



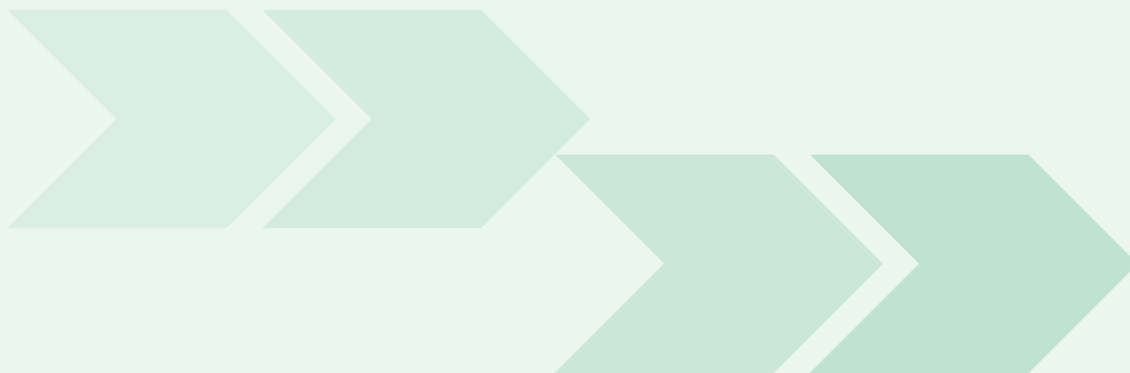


**FINANCIAL STATEMENTS**

**MANAGEMENT REPORT - AUDITOR'S REPORT**

**FOMENTO DE CONSTRUCCIONES  
Y CONTRATAS, S.A.**





# FINANCIAL STATEMENTS

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

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# BALANCE SHEET

## FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

ASSETS	12.31.2005	12.31.2004
<b>FIXED AND OTHER NONCURRENT ASSETS</b>	<b>1,682,692</b>	<b>1,657,957</b>
Intangible assets	73,387	81,244
Concessions, patents, licenses, trademarks and other	34,582	29,635
Rights on leased assets	64,848	81,159
Accumulated amortization	(26,043)	(29,550)
<b>Tangible fixed assets</b>	<b>305,934</b>	<b>278,515</b>
Land and structures	161,799	157,947
Plant and machinery	389,231	320,340
Other fixtures, tools and furniture	93,051	80,166
Advances and construction in progress	14,018	25,017
Other tangible fixed assets	15,470	15,514
Allowances	(311)	(311)
Accumulated depreciation	(367,324)	(320,158)
<b>Long-term investments</b>	<b>1,293,949</b>	<b>1,288,776</b>
Investments in Group companies	1,139,943	1,139,334
Investments in associated companies	244,321	244,296
Loans to Group and associated companies	3,404	3,426
Long-term investment securities	13,788	13,788
Other loans	10,871	10,503
Long-term deposits and guarantees given	4,771	4,798
Allowances	(123,149)	(127,369)
Treasury stock	9,422	9,422
<b>DEFERRED CHARGES</b>	<b>5,334</b>	<b>5,414</b>
<b>CURRENT ASSETS</b>	<b>853,171</b>	<b>497,700</b>
Inventories	6,151	12,998
Raw materials and other supplies	6,071	5,610
Finished goods	—	3,227
Advances	80	4,885
Allowances	—	(724)
<b>Accounts receivable</b>	<b>743,992</b>	<b>424,976</b>
Trade receivables for sales and services	366,254	314,822
Receivable from Group companies	299,182	35,138
Receivable from associated companies	4,520	6,812
Sundry accounts receivable	9,904	11,741
Employee receivables	776	628
Tax receivables	75,060	65,235
Allowances	(11,704)	(9,400)
<b>Short-term investments</b>	<b>48,753</b>	<b>33,865</b>
Loans to Group companies	30,963	14,668
Loans to associated companies	15,508	11,373
Short-term investment securities	64	6,616
Other loans	2,064	978
Short-term deposits and guarantees given	502	578
Allowances	(348)	(348)
Cash	50,652	23,306
Accrual accounts	3,623	2,555
<b>TOTAL ASSETS</b>	<b>2,541,197</b>	<b>2,161,071</b>

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## AS OF DECEMBER 31, 2005 AND 2004

In thousands of euros

SHAREHOLDERS' EQUITY AND LIABILITIES	12.31.2005	12.31.2004
<b>SHAREHOLDERS' EQUITY</b>	<b>970,395</b>	<b>921,014</b>
Capital stock	130,567	130,567
Additional paid-in capital	242,133	242,133
Reserves	459,823	440,177
Legal reserve	26,113	26,113
Reserves for treasury stock	9,422	9,422
Reserve for retired capital	2,770	2,770
Voluntary reserves	421,518	401,872
Income for the year	237,554	196,628
Interim dividend	(99,682)	(88,491)
<b>DEFERRED REVENUES</b>	<b>4,771</b>	<b>4,517</b>
Capital subsidies	4,740	4,517
Other deferred revenues	31	—
<b>PROVISIONS FOR CONTINGENCIES AND EXPENSES</b>	<b>159,949</b>	<b>140,496</b>
Provisions	149,273	130,228
Reversion reserve	10,676	10,268
<b>LONG-TERM DEBT</b>	<b>27,056</b>	<b>29,587</b>
Payable to credit institutions	2,596	3,578
Loans and other payables	196	285
Long-term lease payments payable	2,400	3,293
Other payables	24,460	26,009
Limited recourse project financing loans	7,733	9,684
Long-term guarantees and deposits received	4,884	4,274
Long-term taxes payable	11,843	12,051
<b>CURRENT LIABILITIES</b>	<b>1,379,026</b>	<b>1,065,457</b>
Payable to credit institutions	22,530	20,510
Loans and other payables	31	5,293
Interest payable	284	425
Short-term lease payments payable	22,215	14,792
Payable to Group and associated companies	833,680	594,224
Payable to Group companies	830,284	590,154
Payable to associated companies	3,396	4,070
Trade accounts payable	178,274	156,545
Advances received on orders	26,235	19,328
Accounts payable for purchases and services	91,645	77,066
Notes payable	60,394	60,151
Other nontrade payables	310,259	248,211
Taxes payable	148,989	113,581
Notes payable	5,949	3,349
Limited recourse project financing loans	1,951	3,797
Other payables	127,827	105,768
Compensation payable	25,345	21,621
Short-term guarantees and deposits received	198	95
Operating allowances	34,074	45,454
Accrual accounts	209	513
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,541,197</b>	<b>2,161,071</b>

# STATEMENT OF INCOME

## FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

DEBIT	12.31.2005	12.31.2004
<b>TOTAL OPERATING EXPENSES</b>	<b>889,973</b>	<b>839,832</b>
Decrease in finished goods and work-in-process inventories	3,222	59
Cost of materials used and other external	156,454	156,909
Raw materials and other consumables used	78,673	79,039
Other external expenses	77,781	77,870
Personnel expenses	537,410	485,191
Wages, salaries and similar expenses	403,261	366,695
Employee welfare expenses	134,149	118,496
Depreciation and amortization expense	50,669	50,932
Variation in operating allowances	2,682	17,459
Variation in inventory allowances	(724)	(13)
Variation in allowances for and losses on uncollectible receivables	2,742	35
Variation in other operating allowances	664	17,437
Other operating expenses	139,536	129,282
Outside services	134,567	124,795
Taxes other than income tax	4,154	3,543
Provision to the reversion reserve	815	944
<b>OPERATING INCOME</b>	<b>106,539</b>	<b>84,310</b>
Financial expenses	18,888	21,955
On debts to Group and associated companies	12,675	11,031
On debts to third parties and similar expenses	6,213	6,228
Losses on investments	—	4,696
Variation in investment valuation allowances	—	4,115
Exchange losses	57	128
<b>FINANCIAL INCOME</b>	<b>165,092</b>	<b>169,582</b>
<b>INCOME FROM ORDINARY ACTIVITIES</b>	<b>271,631</b>	<b>253,892</b>
Variation in intangible asset, tangible fixed asset and control portfolio allowances	(4,220)	2,233
Losses on fixed assets	638	211
Extraordinary expenses and losses	9,873	32,113
<b>INCOME BEFORE TAXES</b>	<b>267,546</b>	<b>220,082</b>
Corporate income tax	29,992	23,454
<b>INCOME FOR THE YEAR</b>	<b>237,554</b>	<b>196,628</b>

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.



## AS OF DECEMBER 31, 2005 AND 2004

In thousands of euros

<b>CREDIT</b>	<b>12.31.2005</b>	<b>12.31.2004</b>
<b>TOTAL OPERATING REVENUES</b>	<b>996,512</b>	<b>924,142</b>
Net sales	917,562	834,726
Capitalized expenses of in-house work on fixed assets	611	1,335
Other operating revenues	78,339	88,081

<b>Revenues from equity investments</b>	<b>181,135</b>	<b>192,354</b>
Group companies	149,096	162,194
Associated companies	32,039	26,343
Nongroup companies	—	3,817
<b>Revenues from other marketable securities and noncurrent loans</b>	<b>459</b>	<b>598</b>
Associated companies	120	132
Nongroup companies	339	466
<b>Other financial revenues</b>	<b>2,121</b>	<b>2,807</b>
Group and associated companies	144	11
Other interest	863	2,276
Gains on investments	1,114	520
<b>Exchange gains</b>	<b>322</b>	<b>21</b>

Gains on fixed assets and control portfolio	351	—
Capital subsidies transferred to income for the year	438	406
Extraordinary revenues	1,417	341

<b>EXTRAORDINARY LOSS</b>	<b>4,085</b>	<b>33,810</b>
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## NOTES

### FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. AS OF DECEMBER 31, 2005 AND 2004

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## 1. COMPANY'S BUSINESS ACTIVITIES

The Company's core business is to provide general services, which include mainly the collection and treatment of solid waste, the cleaning of public streets and drainage systems, the maintenance of green areas and buildings, water purification and distribution and other complementary services.

