

BEFESA

Annual Corporate Governance Report, 2003

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I. Introduction

Law 26/2003 of 17 July known as the Transparency Act, modifies the Stock Market Act and the Companies Act, for the purpose of reinforcing the transparency of publicly listed companies, establishing specific cases that affect these companies in relation to the transmission of information to the market on corporate governance practices via the preparation of an Annual Corporate Governance Report, drawn up by the Board of Directors of the listed company and made available to all shareholders and investors by means of its publication on the website of the company.

Therefore, the Act introduces the requirement to publicise this Corporate Governance Report on an annual basis and, in relation to information instruments, establishes that publicly listed companies must comply with the information obligations established under the Companies Act by any technical, computer-based or telematic means and must make them available on their website to protect the shareholders' right to information and to disseminate the information appropriately.

In furthering the Transparency Act, the recent Eco Order 3722/2003 of 26 December completes the regulation relating to the content and structure of the Annual Corporate Governance Report and the other information instruments for publicly listed companies.

Befesa Medio Ambiente, S.A., (hereinafter, Befesa), has made a significant effort to adapt itself and incorporate the initiatives instigated by the new legislation.

Corporate Governance

It should be stated that in previous years, Befesa has complied with and lodged with the CNMV the Report Model on Governance of Stock Market Listed Companies, and even in 2002 it included a specific chapter relating to Corporate Governance in the 2002 Annual Report, completed with the new issues included in the Aldama Report and in the Financial System Reform Act, distinguishing those actions already taken from those that were being finalised for their upcoming implementation.

Therefore,

- a) On 18 December 2002 the Audit Committee was created.
- b) On 24 April 2003 the Appointments and Remunerations Committee was created.
- c) On the same date, 24 April 2003, the Board of Directors drafted a proposal to modify the Company Bylaws for the purpose of incorporating the provisions relating to the Audit Committee and the Appointments and Remunerations Committee, and a proposal relating to the Regulation of the administration of shareholders' meetings, that were approved by the General Meeting held on 24 June 2003. Also on 24 April 2003, the Board of Directors approved a partial amendment to the Board of

Directors Regulation and to the Internal Conduct Regulation as well as the internal regulations of the Audit Committee and the Appointments and Remunerations Committee.

Following another of the Aldama Report's recommendations, this regulation, called the Internal Corporate Governance Regulation was rewritten as a complete single text and was duly notified to the CNMV on 26 June 2003.

Website (www.befesa.es) (www.befesa.com).

As a result of new technology the Aldama Report, the Financial System Reform Act and the Transparency Act recommend and impose the use of listed companies' websites as an information tool (including historical, qualitative and quantitative company data in it) and as a distribution tool (including current or personalised information in real time that may be accessed by investors).

The recent Eco Order 3722/2003 specifies the minimum content that a listed company's website must have and therefore Befesa has included all the information required under this legislation in its website at www.befesa.es / www.befesa.com to date.

At the time of drafting the current report, Befesa is changing its website with a new layout and content, characterised firstly by a more direct, rapid and efficient on-screen presentation and secondly by a broad and comprehensive information content and documentation made available to the shareholders in particular and to the public in general.

II. Company shareholding structure.

II. a) Significant shareholdings

Befesa Medio Ambiente, S.A.'s share capital is represented by book-entry records 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 Euros nominal value of the same class and series, representing 81,611,571.79 Euros of share capital. All the shares are submitted for trading on the Madrid and Bilbao stock exchanges and have been on the Continuous Market (Sistema de Interconexión Bursátil Español) since 1 July 1998.

As the capital is represented by book-entry records, there is no shareholders' registry separate to the significant shareholdings communications and the (X-25) list provided by Iberclear on the occasion of Shareholders' General Meetings.

Pursuant to the information that the company possesses and the notification of significant shareholdings, the shareholding status is as follows:

| | |
|-----------------------------------------------------------|-------------|
| ○ Asa Environment & Energy Company, A.G. | 70.197% |
| ○ Abengoa, S.A. | 15.056 % |
| ○ Sociedad Inversora en Energía y Medio Ambiente, S.A. .. | 6.794 % |

Abengoa holds 100% of the share capital of Asa Environment & Energy Holding A G and of Sociedad Inversora en Energía y Medio Ambiente, S.A. It therefore has a direct shareholding in Befesa of 15.056 % and furthermore, an indirect shareholding of 76.991%, which combined represents a total shareholding of 92.047%.

