

BEFESA

Annual Corporate Governance Report 2005

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a. Introduction

Corporate Governance

The coming into force of the Financial System Reform Act and the publication of the report on security and transparency in the markets elaborated by the Aldama Commission and the recent Transparency Act, have amended and improved, in so far as Corporate Governance practices are concerned, through a ensemble of rules and regulations, some of which are of a clearly innovative nature, the system related to Corporate Governance practices.

Thus, from a formal perspective, Corporate Governance in small and medium sized listed companies was understood, until the aforementioned reforms, to be the minimum requirements needed to allow a complete response to the questionnaire that the National Securities Market Commission demanded as a result of the Olivencia Report and the recommendations included in it. Today, following the reform, listed companies can not merely take a passive or explanatory stance. Some of the Aldama Report recommendations have already been incorporated into prevailing law 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.

Corporate Governance, as an ensemble of practices – required by law as well as being undertaken voluntarily – of each company in relation to the structure, organization, operation, competences and supervision of its governing bodies, is bound together in 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 shareholders and potential investors be guaranteed an equality of 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, shareholders
 - Corporate Governance Legislation
 - Annual Corporate Governance Report

- The subjective side: “how” to report it {
 - Periodic financial information
 - Relevant events
 - Significant shareholdings
 - Issued and submitted brochures
 - Website, etc.

Befesa Medio Ambiente, S.A. (hereinafter, Befesa) has made a significant effort within its company structure and its differentiating components, to adapt itself and incorporate the initiatives put in place by the new legislation. Below we will briefly review each of these aspects and the innovations implemented by the company:

a) Accounting / financial information.

This is perhaps the aspect that has suffered the least amendments. The periodic information obligations (quarterly, half-yearly and annual) remain based on an information model created by the CNMV which, from the second quarter 2002, can only be submitted telematically (in coded electronic format).

b) Relevant Events.

The Financial System 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 (signifying that conducts or actions that warrant this consideration are not specified, partly because it is an almost impossible exercise due to the varied practices of corporate decisions that may be relevant but where a certain degree of legal uncertainty remains). There are two criteria that are used complementarily to determine the content of this concept: i) the practice followed by the CNMV on previous occasions, and ii) the practice followed by companies themselves on similar occasions. Here the basis of good governance is deduced; consistency; not only is the existence of internal and casuistic regulations of value but the consistency between this and the real conduct of the company and its administrators and senior management.

c) Related Transactions.

- c.1) these are transactions carried out between the company and its shareholders, administrators or directors that entail the transfer of business resources, obligations or business opportunities.

The related transactions 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 information report.

- c.2) Related transactions may potentially be a source of so-called conflicts of interest. In these cases, good governance practice recommends a series of measures in resolving them whenever possible: i) the abstention from voting for the adoption of the corresponding resolution by the persons affected by the conflict of interest; ii) complete, clear and real-time distributed information, and iii) independent evaluation.

Befesa has adopted these transparency criteria and the criteria for the resolution of these potential conflicts and modified its Board of Directors' as was required.

d) Annual Corporate Governance Report.

The questionnaire on the level of take-up of the Olivencia Report's recommendations proposed by the CNMV to be carried out by all listed companies has been fulfilled through the obligation to create and disseminate an Annual Corporate Governance Report.

The Annual Report reflects the specific principles of the company's governance structure (who and how decisions are made and what decision making is based on) 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, collated in the balance sheet and the profit and loss account for this period.

Befesa implemented this recommendation in 2002, and a specific chapter relating to the Company's governance was therefore included in the 2002 Annual Report – and we have been doing so in subsequent years – completed with the new items included in the Aldama Report and in the Financial System Reform Act, distinguishing the actions already taken from those that were being finalized for their upcoming implementation. Therefore:

- a) On December 18, 2002, the Audit Committee was constituted.
- b) On April 24, 2003, the Appointments and Remuneration Committee was constituted.
- c) On the same day, April 24, 2003, the Board of Directors drafted a proposal modifying the Company Bylaws for the purpose of incorporating the provisions relating to the Audit Committee and the Appointments and Remuneration Committee, the proposal relating to the Regulation on the administration of shareholders' meetings approved by the General Meeting of June 24, 2003, and on the same date of April 24, 2003, the Board of Directors approved partial amendments to the Regulations of the Board of Directors and the Regulations of the Advisory Board and, finally, the rules governing the Internal Regulations of the Audit Committee and the Appointments and Remunerations Committee.
- d) On June 22, 2004, the Board of Directors revised the Internal Conduct Rules in order reinforce the regulation of certain matters such as that relating to conflicts of interest, specific aspects regarding privileged information and transactions with the Company's own shares.
- e) On April 26, 2005, upon the company considering that the good governance regulations must extend their application to the functioning of the company in all its ambiances, the Board of Directors resolved to establish for this purpose, a Code of Conduct of general application that shall govern all the actions and working relationships of its employees, managers and directors in their relationships with customers and possible customers, with companions, with Administration bodies, the media and any other individual and institution with which the company comes into contact.

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

These regulations, globally known as the Internal Corporate Governance Regulation, have been duly notified to the CNMV and are also available on Befesa's website.

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

The obligation to provide the market with useful, truthful, complete and balanced information in real time would not be sufficient if the appropriate means of transmitting this information are not adequate, guaranteeing that it is disseminated effectively and usefully. Therefore, 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 personalized information in real-time that may be accessed by investors).

Eco Order 3722/2003 set 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.

Befesa therefore developed, in the third quarter of 2004, a new website characterized firstly by a more direct, rapid and efficient on-screen presentation and secondly by a wide-ranging and comprehensive information content and documentation, made available to the shareholders in particular and to the general public, which is subjected to a continuous process of revision, enhancement and updating.

In conclusion, we should say that both the available information and its actual distribution portal – the website – are continuously updated; Corporate Governance, the rules that regulate it and the laws that govern or recommend it continue, and will continue to constantly develop. In the same way that all companies engaged in growing must adapt and anticipate the development of the markets, so must they also be forward-looking, in relation to self regulation (that is, adopt their own code of conduct so that their operation and decisions may be evaluated from the outside), development, transparency and information in order to reassure market confidence and with it, their growth.

b. The Company's Shareholding Structure.

i) Significant shareholdings

Befesa Medio Ambiente'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 euro face value of the same class and series, representing 81,611,571.79 euro of 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.

The latest modification to the share capital was made by resolution approved at the Ordinary General Shareholders' Meeting of June 21, 2001, consisting in a 12,287,418.99 euro increase of capital by the issue and putting into circulation of 4,082,199 new shares, each of a face value of 3.01 euro, with a 2.84 euro premium per share, with total exclusion of preference subscription right, and with Abengoa, S.A. subscribing their totality through the non-monetary contribution of the 171,205 shares the same held in its 100% owned subsidiary Abensur Servicios Urbanos, S.A., Sociedad Unipersonal (now called Befesa Construcción y Tecnología Ambiental, S.A.U, each of 60.10 euro, that it held and which comprised the total subscribed and paid in share capital of said company, modifying as a consequence, articles 5 and 6 of the Company Bylaws to suit them to the new number of shares, with the simultaneous admission for listing of the new shares.