Fomento de Construcciones y Contratas, S.A. is the parent company of the FCC Group, comprising a group of Spanish and foreign subsidiaries and associated companies engaged in a variety of activities, i.e. construction, urban cleaning and integrated water cycle services, car parks, street furniture, passenger transportation, vehicle roadworthiness test, assistance to passengers and aircraft on land, logistics, cement factory, real estate, etc.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements, which were prepared from the accounting records of Fomento de Construcciones y Contratas, S.A. and of the joint ventures in which it participates, are presented in accordance with the revised Corporations Law, Royal Decree 1564/1989 and subsequent changes and the Spanish National Chart of Accounts, Royal Decree 1643/1990 with the sectorial plans implementing it.

The financial statements are stated in thousands of euros.

The balance sheets and income statements of the joint ventures in which the Company participates were proportionally consolidated on the basis of the percentage share in the income, revenues and expenses of each joint venture.

The Company has an 80% ownership interest in the Torre Picasso building, which is being operated through an owners' association. Consequently, the financial statements include the assets, liabilities, revenues and expenses of this association based on the percentage of the Company's ownership interest.

The joint ventures and the owners' association were included by making the necessary uniformity adjustments, reconciliations and reclassifications and by eliminating reciprocal asset and liability balances and revenues and expenses. The detail of any material amounts relating thereto is included in these notes to financial statements.

Exhibit II lists the joint ventures, showing the percentage share in income.

The financial statements of Fomento de Construcciones y Contratas, S.A., which were prepared by its directors, have not yet been approved by the Shareholders' Meeting. However, it is expected that they will be approved without any changes.

Under current legislation, Fomento de Construcciones y Contratas, S.A. is the head of a corporate group which presents consolidated financial statements separately from the accompanying financial statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and Council on July 19, 2002. The consolidated financial statements of the FCC Group for 2005, prepared by the directors, will also be submitted for approval by the Shareholders' Meeting.

The effect of consolidation of Fomento de Construcciones y Contratas, S.A., based on a comparison between the individual financial statements of the Company and the consolidated financial statements, would have been to increase reserves and income as of December 31, 2005, for the year by €1,001,035 thousand and €183,844 thousand, respectively, and assets by €6,321,503 thousand.

### 3. DISTRIBUTION OF INCOME

The proposed distribution of the 2005 income of Fomento de Construcciones y Contratas, S.A. that will be submitted for approval by the Shareholders' Meeting is as follows:

	Amount
Income for the year, before distribution	237,554
<b>Distribution:</b>	
Interim dividend	<b>€0.766 per share</b>
Final dividend	<b>€0.766 per share</b>
<b>To voluntary reserve:</b> The amount remaining after payment of the interim and final dividends on the shares outstanding entitled to remuneration at the date of payment will be allocated to this reserve.	

On December 21, 2005, Fomento de Construcciones y Contratas, S.A. resolved to distribute an interim dividend of €0.766 per share out of 2005 income, equivalent to 76.6% (gross) on the par value of the shares. This dividend, totaling €99,682 thousand, was paid from January 9, 2006, on the dividend-entitled shares.

The Board of Directors' report evidencing the existence of sufficient liquidity for the distribution of the aforementioned interim dividend is included as Exhibit IV hereto.

### 4. VALUATION STANDARDS

The main accounting principles and valuation methods applied by the Company in preparing its financial statements were as follows:

#### a) Intangible assets

Intangible assets are recorded at cost.

Leased assets are amortized by the straight-line method over the years of estimated useful life, which are the same as those for tangible fixed assets, and administrative concessions are amortized over the concession period, which ranges on average from 25 to 50 years.

#### b) Tangible fixed assets

Tangible fixed assets are carried at acquisition cost or at production cost if the Company has performed in-house work thereon.

Upkeep and maintenance expenses not leading to a lengthening of the useful life or to increased production capacity of the related assets are expensed currently.

Tangible fixed assets are depreciated by the straight-line method at rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Buildings and other structures	25 – 50
Torre Picasso building	75
Plant and machinery	5 – 15
Other fixtures, tools and furniture	8 – 12
Other tangible fixed assets	4 – 10

Tangible fixed assets assigned exclusively to certain specific contracts are depreciated over the shorter of the years of useful life indicated above or the contract term.

**c) Deferred financial expenses relating to the financing of fixed assets**

The interest on loans used to finance fixed assets is generally expensed currently. However, for fixed assets with a long construction period, the cost includes the interest accrued relating to their financing until they come into use. No material amounts are involved.

Also, the Company capitalizes the financial expenses arising from the financing of the fixed assets required to carry on its water supply/treatment line of business, in accordance with the Spanish National Chart of Accounts specific to this industry. The expenses thus capitalized are deferred over the term of the service, provided that there is evidence that future revenues will enable the costs previously incurred to be recovered.

The interest capitalized as described in the preceding paragraph is included under the "Deferred Charges" caption in the accompanying balance sheet.

**d) Long-term investments. Marketable securities and nontrade loans**

In accordance with current legislation, investments in listed and unlisted marketable securities are valued at cost, net of the required allowances for decline in value. The effect of applying this method is that all unrealized losses existing at year-end are recorded, but unrealized gains are not, except for those disclosed at the time of acquisition and still existing at the date of subsequent valuation.

Loans are valued at the amount delivered plus the unmatured accrued interest at the balance-sheet date. The necessary value adjustments are made by recording allowances for loans with possible recovery problems.

Securities and loans maturing in under 12 months from the balance-sheet date are classified as short-term (current assets) and those maturing at over 12 months as long-term (noncurrent assets). Other investments of a permanent nature are classified as long-term investments.

**e) Inventories**

Inventories are valued at average acquisition price or average production cost and the necessary value adjustments are made to mark the carrying values to market, if this is lower. Allowances are also recorded for the decline in value of obsolete inventories.

**f) Treasury stock**

Treasury stock is valued at the lower of average cost or market or, where applicable, at approximate underlying book values in accordance with the accounting principle of prudence.

**g) Subsidies**

Nonrefundable capital subsidies are taken to income in proportion to the period depreciation of the subsidized assets.

**h) Provisions for pensions and similar obligations**

The Company has not established any pension plans to supplement the social security pension benefits, pursuant to the revised Pension Fund and Plan Law. In specific cases in which similar obligations exist, the Company externalizes its commitments to its employees in this connection.

Also, in the past an insurance policy was arranged and the related premium paid to cover the payment of contingencies relating to death and permanent occupational disability and to bonuses and retirement pensions and other benefits for, among others, the executive directors and senior executives. In particular, the contingencies giving rise to indemnity are those which trigger the termination of the labor relationship for any of the following reasons:

- a) Decision by the company.
- b) Dissolution or closure of the parent company for any reason, including merger or spin-off.
- c) Death or permanent disability.
- d) Other causes of physical or legal disability.
- e) Substantial modification to the professional conditions.
- f) Resignation, on reaching 60 years of age, at the request of the executive and with the Company's approval.
- g) Resignation, on reaching 65 years of age, as decided by the executive.

The accompanying statement of income includes premiums paid for this insurance amounting to €2,850 thousand and rebates of €1,281 thousand. As of December 31, 2005, after payment of the above-mentioned net payments, the fair value of the premiums contributed covers all of the actuarial commitments.

**i) Provisions for contingencies and expenses**

The Company has recorded provisions for contingencies and expenses relating to the estimated amount required for probable or certain third-party liability and for outstanding obligations whose exact amount cannot yet be fully determined or whose date of payment is uncertain, since they are dependent on the fulfillment of certain conditions. These provisions are recorded when the related liability or obligation arises.

**j) Reversion reserve**

The Company records a reversion reserve for assets subject to administrative concessions which revert to the grantor entity at the end of the concession period. This reserve is calculated by supplementing the depreciation of the related asset, so that at the end of the concession period the net book value (after deduction of the related accumulated depreciation) is zero.

Additionally, the Company considers that the periodic maintenance plans for its assets, the cost of which is expensed currently, are sufficient to ensure delivery of the revertible assets in good working order at the end of the concession periods and that, therefore, no significant expenses will arise as a result of the reversion.

**k) Classification of debt**

Debts maturing in under 12 months from the balance-sheet date are classified as current liabilities and those maturing at over 12 months as long-term debt.

Debts are valued at the amounts drawn plus the unmatured accrued interest. Nontrade debts are carried at their repayment value and the interest on the transaction is recorded under the "Deferred Charges" or "Accrual Accounts" captions on the asset side of the balance sheet, depending on whether the principal amount is classified as long- or short-term. The interest is taken to income on the basis of the principal amount outstanding.

**l) Corporate income tax**

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income for corporate income tax purposes and book income, which do not reverse in subsequent periods. To this adjusted book income the Company applies the current tax rate and deducts the tax credits and tax relief earned in the year.

**m) Foreign currency transactions**

Balances receivable and payable in foreign currencies are translated to euros at the exchange rates prevailing at the date of the balance sheet, and the differences that arise are taken to income as stipulated by current regulations.

