

**National Stock Exchange Commission**

**Division of Markets Supervision.**

Paseo de la Castellana, nº 19

**28043 – Madrid**

Madrid, 6 June 2004

Subject: Significant event – Compliance with specific disclosure requirements for issuers with securities listed on the New Market

Dear Sir/Madam,

The information relating to the evolution and outlook of this company's activities and its investment and financing plans forecast for its future business and expansion are hereby provided by means of this communication pursuant to the Ministerial Order of 22 December 1999, established by Circular 1/2000 of the CNMV.

Firstly, we should point out that this information has been taken from the 2003 Annual Report presented to the CNMV on 5 April 2004 and the Financial Statements and Management Report of the company and its consolidated group corresponding to the period 1 January 2003 – 31 December 2003, which were lodged with the CNMV on 6 May 2004.

The information considered to be most relevant in relation to this matter is detailed below. The section entitled "Introduction" summarises the most significant events from 2003 and to date. The next section entitled "Business Areas" details the most significant facts by business area, both in terms of recent developments and their future outlook. Current and future investment plans, risks and the development of the commitments adopted by core shareholders are mentioned at the end of the communication.

## **A. Introduction**

### **Acquisitions**

In the section on acquisitions, of significance is the acquisition of 100% of Sistemas de Agua Presión, S.L., the assets of Aragonesa de Aguas and 30% of the Berako Group within the area of Industrial and Hydrocarbon Cleaning. The industrial waste management business strengthened its presence in Andalusia by acquiring Residuos Industriales de la Madera de Córdoba, S.A. (Rimacor) which manages wastes from the wood industry.

### **Divestments**

During the first few months of the year Befesa Medio Ambiente, S.A. transferred the whole of its 50% shareholding in Tratamiento de Aceites y Marpoles, S.L. to Urbaenergía, S.L. (Grupo Dragados) (via Alianza Medioambiental, S.L.).

In December 2003, Befesa transferred its stake in Abensurasa, A.I.E to Agua y Gestión de Servicios Ambientales, S.A. via its Befesa Construcción y Tecnología Ambiental, S.A.U. subsidiary. At the time, Abensurasa held 70% of the share capital of Empresa Mixta de Servicios Municipales de El Ejido, S.A. (Elsur).

### **Organic growth**

Under organic growth, the expansion carried out via the opening of new local offices both in Befesa Gestión de Residuos Industriales, S.L. as well as in Limpiezas Industriales e Hidrocarburos e Ingeniería Medioambiental was significant. Additionally, the Industrial Cleaning and Hydrocarbons area has incorporated a new business by creating Befesa Técnicas del Suelo, S.A. dedicated to treating contaminated land.

#### Actions and strategies

A comprehensive restructuring has been carried out in the Aluminium business that will allow it to adapt to a market that has been dominated by overcapacity to date. It is expected to yield positive results in 2004. The restructuring has cost approximately 4 million Euros and has led to the closure of one of the plants.

A business reorganisation process has been carried out in the areas of Industrial Waste Management, Industrial Clearing and Hydrocarbons and Environmental Engineering, merging the majority of the companies involved in the former two areas that comprised part of these business groups. Equally, each of these units has been strengthened by incorporating new professionals to guarantee the success of the strategic objectives established for each of them.

Furthermore, a new corporate identity was introduced at the end of 2003 which has resulted in all companies being renamed and the Befesa brand being incorporated into all our businesses, independent of the area to which they belong.

Befesa continues reinforcing its market position. The six business areas and Latin America that Befesa currently has are the result of an effort to consolidate the management of its businesses with the current demand structure for environmental services, which at the same time has allowed its processes to be more flexible and efficient. Furthermore, Befesa has made significant investment both through organic growth and via acquisitions in those areas where the greatest opportunities exist.

The basic lines for Befesa's strategy for the immediate future are consistent with its recent developments, specifically in:

- Continuous adaptation of the organisational structure to the requirements of the market, which demands integral solutions in terms of industrial waste treatment, resource optimisation and increasing efficiency of operations and sales structures.
- Committed investment in R&D&i providing solutions to both existing requirements as well as new ones that occasionally arise from industry developments or regulatory restrictions.
- Befesa endeavours to continue with the commitment made by the company and its environment to provide solutions to environmental problems that may arise, providing efficient and effective solutions that are compatible with balanced growth.
- Growth in the strongest business areas under the protection of an increasingly demanding regulatory framework with environmental practices.
- Market development and, where appropriate, consolidation in those countries where Befesa is present and in other new markets, introducing the technical and management experience accumulated in our domestic market.