The company knows of no agreements or arrangements between shareholders by virtue of which the parties may be obliged to adopt, by means of exercising the voting rights that it possesses, a common policy in which it refers to the management of the company or that seeks to influence it in a relevant way.

II. b) Shareholdings of members of the Board of Directors.

On 21 June 2001 the company's General Shareholder's Meeting agreed to implement an incentives program for directors and employees for the purpose of supporting beneficiaries in acquiring Befesa shares on their own behalf, a remuneration system that was appropriately communicated to the CNMV on 14 August 2001.

In accordance with this plan, the communications of significant shareholdings to the CNMV and with the register of significant shareholdings that the company maintains pursuant to the Internal Conduct Regulation in relation to the stock market, the percentages of directors' shareholdings in the company's capital as at 31 December 2003 are as follows:

| | Direct | Indirect | Total |
|----------------------------------------|--------|----------|--------|
| Javier Molina Montes | 0.353 | - | 0.353 |
| Manuel Barrenechea Guimón | 0.448 | - | 0.448 |
| Manuel Blanco Losada | 0.002 | - | 0.002 |
| Asa Environment & Energy Holding, A.G. | 70.197 | - | 70.197 |
| Total | 71,000 | - | 71,000 |

II. c) Shareholders agreements

The company has no knowledge of the existence of any shareholders' agreements or prevailing trade union agreements between its shareholders.

II. d) Treasury stock

At 31 December 2003, the company does not possess its own shares as treasury stock, nor has it acquired any of its own shares during 2003.

The Shareholders' Ordinary General Meeting held on 24 June 2003 agreed to authorise the Board of Directors to make derived acquisitions, through purchases of shares in the company that may be made either directly or via subsidiary companies or investees up to the maximum limit specified under current provisions at a price of between 1 Euro per share minimum and 100 Euros per share maximum, being able to make use of this authorisation during a period of eighteen (18) months from this date and subject to that 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 prior authorisation.

III. Administrative Structure of the Company

III a) The Board of Directors

a.1) Composition: Number and Names.

As established in Article 18 of the Company Bylaws, which fixes the number of Members of the Board of Directors of Befesa between a minimum of three (3) and a maximum of twelve (12), as at December 31 2003 and to date, the Board of Directors comprises seven (7) board members.

The Board of Directors proposes to the General Shareholders' Meeting the number of members it considers adequate at any given time taking into account the interests of the Company. It is the role of the Shareholders' Meeting to determine the number of Board Members.

The current composition of the Board is as follows:

Chairman Mr Javier Molina Montes.
Vice Chairman: Mr Manuel Barrenechea Guimón.
Director: Mr Manuel Blanco Losada.
Director: Raoul Bussman representing ASA Environment & Energy
 Holding AG
Director: Mr Álvaro Castro Cabeza de Vaca.
Director: Mr Ignacio de las Cuevas Miaja.
Director: Mr Salvador Martos Hinojosa.

Secretary, non-director and Legal Advisor: D. Alfonso Castresana y Alonso de Prado

a.2) Condition and representation.

The total number of board members is considered to be sufficient in order to ensure the proper representation and effective operation of the Board of Directors.

In accordance with the definitions included in the Olivencia and Aldama reports, as well as Law 26/2003 and the M.O. 3722/2003, the structure of the current Board of Directors is the following:

- Mr Javier Molina Montes: Executive (Chairman). Member of the Audit Committee and Member of the Appointments and Remuneration Committee.
- Mr Manuel Barrenechea Guimón: Executive (Vice Chairman).
- Mr Manuel Blanco Losada: Independent; External. Chairman of the Audit Committee and Member of the Appointments and Remuneration Committee.

- Asa Environment & Energy: Dominial; External.
- Mr Alvaro Castro Cabeza de Vaca: Dominial; External.
- Mr Ignacio de las Cuevas Miaja: Independent; External. Member of the Audit Committee and Chairman of the Appointments and Remuneration Committee.
- Mr Salvador Martos Hinojosa: Dominial; External.