<u>Date last modif.</u>	<u>Share capital (euro)</u>	<u>Number of share</u>
21.06.01	81.611.571,79	27.113.479

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

Pursuant to the information the Company possesses and the notification of Significant Shareholdings, the situation is as follows:

<u>Shareholder</u>	<u>Number direct shares</u>	<u>Number indirect shares</u>	<u>% / Share Capital</u>
<u>Proyectos Inversiones Medioambientales</u>	<u>22,938,425</u>	<u>--</u>	<u>82.238</u>
<u>Abengoa, S.A.</u>	<u>4.082.199</u>	<u>--</u>	<u>15,056</u>
<u>Total</u>	<u>26,379,650</u>	<u>--</u>	<u>97.294</u>

- Significant movements during the financial year.

<u>Tax or VAT No.</u>	<u>Shareholder</u>	<u>Transaction Date</u>	<u>Description</u>
	Nefinsa, S.A.	19.01.2006	Exercising of right to sell

As was reported as a relevant event to the CNMV on December 13, 2002, Abengoa, S.A. and Terraire, S.A. (currently merged by absorption by Nefinsa, S.A.) signed an agreement by which the latter transferred to Alianza Medioambiental – a 100% subsidiary of Abengoa – its shareholding (47.5% of the share capital) in Complejo Medioambiental de Andalucía, S.A. and simultaneously Terraire (Nefinsa) purchased shares representing 4.88% of the share capital held by Asa Environment & Energy Holding – also an Abengoa subsidiary – in Befesa Medio Ambiente. In said agreement, Abengoa agreed to Terraire (Nefinsa) having a right to sell on said 4.88% of the share capital of Befesa Medio Ambiente.

In virtue of the above, in December 2005, Nefinsa exercised its right to sell and on January 19, 2006, it transferred its full shareholding to Proyectos de Inversiones Medioambientales, S.L., a 100% subsidiary of Abengoa, under the agreed upon conditions.

Befesa is not aware of the existence of any agreements between shareholders undertaking neither to adopt, by means of joint voting, a common policy regarding the management of the company nor to significantly influence it.

ii) Shareholdings of members of the Board of Directors.

On June 21, 2001, the Company's General Shareholders' Meeting approved the implementation of an Incentives Program for Managers and Employees to enable the beneficiaries to acquire Befesa shares, a remuneration system that was opportunely notified to the CNMV on August 14, 2001.

In accordance with said Plan, with the communications of significant shareholdings to the CNMV and with the register of significant shareholdings the company maintains and pursuant to the Internal Conduct Regulation in relation to the Stock Market, the administrators' shareholdings in the company's capital as at December 31, 2005 are as follows:

<u>Tax or VAT no.</u>	<u>Director</u>	<u>Date first Appointment</u>	<u>Date Last Appointment</u>	<u>Number direct shares</u>	<u>Number indirect shares</u>	<u>%/ Share Capital</u>
29754087E	Javier Molina Montes	11/07/2000	22/06/2004	95,702	0	0.353
14208724Z	Manuel Barrenechea Guimón	11/07/2000	22/06/2004	118,576	0	0.437
35263830T	Manuel Blanco Losada	18/06/2002	--	720	0	0.003
Total				107,728	0	0.793

iii) Shareholders' Agreements

The company has no evidence of the existence of any shareholders' agreements or syndication agreement among its shareholders.

- Natural or legal person that may exercise control in accordance with article 4 of the Stock Exchange Act (LMV).

<u>VAT no.</u>	<u>Name</u>	<u>Observations</u>
B95335634	Proy. Inv. Medioambientales	Holder of more than 50 % of the capital

iv) Treasury Stock

At 31.12.2005, the company does not possess any of its own shares as treasury stock, nor has it acquired any of its own shares during the 2005 financial year.

The General Shareholders' Meeting, held on June 21, 2005, agreed to authorize 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 investors up to the maximum limit specified under current provisions at a price of between one euro per share minimum and one hundred per share maximum, being able to make use of this facility during a period of eighteen (18) months from that very 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 above authorization.

• Treasury Stock:

Number of direct shares	Number of indirect shares	% of Share Capital
0	0	0

• Details of significant variations:

Date	Number of direct shares	Number of indirect shares	% of Share Capital
--	0	0	0

Results obtained by treasury stock	Thousands of euro
0	0

III. The Company's Administrative Structure.

i) The Board of Directors.

i.1) Composition: number and identity.

As established in Article 18 of the Company Bylaws, which sets the number of Members of the Board of Directors of Befesa at a minimum of three (3) and a maximum of twelve (12), at December 31, 2004, 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 Aldama Report, takes the company's shareholding structure into account, so that it may firmly represent the highest possible percentage of the share capital and protect the general interests of both the Company and its shareholders, while also being granted the degree of independence that is appropriate to the professional practices and requirements of any company.

The Board's current composition is as follows:

Chairman:	Javier Molina Montes.
Vice-chairman:	Manuel Barrenechea Guimón.
Member:	Manuel Blanco Losada.
Member:	Álvaro Castro Cabeza de Vaca.
Member:	Ignacio de las Cuevas Miaja.
Member:	Jorge Guarner Muñoz.
Member:	Salvador Martos Hinojosa.

• Members of the Board of Directors:

<i>ID or VAT no.</i>	<i>Name</i>	<i>Representative</i>	<i>Position</i>	<u>Date 1st Appointment</u>	<u>Date last Appointment</u>	<u>Election procedure</u>
29754087E	Javier Molina Montes	--	Chairman. Member of Audit Committee and Member of Appointments and Remuneration Committee.	11/07/2000	22/06/2004	Share. Meeting
14208724Z	Manuel Barrenechea Guimón	--	Vice-chairman	11/07/2000	22/06/2004	Share. Meeting
35263830T	Manuel Blanco Losada	--	Member. Chairman of Appointments and Remuneration Committee and Member	18/06/2002	--	Cooptation

5382371A	Alvaro Castro Cabeza de Vaca	--	of Audit Committee. Member	18/06/2002	--	Share Meeting
780880F	Ignacio de las Cuevas Miaja	--	Member. Chairman of Audit Committee and Member of Appointments and Remuneration Committee.	11/07/2000	22/06/2004	Share Meeting
37670780T	Jorge Guarner Muñoz	--	Member	22/06/2004	--	Share Meeting
24686869A	Salvador Martos Hinojosa	--	Member	11/07/2000	22/06/2004	Share Meeting

Total number of Members 7

i.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.

Notwithstanding the fact that independence is a quality that must be common to all directors without exception, regardless of their origins or the reason for their appointment, and that they must be judged on the reliability, integrity and professionalism of their performance, pursuant to the guidelines included in the Olivencia and Aldama reports, Law 26/2003 and Ministerial Order 3722/2003, the current administrators are classified as follows:

Mr. Javier Molina Montes

- Executive (Chairman).
- Member of the Audit Committee.
- Member of the Appointments and Remuneration Committee.

Mr. Manuel Barrenechea Guimón

- Executive (Vice-chairman).

Mr. Manuel Blanco Losada

- Independent; External.
- Chairman of the Appointments and Remuneration Committee.
- Member of the Audit Committee.

Mr. Alvaro Castro Cabeza de Vaca

- Dominial; External.

Mr. Ignacio de las Cuevas Miaja.

- Independent; External.
- Chairman of the Audit Committee.
- Member of the Appointments and Remuneration Committee.

Mr. Jorge Guarner Muñoz.

- Independent; External.

Mr. Salvador Martos Hinojosa.

- Dominial; External.

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

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 shareholder of reference of Befesa (82.238% shareholding), and Mr. Manuel Barrenechea Guimón is also a Member thereof, and was appointed to the same as a member upon the proposal of said shareholder.