All of the above could be summarised as Befesa's commitment to continue growing, providing solutions to new environmental demands that arise in a global market, supported by the management experience and the development of an R&D&i policy.

## **B. Business Areas**

During 2003 the drive to equip the company with the most suitable organisation and structures has continued in each of the business areas in order to be able to continue to position itself towards the future in a market that continues to be characterised by growth in some activities and consolidation in others.

Befesa's businesses are currently organised into the following six areas:

- Aluminium waste recycling
- Salt slag recycling
- Zinc and desulphurisation residues recycling

- Industrial waste management
- Industrial cleaning and hydrocarbons
- Environmental engineering

Befesa's activities carried out in Latin America are grouped under a single business division for management purposes, independent of the activity that is carried out.

1. Aluminium waste recycling

a) Recent developments

Business unit		Aluminium Recycling	
Year		2003	2002
Sales	€ millions	104.2	165.0
Tonnes treated	mT	99,000	157,795
Production	mT	71,000	97,000

This business has suffered from shrinking margins as a result of the current oversupply in this product, the weakness of the car market in Europe and the Dollar strengthening against the Euro. Nevertheless, Befesa has anticipated this new development by restructuring, allowing it to optimise its resources and to reduce costs.

b) Outlook

Befesa is the European leader in recycling wastes containing aluminium. In the political debate on sustainable resource use, metal recycling acts as a model to demonstrate how the ideal life cycle functions with significant contributions in resource savings.

The aluminium and zinc recycling processes and services offered by the Befesa Group are therefore essential elements for guaranteeing the future of the production industry.

During the last five years Befesa has made an important contribution to resource savings with more than 696,000 metric tonnes of wastes containing aluminium recycled by Befesa Aluminio.

In addition to the recycling and integral recovery of aluminium content wastes, Befesa has a technology division which is dedicated to design, construction and assembly of various turn-key equipment for the aluminium industry. This division has an extensive list of references from more than 100 installations in 40 countries.

The construction and operation of the first prototype industrial slag compactor has been completed this year for the Befesa Zinc Aser plant. The equipment is currently fully operational and has been a first point of reference for potential clients.

## 2. Salt slag recycling

### a) Recent developments

Business unit		Salt Slag Recycling	
Year		2003	2002
Sales	€ millions	17.1	19.2
Tonnes treated	mT	159,000	144,400
Production	mT	67,780	69,800

### b) Outlook

As environmental requirements become increasingly demanding in the European Union, industrial plant capable of definitively resolving the problem of waste management becomes necessary. The salt slag recycling process carried out by Befesa Escorias Salinas and Befesa Salt Slags is incorporated under this philosophy. This process, combined with the aluminium wastes recovery process (slags, dross, etc.) of Befesa Aluminio Bilbao, Befesa Aluminio Valladolid and Galdan, allow the cycle of integral aluminium waste recovery and recycling to be completed.

Salt slags from secondary aluminium production are generated when sodium and potassium chloride mixtures are used to cover the melting material to prevent oxidation, to increase efficiency and to improve the thermal efficiency in the rotary furnaces. The quantity of salt slag produced per ton of secondary aluminium is highly variable and will range from 400 to 800 Kg depending on the mix and purity of the raw materials, the type of rotary furnace used and the quantity of salt additions required. The undeniable environmental advantages from the aluminium recycling activity are therefore accompanied by the generation of salt slag.

These salt slags are hazardous wastes and must be treated as they cannot be dumped directly due to their high reactivity to water, which gives off gases, and the danger of leaching hazardous substances. Salt slag recovery is therefore the alternative to dumping. Its objective is to separate the metal aluminium and the salt from the contaminants in order to be able to use all the components.

The volume of treated waste last year (salt slag and milling powder from aluminium slag) was 159,000 tonnes, a 9.8% increase on the previous year. Additionally, more than 24,000 tonnes of aluminium slag was treated at the plant in the United Kingdom. Likewise, 10,786 tonnes of aluminium, 57,053 tonnes of salt and 98,157 tonnes of oxides were produced.

