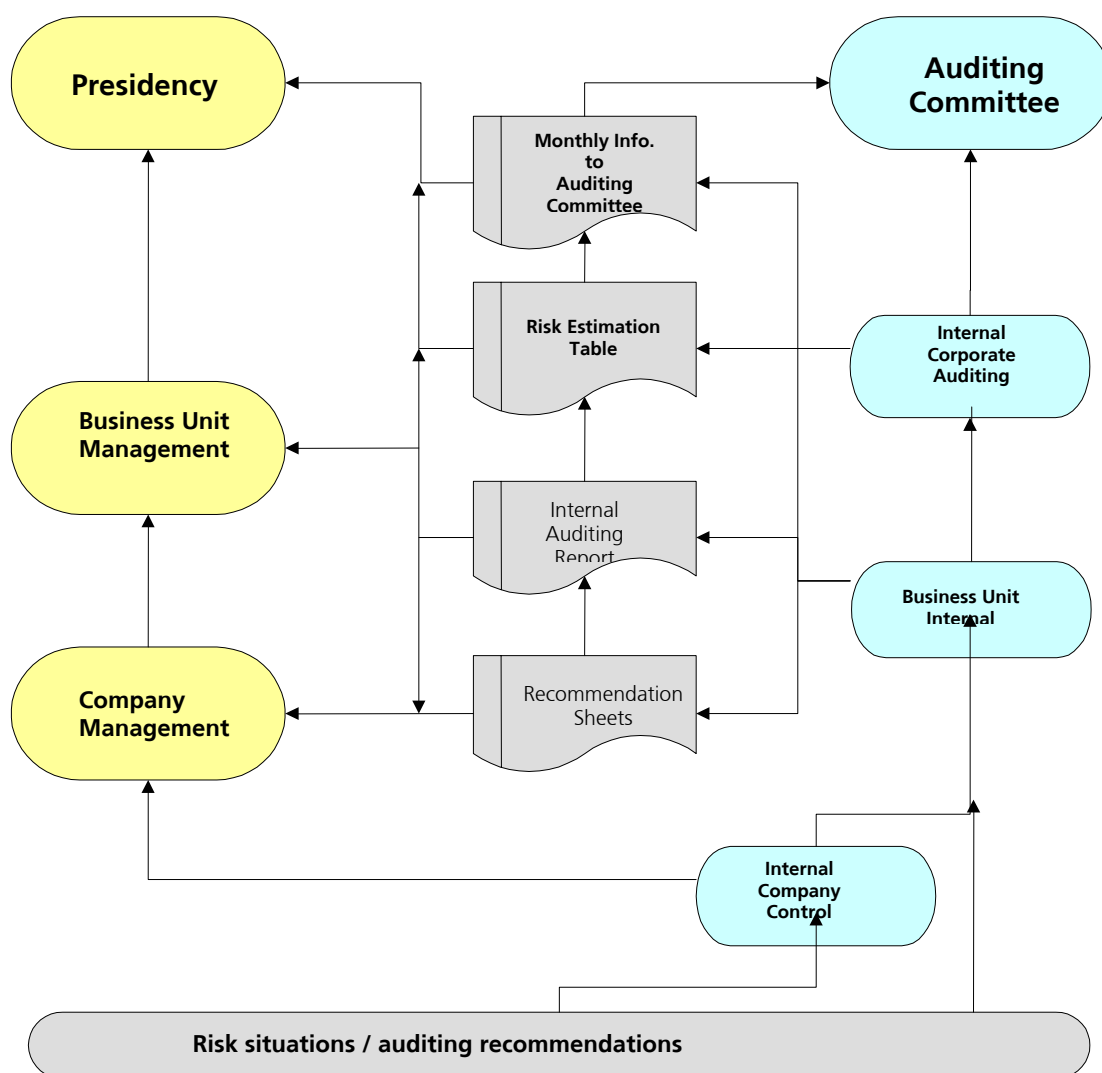
For the general focus of the work, its planning, execution, documentation, programs and communication of the results thereof, it is necessary to coordinate closely with the External Auditors, so that the work of both groups is not duplicated. Furthermore, Befesa's Internal Auditing and Control procedures should be validated and deemed adequate auditing proof to support the opinion of the External Auditor.

In order to attain this objective, all the work cycles and documentation must be standardized in order to assure the consistency of the work of Befesa's Internal Auditors.

According to the doctrine of The Institute of Internal Auditors and its Spanish branch, the Instituto de Auditores Internos, the ultimate purpose of this structure is to provide Befesa's Management and each of its Business Units with an additional "control" flow of information, running parallel to the normal hierarchical flow, but with permanent horizontal information channels set up between each one of the hierarchical levels of the Companies and the Business Units and their corresponding Internal Auditing services. A clear and transparent criteria should be followed in order to safeguard any confidential information involved.