The differences resulting from fluctuations in exchange rates from the date on which the transactions were made, or the related values were adjusted, to the date of collection or payment are taken to period income.

**n) Recognition of revenues and expenses**

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

The Company recognizes as the period result on its contracts the difference between period production (valued at the sale price of the service provided during the period, as specified in the principal contract or in approved amendments thereto, and the sale price of other as yet unapproved services for which there is reasonable assurance of recovery) and the costs incurred. Additionally, late-payment interest is recognized as a revenue when it is approved or finally collected.

The difference between the amount of production and the amount billed through the date of the financial statements is recorded as "Completed Production Pending Billing" under the "Trade Receivables for Sales and Services" caption. Prebillings for various items are recorded under the "Advances Received on Orders" caption on the liability side of the balance sheet.

In accordance with the accounting principle of prudence, the Company only records realized income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known, by booking the appropriate provisions (see Notes 4-i and 12).

**o) Environmental information**

As indicated in Note 1, the Company engages mainly in services activities which, due to their nature, involve special care in controlling environmental impact. For example, with regard to the operation under concession of landfills, the Company is generally responsible for the sealing, control and reforestation thereof on completion of operations. Also, the Company has fixed assets for the protection of the environment and bears any expenses that may be required for this purpose in the performance of its business activities.

The acquisition costs of these fixed assets used in environmental conservation are recorded under the "Tangible Fixed Assets" or "Intangible Assets" captions based on the nature of the investment, and are amortized or depreciated over their useful lives. Also, in accordance with current accounting regulations, the Company records the expenses and provisions arising from such environmental commitments.

**p) Derivatives**

Pursuant to Article 200 of the revised Corporations Law amended by Law 62/2003, in certain cases the interest rate risk relating to debt is hedged through futures and derivatives. The transaction expenses and the differences arising due to interest rate fluctuations are charged to income by the same timing of recognition method as that used for the costs of the main debt hedged. The Company has the hedging derivative detailed in Note 13.a.

In addition it has two derivatives, maturing in 2006 and 2007, which were transferred in July 2004 to Fomento de Construcciones y Contratas, S.A. from Grubarges Inversión Hotelera, S.A. as a consequence of the sale of the latter's assets. These interest rate risk derivatives were arranged by Grubarges Inversión Hotelera, S.A. in US dollars to cover its syndicated loan without recourse obligations. The syndicated loan was repaid upon the sale of the latter company's assets, although the derivatives remained in force at the time of repayment. Accordingly, since 2004 they have not been classified as hedges since they do not meet the conditions established in accounting legislation to be considered as such. At that time interest rates in the US were at an all time low, and considering the forecasts of successive increases in interest rates and in order to minimize the impact on the statement of income, it was decided not to cancel the derivatives until their maturity and to assume the related payment obligations, recording a provision for their present estimated value. At year-end this value was €616 thousand and is recorded under the "Provisions for Contingencies and Expenses" caption in the accompanying balance sheet, having credited €1,114 thousand to income.

**5. INTANGIBLE ASSETS**

The variations in 2005 in this caption of the accompanying balance sheet were as follows:

	Balance at 12.31.04	Additions or Provisions	Retirements or Reductions	Transfer	Balance at 12.31.05
Concessions, patents, licenses, trademarks and other	29,635	5,059	(112)	—	34,582
Rights on leased assets	81,159	35,747	—	(52,058)	64,848
Accumulated amortization	(29,550)	(8,435)	68	11,874	(26,043)
	<b>81,244</b>	<b>32,371</b>	<b>(44)</b>	<b>(40,184)</b>	<b>73,387</b>

The "Concessions, Patents, Licenses, Trademarks and Other" account relates mainly to joint ventures and includes most notably the amounts paid for concessions for, inter alia, water supply services, which are being amortized on a straight-line basis over the concession period.

The features of the financial lease contracts in force at 2005 year-end are as follows:

Original cost of the assets	64,848
Value of purchase options	609
Contract term (years)	2
Lease payments paid in the year	28,748
Lease payments paid in prior years	12,612
Lease payments outstanding, including purchase option	24,615

The detail of leased assets as of December 31, 2005, is as follows:

Plant and machinery	55,799
Other fixtures, tools and furniture	8,380
Other fixed assets	669
	<b>64,848</b>



## 6. TANGIBLE FIXED ASSETS

The detail of tangible fixed assets and of the related accumulated depreciation as of December 31, 2005, is as follows:

	Cost	Accumulated Depreciation	Allowances	Net
Land and structures	161,799	(54,204)	(311)	107,284
Plant and machinery	389,231	(242,643)	—	146,588
Other fixtures, tools and furniture	93,051	(58,600)	—	34,451
Advances and construction in progress	14,018	—	—	14,018
Other tangible fixed assets	15,470	(11,877)	—	3,593
	<b>673,569</b>	<b>(367,324)</b>	<b>(311)</b>	<b>305,934</b>

€63,140 thousand of the net balance of tangible fixed assets relate to joint ventures.

All the tangible fixed assets were being used in production at 2005 year-end; however, €182,506 thousand of tangible fixed assets had been fully depreciated.

The Company takes out the insurance policies it considers necessary to cover the possible risks to which its tangible fixed assets are subject.

The variations in tangible fixed asset accounts, broken down to show the additions and retirements in 2005, were as follows:

	Balance at 12.31.04	Additions or Provisions	Retirements or Reductions	Transfer	Balance at 12.31.05
Land and structures	157,947	2,816	(27)	1,063	161,799
Plant and machinery	320,340	7,096	(6,489)	68,284	389,231
Other fixtures, tools and furniture	80,166	6,552	(1,974)	8,307	93,051
Advances and construction in progress	25,017	14,861	—	(25,860)	14,018
Other tangible fixed assets	15,514	584	(892)	264	15,470
Allowances	(311)	—	—	—	(311)
Accumulated depreciation	(320,158)	(42,234)	6,942	(11,874)	(367,324)
	<b>278,515</b>	<b>(10,325)</b>	<b>(2,440)</b>	<b>40,184</b>	<b>305,934</b>

## 7. LONG-AND SHORT-TERM INVESTMENTS. MARKETABLE SECURITIES AND NONTRADE LOANS

### I) Long-term investments

The detail of variations in this caption is as follows:

	Balance at 12.31.04	Additions or Provisions	Retirements or Reductions	Transfer	Balance at 12.31.05
Investments in Group companies	1,139,334	720	(111)	—	1,139,943
Investments in associated companies	244,296	25	—	—	244,321
Loans to Group and associated companies	3,426	310	—	(332)	3,404
Long-term investment securities	13,788	—	—	—	13,788
Other loans	10,503	694	(100)	(226)	10,871
Long-term deposits and guarantees given	4,798	241	(270)	2	4,771
Allowances	(127,369)	(1,861)	6,081	—	(123,149)
	<b>1,288,776</b>	<b>129</b>	<b>5,600</b>	<b>(556)</b>	<b>1,293,949</b>

The addition to investments in Group companies relates to the initial capital contribution to Empresa Municipal de Desarrollo Sostenible Ambiental de Úbeda, S.L.

In relation to allowance variations, noteworthy were the provision of €1,637 thousand for Egypt Environmental Services S.A.E. and the reversals of €5,431 thousand for Proactiva Medio Ambiente, S.A. and €509 thousand for AEBA Ambiente y Ecología de Buenos Aires, S.A.

The detail, by company, of investments in Group and associated companies is provided in Exhibits I and III, respectively, indicating, for each company in which the Company has a direct holding, the following data: corporate name, address, line of business, percentage of direct or indirect ownership, capital stock and reserves, income (loss), dividends received, listing status, and the book value of the holding.

The breakdown of the “Long-Term Investment Securities” account balance is as follows:

	Book value	
	Assets	Allowances
Artscapital Investment, S.A. (10.83% shareholding)	4,171	(4,171)
Shopnet Brokers, S.A. (15.54% shareholding)	2,796	(2,796)
Xfera Móviles, S.A. (7.76% shareholding)	5,413	(5,413)
Other	1,408	(72)
	<b>13,788</b>	<b>(12,452)</b>

In relation to the investment in Xfera Móviles, S.A., a UMTS wireless telephony license-holder, Fomento de Construcciones y Contratas, S.A. has been a direct or indirect shareholder of this company since 2000, initially through an indirect holding of 17.23% in Venditelecom España, S.L. which in turn held 29.49% of Xfera Móviles, S.A., signifying that Fomento de Construcciones y Contratas, S.A. had an effective holding of 5.08% in this company. In 2003 the Vivendi Group decided to withdraw from Xfera. This change in shareholding included the sale of all the shares of Xfera Móviles, S.A. held by Venditelecom España, S.L. to certain shareholders of the latter, including Fomento de Construcciones y Contratas, S.A.; as a consequence, the Company became the holder of a direct investment of 7.47% in the capital of Xfera Móviles, S.A. through the acquisition of shares from Venditelecom España, S.L. and Vivendi Telecom Internacional, S.A. for €0.24 each. The investment currently held by Fomento de Construcciones y Contratas, S.A. in Xfera, through Venditelecom España, S.L., amounted to €26,776 thousand which had been provisioned in full with charges to income in 2002 and 2003.

In 2004 further changes in shareholders and various capital transactions took place at Xfera Móviles, S.A. which raised Fomento de Construcciones y Contratas, S.A.'s direct investment to 8.26% with an additional investment of €5,413 thousand which was also fully provisioned. €3,264 thousand of this investment of €5,413 thousand relate to the amount the Company was required to acquire when Vodafone withdrew from Xfera, as determined by an arbitral award. Also, Venditelecom España, S.L. was liquidated in 2004.

