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# Report from the Chairman

In Befesa we provide innovative and viable solutions for the treatment and management of industrial waste, and develop activities that comprehensively encompass the integral water cycle.

# Report from the Chairman



## Report from the Chairman 2009

The year 2009 has presented numerous challenges and contrasts for Befesa. While we have had to face a very complex market situation in the sector of industrial waste recycling, as a result of the general economic situation, we have also continued to grow and to expand internationally in the water sector.

A proof of the aforesaid is the decrease in the total turnover, which decreased from 873 M€ in 2008, to 722 M€ in 2009, which means a decline of 17%. In terms of EBITDA, the decrease was 24%, from 158 M€ in 2008 to 119 M€ in 2009. If we put aside the extraordinary effect in 2008 resulting from the

sale of desulphurization plots by Befesa, in the municipality of Baracaldo (Vizcaya), an increase of 1% in the EBITDA takes place in 2009, in comparison with the 118 M€ in 2008, the increase being 14% in terms of net income, comparing the 40 M€ of 2009 with the 35 M€ of 2008.

Likewise, direct sales in international markets have reached 51% of the total turnover, which shows the expansion and geographical diversification that we are carrying out, with offices in 20 countries and on four out of five continents. If we consider the sales in the national market, with customers which are major multinational companies focusing most of their production on exports, and with an activity which depends on demand and the European market, we see that more than 75% of Befesa sales depend on international markets.



*Befesa is an international company specialized in the integral management of industrial waste and the management and generation of water.*

By analyzing the two sectors in which Befesa divides its activity, the business sector of industrial waste recycling has decreased its turnover in 34%, in comparison with the turnover during same period of 2008. This sector has been seriously harmed by the economic crisis in the industrial sector. This decrease in sales is a result of the reduction in the volumes of treated waste, as well as of the reduction of the price of the said treated waste.

In spite of that, Befesa has been able to react and respond to this change in the market, taking a series of measures aimed at protecting the operating margins and at continuing to generate cash flow, which has become one of our priorities.

In this regard, while we have reduced the structure of fixed costs and general expenditure, we have also been able to modify the levels of production in

order to adapt them to the demand. As well, we have been particularly stringent in the analysis of the investments we have carried out, which have also been reduced to necessary investments in keeping productive assets and strategic opportunities that may have arisen. From the commercial point of view, we have focused our efforts on searching for new customers in new regions, therefore increasing our presence in new countries and developing an additional commercial effort. All these initiatives have helped Befesa to cope with the difficult market situation and to behave reasonably better than the sector in which we provide our services.

The water sector has performed positively, in terms of growth and profitability. The water market in general and the global desalination market in

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particular are currently going through a significant growth, and they are expected to continue to grow during the next 10 years at double-digit rates. This, together with the good position that Befesa has in this industry, gives us considerable opportunities to continue to grow.

During 2009 we continued to run four major desalination plants in Algeria and India, and we have closed financing in China. As a result, the income generated by this activity has grown 29% in comparison with 2009, reaching 285 M€. Also, we have increased significantly our portfolio of awarded projects, both nationally and internationally, reaching a value of 498 M€ at the end of 2009, which allows us to have a better view of the business in a medium and long term. We also have a significant number of projects in several bidding stages, some of them being significantly big and important.

In 2009, we increased our investment on R&D up to a total of 7 M€, which means an increase of 35% in comparison with 2008. This increase shows Befesa's commitment to R&D, considering it as one of the main levers to achieve our goals. In this regard, R&D plays a crucial role both in the industrial waste

recycling sector, where it focuses on the efficiency of production processes and on the development of new waste treatment technologies, as well as in the water sector, where the main goals are the energy optimization of all the desalination processes in all their stages, and the research and development of new desalination technologies. With this we intend to keep our leadership position in the businesses on which we are currently operating, maintaining our competitive position and allowing us to grow in a long term.

During 2009, major events took place for Befesa, some of them being especially significant:

- The acquisition of Agor's productive assets in Germany. In June 2009, we acquired, for 23.4 M€, the total productive assets of German companies Aluminium-Salzschlacke Aufbereitungs GmbH and Alsa Süd GmbH, which specialize in the treatment and recycling of salty slags.

The assets acquired include three productive plants based in German towns of Hannover, Lünen and Töging, equipped with the highest technology in the market, and with a global

treatment capacity per year of 380,000 t of waste with a replacement value which exceeds the 100 M€. The overall external financing was provided by Commerzbank within the framework of a nonrecourse transaction.

These new plants, together with the ones that Befesa already owned in Valladolid and Wales (United Kingdom), positions Befesa as a leader in the recycling of salty slags in Europe, with five productive plants strategically located over the European continent.

- Financing the desalination plant of Qingdao. In July 2009, we closed the 25-year financing for the design, construction and development of the salt water desalination plant in Qingdao, in China. The project, which entails a total investment of 135 M€, was financed by a syndicate of local Banks, which funded without recourse 70% of the investment to shareholders.