The majority of the Board of Directors are therefore external directors.

The Chairman of the Board of Directors, Mr. Javier Molina Montes also acts as Chairman of the Board of ASA Environment & Energy Holding, AG (holder of 70.197% of Befesa's share capital).

In accordance with established Company policy, the Chairman of the Board of Directors or the Vice Chairman act as Chairman of the Board of Directors of the companies which head the various Business Divisions of the group or are members of these boards or of other companies within the group.

a.3) Rules governing organisation and operation

The Board of Directors is governed by the Board Regulations, the Company Bylaws and the Stock Exchange Code of Conduct. The Board Regulations were initially approved in the meeting of the Board of Directors held on 13 December 2001, with the clear aim of anticipating the current Good Governance regulations and ensuring effective internal regulation. They were last modified on 24 April 2003, in order to incorporate provisions relating to the Audit Committee established in the Financial System Reform Act as well as those relating to the Appointments and Remunerations Committee.

- Structure:

The Board of Directors currently has seven members. The Regulations of the Board of Directors govern the administrative body's composition, duties and internal organisation. Additionally, the Stock Market Internal Code of Conduct applies to members of the Board of Directors, Senior Management and all employees who due to their position or responsibilities may be effected by these Rules. The Rules governing General Shareholders' Meetings regulate the formal and internal aspects of their holding. Finally, the Board of Directors is assisted by the Audit Committee and the Appointments and Remuneration Committee, that are governed by their own internal regulations. All of these rules are incorporated into the revised text of the Corporate Governance Internal Regulations, which are available on the Company web site, www.befesa.es and www.befesa.com.

- 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 objective, and it is empowered to establish the company's financial targets, to agree any relevant measures proposed by the Senior Management in order to achieve these targets, and to ensure the future viability and competitiveness of the company, along with the presence of a suitable management and leadership team, supervising the development of the company's business.

- Appointments:

The General Meeting or, where applicable, the Board of Directors, within the powers and limits set out in law, is the competent body for appointing members of the Board of Directors. In addition to meeting the requirements set out in law, 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 duties.

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

- Removal:

Directors shall be removed from their position at the end of their tenure and under any other circumstance set out in law. They must furthermore relinquish their seat in cases involving their incompatibility, veto, serious sanction or any breach of their obligations as directors.

- Meetings

Pursuant to article 20 of the Company Bylaws the Board of Directors will meet when it is required in the interest of the company and as necessary during the first three months of each year in order to approve the previous year's financial statements, the management report and the proposed application of the result.

Article 8 of the Board of Directors Regulation establishes the requirement to meet at least five times a year.

During 2003 the Board met on a total of six occasions.

- Resolutions:

Resolutions are adopted by a simple majority of the directors in attendance (present or represented) at each session, except for legally established exceptions.

- Duties of Directors:

It is the duty of Directors to participate in the direction and monitoring of the company's management in order to maximise the value of the company to the benefit of its shareholders. Each Director shall act with the proper care of a dedicated professional and loyal representative, guided by the interests of the company, with complete independence, defending and protecting the interests of all shareholders to the best of their abilities.

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

- To gather information and prepare properly for each meeting session.
- To attend and participate actively in meetings and the decision-making process.
- To avoid the occurrence of any conflict of interest and notify the Board of any potential conflict of interest, where applicable, through the Secretary.
- Not to undertake duties with competitor companies.
- Not to use company information for private purposes.
- Not to use the company's business opportunities for their own interests.
- To maintain the confidentiality of any information received as a result of their appointment.
- To abstain in any votes on resolutions that may affect them.

- The Chairman:

In addition to the duties set out in law and in the Company Bylaws, the Chairman is the company's most senior executive, and as such is responsible for the effective management of the company, though always in accordance with the decisions and criteria established by the Shareholders' General Meeting and the Board of Directors. He/she is responsible for implementing the decisions taken by the company's administrative body, which he/she permanently represents with the broadest powers.