In 2005, the Company established its direct investment in Xfera at 7.76%, as a result of the capital increase at Xfera in that year, which it did not subscribe.

As of December 31, 2005, the Company had provided guarantees totaling €31,607 thousand for Xfera Móviles, S.A.

## II) Short-term investments

This caption includes basically the loans and other nontrade credit facilities granted, inter alia, to Group and associated companies to cater for certain specific cash situations, and other cash surpluses which are invested at short term. These investments are valued at the lower of cost or market, plus the interest earned at market rates.

## 8. DEFERRED CHARGES

The variations in 2005 in the balance of this caption in the accompanying balance sheet were as follows:

	Balance at 12.31.04	Additions	Amounts taken to Income or Transfers	Balance at 12.31.05
Financing of fixed assets (Note 4-c)	5,246	31	(47)	5,230
Financial leases	168	62	(126)	104
	5,414	93	(173)	5,334

## 9. ACCOUNTS RECEIVABLE

The most significant accounts in this caption are as follows:

### a) Trade receivables for sales and services

The breakdown of the balance of this account in the accompanying balance sheet, which relates mainly to the amounts receivable for Company services, is as follows:

Billed production receivable	306,760
Completed production pending billing	59,494
Trade receivables for sales and services	366,254
Advances received on orders	(26,235)
<b>Total trade receivables, net</b>	<b>340,019</b>

€43,042 thousand of the net trade receivables balance relate to joint ventures.

The foregoing total is the net balance of trade receivables after deduction of the balance of the "Advances Received on Orders" account on the liability side of the accompanying balance sheet which, as required by accounting regulations, includes collected and uncollected prebillings for various items and the advances received (normally in cash) for future supplies.

The "Billed Production Receivable" account reflects the amount of the billings issued to customers for services provided pending collection at the balance-sheet date.

The "Completed Production Pending Billing" account reflects the difference between the production recognized by Fomento de Construcciones y Contratas, S.A. on each contract and the amount of the billings issued to the customers. The balance of this account relates basically to the price revisions per the various contracts which, although as yet unapproved, the Company considers will be duly billed since there are no doubts as to their recovery.

The Company assigns trade receivables to financial institutions without recourse against Fomento de Construcciones y Contratas, S.A. in the event of nonpayment. The amount deducted from the trade receivables balance at year-end in this connection amounted to €83,525 thousand. These transactions bear interest under normal market conditions. Collection management continues to be performed by Fomento de Construcciones y Contratas, S.A.

### b) Receivable from Group companies

This account includes the balances for operating transactions and current accounts with companies forming part of the Fomento de Construcciones y Contratas Group.

The most significant amount relates to the current account for cash surpluses of €277,829 thousand assigned to Asesoría Financiera y de Gestión, S.A., a wholly-owned subsidiary of Fomento de Construcciones y Contratas, S.A., which handles their management.

### c) Tax receivables

The breakdown of this account is detailed in Note 14.

## 10. SHAREHOLDERS' EQUITY

The variations in equity accounts in 2005 were as follows:

	Balance at 12.31.04	2004 Retained Earnings	Dividends Distributed	Income for the Year	Balance at 12.31.05
Capital stock	130,567	—	—	—	130,567
Additional paid-in capital	242,133	—	—	—	242,133
Legal reserve	26,113	—	—	—	26,113
Reserve for treasury stock	9,422	—	—	—	9,422
Reserve for retired capital	2,770	—	—	—	2,770
Voluntary reserves	401,872	19,646	—	—	421,518
Income for the year	196,628	(19,646)	(176,982)	237,554	237,554
Interim dividend	(88,491)	—	88,491	(99,682)	(99,682)
<b>Shareholders' equity</b>	<b>921,014</b>	<b>—</b>	<b>(88,491)</b>	<b>137,872</b>	<b>970,395</b>

### a) Capital stock

The capital stock of Fomento de Construcciones y Contratas, S.A. consists of 130,567,483 common bearer shares of €1 par value each.

All the shares have identical rights and are fully subscribed and paid.

The shares of Fomento de Construcciones y Contratas, S.A. are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and traded through the Spanish computerized trading system.

With regard to direct holdings or indirect holdings (through subsidiaries) of 10% or more owned by other companies, as required by current legislation B 1998, S.L. has informed us that it has a direct and indirect ownership interest of 52.483% in the Company's capital stock. Acciona, S.A., per the declaration made to the Spanish National Securities Market Commission, owns a 15.055% holding.

The aforementioned B 1998, S.L., which is owned by Esther Koplowitz Romero de Juseu (73.375%), Ibersuizas Holdings, S.L. (10.552%), Simante, S.L. (5.726%), Larranza XXI, S.L. (5.339%), and Cartera Deva, S.A. (5.008%), has certain commitments to its shareholders which have been registered with and published by the Spanish National Securities Market Commission and include most notably that concerning the distribution of a dividend of at least 50% of net consolidated income attributed to the Parent Company, net of the results arising from extraordinary income or losses.

### b) Additional paid-in capital

The revised Corporations Law expressly permits the use of the additional paid-in capital balance to increase capital and establishes no specific restrictions as to its use for other purposes.

### c) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve cannot be distributed to shareholders except in the event of liquidation.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount.

Except as mentioned above, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

As of December 31, 2005, the legal reserve had reached the legally stipulated minimum.

### d) Treasury stock

The Company holds 434,322 shares of treasury stock, representing 0.33% of its capital stock, with a net book value of €9,422 thousand.

As required by Article 79.3 of the Spanish Corporations Law, the Company recorded a reserve of €9,422 thousand for treasury stock, with a charge to voluntary reserves. This reserve is restricted until such time as the treasury stock is sold or retired.

There were no variations under this caption in 2005.

e) **Reserve for retired capital**

This reserve includes the par value of the treasury stock retired in 2002 with a charge to unrestricted reserves, in accordance with Article 167.3 of the Corporations Law. The reserve for retired capital is restricted, unless it meets the same requirements as those stipulated for capital reductions.

## 11. SUBSIDIES

The accompanying balance sheet includes €8,606 thousand of subsidies received in the past, €3,866 thousand of which had been taken to income, including €438 thousand in the year ended December 31, 2005. This amount relates mostly to joint ventures.

## 12. PROVISIONS AND ALLOWANCES

The variations in 2005 were as follows:

### Provisions for contingencies and expenses

	Balance at 12.31.04	Period Allocation	Amounts Used	Reversals	Transfer	Balance at 12.31.05
<b>Provisions</b>						
Litigation	63,432	2,725	—	—	—	66,157
Other risks	66,796	12,061	(5,741)	—	10,000	83,116
	130,228	14,786	(5,741)	—	10,000	149,273
Reversion reserve	10,268	815	—	(407)	—	10,676
	140,496	15,601	(5,741)	(407)	10,000	159,949

### Operating allowances

	Balance at 12.31.04	Period Allocation	Amounts Used	Reversals	Transfer	Balance at 12.31.05
<b>Allowances</b>						
Legal and contractual guarantees and obligations	32,671	2,170	—	(3,651)	—	31,190
Other risks	12,783	329	—	(228)	(10,000)	2,884
	45,454	2,499	—	(3,879)	(10,000)	34,074

The Company records the provisions required for third-party liability and other estimated risks as mentioned in Note 4-i. It also records a reversion reserve as indicated in Note 4-j. Noteworthy was the provision of €9,738 thousand charged to extraordinary income for the risks inherent to the international business.

## 13. NONTRADE PAYABLES

### a) Long-term debt

The long-term payables in each of the related accounts in the accompanying balance sheet mature as follows:

	2007	2008	2009	2010	2011 and Subsequent	Total
Payable to credit institutions	1,606	629	136	29	196	2,596
Limited recourse project financing loans	2,178	2,427	2,701	427	—	7,733
Long-term taxes payable	208	208	208	208	11,011	11,843
Guarantees and deposits	4,884	—	—	—	—	4,884
	8,876	3,264	3,045	664	11,207	27,056

The balance of the "Limited Recourse Project Financing Loans" caption relates to the payments outstanding in connection with the investments made by the Seragua-FCC-Vigo joint venture which operates the water supply in Vigo. The main features of this debt are as follows: the interest rate on the amount outstanding is Euribor plus a spread based on market rates; repayment is in semiannual installments ending in 2010; the repayments are made using the joint venture's revenues from operation of the service and, if the contract terms and conditions are met, with no other liability for the venturers if the funds obtained during the term of the loan do not cover the full amount of the principal plus interest.

Given its long-term nature, the financing project included certain financial derivatives to minimize the possible effects of interest rate fluctuations. The derivatives were interest rate swaps and caps and floors. At 2005 year-end only one interest rate swap was outstanding which hedged a nominal amount of €2,780 thousand corresponding to the Company's ownership interest in the joint venture; this swap matures on December 31, 2006. At year-end the fair value of this hedge generated a liability of €208 thousand.

The average interest rate on the long-term payables to credit institutions is Euribor plus a market-based spread.

The detail of the balance of the "Long-Term Taxes Payable" account is disclosed in Note 14 ("Tax Matters").

#### b) Current liabilities

The accounts payable to Group and associated companies include the loans from these companies, which bear interest at market rates, and the operating payables to these companies.