In accordance with the policy set by the Company, the Chairman or Vice-chairman of the Board of Directors occupy the Chairmanship of the Boards of Directors of the leading companies of the Company's Business Units, or are members of said Boards, or of other group companies.

- Members of the Board of Directors and their different condition:

Executive Directors:

<u>ID or VAT no.</u>	<u>Name</u>	<u>Committee that proposed him</u>	<u>Position</u>
29754087E	Javier Molina Montes	Board of Directors (*)	Chairman
14208724Z	Manuel Barrenechea Guimón	Board of Directors (*)	Vice-chairman

(*) Prior to the existence of the Appointments and Remuneration Committee.

Dominial external directors:

<u>ID or VAT no.</u>	<u>Name</u>	<u>Committee that proposed him</u>	<u>Represented shareholder</u>	<u>Shareholder's VAT no.</u>
5382371A	Alvaro Castro	Board of Directors	Proyectos de	B95335634

	Cabeza de Vaca	(*)	Inversiones Medioambientales, Abengoa	A41002288
24686869A	Salvador Martos Hinojosa	Board of Directors (*)		

(*) Prior to the existence of the Appointments and Remuneration Committee.

Independent external directors:

<i>ID or VAT no.</i>	<i>Name</i>	<i>Committee that proposed him</i>	<i>Profile</i>
35263830T	Manuel Blanco Losada	Board of Directors (*)	Independent
780880F	Ignacio de las Cuevas Miaja	Board of Directors (*)	Independent
37670780T	Jorge Guarner Muñoz	Appointments Committee	Independent

(*) Prior to the existence of the Appointments and Remuneration Committee.

Delegated powers:

<u>Director's Tax No.</u>	<u>Name</u>	<u>Description</u>
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Directors that are Directors of other listed companies:

<u>Tax No.</u>	<u>Name</u>	<u>Listed Company</u>	<u>Position</u>
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i.3) Rules governing organization and operation.

The Board of Directors is governed by the Board Regulations, the Company Bylaws and the Stock Exchange Code of Conduct, and by the Policy on the Use of Relevant Information.

The Board Regulations were initially approved at the meeting of the Board of Directors held on December 13, 2001, with the clear aim of anticipating the current Good Governance regulations and ensuring effective internal regulation. They were last modified on April 24, 2003, in order to incorporate provisions relating to the Audit Committee established in the Financial System Reform Act and those relating to the Appointments and Remuneration Committee.

- Structure:

The Board of Directors currently has seven members. The Rules governing the Board of Directors rule the composition, duties and internal organization of the administration body.

Additionally, there exists the Internal Conduct Regulation in relation to the Stock Market and the Policy on the Use of Relevant Information, with which the members of the Board of Directors, senior management and all

employees affected due to their duties or title, and all members of their immediate families and members of their households (globally “insiders”) have to comply. This Policy is also applicable to any individual that receives unpublished relevant information from any insider, such as consultants and contractors of the Company.

The Operating Rules for the General Shareholders’ Meetings govern the formal aspects and those of an interior regime related to the holding of Shareholders’ Meetings. Finally, the Board of Directors is assisted by the Audit Committee and by the Appointments and Remuneration Committee, which are governed by their respective Internal Regulations. All these regulations, integrated in the rewritten Internal Corporate Governance Regulations, are available on the Company’s website, 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, agree any relevant measures proposed by 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, 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 possible 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; frequency:

As per article 20 of the Company Bylaws, the Board of Directors shall meet whenever it is required in the interest 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 result.

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 2005 the Board met on a total of six occasions.

- Duties of Directors:

It is the duty of Directors to participate in the direction and monitoring of the company's management in order to maximize 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 obligation:

- 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 voting 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 General Shareholders' Meeting and the Board of Directors. He/she is responsible for implementing the decisions taken by the company's administrative body which he/she represents permanently with the broadest powers.

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

- ***Measures to limit risks***

In accordance with that established in article 22 and following articles of the Company Bylaws, on December 18, 2002 and April 24, 2003, the Board of Directors proceeded to constitute the Audit Committee and the Appointments and Remuneration Committee, respectively.

The powers of these Committees inherent to the commitments they have assigned by Law and the Company Bylaws and their respective internal regime Regulations cannot be delegated, and the committees are constituted as control and monitoring bodies for matters of their competence.

Both shall be chaired by an independent, non-executive, director, and shall be composed of a majority of independent, non-executive, directors.

- The Secretary to the Board of Directors.

It is the Secretary's duty to exercise the powers attributed to him/her in law. At present, the titles of Secretary to the Board and Legal Advisor fall on the same person, who is responsible for ensuring that 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 on compliance with the Internal Corporate Governance Regulations, as both 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, has the full support of the Board in performing his/her duties entirely independently of any criteria and stability.

- Resolutions:

Resolutions are 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 set out in law.

i.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 consists of a fixed amount for attending Board Meetings, approved by the General Shareholders' 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 on thereon, approved by the General Shareholders' Meeting and in the terms allowed by Law. The remuneration of the Directors does not have to be the same for all of them.

The payments made during the 2005 financial year to all the members of the Board of Directors in their capacity as members amounted to 123.8 thousand euro in salaries and allowances.

In addition, the payment made during the 2005 financial year to the company's senior management, this being understood to include the group of 12 people who form part of the Chairman's Office, and the Directors of the Corporate Departments amount in total, including both fixed and variable amounts, to 2,108 thousand euro.

Aggregate Remuneration of the Directors earned during this financial year, in the individual company which is the object of this report (Befesa Medio Ambiente, S.A.); Figures in thousands of euro:

Remunerated concept	Data in thousands of euro
Set remuneration	457
Variable remuneration	294
Expense allowances	124
Statutory issues	--
Options on shares and/or other financial instruments	--
Others	--
Total:	875

Other Benefits	Data in thousands of euro
Advance payments	--
Loans provided	--
Pension Funds and Plans: Contributions	--
Pension Funds and Plans: Acquired obligations	--
Life insurance premiums	--
Constitutive guarantees by the company in favor of the directors	--

Aggregate Remuneration of the Directors earned during this financial year, upon them being members of other Boards of Directors and/or of senior management, of group Companies; Figures in thousands of euro:

Remunerated concept	Data in thousands of euro
Set remuneration	--
Variable remuneration	--
Expense allowances	--
Statutory issues	--
Options on shares and/or other financial instruments	--
Others	--
Total:	--

Other Benefits	Data in thousands of euro
Advance payments	--
Loans provided	--
Pension Funds and Plans: Contributions	--
Pension Funds and Plans: Acquired obligations	--
Life insurance premiums	--

Constitutive guarantees by the company in favor of the directors	--
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Total aggregate (all the directors) Remuneration (all concepts) by director typology; Figures in thousands of euro:

Director typology	Befesa Medio Ambiente (data in thousands of euro)	Group (data in thousands of euro)
Executive	773	--
Dominial External	20	--
Independent External	82	--
Other External	--	--
Total:	875	--

The percentage the total Remuneration (for all the concepts) and aggregate (all the directors) represents in relation to the Profit attributed to the Parent Company; Figures in thousands of euro:

Total Remuneration Directors (in thousands of euro)	875
Total Remuneration Directors / profit attributed to the Parent Company (expressed as a %)	5.4%

Members of senior management, that are not executive directors, and the total remuneration earned by them during the financial year; Figures in thousands of euro:

NIF o CIF	Name or company	Position
16032035T	Federico Barredo Ardanza	Manager, Aluminum Waste Recycling
29753688Z	Santiago Ortiz Domínguez	Manager, Industrial Waste Management
28556270E	Alfredo Velasco Erquicia	Manager, Industrial Cleaning and Hydrocarbons
24290917L	Guillermo Bravo Mancheño	Manager, Environmental Engineering
23592397E	José Marañón Martín	Manager, Environmental Engineering
28673448S	Juan Abaurre Llorente	Manager, Latin America
28498718Q	Ignacio García Hernández	Manager, Information and Management Systems
30675510L	Juan Albizu Etxebarria	Manager, Consolidation and Auditing
4109244H	Elías de los Ríos Mora	Manager, Human Resources
23769356Y	Antonio Marín Hita	Manager, Legal Counsel

Senior Management's total remuneration (in thousands)	1,233
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ii) The Committees of the Board of Directors.

ii.1) Audit Committee.