- The Secretary:

It is the duty of the Secretary to the Board of Directors to exercise the powers attributed to him/her in law. Since the same person currently holds the role of both Secretary and Legal Adviser, he/she is responsible for ensuring that meetings are called and resolutions 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 is responsible for observing the Internal Corporate Governance Regulations, as both formal and material guarantor of the principle of legality that governs the actions of the Board of Directors.

The Secretary to the Board, as a specialised guarantor of the formal and material legality of the Board's actions, has the full support of the Board in performing his/her duties entirely independently of any criteria or the constancy of his/her position.

a.4) Remuneration and other rights

The position of Director is paid, pursuant to the contents of Article 17 of the Company Bylaws. The amount paid to directors may consist of a fixed amount for attending the meetings agreed by the General Meeting on 17 June 1998, although not of equal amount for all directors, pursuant to the Bylaw provisions.

The payments made during 2003 to all the members of the Board of Directors of Befesa Medio Ambiente totalled 114,4 Thousands of Euros in the form of allocations and expenses.

In addition, the payment made during 2003 to the Company's senior management, this being understood to include the group of seven people who form part of the Chairman's Office and the Directors of the Corporate Departments amounts in total to 1,131,8 Thousands of Euros including both fixed and variable amounts.

III. b) Committees formed by the Board of Directors.

b.1) The Audit Committee.

Pursuant to the provisions of the Financial System Reform Act, on 18 December 2002 Befesa's Board of Directors established an Audit Committee and approved its Internal Regulations at its meeting on 24 April 2003, ratified by the General Shareholders' Meeting on 24 June 2003 that, at the same time, approved the amendment of the company bylaws, including a new section, identified as "Third", under heading III, relating to the regulation of the Audit Committee and the Appointments and Remunerations Committee, modifying the articles that comprise it and renumbering articles 22 to 28 inclusive, that were transposed with the same content to have the corresponding consecutive numbering.

Composition

The current composition of the Audit Committee is as follows:

- Mr Manuel Blanco Losada. Chairman. Independent, non-executive director.
- Mr Ignacio de las Cuevas Miaja. Member. Independent, non-executive director.
- Mr Javier Molina Montes. Member. Executive Dominial.

- Secretary and non-director: Mr Alfonso Castresana Alonso de Prado.

As a consequence, the Audit Committee is entirely composed of non-executive independent directors. Furthermore, the position of Chairman of the Committee must be held by a non-executive director, as set out in Article 2 of its Internal Regulations.

Duties

The duties and powers of the Audit Committee are as follows:

1. To announce the Annual Financial Statements as well as the quarterly and half-yearly financial statements, which must be submitted to the bodies that regulate or supervise the markets, with reference to any internal control systems, the monitoring procedures followed and compliance through internal auditing processes, including where applicable, the accounting criteria applied.
2. To inform the Board of any change to the accounting criteria and any risks, whether on or off the balance sheet.
3. To inform the Shareholders' General Meeting regarding any questions raised by shareholders on issues falling within its competence.
4. To propose the appointment of external Accounts Auditors to the Board of Directors, so that the latter may submit this proposal to the Shareholders' General Meeting.
5. To supervise internal auditing services. The Committee shall have full access to the internal auditing process, and shall provide information during the process for the selection, appointment, renewal and removal of its director, and when his or her payment is being established, with the duty to provide information about this department's budget.
6. To have knowledge of the company's financial information procedure and its internal control systems.
7. To maintain relations with the company's external auditors in order to remain informed regarding any matters that may place the independence of said auditors at risk, and regarding any other matters relating to the procedure followed in order to audit the company's accounts.

8. To summon the Directors it considers appropriate to Committee meetings so that they may provide any information that the Audit Committee itself deems relevant.
9. To prepare an annual report on the activities of the Audit Committee, which must be included in the management report.

Organisation 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.2) Appointments and Remuneration Committee.

The Appointments and Remuneration Committee was established by Befesa's Board of Directors on 24 April 2003, and its Internal Regulations were approved at the same time.

Composition

The Appointments and Remuneration Committee currently comprises the following members:

- Mr Ignacio de las Cuevas Miaja. Chairman and independent non-executive director.
- Mr Manuel Blanco Losada. Member and independent non-executive director.
- Mr Javier Molina Montes. Member. Executive Dominial.
- Secretary and non-director: Mr Asier Zarranandia Ayo.