Investments have been made in both companies in order to optimise processes and adapt them to the changes in the physical and chemical characteristics of the raw materials received. Befesa Escorias Salinas has therefore put a new reactor into operation that allows materials with higher reactivity to be treated. Befesa Salt Slags has installed a new filtration and

washing system to adapt the final characteristics of our products to the requirements of the British cement and ceramic markets, which are the principal consumers of the aluminium oxides produced.

From a commercial perspective, contacts with companies in other European countries have been continued to contract salt slags and aluminium milling powders in order to fulfil the treatment capacity of the two plants. Several contracts for 2004 have already been completed and negotiations continue to allow the business unit to expand in the medium term. In the United Kingdom long term agreements have been reached with nearly all the country's producers for treating salt slag.

Once the necessary quality has been achieved, the negotiations carried out to open up a market in the United Kingdom capable of using our Wardal product (aluminium oxide) will begin to give results, as witnessed in Spain several years ago. All of the oxide produced in 2004 is forecast to be used in industrial applications.

### 3. Zinc and desulphurisation residues recycling

#### a) Recent developments

Business unit		Zinc Recycling and Desulphurisation	
Year		2003	2002
Sales	€ millions	45.4	43.8
Treated tonned	mT	222,900	216,741
Production	mT	367,211	352,660

#### b) Outlook

##### Zinc:

Zinc is a metal with multiple uses and applications that can be indefinitely recycled without losing its physical or chemical properties. Its annual global consumption is greater than 9 million tonnes.

This metal constitutes a highly valuable and sustainable resource for future generations thanks to the durability of the majority of zinc products. 30% of global zinc production currently comes from recycling and approximately 80% of zinc available to be recycled, is actually recycled.

Befesa focuses its activity in this business area on the service provided to steel foundries that produce new steel from melting down scrap steel whose surface is coated with galvanised zinc. This process generates steel powders which are a hazardous waste. Our company, Befesa Zinc Aser, operates the leading and only plant in Spain dedicated to recycling and recovering these waste powders that originate from this electric arc furnace steel manufacturing and foundry process and that collect in the gas purification filters installed. Befesa Zinc Aser produces Waelz oxide, a product from the zinc content in these steel powders, which is used as a raw material by foundries and electrolysis to manufacture zinc metal.

The industrial process operated by Befesa Zinc Aser, known as the Waeltz process, currently uses the best available technology (BAT) to process steel powders, essentially recovering the zinc they contain and reducing the rest of its components to inert slag (which is therefore not hazardous to the environment) and used as an aggregate and filling material in the construction industry.

Furthermore, Befesa Zinc Amorebieta and Befesa Zinc Sondika recycle industrial galvanization wastes and all types of scrap containing zinc to produce new secondary zinc for the galvanizing industry and zinc oxide principally for the ceramic and tyre industries. Befesa continues to be the national leader in producing zinc oxide and secondary zinc.

The services provided by Befesa companies in the area of zinc are therefore a fundamental link in the zinc recovery cycle. They avoid useless loss of tonnes of the metal, they reduce dumping and contribute towards reducing natural sources zinc extraction.

During the last five years alone, Befesa has recycled more than 574,000 metric tonnes of wastes containing zinc and has returned nearly 254,000 metric tonnes of products to the zinc life cycle, clearly demonstrating the important contribution of our activity to saving resources and the environment.

2003 began with low US dollar zinc prices due to significant existing stocks exceeding 700 million tones. Throughout the year the dollar zinc price has risen although this increase has not been reflected fully in the Euro price due to the weakening of the dollar against the Euro. Nevertheless, from our companies' strategy towards purchasing raw materials to the service that we offer to waste producers in particular, the impact on the income statement has been negligible, with highly satisfactory results being achieved.

During 2003, 92,850 dry tonnes of steel powders from electric arc furnaces and foundries, as well as 2,986 dry tonnes of other high content zinc wastes were received by the Befesa Zinc Aser plant, with domestic market stocks representing 100% of the supply of raw materials for the first time since the company established its business in July 1987.

Taking into account the aforementioned indications, Befesa Zinc Aser has recycled approximately 1,445,000 wet tonnes of powder containing 323,550 tonnes of zinc, throughout its sixteen and a half years, as well as more than 15,500 wet tonnes of other zinc rich wastes. With these it produced nearly 515,000 dry tonnes of Waelz Oxide with an average of 58.75% zinc, equivalent to 302,500 tonnes of recovered zinc metal.