Pursuant to the provisions of the Financial System Reform Act, Befesa's Board of Directors established, on December 18, 2002, the Audit Committee, and the Board of Directors also approved its Internal Regulations at its meeting of April 24, 2003, which was ratified by the General Shareholders' Meeting of June 24, 2003, which also approved the modification of the Company Bylaws, including a new Section, identified as the Third, under Heading III, in relation to the regulations of the Audit Committee and the Appointments and Remuneration Committee, with redaction of the articles integrated and renumbering of articles 22 to 28, both included, which went on, with the same content, to have the corresponding consecutive numbering.

The original version of the Internal Audit Committee Regulations established an annual rotating Chairmanship among the non-executive Directors on said Committee and, given that the same is formed by three members, two of whom are non-executive Directors, 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 Audit Committee would elect its Chairman from among its members that are non-Executive Directors 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 and, as a consequence, article 2 of said Regulations was modified.

Composition

The composition of the Audit Committee at December 31, 2004, 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.
- Secretary non-director: Mr. Alfonso Castresana Alonso de Prado.

As a consequence, the majority of the Audit Committee is held by non-executive directors. Furthermore, the position of Chairman of the Committee is 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 monitoring 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 General Shareholders' 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 General Shareholders' Meeting.
5. To supervise internal auditing procedures. The Committee shall have complete 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 monitoring 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, to be included in the Management Report.

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.

- Amounts paid to the Audit firm for other works; Figures in thousands of euro

	<u>Group</u>	<u>Total</u>
Amounts paid for works other than auditing	25	25
Previous / Total amount billed (%)	6.3%	6.3%

	<u>Group</u>
No. of years audited by the firm / Total no. of years it has been audited	13/13

ii.2) 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 Audit 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 that are non-Executive Directors 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 and, as a consequence, article 2 of the Internal Appointments and Remuneration Committee Regulations was modified.

Composition

The composition of the Appointments and Remuneration Committee at December 31, 2005 is as follows:

- Mr. Ignacio de las Cuevas Miaja. Chairman. Independent non-executive director.
- Mr. Manuel Blanco Losada. Member, Independent non-executive director.
- Mr. Javier Molina Montes. Member. Executive.
- Secretary non-director: Mr. Asier Zarraonandia Ayo.

As a consequence, the majority of the Appointments and Remuneration Committee is held by non-executive directors. Furthermore, the position of Chairman of the Committee is 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, removal and payment of members of the Board of Directors and the Advisory Board, 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 General Shareholders' 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 to be included in the Management Report.

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.

ii.3) The Internal Stock Exchange Code of Conduct and Policy on the Use of Relevant Information.

This was implemented in December 2000.

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 Counsel Officer

These Regulations were revised by agreement of the Company's Board of Directors on April 24, 2003, to adapt them to what is established in Act 44/2002, of November 22, of the Finance Reform System Measures and its Additional Provision number four, and on June 22, 2004, the Board of Directors revised, once again said Regulations in order to strengthen the regulation of certain matters such as that relating to conflicts of interest, specific aspects on privileged information and operations involving the Company's own shares.

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 complete formulation of their content.

The new Internal Code of Conduct:

- Defines Befesa's policy against the use of privileged information that is applicable to all transactions involving Befesa's own shares.
- The aim of the general policy is to prevent the unauthorized disclosure of any non-public information acquired in the workplace and the incorrect use of relevant non-public information in share-related transactions.
- As specific policies, the following is regulated: (i) not to intervene in Befesa share purchase or sale transactions or in those related to the shares of providers or customers on which privileged information is held; (ii) not to reveal relevant information; (iii) maintain confidentiality; (iv) ensure that family members comply with the same.
- This policy is applied to all Directors, Managers and employees, and to their immediate family members, as well as to consultants and contractors.
- The persons that conduct transactions while in possession of relevant information can incur (i) a civil fine; (ii) a penal fine; (iii) imprisonment.
- Prohibited transactions are defined as short-term or speculative transactions.
- Restricted transactions are considered to be those that must be executed in accordance with a Register statement to the SEC (United States Securities and Exchange Commission ".

- The Directors and certain Managers and employees shall periodically certify that they understand and are willing to adhere to this policy.
- The non-fulfillment of what is specified in the Regulations could result in administrative sanctions. The employees who breach this policy are also subject to disciplinary measures.

The New Internal Regulations on Stock Exchange Matters and Policy on the Use of Relevant Information were registered with the CNMV on April 28, 2005, and are also available on the Company's website.

ii.4) The Code of Conduct

Upon Befesa considering that the rules of good governance must extend their application to the functioning of the company in all its ambiances, the Board of Directors approved, on April 24, 2005, a new Code of Conduct, of general application.

The honesty, integrity and good judgment of the employees, managers and directors of Befesa is essential to the reputation and success of the Company.

The Code of Conduct governs all working activities and relationships of the employees, managers and directors in their relationships with customers and possible customers, working companions, Administration bodies, the media and all other individuals and institutions the company comes into contact with.

These principles, indicated here-below, constitute the structure of the Code of Conduct assumed by Befesa. The organization, utilizing all possible means, must ensure they are known and applied, and must also establish control and review mechanisms that ensure their correct monitoring and updating.

The 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 Administration bodies and in any other communications made;
- Demands abidance by the applicable laws, rules and regulations;

- Covers real or possible conflicts of interests and provides guidance so that the employees, managers and directors 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 Befesa; and
- Demands immediate internal communication of breaches of this Code of Conduct and suitable communication of any illegal behavior.

Befesa's employees, managers and directors are expected to abide by the Code of Conduct at all times, and any breach thereof could result in disciplinary measures being taken.

The Code of Conduct approved by the Board of Directors was registered in the CNMV on April 28, 2005, and is also available on Befesa's website.

d. Inter-group and related transactions in the 2005 financial year.

i) Transactions with significant shareholders.

During the 2004 financial year, the agreement signed between Abengoa, S.A. and Befesa Servicios Corporativos, S.A.U. (100% subsidiary of Befesa Medio Ambiente) remains in force, in relation to Abengoa providing Befesa Servicios Corporativos, S.A.U. with assessment, collaboration and technical support services, for which Abengoa receives 1% of Befesa's total annual sales, as reported to the CNMV on March 22, 2001, entry record number 20,373.

Shareholder's Name Tax no.	Company's Name	Company's Tax no.	Name	Nature	Type	Thousands of euro
A41002288	Abengoa, S.A.	A08689052	Befesa Medio Ambiente, S.A.	Provision of professional services	5 years	4,286

ii) Transactions with administrators and directors.