As a consequence, the Appointments and Remuneration Committee is entirely composed of non-executive directors. Furthermore, the position of Chairman of the Committee must be held by a non-executive director, as set out in Article 2 of its Internal Regulations.

Duties

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

1. To inform the Board of Directors regarding the appointment, re-election, dismissal and payment of members of the Board of Directors, and the positions held on these Boards, and to provide information on the general payment and incentive policy for members of these boards and for senior management.
2. To provide prior information regarding all the proposals prepared by the Board of Directors for the Shareholders' General Meeting in relation to the appointment or removal of Directors, including cases of co-option by the Board of Directors itself.
3. To prepare an annual report on the activities of the Appointments and Remuneration Committee, which must be included in the management report.

Organisation 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.

b.3) The Stock Exchange Internal Code of Conduct

This was implemented in December 1999. It applies to all directors and to other employees on the basis of the activities they carry out and the information to which they have access.

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

The monitoring and supervising body is the Legal Director's office.

IV.- Intergroup and related transactions during 2003.

a) Transactions with Significant Shareholders

During 2003, the agreement reached in March 2001 between Abengoa S.A. and Befesa Services Corporation S.A.U. (a wholly owned subsidiary of Befesa Medio Ambiente S.A.) remained in effect. This agreement concerned the provision of advisory services, collaboration and technical support, in exchange for which Abengoa receives between 0.5% and 1% of Befesa's annual sales. This agreement was duly communicated to the CNMV on 22 March 2001, under file registration number 20,373.

b) Transactions with Administrators and Directors

During 2003 there were no civil or mercantile transactions between the company and its administrators or senior management.

c) Significant Intragroup Transactions

Befesa operates as the parent to a group of environmental service companies forming part of Abengoa, which in turn incorporates other business groups that carry out activities related to Bioenergy, Information and Engineering Technologies and Industrial Construction. As such, Abengoa brings together a series of complementary businesses for an integral product that one or several Business Groups may jointly offer to their clients. Therefore the distinct companies and Business Groups share clients and act in unison, as appropriate, with one or other acting as parent. This produces cross sales between companies (intergroup transactions).

Likewise, Abengoa, through a centralised treasury system, coordinates and manages the financial resources in the financed companies with resources generated by the cash flow cycle through the use of factoring and bank centralised payment of suppliers, allowing resources to be optimised.

As a consequence of business transactions, in purely market terms and according to the conditions described above, (derived from ordinary business activities or from financial operations) the resulting balances appear on the balance sheets of the individual companies, although they disappear during the consolidation process of the financial statements.

V.- Risk Control Systems.

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

1. Shared Management Systems

Definition

The shared management systems fulfil the internal rules of the Company and its methodology for evaluating and controlling risks and represent a common culture for the management of the businesses, sharing the accumulated knowledge and setting criteria and operational standards.

Objectives

- To identify possible risks that, although associated with all business, must be minimised and to be aware of them.
- To optimise daily management, applying procedures designed for financial efficiency, reduction of expenses, homogenisation and compatibility of information and management systems.
- To encourage synergies and the creation of value of the distinct business groups operating in a collaborative environment.
- To reinforce the corporate identity, with all Befesa companies respecting their shared values.
- To achieve growth via strategic development that seeks innovation and new options in the medium and long term.

The systems cover the whole organisation at three levels:

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

2. Internal audit

Definition

The function of Internal Audit is structured around the Joint Audit Services that encompass the audit teams of the business groups and corporate services that act in a co-ordinated way and 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 the businesses in general.
- To control the application of and to promote the development of adequate and efficient management rules and procedures in accordance with the communal corporate management systems.
- To create value for Befesa, promoting the construction of synergies and the monitoring of optimal management practices.
- To co-ordinate 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 carry out the corresponding Work Plans with the appropriate scope for each situation. This classification which is linked to the Audit Risk Evaluation, determines the Work Plans to be used and implies an appropriate type of recommendation and report and should therefore be used explicitly in these documents.
- To steer and co-ordinate the planning process for audit and internal control work 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 task's results, the people that are impacted 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

Pursuant to Article 47 of Law 44/2002 of 22 December of the Financial System Reform measures, Befesa's Board of Directors appointed an Audit Committee on 18 December 2002, that includes in its functions 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 systematically reports to this committee in relation to his own responsibilities of:

- the Annual Internal Audit Plan and its degree of compliance;
 - 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.
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VI.- Professional Code of Conduct

The Professional Code of Conduct was established during 2003 and incorporates the fundamental values that must govern the actions of all Befesa employees, regardless of their position or area of responsibility.