Thanks to the radical change introduced in 2001 in Befesa Zinc Aser's commercial strategy and policy for obtaining raw materials, aimed at substituting foreign steel powders with domestic steel powders, the average unit margin generated by the waste treatment and removal service

has gradually recovered during the last two years which has increased 3% (compared to an 8.6% increase in 2002) due essentially to the significant unit cost savings experienced on transport and logistics.

The increase greater than 6% in the international zinc price, quoted in US\$/mT, combined with cuts in the unit sales costs by approximately 2% over the previous year, have not been able to compensate for the impact of the strong depreciation in the average US dollar-Euro exchange rate (16%), causing the net unit sales price of pure Waelz Oxide to fall nearly 13%, including hedging.

All these circumstances have had their corresponding effect on the consolidated profit and loss account of the companies that comprise the Befesa Group Zinc Oxide Division, which at 31 December 2003 had sales of 19 million Euros, an increase of nearly 2% over 2002.

3. Desulphurisation Residues:

The Befesa desulphurisation plant located in Barakaldo (Vizcaya) that was initially designed as an industrial plant producing sulphuric acid from pyrite, today represents another example of Befesa's environmental-based vocation.

Since 1995 and since its reconversion, Befesa desulphurization recycles residual sulphur retained by oil refinery filters.

Befesa desulphurization currently has a recycling plant that is capable of solving one of the environmental problems of oil companies, applying the cleanest and safest process for recovering residual sulphur. At the same time the sulphuric acid and oleum obtained (with a high SO<sub>3</sub> concentration) are of very high quality and are highly sought after by clients in the chemicals, paper, pharmaceutical, food and fertilizer industries as well as for water purification.

During 2003 our plant used 100,413 mT of sulphur from desulphurization residues, to obtain 308,097 mT of equivalent acid with a parallel electrical energy production of 76,991 MW, which after company use accounted for a 47,680 MW surplus being placed with the electricity network.

4. Industrial wastes management

a) Recent developments

Business unit	Industrial Wastes Management		
Year		2003	2002
Sales	€ millions	41.4	38.2
Tonnes treated / managed	mT	480,300	410,290

The industrial waste management area focuses on providing a comprehensive service to industrial waste producers following a treatment

hierarchy that prioritises waste minimisation, reuse, recycling, valuation and removal as established under national and European environmental legislation. Befesa is currently one of the national leaders in integral industrial wastes management.

Improvements in competitiveness and the growth in the overall volume of managed industrial wastes have been a result of this effort. In 2003, Befesa industrial wastes management managed more than 480,000 mT of industrial wastes via its plants, a 17.1% increase over the previous year.

In 2003 it carried out one of Befesa's most ambitious development plans. The new company called Befesa Gestión de Residuos Industriales, S.L. began operating and is a merger of the companies previously incorporated in the Industrial Wastes Management Division (CMA, Cartera Ambiental, SPM, Comercial Sear and Trademed).

The most significant investments made in 2003 are:

a) The extension of the waste storage, offices and changing room areas of the Ajalvir and La Puebla de Alfindén centres, as well as the remodelling and improvement of the laboratory instrumentation and control room also at La Puebla de Alfindén.

A warehouse for sampling and emptying drums has been constructed at the Nerva centre, as well as an area for washing the wheels and undersides of lorries.

At the Cartagena centre two new maturing warehouses equipped with gas capture systems have been installed to improve the waste stabilisation plant and tank 2 in the last phase of the safety deposit has been waterproofed. The project to install the evapo-condensation unit has also been begun in order to improve the treatment of liquid wastes.

b) Improvements have been made and the machinery at centres has been expanded with the acquisition of volume reducing equipment (baling machines and drum-crushing machines) and waste treatment equipment (crushing machines). Likewise, new latest technology laboratory analysis equipment has been purchased that improves and speeds up waste classification.

c) Works in plants have been carried out to improve worker health and safety installing alarm and public address systems, fire prevention systems, asphaltting grounds and changing electrical systems.