The most significant balances under the "Payable to Group Companies" caption are as follows:

FCC Construcción, S.A.	498,625
Grucysa, S.A.	181,112
Corporación Financiera Hispánica, S.A.	115,305
Remainder	35,242
	<b>830,284</b>

In 2005 the variation in this caption was due to the increase in the balance of the current account maintained with the subsidiary FCC Construcción, S.A., because of the increase in its contributions as a consequence of an increase in its cash surplus.

The "Other Payables" caption includes the interim dividend amounting to €99,176 thousand payable out of 2005 income to non-Group third parties, as indicated in Note 3.

The content of the "Taxes Payable" caption is disclosed in Note 14.

#### c) Credit lines

The Company had long-and short-term credit facilities with a limit of €1,286,230 thousand, substantially all of which had not been drawn down as of December 31, 2005.

The aforementioned credit lines include a syndicated loan of €800,000 thousand arranged by the Company on July 30, 2003, which is subdivided into tranche "A", the term loan, for a total of €700,000 thousand, with partial repayments of €300,000 thousand on July 30, 2007, and €400,000 thousand on July 30, 2008, and tranche "B", the rollover credit facility, for €100,000 thousand maturing on July 30, 2008. The interest on the two tranches is Euribor plus a spread based on the debt ratio in each year per the consolidated financial statements of the FCC Group, of which Fomento de Construcciones y Contratas, S.A. is the parent company. At present the additional spread is 0.275%.

## 14. TAX MATTERS

The detail of the balances of the "Tax Receivables" and "Taxes Payable" captions on the asset and liability sides, respectively, of the accompanying balance sheet is as follows:

### I. Long-term

The "Long-Term Taxes Payable" caption balance of €11,843 thousand relates to deferred corporate income tax for 35% of the accelerated depreciation of the Torre Picasso building in accordance with the tax incentives provided in Royal Decree-Law 2/1985 and the depreciation of the assets covered by Royal Decree-Law 3/1993. The maturity schedule indicated in Note 13 relates to the years in which this deferred tax will reverse, calculated on the basis of the useful lives of the related assets.

## II. Short-term

<b>Tax receivables</b>	
Prepaid corporate income tax	69,951
VAT refundable	2,693
Other items	2,416
	<b>75,060</b>
<b>Taxes payable</b>	
Personal and corporate income tax with holdings (from salary income and income from movable capital)	6,623
Deferred corporate income tax	35,425
Corporate income tax payable	84,330
VAT and other indirect taxes payable	8,072
Levies and other taxes other than income tax	2,767
Accrued social security taxes payable	11,772
	<b>148,989</b>

Reconciliation of the income per books to the taxable income for corporate income tax purposes:

<b>Income per books for the year before taxes</b>				<b>267,546</b>
		<b>Increase</b>	<b>Decrease</b>	
Permanent differences		751	—	751
<b>Adjusted income per books</b>				<b>268,297</b>
Timing differences:				
Arising in the reporting year		29,532	6,921	22,611
Arising in prior years		3,488	4,065	(577)
<b>Taxable income</b>				<b>290,331</b>

Adjusted income per books	268,297
Corporate income tax charge (35%)	93,904
Intercompany double taxation tax credit	(62,771)
Other tax credits and relief	(2,581)
Other adjustments	1,440
<b>Corporate income tax payable</b>	<b>29,992</b>

Noteworthy among the timing differences were the increases during the year, which related mainly to expenses and provisions recorded which will be recoverable for tax purposes in subsequent years.

The variations in 2005 in the short- and long-term deferred tax assets and liabilities were as follows:

	Deferred Tax Asset	Deferred Tax Liability
Balance at 12.31.04	61,660	40,805
Timing differences	8,913	1,201
Current year	10,336	2,422
Prior years	(1,423)	(1,221)
Other adjustments	(622)	5,262
<b>Balance at 12.31.05</b>	<b>69,951</b>	<b>47,268</b>

The variation due to timing differences relates to 35% of the timing differences disclosed in the foregoing reconciliation.

The other adjustments arose because of positive or negative differences between the income tax estimate made at the balance sheet date and the subsequent income tax settlement expense at the time of payment.

Fomento de Construcciones y Contratas, S.A. has all the years not yet statute-barred open for review by the tax inspection authorities for the taxes applicable to it. The criteria which the tax authorities might adopt for the years open for review could give rise to contingent tax liabilities which cannot be objectively quantified. As regards the years that have been reviewed, in certain cases the different criteria applied by the tax authorities have resulted in the issuance of assessments which are being contested by the Company. However, the Company's directors consider that the resulting liabilities would not have a material effect on the Company's net worth.

Under authorization 18/89, Fomento de Construcciones y Contratas, S.A. is taxed on a consolidated basis for corporate income tax purposes with all the other Group companies which meet the relevant requirements envisaged by tax legislation.

## 15. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

As of December 31, 2005, Fomento de Construcciones y Contratas had provided €342,240 thousand of guarantees to government agencies and private customers, mainly as performance bonds for the provision of services under urban cleaning contracts.

The Company had also provided guarantees to third parties for certain Group companies amounting to €127,730 thousand.

Complaints have been filed against Fomento de Construcciones y Contratas, S.A. and the joint ventures in which it participates concerning the Company's responsibilities during its activities under the contracts awarded. Since the appropriate provisions have been recorded (see Notes 4-i and 12), any liabilities arising from this situation would have no material impact on the Company's net worth.

In 2005 the guarantee the Company had provided to its employees for their investments in a collective investment fund promoted by the Vivendi Universal Group was cancelled, since they had liquidated their investments at the planned maturity date at no cost to the Company.

## 16. REVENUES AND EXPENSES

In 2005 Fomento de Construcciones y Contratas, S.A. performed work and provided services for Group and associated companies totaling €81,097 thousand. This amount included most notably €41,080 thousand billed for management, representation and administration services provided to the Company's wholly-owned subsidiary FCC Construcción, S.A., and this balance was recorded under the "Other Operating Revenues" caption in the accompanying statement of income. The Company also purchased €35,397 thousand of services and consumables from the aforementioned companies. The financial expenses incurred in 2004 on nontrade accounts payable to Group companies amounted to €12,675 thousand.

Substantially all the net sales relate to services provided in Spain. Joint ventures accounted for €110,652 thousand of the total "Net Sales" balance.

Operating revenues include rent revenues and billings for the allocation of 80% of costs to the tenants of the Torre Picasso building, amounting to €18,053 thousand and €6,601 thousand, respectively.

The average number of employees at the Company in 2005 was as follows:

Managers and university graduate employees	310
Other line personnel (junior college graduates)	190
Clerical and similar staff	686
Other salaried employees	19,144
	20,330

## 17. ENVIRONMENTAL INFORMATION

As indicated in Note 4-o, by their very nature, the activities carried on by the Company in the Services area are geared towards environmental protection and conservation, not only through the production activity itself (waste collection, operation and control of landfills, sewer cleaning, treatment and elimination of industrial waste, waste water treatment, etc.), but also as a result of performing these activities using production techniques and systems aimed at reducing environmental impact in accordance with the legally stipulated limits. The implementation of quality management and environmental management systems and the follow-up audits accredit the Company's activities in this connection.



The performance of the aforementioned production activities requires the use of specialized structures, plant and machinery that are efficient in terms of environmental protection and conservation. As of December 31, 2005, the acquisition cost of the fixed assets assigned to these production activities totaled €601,493 thousand and the related accumulated depreciation amounted to €321,161 thousand.

Company management considers that the possible contingencies relating to environmental protection and improvement as of December 31, 2005, would not have a significant impact on the accompanying financial statements.

## 18. FEES PAID TO AUDITORS

The "Outside Services" caption in the accompanying statement of income includes the fees for audit services provided to the Company, amounting to €316 thousand. This caption also includes fees relating to other services billed by the auditor or by other entities related to the auditor, both in Spain and abroad, amounting to €538 thousand.

## 19. INFORMATION ON THE BOARD OF DIRECTORS

The compensation earned by the directors of Fomento de Construcciones y Contratas, S.A. and payable to them by the Company was as follows (in thousands of euros):

Fixed remuneration	2,205
Variable remuneration	484
Bylaw-stipulated directors' fees	1,654
Attendance fees	6
	<b>4,349</b>

In the past an insurance policy was arranged and the premium paid to cover the payment of contingencies relating to death and permanent occupational disability, and to retirement bonuses and other benefits for certain of the directors of Fomento de Construcciones y Contratas, S.A. (see Note 4-h). In 2005, the beneficiaries received €3,942 thousand under the insurance policy.

Except as indicated in the foregoing paragraphs, no other compensation, advances, loans or guarantees of any kind were granted to the directors, and there were no pension or life insurance obligations to former or present directors.

The members of the Company's Board of Directors do not own any shareholdings in entities engaging in an activity that is identical, similar or complementary to the activity that constitutes Fomento de Construcciones y Contratas, S.A.'s corporate purpose and which are not directly or indirectly owned by Fomento de Construcciones y Contratas, S.A., per the information furnished by the directors.