This structure is shown in the following diagram:

Information Flow



This Annual Report was approved by the Auditing Committee of Befesa Medio Ambiente, S.A. at its Meeting on February 25, 2008.

j. The Appointments and Remunerations Commission Report 2006

Introduction:

The Appointments and Remunerations Commission was established by the Board of Directors of Befesa Medio Ambiente, S.A. on April 24, 2003. Its Internal Regulations were also approved at that same Board Meeting. On December 18, 2007, the Board of Directors agreed to modify the Internal Regulations governing the Appointments and Remunerations Commission in order to adapt them to the recommendations established in the Unified Code for Proper Management, approved by the Board of Directors of the NSEC on May 22, 2006.

Composition:

The current composition of the Commission is as follows:

- Mr. Jorge Guarner Muñoz (*)	Chairman. Independent non-executive Board Member
- Mr. Manuel Blanco Losada	Independent non-executive Board Member
-Mr. Rafael Escuredo Rodríguez	Independent non-executive Board Member
- Mr. Asier Zarranandia Ayo	Secretary and not a Board Member

(*) On December 18, 2007, the Board of Directors, under a proposal from the Appointments and Remunerations Commission, appointed Mr. Rafael Escuredo Rodríguez, as a Member of said Commission, instead of Mr. Javier Molina Montes. Furthermore, Mr. Juan Albizu Etxebarria was appointed as Secretary of this Commission.

Accordingly, the Appointments and Remunerations Commission is made up of three non-executive Board Members in fulfillment of the requirements established in the Financial Systems Reform Act. Furthermore, the post of Chairman is held pursuant to Article 2 of its Internal Regulations, by a non-executive Board Member.

Duties and Competencies:

The duties and competencies of the Appointments and Remunerations Commission are as follows:

- a) To inform the Board of Directors of all the proposals to be made to the General Stockholders' Meeting regarding appointments, re-elections and resignations from the Board and the responsibilities of these positions, including the case of any individual co-opted to the Board of Directors, as well as the Secretary of the Commission. In the case of non-executive Board Members, the Commission or Committee will propose their appointments, re-elections and resignations, including of those individuals co-opted to the Board of Directors.
- b) To evaluate the skills, knowledge and experience required by the Board; to define the abilities and functions required by candidates to cover vacancies; and to assess the time and dedication required by Board Members in order to carry out their functions well.
- c) To examine and organize the succession of the Chairman and CEO.
- d) To inform the Board of any appointments or resignations of Senior Managers proposed by the CEO.
- e) To inform the Board about gender diversity issues.

- f) To propose the following to the Board of Directors:
- i. The remuneration policy for the Board Members and Senior Management;
 - ii. The individual remuneration of the Board Members and the approval of the contracts that the Company signs with each Executive Director;
 - iii. The basic conditions of the contracts for the Senior Management.
- g) To ensure that the remuneration policy established by the Company is followed.
- h) To make an annual verification of the character of the Board Members.
- i) To draft an annual report on the activities of the Appointments and Remunerations Commission and an annual report on the remuneration policy of the Board Members.

Meetings and Notifications:

The Appointments and Remunerations Commission shall meet whenever necessary to fulfill the afore-mentioned obligations and at least once every six months. It shall also meet whenever a meeting is called by the Chairman. The meeting shall be valid when all its members are present and they agree to hold the meeting.

During the 2007 financial year, the Commission met on three occasions.

The Quorum:

The Commission shall be considered to be validly constituted when the majority of its members are present. Attendance may only be delegated to a Non-executive Board Member.

The resolutions shall be validly adopted when the majority of the Commission Members, either present or represented, vote in favor of the motion. In the event of a tie, the Chairman shall cast the deciding vote.

The Company's Remunerations Officer will attend the Commission Meetings to act as Secretary.

Information presented to the Commission:

- Monitoring and evolution of the payments made to the Board of Directors and the Company's Senior Management.
- Approval and analysis of Befesa's tax deduction plans.
- Proposal for remuneration for the Members of the Board of Directors and the Company's Senior Management.
- Preparation of the corresponding information to be included in the Annual Accounts.
- Proposal of appointments of new Board Members.

- Submission to the Stockholders' General Meeting on April 25, 2006 of the proposal for the appointment of Ms. María José Rivero Menéndez, for five years.
- The afore-mentioned Board Member will be included as an Independent Non-Executive Director, according to her career and professional experience and in regard to the criteria established in the Regulations of the Board of Directors and Befesa's By-laws.
- Submission to the Stockholders' General Meeting held on April 25, 2006 of the proposal for the re-election as Members of the Board of Directors of Mr. Manuel Blanco Losada and Mr. Álvaro Castro Cabeza de Vaca, for four years.
- Reports on market surveys carried out by independent experts and comparisons of remunerations.

This Annual Report was approved by the Appointments and Remunerations Commission of Befesa Medio Ambiente, S.A. at its Meeting held on February 25, 2008

Binding definition of independent director:

Indicate if any of the independent directors has or has had any relation 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:

Yes No

Name of the director	Type of relationship	Explanation
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This annual corporate governance report has been approved by the company's Board of Directors in its meeting of 25 February 2008.

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

Yes No

Name or corporate position of the director(s) that did not vote in favour to approve this report.	Reasons (opposition, abstention, not attending)	Explain the reasons
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