This year Befesa's industrial waste management division has taken control of Residuos Industriales de la Madera de Córdoba via Albega (Alianza Befesa Egmasa, S.L.) in which it holds a 50% stake, which will allow Befesa to have two industrial waste transfer installations in Andalusia and to move its management closer to industrial waste producers.

Likewise, the market in the north, in Cantabria and the Basque country is strengthening.

b) Outlook

Throughout 2004 Befesa is looking to be present and active in Portugal, where it is currently the leading importer of industrial wastes. It has partnerships with Portuguese companies to give it local presence and to provide its service in-situ by putting an integrated industrial waste evaluation complex into operation.

The management of non-hazardous wastes will be promoted in the future. This new business will be able to serve our clients' current demand for a comprehensive hazardous and non-hazardous waste management service. Two plants for treating non-hazardous classified waste will therefore be opened in Madrid and Seville respectively during 2004.

5. Industrial cleaning and hydrocarbons

a) Recent developments

Business unit	Industrial Cleaning and Hydrocarbons		
Year	2003	2002	
Sales	€ millions	36.0	38.2

The following are among the most significant events in the area of industrial cleaning and hydrocarbons:

- Acquisition of Sistemas Agua Presión, S.L. which provides industrial cleaning, wastes treatment with mobile press filters and specialist hydro-demolition works.
- The merger of the different companies that comprised the Berako Group (Berako, S.A. Hidro Clean, S.A. Hidro Limp, S.A. and Berako Equipos Especiales, S.A.) into Berako Limpiezas Industriales, S.A. This company subsequently merged with Sistemas Agua Presión, S.L. and Befesa Tratamientos Especiales, S.L. to create Befesa Tratamientos y Limpiezas Industriales, S.L.
- Acquisition of the remaining 30% of Berako Limpiezas Industriales, S.A. from the minority shareholders.
- Sale of Ecomat Fabricación de Equipos, S.L.
- Opening of local offices in Zaragoza, Valencia, Madrid and Cadiz.
- Sale of Befesa's 50% stake in Tracemar.

A new company has come out of this merger and acquisition process called Befesa Tratamientos y Limpiezas Industriales, S.L. which consolidates Befesa's leadership in the markets for industrial cleaning, refineries and waste treatment with mobile plant as well as optimizing the use of its human and material resources.

c) Outlook

Befesa Tratamientos y Limpiezas Industriales specialises in supplying services to industry and public administrations, providing a highly specialised service within the various fields in which it operates. Its activities are based on cleaning with portable suction or propulsion equipment that can operate at high pressure and volume with highly specialised uses and equipment designs.

Befesa Tratamientos y Limpiezas Industriales, S.L. is currently considered as one of the most technically advanced companies in the sector. Befesa is one of the leading large scale national companies in relation to in-situ waste treatment with mobile plant and chemical cleaning, a growing trend in relation to our competition. We are the most important domestic company in relation to the catalyst sector and we have a client portfolio that covers nearly 80% of the total domestic market.

Furthermore, the area of industrial cleaning and hydrocarbons has incorporated a new business line by creating Befesa Técnicas del Suelo which is dedicated to treating contaminated land.

The activity of managing contaminated land and subterranean water is also a growth business and it is less developed compared to other environmental fields. This shows both at the technological and operational level as well as at a legislative level.

Commercial prospects for 2003 and the forecast for 2004 show that Befesa Técnicas del Suelo will have to make a significant drive in purchasing treatment equipment and becoming operational (including training personnel) in order to begin to consolidate itself in the field of in-situ decontamination.

6. Environmental engineering

a) Recent developments

Business unit	Environmental Engineering		
Year	2003	2002	
Sales	€ millions	112.3	109.0

The environmental engineering of the Befesa group is carried out via Befesa Construcción y Tecnología Ambiental and Befesa Fluidos.

Befesa Construcción y Tecnología Ambiental focuses its business on designing, constructing and operating hydraulic infrastructures related to the integral water cycle and the treatment and management of solid urban wastes (RSU).

Befesa Construcción y Tecnología Ambiental has continued to grow with very high levels of penetration, demonstrating its competitiveness and its ability to apply integral and efficient technical solutions. This has been against a backdrop of an increasingly dynamic market, similar to the previous year, especially in the traditional areas of hydraulics, hydro-electric power stations, water and desalination treatment and significantly, the modernisation of irrigation systems providing both water savings and applying new technologies.