The detail of the directors holding positions in companies in which Fomento de Construcciones y Contratas, S.A. has a direct or indirect ownership interest is as follows:

Director's Name or Corporate Name	Corporate Name of the Group Entity	Position held
Cartera Deva, S.A.	Cementos Portland Valderrivas, S.A.	Director
EAC Inversiones Corporativas, S.L.	FCC Construcción, S.A.	Director
	Realia Business, S.A.	Director
	Cementos Portland Valderrivas, S.A.	Director
Fernando Falcó y Fernández de Córdoba	Cementos Portland Valderrivas, S.A.	Director
	FCC Construcción	Director
	Realia Business, S.A.	Director
Ibersuizas Alfa, S.L.	Cementos Portland Valderrivas, S.A.	Director
Rafael Montes Sánchez	Cementos Portland Valderrivas, S.A.	Director
	FCC Construcción, S.A.	Director
Antonio Pérez Colmenero	Per Gestora Inmobiliaria, S.L.	Director
Robert Peugeot	FCC Construcción, S.A.	Director

The directors of Fomento de Construcciones y Contratas, S.A. have declared that they do not engage in any activity, for their own account or for the account of others, that is identical, similar or complementary to the activity that constitutes the corporate purpose of the Company.

The directors of Fomento de Construcciones y Contratas, S.A., or persons acting on their behalf, did not perform, with the Company or with any company of the same Group, any transactions that were not part of the Company's normal business activities or were not conducted on normal market conditions.

## 20. STATEMENTS OF CHANGES IN FINANCIAL POSITION

Source of funds	2005		2004	
Funds obtained from operations	293,823		295,238	
Capital subsidies	661		—	
Increase in long-term debt	3,292		3,424	
Disposal of tangible fixed assets	1,790		6,532	
Disposal of long-term investments	111		2,662	
Repayment or transfer to short term of long-term investments	926		1,021	
Transfer of provisions from short to long-term	10,000		—	
Decrease in working capital	—		2,619	
	<b>310,603</b>		<b>311,496</b>	

Application of funds	2005		2004	
Fixed asset additions:	74,705		65,365	
Intangible assets	40,806		29,056	
Tangible fixed assets	31,909		29,291	
Long-term investments	1,990		7,018	
Dividends	188,173		179,294	
Repayment or transfer to short term of long-term debt	5,823		66,837	
Increase in working capital	41,902		—	
	<b>310,603</b>		<b>311,496</b>	

Variation in working capital	2005		2004	
	Increase	Decrease	Increase	Decrease
Inventories	—	6,847	—	12,634
Accounts receivable	319,016	—	56,972	—
Accounts payable	—	313,569	—	54,794
Short-term investments	14,888	—	17,281	—
Cash	27,346	—	—	8,307
Accrual accounts	1,068	—	—	1,137
	<b>362,318</b>	<b>320,416</b>	<b>74,253</b>	<b>76,872</b>
Variation in working capital		41,902	2,619	—
	<b>362,318</b>	<b>362,318</b>	<b>76,872</b>	<b>76,872</b>

The reconciliation of the income per books for the year to the funds obtained from operations shown in the foregoing statements of changes in financial position is as follows:

	2005	2004
Income for the year after taxes	237,554	196,628
Depreciation and amortization expense	50,669	50,932
Period provision to reversion reserve	815	944
Provisions for contingencies and expenses	9,045	41,194
Variation in investment valuation allowances	(4,220)	6,348
Other	(40)	(808)
<b>Funds obtained from operations</b>	<b>293,823</b>	<b>295,238</b>

## 21. COST ACCOUNTING STATEMENTS OF INCOME

	12.31.05		12.31.04	
	Amount	%	Amount	%
Net sales	917,562	100.00	834,726	100.00
+ Other operating revenues	78,339	8.54	88,081	10.55
+ Variation in finished goods and work-in-process inventories	(3,222)	(0.35)	(59)	(0.01)
+ Capitalized expenses of in-house work on fixed assets	611	0.06	1,335	0.16
<b>Production value</b>	<b>993,290</b>	<b>108.25</b>	<b>924,083</b>	<b>110.70</b>
– Net purchases	79,134	8.62	67,537	8.09
– Variation in inventories of merchandise, materials and other consumables	(461)	(0.05)	11,502	1.38
– External and operating expenses	216,502	23.60	206,208	24.70
– Personnel expenses	537,410	58.57	485,191	58.13
<b>Gross operating income</b>	<b>160,705</b>	<b>17.51</b>	<b>153,645</b>	<b>18.40</b>
– Depreciation and amortization expense	50,669	5.52	50,932	6.10
– Period provision to reversion reserve	815	0.09	944	0.11
– Bad debts and variation in operating allowances	2,682	0.29	17,459	2.09
<b>Net operating income</b>	<b>106,539</b>	<b>11.61</b>	<b>84,310</b>	<b>10.10</b>
+ Financial revenues	184,037	20.06	195,780	23.45
– Financial expenses	18,945	2.07	22,083	2.65
– Variations in investment valuation allowances	—	—	4,115	0.48
<b>Financial income</b>	<b>165,092</b>	<b>17.99</b>	<b>169,582</b>	<b>20.32</b>
<b>Income from ordinary activities</b>	<b>271,631</b>	<b>29.60</b>	<b>253,892</b>	<b>30.42</b>
+ Gains on fixed assets and extraordinary revenues	2,206	0.24	747	0.09
– Losses on fixed assets and extraordinary expenses	10,511	1.14	32,324	3.87
+ Variation in tangible fixed asset, intangible asset and control portfolio allowances	4,220	0.46	(2,233)	(0.27)
<b>Income before taxes</b>	<b>267,546</b>	<b>29.16</b>	<b>220,082</b>	<b>26.37</b>
– Corporate income tax	29,992	3.27	23,454	2.81
<b>Income after taxes</b>	<b>237,554</b>	<b>25.89</b>	<b>196,628</b>	<b>23.56</b>

## 22. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.



## EXHIBIT I. GROUP COMPANIES

COMPANY	BOOK VALUE		% OWNERSHIP	DIVIDENDS RECEIVED	CAPITAL	RESERVES	2005 INCOME (LOSS) BEFORE TAXES	
	ASSETS	ALLOWANCE					ORDINARY	EXTRAORDINARY
AEBA Ambiente y Ecología de Buenos Aires, S.A. Tucumán, 1321-3ª Buenos Aires. Argentina -Urban Cleaning-	834	178	direct 50 indirect 2.50	—	1,000 (Pa)	1,044 (Pa)	128 (Pa)	(4) (Pa)
Aqualia Gestión Integral del Agua, S.A. Federico Salmón, 13. Madrid -Water management-	254,768	—	direct 99.99 indirect 0.01	28,220	145,000	45,306	44,172	572
Asesoría Financiera y de Gestión, S.A. Federico Salmón, 13. Madrid -Financial-	3,008	—	direct 43.84 indirect 56.16	—	6,843	463,794	16,978	58
Asiris, S.A. Correduría de Seguros Pº de la Castellana, 111. Madrid	30	—	direct 25 indirect 75	—	120	800	207	2
Cementos Portland Valderrivas, S.A. Estella, 6. Pamplona -Cement-	175,953	—	direct 58.76 indirect 8.59	35,988	41.757	676,191	180,008	24,194
Compañía Auxiliar de Agencia y Mediación, S.A. Sole-Shareholder Company Federico Salmón, 13. Madrid -Portfolio company-	1,657	—	100	481	61	2,319	611	—
Compañía General de Servicios Empresariales, S.A. Sole-Shareholder Company Federico Salmón, 13. Madrid -Instrumentality company-	60	—	100	1	60	17	1	—
Corporación Española de Servicios, S.A. Federico Salmón, 13. Madrid -Instrumentality company-	44	—	direct 99.99 indirect 0.01	1	60	15	—	—
Corporación Financiera Hispánica, S.A. Federico Salmón, 13. Madrid -Portfolio company-	69,818	—	direct 99.99 indirect 0.01	4,584	58,393	283,470	6,178	1
Egypt Environmental Services SAE El Cairo. Egypt -Urban Cleaning-	7,760	7,760	direct 97 indirect 3	—	36,400 (Egp)	(22,308) (Egp)	(38,676) (Egp)	(5) (Egp)
Empresa Comarcal de Serveis Mediambientals del Baix Penedés, ECOBP, S.L. Plaça del Centre, 3. El Vendrell (Tarragona) -Urban Cleaning-	240	—	80	45	301	114	381	—
Empresa Municipal de Desarrollo Sostenible Ambiental de Úbeda, S.L. Pza. Vázquez Molina, s/n Úbeda (Jaén) -Urban Cleaning-	720	—	90	—	800	—	—	—
Europea de Gestión, S.A. Sole-Shareholder Company Federico Salmón, 13. Madrid -Instrumentality company-	63	—	100	5	60	22	8	—
FCC Construcción, S.A. Balmes, 36. Barcelona -Construction-	275,551	—	direct 99.99 indirect 0.01	62,400	130,000	85,535	151,866	3,809
FCC Construcciones y Contratas Internacional, S.L. Sole-Shareholder Company Federico Salmón, 13. Madrid -Instrumentality company-	3	—	100	—	3	—	—	—
FCC Fomento de Obras y Construcciones, S.L. Sole-Shareholder Company Federico Salmón, 13. Madrid -Instrumentality company-	3	—	100	—	3	—	—	—

