

**Befesa Medio Ambiente, S.A.****Report drafted by the Board of Directors  
of Befesa Medio Ambiente, S.A.  
according to Article 116 bis of the Consolidated Text  
of the Spanish Securities Market Act**

The Board of Directors of Befesa Medio Ambiente, S.A. has prepared this report, pursuant to Article 116 bis of Law 24/1988 of 28 July on the securities market, for its presentation to the General Shareholder's Meeting.

**a) Capital structure**

As at 31 December 2007, the capital stock of Befesa Medio Ambiente is represented by book entries managed by Iberclear (Sociedad de Gestión de los Sistemas de Registro, Comparación y Liquidación de Valores, S.A.), comprising 27,113,479 shares of €3.01 nominal unit value of the same class and series, representing €81,611,571.79 of capital stock. All these shares have been admitted for official trading on the Madrid and Bilbao stock exchanges and on the Spanish Stock Exchange Interconnection System (Continuous Market) since July 1998.

In December 2007, at the request of the Company, *Sociedad de Bolsas* issued a favourable report on the change of listing from the New Market segment to General Trading, effective from 2 January 2008, and since this date Befesa's shares have been listed on the General Trading segment.

In 2007 the following significant transactions took place:

<u>Shareholder</u>	<u>Trade date</u>	<u>Description</u>
Abengoa (Seller)  Proyectos de Inversiones Medioambientales (Buyer)	11/12/2007	Transfer of 276,560 shares (1.020 %) by Abengoa to Proyectos de Inversiones Medioambientales

The number of registered shareholders as at the date of the General Shareholder's Meeting on 19 April 2007 was 1,788.

All shares are ordinary of a single series and grant the same rights and obligations.

**b) Any restriction on the transferability of shares.**

There is no statutory precept that restricts or limits the free transferability of the Company's shares.

In accordance with Article 8 of the Company's bylaws, the shares are freely transferable in accordance with applicable legislation.

**c) Significant direct or indirect shareholdings in the capital.**

Since the capital is represented by book entry, there is no share register other than the communications of significant shareholdings and the X-25 list provided by Iberclear for the purpose of each General Shareholder's Meeting.

According to the information received (the list of shareholders as at 19 April 2007 issued by Iberclear and the notification of significant shareholdings), the situation is as follows:

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

**d) Any restriction on the right to vote.**

In accordance with Article 7 of the Company's bylaws, all shares confer the condition of shareholder on the legitimate holder, and according to Article 15, each share of the same nominal value grants the right to one vote. There are therefore no restrictions on the right to vote.

**e) Shareholder agreements.**

The Company is not aware of the existence of any shareholder agreements between its shareholders or any prevailing syndication agreements.

**f) Rules applicable to the appointment and substitution of members of the Board of Directors and modification of the Company's bylaws.**

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## Appointment, re-election and ratification.

The General Shareholder's Meeting, or the Board of Directors if appropriate, is the competent body to appoint, re-elect and ratify the members of the Board of Directors, within its legally established powers and limits. Appointments apply to those people that have the recognized abilities and possess the knowledge, reputation and professional references appropriate for carrying out such duties, in addition to meeting the legally established requirements.

Directors shall hold their positions for a maximum period of four years, notwithstanding their possible renewal or re-election.

## Dismissal or removal

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

Directors must surrender their position to the Board of Directors and formalise the corresponding resignation, if deemed appropriate, in the following cases:

- a) When they may be involved in any of the legally established cases of incompatibility or prohibition.
- b) When they are significantly sanctioned by a public authority for having infringed their obligations as a director.
- c) When it is proposed by the director him/herself for having infringed his/her obligations as a director.

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

## **g) Powers of members of the Board of Directors and especially those relating to the possibility to issue or repurchase shares.**

### Powers of members of the Board of Directors.

In addition to the legally and statutory established duties, the Chairman holds the position of Chief Executive of the Company, and its effective management is therefore his/her responsibility, always in accordance with the decisions and criteria established by the General Shareholder's Meeting and the Board of

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Directors. Likewise, he/she must implement the resolutions of the Board of Directors that he/she permanently represents with the most extensive powers.