The integrity of their professional conduct, the strict observance of the law, professional care, confidentiality and quality make up the culture of Befesa and define its corporate identity today.

These principles, indicated below, constitute Befesa's Code of Ethics. The organisation, in all its formats, must encourage their promotion and application, as well as establish the control and supervision mechanisms that guarantee their correct application and renewal.

1. Integrity

Honesty in the execution of professional duties is a fundamental part of Befesa's identity and must be evident in all its employees' actions. From integrity comes credibility from clients, suppliers, shareholders and other associated parties and creates value in itself for the employee and for the organisation as a whole.

2. Legality

Operating within the law is an obligation of the organisation and its employees. The law ensures the safety and security of company actions and reduces business risks. Any conduct, which involves breaking the law is expressly and strictly forbidden. In the event of any doubt regarding the legality of an action a corresponding enquiry must be made to the Legal Department.

3. Professional Care

The concept of professionalism at Befesa is intimately linked to professional service in executing company activities and involvement in the business task being carried out.

All actions carried out in the course of business activities must be governed by a spirit of professional responsibility and by the principles contained in the Code of Ethics.

4. Confidentiality

The protection of Company information requires all employees to maintain strict control over company information, safeguarding documents in an

appropriate manner and never supplying this information to any persons, internal or external, who are not authorised to have access to this information.

In addition, clear guide policies are established in this regard concerning specific information which requires a high degree of confidentiality.

5. Quality

Befesa is committed to quality in all its activities, both internally and externally. This is not the responsibility of a specific group of persons or senior management but affects all members of the organisation in their daily activity.

Befesa has specific quality standards which are the result of working with expertise, common sense, professional care, order and responsibility.

6. Corporate Culture and Common Management Systems

Befesa values its corporate culture and Common Management Systems as a key element of the company. They define the way in which Befesa does business establishing a series of Obligatory Regulations. The following of these regulations is a source of profitability and security in carrying out Befesa's activities.

VII. General Shareholders' Meetings

VII. a) Rules of Operation

Following the recommendation of the Special Commission for the Promotion of Transparency and Security in Financial Markets and Listed Companies, in March 2003 the Board of Directors drafted a structured and systematic regulation for the holding of shareholders' meetings, that was subject to approval at the General Shareholders' Meeting held on 24 June 2003, which unanimously approved the aforementioned regulation and which was notified to the CNMV on 26 June 2003. In addition to the provisions included in the Spanish Companies Act this regulation incorporates a basic set of rules for the good order and functioning of shareholders' meetings guaranteeing the right to information, to attendance, to vote and the right to representation for shareholders at all times.

In accordance with that established under article 10 and subsequent articles of the company's bylaws, there is no limitation on the shareholders' right to vote based on the number of shares held. All shareholders that have their shareholding recorded in the Shareholding Register at least five days prior to the date on which the Meeting is to be held, may personally attend the Shareholders' General Meetings without prejudice to the right to representation.

VII. b) Information on the last Shareholders' General Meeting

The Befesa Ordinary General Shareholders' Meeting of 24 June 2003 was held with the assembly, presence or representation of 16 shareholders (5 present and 11 represented). The number of shares, present or represented, was 26,473,424, 97.64% of the total share capital (27,113,479 shares).

The resolutions adopted, all by favourable vote of the whole of the share capital present or represented, were the following:

1. Approval of the Financial Statements of Befesa Medio Ambiente S.A. for 2002 comprising the Balance Sheet, Profit and Loss Account and Notes, the Management Report and the proposal for use of the year's result.
2. Approval of the Group's Consolidated Financial Statements comprising the Balance Sheet, Consolidated Profit and Loss Account and Notes and the Consolidated Management Report for 2002.
3. Amendment of the Company Bylaws, including a new section within Chapter III related to the regulation of the Audit Committee and the Appointments and Remuneration Committee and the consequent renumbering of the articles. The ratification of the Board of Directors'

agreements relating to the establishment and regulation of the Audit Committee.