There are no significant transactions between the company and its administrators or senior management.

Director's Tax no.	Name	Company's Tax no.	Name	Nature	Type	euro
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iii) Significant inter-group transactions.

Befesa operates as the parent company of a group of environmental services entities integrated in Abengoa, which at the same time incorporates other business units with activities related with Bioenergy, Information Technologies and Industrial Engineering and Construction. As such, Abengoa performs a certain amount of activities and roles that complement the integral product that one or several Business Units jointly offer to their clients. Thus, different companies and Business Units share customers and they jointly develop their businesses acting one or other companies as head, on a case by case basis. This gives rise to cross-selling between the companies (inter-group).

Moreover, Abengoa co-ordinates and manages the financial resources through a centralized administration system, allowing the optimization of said resources in those with recourse financed businesses that arise out of the collection/payment cycle by using factoring and confirming procedures.

As a consequence of the on-market conditions commercial operations, fulfilled in light of the above (arising out of the ordinary business, or as a consequence of the financing operations), the resulting balances appear on the balance sheets of the affiliate companies, though they are eliminated in the annual accounts consolidation process.

e. Risk Control Systems.

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 that, although associated with all business, must be minimized, upon being 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.

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 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 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.

f. General Shareholders' Meetings.

i) 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 June 24, 2003, which unanimously approved the aforementioned regulation; a resolution that was notified to the CNMV on June 26, 2003. In addition to the provisions included in the Spanish Companies Act this regulation incorporates a basic group of rules for the good order and functioning of shareholders' meetings guaranteeing at all times, the right to information, to attend, to vote and the right to representation for shareholders. The complete text of the Rules of Operation of the General Shareholders' Meetings is available on Befesa's website at www.befesa.es and www.befesa.com ([Information for Shareholders and Investors / Corporate Governance](http://www.befesa.com)).

In accordance with that established under article 10 and following articles of the Company's Bylaws, there is no limitation on the shareholders' right to vote based on the number of shares held. Any shareholder that has ownership of his/her shares recorded in the share registry at least five days prior to the holding of the Meeting, may personally attend General Shareholders' Meetings, without prejudice to the right of representation.

Quorum to Constitute: At first calling: 25% of the share capital. At second calling, any amount of the share capital. These amounts are the same as those established by Company law. In the event of issues related to matters under art. 103 of Company Law, the quorum is also that established by the Law.

Quorum for adopting resolutions: by simple majority of the votes present or represented at the General Meeting. In the event of issues related to matters under art. 103 of Company Law, the quorum is also that established by the Law.

Shareholders' rights: Right to information in accordance with the applicable legislation, right to receive, free of cost, the documentation related to the General Meeting, right to vote in proportion to his/her shareholding with no maximum limit, right to attend upon holding a minimum of 1,500 shares, economic rights (dividend, if it were the case, and to the share out of company assets), right to representation and delegation, to grouping, and to taking legal actions that fall to the shareholder.

Measures to promote the participation of the shareholders: making the documentation related to the General Meeting available to be forwarded, free of cost, to the shareholders, as well as its inclusion on the website at the time of notice of the General Meeting. Possibility of delegation and remote voting, through the completion of the attendance cards to this effect in an accredited manner.

The Company Bylaws specify that the chairmanship of the General Meeting shall be taken up by the Chairman or Vice-chairman of the Board of Directors, or, in the absence of both, by the person elected on a case to case basis by the majority of the shareholders in attendance.

The Operation Regulations for the General Shareholders' Meetings, approved by the General Meeting of June 24, 2003, regulates the calling, operating, exercise of rights and resolution adoption procedures at the general Meeting, and establishes a precise and imperative framework for the holding of the General Meetings.

Likewise, the General Meeting is normally attended by a Notary Public who checks fulfillment of all the necessary requirements for the valid constitution of the meeting and the adoption of resolutions, and who issues the corresponding minutes upon completion of the Meeting.

Likewise, the Secretary to the Board (non-director), in accordance with the Company Bylaws and the Regulations of General Meetings, acts as Secretary at the same and is responsible for ensuring compliance with all legal and statutory obligations upon the calling, holding and adoption of resolutions by the General Meeting.

ii) Data on the last General Shareholders' Meetings.

- a) Befesa's Ordinary General Shareholders' Meeting of June 22, 2004, was held with the concurrence, present or represented, of 9 shareholders. The total number of shares was 25,268,854, which represented 93.197% of the total share capital (27,113,479 shares).

The following resolutions were adopted:

1. Approval of the consolidated Annual Accounts of the Befesa Group for the financial year from January 1, 2004 to December 31, 2004 (Balance Sheet closed December 31, 2004, the Profit and Loss Account from January 1, 2004 to December 31, 2004, and the Report for said financial year) and the Consolidated Management Report for that Financial Year.
2. Approval of the Board of Directors' management of the company for the year that commenced on January 1, 2004 and finalized on December 31, 2004.
3. Approval of the application of the result for the financial year from January 1, 2004 to December 31, 2004, with the total after tax profit of 9,548,598.78 euro, with 954,859.88 euro to be applied to the legal reserves, 1,544,234.36 euro to voluntary reserves, and 7,049,504.54 euro to dividend payment.

Given that the aforesaid amount approved as a dividend was already distributed on account by resolution of the Board of Directors dated December 14, 2004, and paid out on December 22, 2004, no distribution has to be made, with the aforementioned payment on account being confirmed as the definitive dividend.

4. Naming of Deloitte & Touche España, S.L. as the Auditor of the Accounts for the 2005 financial year, to review both the Annual Accounts and Management Report of Befesa Medio Ambiente, S.A. and the Consolidated Annual Accounts and Consolidated Management Report.
5. Empowering the Board of Directors to increase the share capital, once or several times, up to an amount equal to 50% of the share capital at the time of the authorization, within the legal limits.
6. Authorize the Board of Directors to issue bonds or other similar fixed or variable income securities, within the legal limits.
7. Authorize the Board of Directors for the derivative acquisition of the Company's own shares, directly or through subsidiary or participated companies, up to the maximum limit established in the legislation in force.
8. Empower the Board of Directors, and its Chairman, Vice-chairman, and Secretary non-director to formalize and execute the adopted resolutions.

iii) Information Tools – website (www.befesa.es)(www.befesa.com)

The Company keeps its website open at www.befesa.es and www.befesa.com.

New contents have been added to the website, especially those foreseen in the recommendations of the Aldama Report and Act 26/2003 and M.O. 3722/2003.

The resolutions adopted by the last General Meeting held on June 21, 2005, are recorded on the site. Likewise, the full text of the notice of the meeting, the Agenda and the resolutions that were proposed for the Meetings' approval are also incorporated.

On the occasion of future notice of meetings, the Company will keep the information available on them updated, for the purpose of supporting the right to information, and with this, the right to vote, of the shareholders, on equal terms.

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

- g. Level of monitoring of the recommendations relating to Corporate Governance.

In the measure by which the information contained in the recommendation reports is less detailed and developed than the current Annual Corporate Governance Report, we defer to it for the issues set out therein. Said Report is available at www.befesa.es and www.befesa.com.