The desalination plant will be built in the city of Qingdao, the second commercial port in the North of China, in the province of Shandong. With a desalination capacity of 100,000 m<sup>3</sup> of

water per day, it will supply a population of 500,000 people with drinkable water. The desalination plant will use the reverse-osmosis technology, both in the pre-treatment (ultra-filtration membranes), and in the centralized pumping system, therefore achieving a higher energy efficiency.

During the 25 years of operation, the desalination plant will generate an income exceeding 552 M€ from water sale and other additional 25 M€ for technical support for the operation. The financial closure of the works has represented a significant landmark, being the first desalination project developed with project finance and fully funded by local Banks, as well as a pioneer project of supply of desalinated water in China. This confirms Befesa's capacity to continue to finance the development of important infrastructures and projects in a very difficult environment given the global crisis, as well as our strategic commitment to being a leading company in desalination.

- Opening of R&D premises. In September 2009, we opened the R&D premises that Befesa has built in the town of Dos Hermanas, in Sevilla,

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and which is committed to becoming an international reference in the development of new technologies for the treatment of waters and the management of industrial waste.

The new premises show Befesa's strong commitment to research, development and innovation, as a cornerstone for achieving Befesa's technological leadership in the treatment of waters, particularly in desalination and re-use, and in waste recycling. For that purpose, 70 researchers in the premises have the newest scientific and technological resources.

The premises have been designed under the sustainable architecture guidelines, therefore incorporating several measures that turn it into a model of excellence in environmental management: use of recycled materials and resources, control systems for energy saving, solar energy intake, reduction of water consumption, among others.

In Befesa we have an ambitious strategic R&D plan, and the R&D premises should become an essential lever for accomplishing such strategic plan.

- CENIT award to Project TEcoAgua. In September 2009, the Ministry of Science and Innovation approved the project TEcoAgua, "Sustainable Technologies for the Water Management Cycle", conducted by Befesa Agua, as a part of the fifth call from the National Strategic Consortia on Technical Research Program (CENIT-E). The Project TEcoAgua will be developed by a consortium including 13 companies and 22 research institutions, and will have a total budget of 28 M€, for a period of four years.

The main goal of this project is the development of sustainable technologies for the generation of alternative hydric resources. For such purpose, advanced technologies for the recovery of contaminated natural resources, re-generation and re-use of wastewater have been incorporated, as well as new desalination processes, among others. Another basic aspect to be developed by this project is the preservation of existing resources and the optimization of hydric management from an energy-efficiency point of view, as well as the mitigation of the climatic change.

The support received for the project will

contribute to better manage the hydric resources available and to generate new alternative resources.

In short, 2009 has been a year in which Befesa has dealt with big difficulties and challenges. We have been able to take the appropriate measures on time in order to offset the effects of the economic situation and to make the most of the opportunities that may have arisen, which gives us a good position in order to take advantage of the recovery of the business cycle.

For 2010, our forecast is optimistic and we expect to grow both in sales and in profitability. We expect a partial recovery in the recycling sectors that may have been affected by the decrease in the industrial activity in Europe, which, together with our leadership position in niches such as steel or aluminium waste recycling, will contribute to the growth of the said sector.

In the water sector we expect to keep on growing. In 2010, we will start operating the desalination plant of Chennai (India), implement the desalination plant in Honaine (Algeria) and initiate the construction of the desalination plant in Qingdao

(China). We will also keep active in the search of opportunities in new water projects, especially in desalination, both in the countries where we have a stable presence and in new regions.

We keep thinking that the main principles governing the activity we develop in Befesa, based on the sustainable development, are still valid, and they will be, regardless of the global economic situation, since they depend on global trends, such as the increase in world population, the increase in generated industrial waste, and the lack of access to drinkable water in many regions of the planet.

Befesa is becoming more and more global, with a stable presence in numerous regions and whose sales in markets outside of Spain are and will continue to be more significant, therefore reducing the dependence from Spanish economy.

Also, in Befesa we have a solid financial structure, as well as efficient management systems, which, together with the characteristics of the sectors where we operate, allow us to face the future optimistically.

The average number of employees of Befesa in 2009 increased to 2,681 people, even though at the

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close of the fiscal year the staff includes 2,833. This means an increase of 19% in the number of employees compared to the end of 2008, showing the growth of the water sector.

At Befesa, we manage gas emissions that cause the greenhouse effect, having initiated in 2009 the implementation of an ambitious plan intended to measure and audit on an annual basis both our emissions and our suppliers' emissions, as well as to implement actions to reduce such emissions. This is a very demanding initiative that shows our commitment to sustainable development and our wish to act before future, more demanding, regulations are issued.

In Befesa we consider the social corporate responsibility as one of the cornerstones of our present and future strategy. Therefore, we incorporate into our daily activities corporate social responsibility values which integrate naturally with our strategy, culture and organization through our management systems, environmental, quality and human resources policies.

Javier Molina Montes  
Chairman of Befesa