We would highlight the following among the most significant events:

- Section I, "Impulsión de Cortes" (Valencia) of the Júcar-Vinalopo water diversion channel (80 Hm<sup>3</sup>/year) for Aguas del Júcar. The project comprises a 63,900 Kw pumping station for a flow of 10 m<sup>3</sup>/s for 523 m, the propulsion (which has two tunnels, 2 raise-boring holes and a stability shaft along 1,400 m) and the gravitational transfer to the 580,000 m<sup>3</sup> storage tank.
- Impulsion (15,500 Kw), hydroelectric power plants (6,000 kVA for Tíjola and 3,150 kVA for Los Manueles) and remote control of the Negratín-Almanzora water diversion channel (50 Hm<sup>3</sup>/year) in Granada/Almería, for Aguas de la Cuenca del Sur.
- Renovation of the traditional watering system for Z.R. de Villareal (Castellón) with 1,250 Ha, comprising a storage pond, pumping station, automatic fertilizer plant, tube network, remote controlled system and a management building for Seiasa de la Meseta del Sur.
- Completion of the extension to the main pumping station of the irrigation zone on the north east coast of Cadiz with a 9.2 m<sup>3</sup>/s and 10 MVA capacity for the Confederación Hidrográfica del Guadalquivir (Guadalquivir Water Authority).
- Supply of drinking water to the administrative districts of Ribera del Xúquer (Valencia) for the sewage treatment company of the Community of Valencia comprising capacity and equipment for 6 bore holes with submergible groups of 315 kW and conduits to manage 1,000 l/s to the head tanks that supply a population of 358,000 inhabitants.
- Reverse osmosis sea water desalination with a flow of 65,000 m<sup>3</sup>/day of treated water for mains supply to 330,000 inhabitants for the towns of Campo de Cartagena (Murcia) for the Ministry for the Environment. The sea water capture phase via direct horizontal channels was completed in 2003.
- The El Atabal desalination plant for water coming from the Guadalteba-Guadalhorce, la Viñuela and El Limonero reservoirs and from the aquifer on which it sits, with recognised salinity levels of between 6,500 mg/l and 850 mg/l with a capacity of 165,000 m<sup>3</sup>/day, to reinforce the Malaga supply (600,000 inhabitants).

- Completion of Part XIII of the 100% purification plan for the Community of Madrid with the construction of 5 water treatment plants and their tanks, for a total population of 33,000 equivalent inhabitants for Canal de Isabel II (Madrid Water Authority).
- Flow grouping, tanks and a sewage water treatment plant for Cabezas (Seville) for treating waste waters from an equivalent population of 16,400 inhabitants, designed to handle an average flow of 3,000 m<sup>3</sup>/day with low-charge, prolonged aeration biological treatment, for Giasa.
- Completion of operation of the Rincón de la Victoria sewage water treatment plant (Malaga) following its construction designed for an equivalent population of 61,580 inhabitants, with tertiary treatment via ultraviolet and ring filters, which make it possible to use the effluent, 14,780 m<sup>3</sup>/day, irrigable, for the Confederación Hidrográfica del Sur (Southern Water Authority).
- Operation, conservation and maintenance services will continue to be provided for the sewage water treatment plant of the eastern sector in Barcelona with a total capacity of 24,300 m<sup>3</sup>/day, for the Catalan Water Authority and the maintenance and operation of the automatic system for water information of the Guadalquivir water catchment area, 5 control centres and 144 control points distributed throughout its 64,000 km<sup>2</sup>, for this authority.

Furthermore, in 2003 Befesa held 18% of the new company Agua y Gestión de Servicios Ambientales, S.A., created jointly with Grupo Ayesa, Codesa and Itsmo94 (companies with extensive experience in the water sector and in the provision of public services) and with additional significant financial support from the shareholding investment by El Monte de Piedad y Caja de Ahorros de Sevilla y Huelva (savings bank). During this period Agua y Gestión acquired Befesa's shareholding in Empresa Mixta de Servicios Municipales de El Ejido (Elsur) (Almería) and Aguas de Baena (Córdoba) as well as Aguas de la Janda and Aguas de Herrera from Endesa Diversificación. Agua y Gestión therefore began its business in the integral water cycle by managing the supply to 150,000 inhabitants in Andalusia.