Likewise, pursuant to the Ministerial Order of December 22, 1999, activated by Circular 1/2000 from the CNMV relating to the business development and prospects of listed companies assigned to the New Market segment, the company annually remits the relevant information required, similarly at the time of the notice of the Ordinary General Shareholders' (02.06.04). Said information is available at www.befesa.es and www.befesa.com (Information for Shareholders and Investors / Relevant Events / Relevant Events 2005 / New Market Report).

h. Information 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, guaranteeing that it is distributed effectively and usefully. As a result, the Aldama Report and the Financial System Reform Act recommend, as a result of new technologies, the use of listed companies' websites as an information tool (including historical, qualitative and quantitative company data in it) and a distribution tool (including timely or individualized information in real-time that may be accessed by investors).

The Transparency Act on Information Tools established that listed companies must fulfill the information obligations established in Corporate Law, by any technical, computerized or telematic means, and Eco Order 3722/2003 of December 26, set 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 aforementioned Eco Order 3722/2003.

In the third quarter of 2004, Befesa implemented a new company website, characterized on the one hand by a more direct, quick and efficient on-screen presentation, and on the other hand, with information content and documentation made available to the general public, 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, Corporate Governance internal regulations, etc.
- c) Economic: periodic reporting, financial statements, share price, etc.

Given that Corporate Governance and the rules that regulate it and the legislation that governs it or recommends it are being continuously developed, it is essential that the available information and its diffusion portal – the website – are subjected to a constant updating process.

ii) Shareholder Services Department

In order to facilitate permanent contact with the company's shareholders, there is a shareholders' mail box available on the website (www.befesa.es and www.befesa.com), with the objective of establishing a transparent and smooth communication with its shareholders and to allow access to the same timely and formatted information together with the institutional investors whose equal treatment is guaranteed. The distribution of true and reliable information on relevant events, news releases and the periodic financial-economic information are supervised in particular.

iii) Investor Relations Department

With the same objective as the Shareholder Service but in relation to investors, the Company has an investor and market analyst Relations Department, which is responsible for the design and implementation of the program for communication with the national and international financial markets for the purpose of understanding the principal characteristics and strategic actions of the company.

This Annual Corporate Governance Report has been approved by the Board of Directors of Befesa Medio Ambiente, S.A. at its meeting on February 27, 2006.

i. Audit Committee Activity Report 2005.

1. Composition and Appointments.

Befesa's Audit Committee was established by the Board of Directors of Befesa Medio Ambiente, S.A. on December 18, 2002, under article 44 of its bylaws, in order to incorporate the provisions related to the Audit Committee in the Financial System Reform Act 44/2002. Its Internal Regulations were approved by the Board of Directors on April 24, 2004. Both events were reported to the National Securities and Exchange Commission (CNMV) as relevant events at the time.

The current composition of the Audit Committee is as follows:

Mr. Manuel Blanco Losada	Chairman. Non-executive independent director
Mr. Ignacio de las Cuevas Miaja	Member. Non-executive independent director
Mr. Javier Molina Montes	Member. Executive dominial
Mr. Alfonso Castresana Alonso de Prado	Secretary non-director

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

2. Activities Conducted

During the 2005 financial year, the Audit Committee met six times.

The main activities submitted to the Audit Committee may be grouped into four different areas of competency:



2.1. Financial Reporting

The Group's financial information consists basically of the consolidated financial statements, drawn up quarterly, and the full consolidated Annual Accounts, drawn up annually.

This information is prepared on the basis of the account reporting that all the Group companies are obliged to submit for this purpose.

The information reported by each one of the individual companies is verified by both the Group's internal auditors and the external auditors, in order to ensure that the information is true and provides an accurate picture of the company.

In recent years, Befesa has made a significant effort to systemize the reporting systems to allow times to be reduced and the reports required to be prepared as automatically as possible. This is one of the Group's permanent objectives, which will allow a constant reduction in the times required to present the Group's financial information.

One of the recurring and most important activities of the Audit 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 Stock Exchange Commission (CNMV).

Of note, as a consequence of the changes in Accounting Legislation, is the fact that Befesa has, in the last few financial years, adapted its consolidated financial statements to the IFRS (International Financial Reporting Standards), a process it has culminated with the preparation, presentation and formulation of the consolidated annual accounts of Befesa being elaborated with said accounting principles. In the 2004 financial year, the Audit Committee initiated a special project with the aim of conducting detailed monitoring of the adaptation and impact of the adoption of the new legislation. This project continued throughout 2005 and was finalized jointly with the presentation of the aforementioned consolidated annual accounts to the Board of Directors of Befesa, prepared pursuant to the IFRS and to the Stock Exchange regulating bodies (CNMV).

2.2. Risk and Internal Control and Internal Audit

The Audit Committee's duties include "supervising the internal audit services" and "to know the company's financial information and internal control systems processes".

The person responsible for Corporate Internal Audit has informed the Committee systematically in the 2005 financial year, in relation to its own activities of:

- The Annual Internal Audit Plan and the extent to which it is met;
- The extent to which the recommendations issued have been implemented;
- An adequate description of the main areas reviewed and the most significant conclusions;
- Any other more detailed explanations the Audit Committee may require.

During the 2005 financial year, the Audit Committee has been informed of and supervised, the execution, by the Internal Audit Department, of a total of 30 tasks, with the Annual Audit Program having established only 27 tasks for the year. The additional tasks that were not included in the Program were mainly general inspections of companies that had not been contemplated in the initial planning process.

As a consequence of said works, a total of 22 recommendations of a major character have been issued, of which 13 have already been implemented, while the rest are being implemented by the different companies.

The Audit Committee has been informed that, during the 2005 financial year, works have been initiated to adapt the Group's internal control structure to the requirements demanded by the Sarbanes Oxley Act (Sox).

2.3. External Audit

The Audit 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 audit 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 Group companies to be audited externally, even if they do not meet the requirements to make this compulsory.

The global amount of the fees agreed with the external auditors for the 2005 financial year audit, including the review of the periodic information and the distribution thereof is shown in the table below:

	Firm	Fees	Companies
Spain	Deloitte	369,523	22
Spain	Other firms	5,382	2
Abroad	Other firms	25,073	2
Total		399,978	26

The Audit 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 Audit Committee meetings whenever required to do so, in order to inform 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 an audit opinion thereon.

Although the scope of said opinion is the financial statements as of December 31 of each year, the work performed by the auditors in each one of the companies includes a review of the previous accounting period end, which is usually that of the third quarter of the financial year (September), in order to anticipate any significant matters or operations that have arisen up to that date. In addition, reviews are performed on the quarterly financial statements drawn up in order to submit the information required by the official bodies.

- Evaluation of the Internal Controls.

The advanced approach to 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 than on substantive proof. The external auditors must issue, in addition to their standard professional opinion, an internal control report that is the basis of their presentation to the Audit Committee. This will be strengthened with the implementation of the Sox where the type, scope and development of the activity of the company's auditor are regulated.

- Matters of Special Interest:

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

3. Audit Committee Internal Regulation.

The Audit Committee Internal Regulations were Approved by the Board of Directors on April 24, 2003. They establish that:

- Composition and Appointment:

It shall be formed permanently by three directors. Two of them shall be non-executive Board Members, thus complying with the majority of non-executive Board Members provided for in Law 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 Audit Committee shall elect its Chairman from among all its non-executive Board Members for a term that may not exceed four years.. At least one year must elapse prior to the same Board Member being re-elected Chairman

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

- Duties and Competencies:

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

1. To inform on the Annual Accounts and the half-yearly and quarterly Financial Statements that must be forwarded to the market regulatory or supervisory bodies, mentioning the internal control systems, the control of the monitoring thereof and compliance therewith through internal audit and, when appropriate, the accounting principles applied.
2. To inform the Board of Directors of any change in accounting principles and balance sheet and off balance sheet risks.