4. Appointment of Deloitte & Touche España S.L. as the Accounts Auditor for 2003, both for the approval of the Financial Statements and the Management Report of Befesa Medio Ambiente S.A. as well as the Consolidated Financial Statements and the Consolidated Management Report.
5. Approval of the Regulations of the General Shareholders' Meeting.
6. Authorisation of the Board of Directors to carry out a capital increase, on one or several occasions, up to the equivalent to 50% of the share capital at the time of authorisation, within the applicable legal limits.
7. Authorisation of the Board of Directors to issue bonds or other similar fixed income or equity securities within the applicable legal limits.
8. Authorisation of the Board of Directors for the derived acquisition of the Company's shares, either directly or through subsidiary or partly owned companies up to the maximum established under prevailing provisions.
9. Delegation to the Board of Directors and its Chairman, Vice Chairman and non-Director Secretary to formalise and carry out the adopted resolutions.

VII. c) Web (www.befesa.es)(www.befesa.com)

The Company has its website at www.befesa.es and www.befesa.com.

This site has been completed with new content especially incorporating the recommendations of the Aldama Report, the 26/2003 Act and M.O. 3722/2003.

For the future notice of meetings, the Company will keep the information available on them updated for the purpose of supporting Shareholders' right to information, and therefore the right to vote, for equality purposes.

Finally, with the regulatory and technical progress that has been established, the right to vote or to electronic delegation will be guaranteed under the protection of specific legal certainty.

VIII. Level of monitoring of the recommendations relating to corporate governance

The company completes the “report model on the governance of publicly listed companies” that was remitted to the Commission on 4 July 2003.

In the measure by which the information contained in this form is less detailed and comprehensive than the current Corporate Governance Annual Report, we defer to it for the issues set out therein.

Likewise, pursuant to the Ministerial Order of 22 December 1999, fulfilled by Circular 1/2000 of the CNMV relating to the commercial activity and future developments of listed companies assigned to the New Market segment, the company annually remits the relevant information required at the time of the notice of the Shareholders' Ordinary General Meeting (6 June 2003).

IX. Information tools

IX. a) Web (www.befesa.es) (www.befesa.com).

In relation to information tools, the Transparency Act established that listed companies must comply with the information obligations set out in the Companies Act by any technical, computer-based or telematic means. The recent Eco Order 3722/2003 of 26 December establishes the minimum content for the website of listed companies.

In compliance with this Befesa has completed its website with new content and in particular, pursuant to the aforementioned Eco Order 3722/2003.

At the date of preparing this report, Befesa is implementing a new company website, characterised on the one hand by a more direct, rapid and efficient on-screen presentation, and on the other hand, with an information content and documentation made available to the general public, focussed on three fundamental aspects:

- a) Commercial: the presentation of the company and its business groups, press news, newsletters etc.
- b) Legal: communications, relevant facts, corporate governance internal regulations, etc.
- c) Economic: periodic reporting, financial statements, share price, etc.

Since corporate governance, the rules that regulate it and the laws that govern it or recommends it adheres to are continually developing, it is necessary to assume and to bear in mind at all times that both the information available as well its actual distribution portal – the website – must be continually updated.

IX b) Shareholder Service

In order to establish a permanent contact with the company's shareholders, a mail facility for supporting shareholders is available on the website (www.befesa.es) in order to establish a transparent and smooth communication with them and to allow access to the same timely and format information provided to institutional investors and to guarantee their equal treatment. The distribution of true and reliable information relating to relevant facts, press releases and the periodic financial-economic information are supervised in particular.

IX. c) Investor Relations

With the same objective as the Shareholder Service but in relation to investors, the company has stock market analysts and an investor relations department whose duties include the design and implementation of the communication program with the national and international markets, in order to provide knowledge of the principal characteristics and strategic actions of the company.