During 2003 the wastes division has continued with the construction of the Guadalajara urban waste treatment centre with a capacity for 200,000 inhabitants, 80,000 t/yr, for the regional administration of Castilla La Mancha. It has also continued to provide operational services for the selection and composting plant of urban wastes from Utrera (Seville) for 100,000 inhabitants, for the district council of Bajo Guadalquivir and for the Consorcio del Poniente Almeriense refuse tip in El Ejido (Almería), with a capacity for 140,000 inhabitants. Additionally, it continues with the business of treating animal wastes via the operation of the Vilches treatment plant (Jaén).

Within environmental engineering, Befesa Fluidos specialises in industrial effluents (raw, processing and residual effluent).

We would highlight the following among the principal achievements:

- Effluent treatment plant for Hidroeléctrica del Cantábrico at its Aboño thermal power station (Asturias).
- Leachate treatment plant for the Limasa III refuse tip, Malaga.
- Water treatment plant and evaporation unit of the "El Sauz" combined cycle thermal power station in Mexico.
- Leachate treatment plant in the Pinto refuse tip in the Community of Madrid.
- Cepsa-Interquisa biological slurry treatment plant in Algeciras, Cadiz.
- New extension of the refrigeration systems of the Aceralia LD-III steelworks at Avilés.

d) Outlook

There has been an increase in tenders in the water market, continuing the trend from recent years, both from our largest client, the Ministry for the Environment and from state water companies, the Ministry for Agriculture, Fisheries and Food, via the state agricultural development agencies, as well as the rest of the public sector. The autonomous communities and municipalities responsible for sewage treatment and cleaning projects are making significant investments in order to complete them by 2005, in accordance with regulation 91/271.

Furthermore, Befesa CTA is currently in an unassailable position in the market for desalination plants, where its technical competence has been underlined by obtaining important contracts both at the national and international level. Its in-depth knowledge of this type of plant has contributed to the introduction of innovations that allow it to currently show a clear competitive advantage over other agents.

7. Latin America.

Befesa is present in Argentina, Chile, Mexico, Peru, Brazil and recently in Uruguay, where it offers waste management and industrial cleaning services.

During 2003 the development of Befesa's business in Latin America has been marked by the recovery that has begun to show through in Argentina and which has allowed the year to end positively. It has also been marked by the increase in sales activities in the other countries where Abengoa has a stable presence, which has resulted in the inauguration of the first eradication and treatment plant of hazardous industrial wastes in Peru and the awarding of a management contract for all industrial wastes from the Altonorte foundry in Chile belonging to the Noranda mining company.

Following the start of Befesa's sales activity in Chile last year, 2003 has begun to show results with the awarding of a five-year management contract of all the wastes generated by the Altonorte foundry (owned by the Noranda mining company). Likewise, partnership agreements have been signed with various Chilean companies to jointly undertake hazardous and non-hazardous industrial waste management projects.

During 2003, Befesa Mexico has continued with its plan to establish itself in the country, intensifying the sales activity in the various established business areas such as industrial cleaning, contaminated land treatment and management of hazardous and non-hazardous industrial wastes.

Befesa Peru currently has a 65,000 ton capacity safety deposit tank, a laboratory, a weighing machine and other installations as well as highly qualified personnel. It places an ideal environmental infrastructure for managing industrial and hazardous wastes at the service of industry and society.

During 2003 it has made significant efforts to promote the company to the country's principal industrial companies as well as among the different relevant public institutions. Numerous guided visits of the installations have been given to representatives from companies and institutions including the Directorate General for Environmental Health, the municipality of Chilca, the Agrarian University and the Dutch Chamber of Commerce, among others.

Befesa is currently the only company in the country that has an infrastructure that complies with the national and international legislation for the ultimate disposal of hazardous wastes and it actively contributes to defining and developing the sector.

The first wastes were received and operations commenced in June 2003 after all the corresponding legal authorizations had been obtained. Clients include Luz del Sur, Edelnor, Pluspetrol, Edegel and Digesa.

A substantial increase in activity is expected in 2004 arising from promotional activities, an improvement in industrial business, relationships with managers and the next publication of the legislative solid wastes regulation.

In 2003 MTC Engeharia changed its name to Befesa Brazil, becoming Befesa's vehicle for developing the environmental business in Brazil.