3. To inform the General Shareholders' Meeting on the issues raised thereat by the shareholders in relation to matters that fall within its competency.
4. To propose the appointment of the External Account Auditors to the Board of Directors so that the proposal may be put to the General Shareholders' Meeting.
5. To supervise the Internal Audit services. The Committee shall have full access to the Internal Audit and shall inform during the process of selection, appointment, renewal and/or removal of the manager thereof, and on his/her remuneration, and must report on this department's budget.
6. To know the company's financial information process and internal control systems.
7. To be in contact with the external auditors to receive information on any issues that might jeopardize said auditors' independence and/or any other issues related to the account auditing process.
8. To call the Board Members it sees fit to attend the Committee meetings, so that they may inform to the extent the Audit Committee sees fit.
9. To elaborate an Annual Report on the Audit Committee's activities, to be published with the Annual Accounts for the financial year.

- Meetings and Notice:

The Audit Committee shall meet on the occasions required to perform the duties stated in the preceding article, which must be at least once a 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 Audit 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 Committee. The members of the Committee may, in any case, inform the Chairman of the advisability of including a certain matter on the Agenda of the following meeting. Notice shall be given sufficiently in advance, not less than three days, and in writing, including the Agenda. Nonetheless, a meeting of the Audit Committee shall be valid when all its members are present and they agree to hold the meeting.

- Quorum:

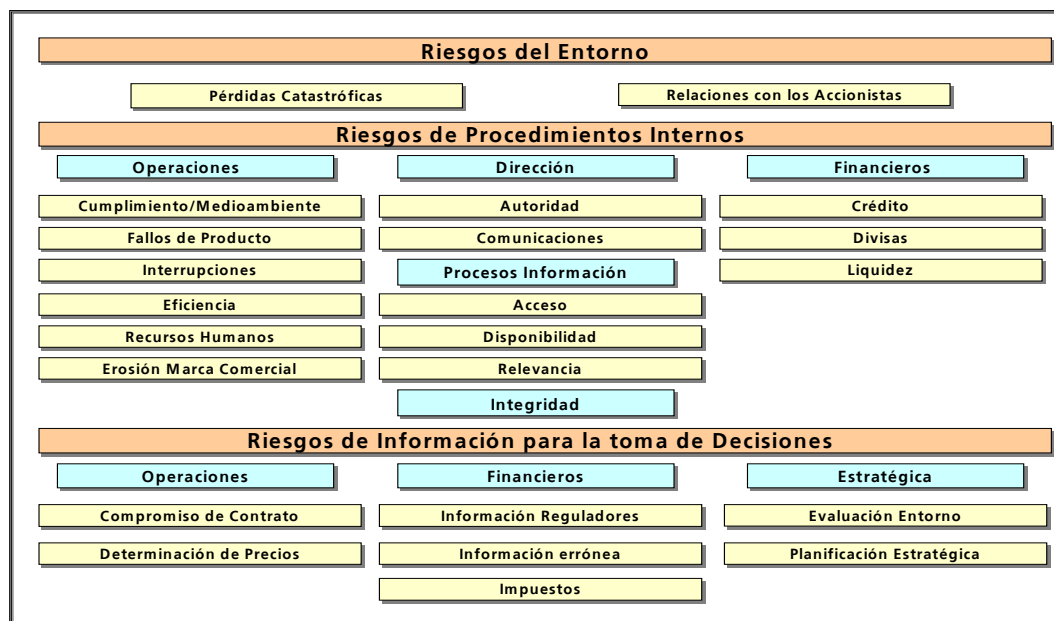
The Audit Committee shall be considered to have a valid quorum when a majority of its members are present. Attendance may only be delegated to a non-executive Board Member.

Its resolutions shall be validly adopted when the majority of the Committee members in attendance vote in favor. In the event of a tie, the Chairman shall have the casting vote.

4. The Risk Management Model in Befesa.

In a group such as Befesa, with more than 30 companies, with operations in over 10 countries and more than 1,300 employees, it is essential that a common business management system, that enables work to be performed in an efficient, coordinated and coherent manner, be defined.

Befesa's risk management is performed with the following model, which is used to identify potential risks that might exist in a business.



The procedures used to eliminate the aforementioned 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 in Befesa's business management

In addition, the Common Management Systems enable:

- Optimization of the day-to-day management, applying procedures favoring financial efficiency, cost reduction, and standardization and compatibility of information and management systems.
- Promotion of synergies and creation of value by Befesa's different business units, working in an environment of cooperation.
- Strengthening of Corporate Identity, with all of Befesa's companies respecting their shared values.
- Growth attainment through strategic development seeking innovation and new medium and long-term options.

The Systems cover the entire organization at three levels:

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

Meeting of the provisions of the Common Management Systems is compulsory for the entire organization and, therefore, they must be known by all its members. Any exception to these Systems must be made known to the person 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 are immediately notified to the organization using computing media, which greatly facilitates the dissemination thereof.

Those responsible for each one of the rules that integrate the Common Management Systems shall verify and certify compliance of said procedures.

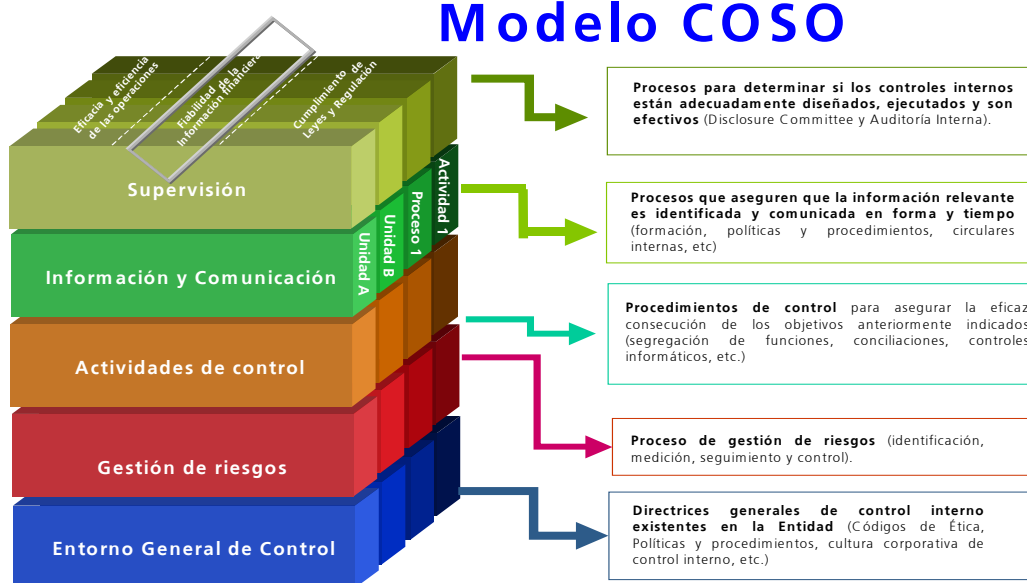
In addition, this year Befesa is adapting its internal control structure to the requirements demanded by the Sarbanes Oxley Act (Sox).

Even though, according to instructions from the Securities and Exchange Commission (SEC), said Act corresponds to the compulsory regulation for 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 Management. Therefore, the opinion is that the model developed in the Sox complements and completes our Common Management Systems, the main objective of which is the control and mitigation of business risks.