COMPANY	BOOK VALUE		% OWNERSHIP	DIVIDENDS RECEIVED	CAPITAL	RESERVES	2005 INCOME (LOSS) BEFORE TAXES	
	ASSETS	ALLOWANCE					ORDINARY	EXTRAORDINARY
FCC Inmobiliaria Conycon, S.L. Sole-Shareholder Company Federico Salmón, 13. Madrid -Instrumentality company-	3	—	100	—	3	—	—	—
FCC International B.V. Amsteldijk 166 Amsterdam (The Netherlands) -Portfolio company-	49,910	9,051	100	1,790	40,840	(1,912)	1,932	—
FCC Medio Ambiente, S.A. Federico Salmón, 13. Madrid -Urban Cleaning-	35,102	—	direct 98.98 indirect 1.02	—	43,272	48,106	12,517	(8,894)
FCC Versia, S.A. Federico Salmón, 13. Madrid -Management company-	62,625	—	direct 99.99 indirect 0.01	13,115	40,337	51,870	16,264	(408)
FCC 1, S.L. Unipersonal Federico Salmón, 13. Madrid -Instrumentality company-	3	—	100	—	3	—	—	—
F-C y C, S.L. Unipersonal Federico Salmón, 13. Madrid -Instrumentality company-	3	—	100	—	3	—	—	—
Fedemés, S.L. Federico Salmón, 13. Madrid -Real estate-	10,764	—	direct 92.67 indirect 7.33	215	10,301	14,511	703	—
Fomento Internacional Focsa, S.A. Federico Salmón, 13. Madrid -Instrumentality company-	69	—	direct 99.93 indirect. 0.07	2	90	23	7	—
Giza Environmental Services S.A.E. El Cairo. Egypt -Urban Cleaning-	7,566	7,566	direct 97 indirect 3	—	35,500 (Egp)	(33,564) (Egp)	(40,742) (Egp)	—
Grucyca, S.A. Pza. Pablo Ruiz Picasso, s/n. Madrid -Portfolio company-	156,786	—	100	—	135,600	22,430	2,965	10,784
Limpiezas Urbanas de Mallorca, S.A. Fusters, 18. Manacor (Balearic Islands) -Urban Cleaning-	5,097	—	direct 99.92 indirect 0.08	—	308	1,090	329	—
Per Gestora Inmobiliaria, S.L. Pza. Pablo Ruiz Picasso, s/n. Madrid -Property management and administration-	48	—	80	8	60	50	26	(4)
Tratamientos y Recuperaciones Industriales, S.A. Anglí, 31. Barcelona -Waste treatment-	21,455	—	direct 74.92 indirect 0.08	2,241	72	6,560	2,755	4
<b>Total</b>	<b>1,139,943</b>	<b>24,555</b>		<b>149,096</b>				

- NB:**
- Of the companies shown above, only Cementos Portland Valderrivas, S.A. is a listed company and its share price was €69.10 at year-end. The average market price in the last quarter of 2005 was €66.91.
  - As required by Article 86 of the revised Corporations Law, in 2005 the Company made the related notifications to the companies in which it had acquired direct or indirect holdings of over 10%.



## EXHIBIT II. JOINT VENTURES

% OWNERSHIP		% OWNERSHIP	
1 ZONA 3 MADRID	10	ECOSERVEIS FIGUERES	50
2 ZONA 10 MADRID	10	EDAR ALMANSA	5
ACERAS Y CALZADAS	50	EDAR ALMENDRALEJO	20
ADDENDA PUENTE DE VALLECAS 5ª FASE	50	EDAR CUERVA	5
AIGÜES DE LLEIDA	50	EDAR ELCHE	20
AGUAS TOMELLOSO	20	EDAR RANILLA	22.5
ALCANTARILLADO BILBAO	90	ELISA OCHOA	50
ALMEDA	51	EXTREMADURA	25
AMPLIACIÓ LIXIVITATS	20	F.L.F. LA PLANA	47
AMPLIACIÓN VERTEDERO PINTO	50	FANGOS IBIZA Y FORMENTERA	20
AQUALBAL	20	FANGOS VIC	20
AQUALIA – FCC – MYASA	20	FCC – ACISA - AUDING	45
AQUALIA – FCC – OVIEDO	5	FCC - ANPE	80
AQUALIA – FCC – SALAMANCA	5	FCC - DIESEL BARCELONA	80
AQUALIA – FCC – SAN VICENTE	20	FCC - DIESEL N-VI	50
ARGÍ GUEÑES	70	FCC - ERS LOS PALACIOS	50
ASTONDO	40	FCC – FCCMA ALCOY	20
BAIX CAMP	30	FCC – FCCMA COLMENAR VIEJO	20
BARAJAS	50	FCC – FCCMA CORNELLÀ	90
BARRIO DE LA LOMA	50	FCC – FCCMA JARDINES ALBACETE	20
BILBOKO SANEAMENDU	50	FCC – FCCMA R.B.U. - L.V. JAVEA	20
BIOCOMPOST DE ÀLAVA	50	FCC – FCCMA L.V. PAMPLONA	20
BOADILLA - SERVICIOS	50	FCC – FCCMA OLESA	20
BOADILLA - VERSIA	50	FCC – FCCMA RBU TUDELA	20
BOADILLA DEL MONTE	50	FCC – FCCMA S.U. DENIA	20
BOCAS DE RIEGO ZONA 4	50	FCC – FCCMA SAN JAVIER	20
BOMBEO VALMOJADO	20	FCC – FCCMA SAN SEBASTIÁN	20
BONMATÍ	10	FCC – FCCMA SEGRIÀ	20
C/ALPERNICHES	50	FCC – FOCONSA	50
CN III	45	FCC – HIJOS DE MORENO, S.A.	50
CAN BOSSA	20	FCC – HIMOSA	50
CANA PUTXA	20	FCC – PALAFRUGELL	20
CANDAS	20	FCC – PROMECO 2000, S.L.	50
CANGAS	50	FCC – SUFI MAJADAHONDA	50
CASTELLAR DEL VALLÈS	50	FCC – SUFI PESA	50
CENTRO DE GESTIÓN MADRID	50	FCC – SYF PLAYAS	40
CENTRO DE GESTIÓN ZARAGOZA	50	FCC – TEGNER	50
CHAPARRAL BAJO	20	FCC, S.A. LUMSA	50
CHAPARRAL BAJO FASE B	20	FCCMA – FCCSA VALENCIA	20
CIUTAT VELLA	50	FCCSA – GIRSA	80
COLEGIOS SANT QUIRZE	50	FCCSA – SECOPSA I	50
CONSERVACIÓN Y SISTEMAS	60	FUENLABRADA	50
CONTADORES BURGOS	100	FUENTES XÀTIVA	50
CUENCA	20	GALERÍAS CASTELLANA	50
CYCSA-EYSSA VIGO	50	GESTIÓN INSTALACIÓN III	34.99
DEIXALLERIA TARRAGONA	20	GIREF	20
DEPÓSITO CABECERA	80	GUADIANA	20
DEPURADORA HUESCA	80	HÉROES DE ESPAÑA	50

% OWNERSHIP		% OWNERSHIP	
INFRAESTRUCTURAS MÓSTOLES	50	PONIENTE ALMERIENSE	50
JARDINES PROTECCIÓN ESPECIAL	50	POSU – FCC VILLALBA	50
JARDINES SANTA COLOMA	50	POZUELO	20
JUNDIZ	51	PRISMA 2004-2005	50
LA MINA	20	PUERTO	50
LA SELVA	100	R.B.U. VILLA-REAL	47
LEA-ARTIBAI	60	R.S. PONIENTE ALMERIENSE	50
LEGIO VII	50	RADARES ZARAGOZA	50
L.J. SAN SEBASTIÁN	20	REDONDELA	10
L.V. SAN SEBASTIÁN	20	REPARACIÓN VÍAS PÚBLICAS MÓSTOLES	50
LOGROÑO LIMPIO	50	RESIDENCIA	50
LOS LLANOS	50	RESTAURACIÓN GARRAF	27.5
LVR MUSKIZ II	70	ruta de los pantanos	50
M-110	50	S.U. BILBAO	70
MADRID I	50	SABIÑÁNIGO	80
MADRID II	50	SALTO DEL NEGRO	50
MADRID III	50	SAN FERNANDO	20
MADRID PAVIMENTA MADRID	50	SANT QUIRZE	50
MANACOR	30	SANTA COLOMA DE GRAMANET	61
MANCOMUNIDAD ALTO MIJARES	50	SANTA CRUZ DE MUDELA	50
MANTENIMIENTO COLEGIOS BILBAO	70	SANTOMERA	60
MANTENIMIENTO COMISARIAS	100	SASIETA	75
MARTÍNEZ DE LA RIVA	50	SAV - FCC TRATAMIENTOS	35
MÉNDEZ ÁLVARO	50	SCC - FCC	10
MÉRIDA	10	SEGURIDAD VALDEBEBAS	20
METEOROLÓGICAS A-6	33	SELECTIVES	20
MOLINA	5	SERAGUA - FCC - VIGO	50
MONTCADA	50	SIMÓN HERNÁNDEZ	50
MORALEJA	50	SOLANA	35
MORELLA	50	TIRVA FCC - FCCMA RUBÍ	20
MUSKIZ	70	TABLADA	20
NAVALMORAL	50	TARAZONA	80
NIGRÁN	10	TOMELLOSO	50
NIJAR	20	TORREJÓN	25
NOROESTE	33	TORRIBERA	50
NOVELDA	5	TORRIBERA II	50
OCAÑA	75	TOVIVAL	50
ONDA EXPLOTACIÓN	33.33	TREMP	51
OPERACIÓN ACERAS 2004	50	TRIAGTGE I CLASSIFICACIÓ D'ENVASOS	60
OPERACIÓN ACERAS II FASE	50	TXINGUDI	75
OVER	20	VERTEDERO GARDELEGUI	70
PARQUE PARÍS DE LAS ROZAS	50	VERTRESA	10
PARQUES SINGULARES MÓSTOLES	50	VIGO RECICLAJE	70
PASEO DEL ÁLAMO	50	VINAROS	50
PAVIMENTO ZONA I	50	ZARAUTZ	20
PAVIMENTOS	50	ZARZUELA	50
PAVIMENTOS PAMPLONA	50	ZONZAMAS FASE II	30
PEQUEÑAS OBRAS	50	ZURITA	50
PINETONS	50		
PISCINA CUBIERTA MANISES	65		
PISCINA CUBIERTA PAIPORTA	90		
PLA D'URGELL	60		
PLANTA BIOMETANIZACIÓN LAS DEHESAS	50		
PLANTA DE TRATAMIENTOS VALLADOLID	60		
POLÍGONO TORREHIERRO	50		