It has signed an agreement with a local company to develop and implement an eradication and treatment plant for hazardous and non-hazardous industrial wastes this year. During 2004 it expects to begin the industrial cleaning business and the treatment of contaminated land for the Brazilian oil company, Petrobras.

Befesa Uruguay has been created to carry out industrial waste management in the Uruguay.

With regards to Befesa Argentina, the most significant projects carried out are as follows:

- Cleaning basin tank H1201, La Plata refinery for Repsol YPF: last July mud from the basin tank was extracted and centrifuged and the solid wastes obtained were disposed of in secure landfill sites.
- Treatment of the old Pfizer plant site: The transport and final disposal of 3,200 tonnes of contaminated soil into secure landfill sites was carried out, from the site of the old Pfizer plant in the town of Moreno, Pcia. de Bs. As.
- Preparation, consolidation and export of PCBs – EPEC: Befesa Argentina carried out the preparation, consolidation and export tasks of approximately 60 tonnes of PCBs from the Cordoba Energy Company (EPEC), thereby starting the “Córdoba free of PCBs” program implemented by the provincial government.

Projects in progress:

- Alfa Laval plant operation + US Filter, La Plata refinery, Repsol YPF: The rental and operation contract of two Alfa Laval decanters owned by Befesa Argentina has been renewed by Repsol YPF in the La Plata US filter refinery plant. Likewise, Borg Austral has been awarded the contract to operate the slop oil modular plant owned by Repsol YPF.
- Transport and treatment of wastes in the temporary waste storage centre (CATRE), La Plata refinery, Repsol YPF: Transport and treatment of solid wastes generated at the La Plata refinery stored in the CATRE. More than 4,300 tonnes have been processed to date (using incineration processes in the prefecture of Pacheco and the final disposal in the prefecture of Campana).
- PCB preparation, consolidation and export – AA2000: The preparation of PCB contaminated wastes relating to the AA2000 company, located at the airports of Paraná and Ezeiza have been carried out and are to be exported at the start of 2004 to be finally destroyed.
- PCB preparation, consolidation and export – DuPont: The preparation of the DuPont capacitors at the Berazategui plant in order to be exported and finally destroyed at the start of 2004.

Order book contracts:

- Slop oil unit, tank 265, La Plata refinery, Repsol YPF: Befesa has been awarded the contract to process and recover hydrocarbons from approximately 3,500 m<sup>3</sup>/ month of product that will be processed from tank 265. Befesa is therefore preparing the tank enclosure to install the equipment. In order to be able to carry out this work according to the client's requirements, two decanters (Alfa Laval), two vertical centrifuges (Alfa Laval), four 20 m<sup>3</sup> tanks and a laboratory will be installed. The necessary labour for this project is 15 people. The contract will be for 12 months with the option to renew it for an additional 12 months.

- Tank 5206, La Plata refinery, Repsol YPF: A contract to carry out the extraction, cleaning, transport and treatment tasks of the sludges at the bottom of tank 5206 has been awarded. The volume to be treated will be approximately 500 m<sup>3</sup>.

### **C. Investment and finance forecasts for future business and expansion**

The policy of the Befesa Group, unchanged since its creation and it will continue in the future, is a policy of sustained growth, both organic through investing in increases in production capacity, in research and the development of new products, as well as investing through acquisition of shareholdings in companies within the industrial wastes management and recycling services sector.

The acquisitions policy will focus on profitable sectors with high added value with significant barriers to entry (high market shares, critical mass, control over supply and collection of raw materials) in which the Befesa Group can leverage its technological advantages and its presence in each business area to be able to create differentiation.

The financing of these investment projects will be carried out via operational cash-flow and, additionally, by using external financing via project and structured finance, including the possibility of stock-swaps or issuing debt or other fixed income or equity securities.

### **D. Detailed description of the principal company risks.**

There are no significant risks to mention except for those that are usual and inherent in the activities that Befesa Medio Ambiente carries out and that relate to the Spanish environmental sector for these activities.

### **E. Evolution of the commitments adopted by core shareholders**

There are no commitments adopted by shareholders with significant shareholdings that affect their investment in the company's capital, their membership of the Board of Directors or their participation in subsequent financing transactions.

Yours faithfully,

Signed: Javier Molina Montes

Chairman of the Board of Directors