The position of Chief Executive is held by the Chairman and is granted with extensive powers. The following measures have been adopted to prevent the accumulation of powers:

- Pursuant to Article 22 and subsequent articles of the Company's bylaws, the Board of Directors created the Audit Committee and the Appointments and Remuneration Committee in its meetings of 18 December 2002 and 24 April 2003 respectively.
- These committees may not delegate their inherent powers appointed to them by law and by the Company's bylaws and its respective internal regulations, and are constituted as bodies for control and supervision of the issues within their mandate.
- Both committees currently comprise three non-executive, independent directors and the Chairman of each committee is therefore an independent director.
- Furthermore, at the proposal of the Appointments and Remuneration Committee, the meeting of the Board of Directors of 18 December 2007 created the position of Coordinator Director, granting the powers to call meetings of the Board and to include new points on its agenda. The Coordinator Director shall be the Chairman of the Audit Committee.

### Powers relating to the possibility to issue shares

The General Shareholder's Meeting of 19 April 2007 agreed to delegate to the Board of Directors, pursuant to Article 153.1.b) of the Consolidated Text of the Spanish Public Limited Companies Act, the power to increase the capital, once or several times, up to an amount equivalent to fifty percent (50%) of the capital stock at the time of the authorisation, through monetary contributions, with or without a share premium, within the maximum period of five years commencing from the agreement of the General Meeting, on the occasions and for the amount determined by the Board.

Likewise, in accordance with Article 159, Section 2 of the Consolidated Text of the Spanish Public Limited Companies Act, the General Shareholder's Meeting delegated the power to the Board of Directors to decide, if appropriate, to include or exclude pre-emptive rights in relation to the increase that they may agree pursuant to the aforementioned agreement and subject to the corresponding legal provisions.

The General Shareholder's Meeting also authorised the Board of Directors to request and manage the admission to trading of the aforementioned shares on any of the stock exchanges of the aforementioned shares, to the Spanish

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Securities Market Commission, the governing entity of the Stock Exchange and with the mediation of any stock broking company or agency, in relation to the shares that are issued pursuant to the resolutions adopted, when the Board deems it appropriate, pursuant to those requirements under prevailing regulations.

### Powers relating to the possibility to repurchase shares

The General Shareholder's Meeting of 19 April 2007 agreed to authorise the Board of Directors to make derivative trading acquisitions of shares in the Company, either directly or through subsidiary or investee companies, up to the maximum limit established in the prevailing regulations, at a price between a minimum of €1 and a maximum of €100 per share, this authorisation being effective for a period of eighteen months (18) from this same date, and subject to Section 4, Chapter 4 of the Consolidated Text of the Spanish Public Limited Companies Act.

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

### Modification of the Company's bylaws

The procedure for modifying the Company's bylaws is established in Article 144 of the Spanish Public Limited Companies Act and requires the approval of the General Shareholder's Meeting.

In order for an Ordinary or Extraordinary Shareholder's Meeting to validly agree any modification to the bylaws, at least 50% of the issued capital with the right to vote must agree to the modification, which must be represented by shareholders that are either present or represented at the meeting, at first call, in accordance with Article 13 of the Company's bylaws. At the second call, at least 25% of the issued capital must be in favour.

**h) Significant agreements that the company may have signed and that may become effective may be modified or terminated in the event of a change of control of the Company as a result of a public tender offer.**

The company has signed no significant agreements that may become effective, which may be modified or terminated in the event of a change of control of the Company as a result of a public tender offer.

**i) Agreements between the Company and its directors, managers or employees to compensate them in the event of their resignation or wrongful dismissal, or upon conclusion of the labour relationship due to a public tender offer.**

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There is no recognised in the event of resignations or wrongful dismissals or upon conclusion of the labour relationship due to a public tender offer, in relation to executive directors and members of the management team of Befesa Medio Ambiente.compensation

Employees' employment contracts do not contain compensation clauses for termination of the labour relationship. Employees will have the right to the corresponding compensation applicable under employment legislation.

In witness thereof, the Board of Directors of Befesa Medio Ambiente, S.A., whose members sign this document, hereby issues this report according to Article 116 bis of Law 24/1988 of 28 July on the securities market, in Baracaldo on 25 February 2008.