The conceptual reference framework taken 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 by the laws and regulations, reliability of the financial information, and effectiveness and efficiency of the transactions.

Modelo COSO



In this manner, the requirements of the SOX are currently being implemented in all Befesa companies. All the processes that affect the different epigraphs of the Group's financial statement 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, and as a part of the SOC recommendations, the General Control environment is being reviewed: Policies and procedures, internal corporate control culture, Code of ethics, etc., to adapt them to the requirements of said Act.

The implementation of the recommendations of the SOX is going to continue throughout the 2006 financial year so that they may be implemented progressively in all the Business Units.

Supervision and Control of the Risk Management Model:

The supervision and control of the above-described risk management model are structured around the Pooled Audit Services, which in turn are structured around Audit Corporate Management, with the audit teams acting in a coordinated manner with the persons responsible for internal control of the companies who report to the Audit Committee of the Board of Directors.

From among their strategic objectives, we can highlight:

- Forestalling the audit 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 business.

- Controlling the application and promoting the development of suitable and efficient management rules and procedures, in accordance with the Common Corporate Management Systems.
- Creating value for Befesa, by promoting the building of synergies and the monitoring of optimum management practices.
- Coordinating the work criteria and approaches with the external auditors, seeking the greatest efficiency and profitability of both functions.
- As a consequence of the adopting of the requirements of the Sarbanes Oxley Act described in the previous section, the security and reliability of the financial information must be guaranteed by checking and ensuring the correct functioning of the controls established for this purpose.

Therefore, the Internal Audit Services act through specific objectives:

- Evaluating the Audit Risk of Befesa Companies and Projects, in accordance with an objective procedure.
- Defining standard types of Internal Audit and Control work, in order to develop the pertinent Work Plans with the scope appropriate to each situation. This typology is linked to Audit Risk Evaluation, and determines the Work Plans to be used and involves an appropriate type of Recommendations and Reports, meaning that, therefore, it should be explicitly used in said documents.
- Guiding and coordinating the internal audit and control work of the Companies and Business Units, defining a procedure for notification of said work and communication with the parties concerned and establishing a coding system for the work, so that it can be properly controlled and monitored.
- Defining the communication process for the results of each piece of audit work, the persons affected and the format of the documents in which it materializes.
- Reviewing the application of the plans, the appropriate performance of the work, the prompt distribution of the results and monitoring of the recommendations and their corresponding implementation.
- Reviewing the correct functioning of the manual and automatic controls identified in the processes, as well as the evidence of control to guarantee security in the obtaining of the financial information.

An Annual Internal Audit Plan is 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 in each one of them at any given moment
- And the requirements of the Audit Committee

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

Planning seeks to guarantee that the risk areas identified will be covered by work that mitigates or eliminates the risks and allows them to be adequately identified, controlled and monitored. The result of this planning is the Annual Internal Audit Plan.

The Annual Plan establishes the types of works to be performed and the scope of each one of them. Depending on the proposed scope, general company reviews, reviews of specific areas, procedure reviews or special works are proposed.

The Annual Plan is continually monitored by the Audit Committee, which is informed systematically on both the progress thereof and the results obtained in the reviews performed.

For each of the planned tasks, once the field work has been done, recommendations are identified 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 on the importance of the area affected or, if it were the case, the economic impact they imply.

Traditionally, the main objective has been to control the audit risk, with this being understood as any risk that affects the business and that can be estimated, evaluated and controlled by Management. Since the adoption of the Sox, and without forgetting the above objective, the correct functioning of the controls established by the company to guarantee the reliability and veracity of Befesa's financial information must be guaranteed.

Each Befesa activity, project and company must have a preliminary evaluation of the audit risk that allows appropriate planning of the reviews to be performed. This risk estimate must follow objective criteria common to the entire Group and will be the responsibility of the Internal Audit and Control Department.

In relation to the above, the Internal Audit and Control function should exceed a mere supervisory approach and, without decreasing the inspection and review activity, must actively promote enhancements with immediate repercussions on the optimization of processes and businesses, the obtaining of synergies and, in short, the creation of value for Befesa.

In both the focus of the work, and the planning, performance, documentation, programs and communication of the results thereof, coordination with the external auditors must prevail, so that the work of the two functions is not duplicated and Befesa's Internal Audit and Control procedures are validated and may be deemed to be adequate audit proof to support the external auditor in his/her opinion.

To attain this objective, a standardization of all the work cycles and documentation that contribute to the consistency of the work of Befesa's internal auditors will be fomented.

In addition, a computerized application (RCTS) is being implemented. This will allow Internal Audit to check the correct functioning of the controls established to mitigate the risks identified in the different process activities that affect the financial statements, and the existence of evidence of the activities and compliance with the established control objectives.

Following the doctrine of The Institute of Internal Auditors and its Spanish branch, Instituto de Auditores Internos, the ultimate purpose of this structure is to provide the Management of Befesa and of each of its Business Units with an extra "control" flow of information, running parallel to the normal hierarchical flow, but with permanent horizontal information channels between each one of the hierarchical levels of the Companies and Business Units and their corresponding Internal Audit services, applying clear and transparent criteria and safeguarding the confidential information involved.

This structure is shown in the following diagram:

Information Flow



This Annual Report was approved by the Audit Committee of Befesa Medio Ambiente, S.A. at its meeting on February 27, 2006.

j. Appointments and Remuneration Committee Report 2005

Introduction

The Appointments and Remuneration Committee 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.

Composition

The current composition of the Committee is as follows:

- | | |
|-------------------------------|--|
| - Ignacio de las Cuevas Miaja | Chairman. Independent non-executive Director |
| - Manuel Blanco Losada | Member. Independent non-executive Director |
| - Javier Molina Montes | Member. Dominial executive |
| - Asier Zarraonandia Ayo | Secretary Non-Director |

The Chairman and Secretary were appointed at the Appointments and Remuneration Committee meeting held on February 28, 2.005.

Accordingly, the Appointments and Remuneration Committee is formed by two non-executive directors in fulfillment of the requirements of the Financial System Reform Act. Furthermore, the post of Chairman is held pursuant to article 2 of its Internal Regulations, by a non-executive director.

Duties and Competencies

The duties and competencies of the Appointments and Remuneration Committee are:

1. To inform the Board of Directors on appointments, reelections, resignations and remuneration of the Board, as well as on the general remuneration and incentive policy established for the Board and senior management.
2. To report, in advance, all the proposals that the Board of Directors makes to the General Shareholders' Meeting for the appointment or removal of Directors, even in the cases of cooptation by the Board of Directors itself.
3. To elaborate an Annual Report on the activities of the Appointments and Remuneration Committee, to be included in the Management Report.

Meetings and Notices

The Appointments and Remuneration Committee shall meet whenever necessary to fulfill the aforementioned 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 a meeting.

During the 2004 financial year, the Committee met on three occasions.

Quorum

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

The resolutions shall be validly adopted when the majority of the Committee members, present or represented, votes in favor. In the event of a tie, the Chairman shall have the deciding vote.

The Company's Remunerations Officer attends the Committee meetings to act as Secretary.

Information presented to the Committee

- Monitoring and evolution of the payments made to the Board of Directors and the Company's Senior Management.
 - Remuneration proposal 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.
 - Reports on market surveys carried out by independent experts and remuneration comparisons.
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This Annual Report was approved by the Appointments and Remuneration Committee of Befesa Medio Ambiente, S.A. at its meeting on February 27, 2006.