### EXHIBIT III. ASSOCIATED AND MULTIGROUP COMPANIES

COMPANY	BOOK VALUE		% OWNERSHIP	DIVIDENDS RECEIVED	CAPITAL	RESERVES	2005 INCOME (LOSS) BEFORE TAXES	
	ASSETS	ALLOWANCE					ORDINARY	EXTRAORDINARY
Clavegueram de Barcelona, S.A. Acer, 16. Barcelona -Urban Cleaning-	811	—	22.50	107	3,606	3,114	682	290
Ecoparc del Besós, S.A. Rambla Cataluña, 91-93. Barcelona -Urban Cleaning-	2,621	—	direct 31 indirect 18	—	7,710	—	(167)	328
Ecoserveis Urbans de Figueres, S.L. Pg. Empordà Internacional, Calle A, parcela 50. Vilamalla (Girona) -Urban Cleaning-	301	—	50	77	601	26	102	—
Empresa Mixta de Limpieza de la Villa de Torrox, S.A. Pz. de la Constitución, 1. Torrox (Málaga) -Urban Cleaning-	300	—	50	86	600	180	153	—
Empresa Mixta de Medio Ambiente de Rincón de la Victoria, S.A. Pz. Al Andaluz, 1. Rincón de la Victoria (Málaga) -Urban Cleaning-	301	—	50	126	601	175	310	—
Gestión Integral de Residuos Sólidos, S.A. Santa Amalia, 2. Valencia -Urban Cleaning-	4,733	—	49	753	781	1,514	2,041	(121)
Ingeniería Urbana, S.A. Saturno, 6. Alicante -Urban Cleaning-	3,786	—	35	349	6,010	5,070	3,106	(4)
Pallars Jussà Neteja i Serveis, S.A. Pau Casals, 14. Tremp (Lleida) -Urban Cleaning-	25	—	40.80	—	60	—	—	—
Proactiva Doña Juana E.S.P.S.A Calle 98 nº 9-03 of. 804 Ed. Torre Sancho Santa Fe de Bogotá (Colombia) -Urban Cleaning-	284	—	direct 23.75 indirect 27.30	—	2,250,000 (CP)	1,032,414 (CP)	2,509,849 (CP)	(193,139) (CP)
Proactiva Medio Ambiente, S.A. Paseo de la Castellana, 216. Madrid -Urban Cleaning-	119,542	86,142	50	—	56,520	(7)	(880)	3,171
Realia Business, S.A. Paseo de la Castellana, 216. Madrid -Real estate-	110,007	—	direct 44.25 indirect 4.2	29,945	66,570	369,176	127,609	45,807
Servicios Urbanos de Málaga, S.A. Ulises, 18. Madrid -Urban Cleaning-	1,610	—	51	596	3,156	354	1,662	—
<b>Total</b>	<b>244,321</b>	<b>86,142</b>		<b>32,039</b>				

**NB:**

– As required by Article 86 of the revised Corporations Law, in 2005 the Company made the related notifications to the companies in which it had acquired direct or indirect holdings of over 10%.





**EXHIBIT IV. "REPORT OF THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.  
FOR THE DISTRIBUTION OF AN INTERIM DIVIDEND IN 2005"**

In accordance with Article 216 of the revised Corporations Law, which requires the Company's directors to present an accounting statement evidencing the existence of sufficient liquidity for the distribution of an interim dividend, it is hereby stated:

1. That the after-tax income of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. as of September 30, 2005, amounted to €121,700 thousand.
2. That the Company's after-tax cash flow in the first nine months of 2005 amounted to €152,800 thousand.
3. That the Company's cash and cash equivalents as of September 30, 2005, amounted to €1,286,200 thousand, evidencing the existence of sufficient funds for the distribution of the interim dividend.

Therefore, since at the date of this report there had been no material variations with respect to the foregoing data, the directors consider that there is sufficient liquidity for the distribution of an interim dividend of up to €100,014,692 out of 2005 income.

The number of shares entitled to an interim dividend is calculated by subtracting from the 130,567,483 shares of capital stock the shares of treasury stock existing at the date of payment of the dividend.

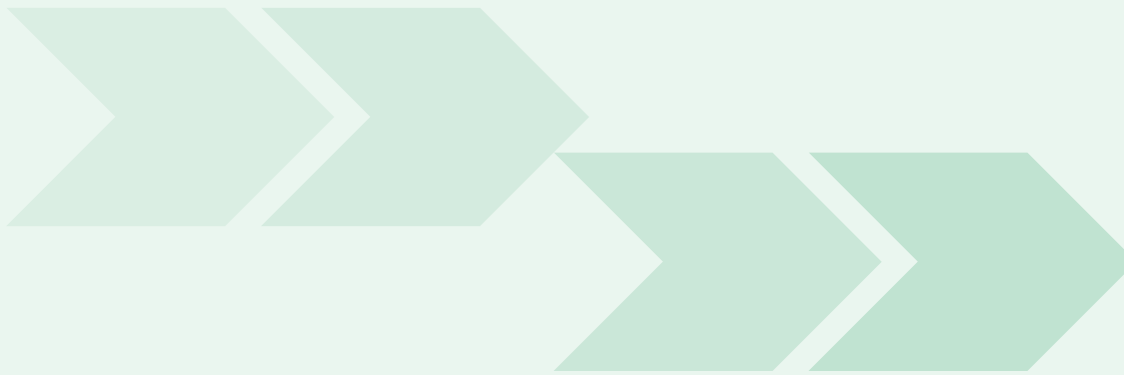
Accordingly, it is proposed that the following interim dividend out of 2005 income be approved:

Gross % of each share with dividend rights	76.6%
Gross interim dividend per share	€0.766

The related personal income tax or corporate income tax withholdings, where appropriate, will be deducted from the declared gross interim dividend.

Madrid, December 21, 2005





# MANAGEMENT REPORT

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

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## INTRODUCTION

The Company's core business is to provide general services, which include mainly the collection and treatment of solid waste, the cleaning of public streets and sewage systems, the maintenance of green areas and buildings, water purification and distribution and other complementary services. It is also engaged in the lease of offices and premises in the singular Torre Picasso building which is 80% owned by the Company.

Fomento de Construcciones y Contratas, S.A. is the parent company of the FCC Group, which is composed of a wide range of subsidiaries engaging in activities such as construction, urban cleaning, the integral water cycle, parking lots, street furniture, passenger transport, vehicle roadworthiness testing, ground passenger and aircraft handling, logistics, cement and real estate. Consequently, for a fully comprehensive representation of the economic events of 2005, the reader is referred to the information contained in the consolidated financial statements.

The economic-financial information presented in this Management Report was prepared pursuant to the Commercial Code and the Spanish Corporations Law.

The figures below are stated in millions of euro

### Company Performance in 2005

Main Aggregates	2005	2004	Variation	
			Absolute	%
Net sales	917.6	834.7	82.9	9.9
Gross Operating Income	160.7	153.6	7.1	4.6
% Gross Margin	17.5	18.4	(0.9)	(4.9)
Net Operating Income	106.5	84.3	22.2	26.3
% Gross Margin	11.6	10.1	1.5	14.9
Dividends received from Subsidiaries	181.1	192.3	(11.2)	(5.8)
Financial Loss	(16.0)	(22.8)	6.8	(29.8)
Income before Taxes	267.5	220.1	47.4	21.5
Net Income for the year	237.5	196.6	40.9	20.8
Dividend to be distributed per share (euros)	1.532	1.36	0.172	12.6

Net sales increased 9.9% in 2005 to a total of €917.6 million and the operating margin on net sales was 11.6% compared to 10.1% in 2004.

The dividends received from the Company's subsidiaries amounted to €181.1 million, which was in line with those of €192.3 million received in 2004.

Consequently, the good performance of the operating income combined with a slight reduction in financial loss and the support provided by the dividends received from the subsidiaries gave rise to net income for the year of €237.5 million, up 20.8% on 2004, which will be allocated to remunerate Company shareholders via dividend.

## Dividends

The Board of Directors proposes the distribution of a final dividend of €0.766 per share, representing 76.6% of the par value of the shares outstanding at the date of payment, and the allocation of the remaining income balance to unrestricted reserves. Earlier, on January 9, 2006, an interim dividend of €0.766 per share was paid pursuant to the resolution adopted by the Board of Directors on December 21, 2005.

## ACQUISITION OF TREASURY STOCK

At 2005 year-end Fomento de Construcciones y Contratas, S.A. held 434,322 shares of treasury stock, representing 0.33% of its capital stock, valued at €9,422 thousand.

Also in 2005, Compañía Auxiliar de Agencia y Mediación S.A. owned 316,098 shares of Fomento de Construcciones y Contratas, S.A., representing 0.24% of its capital stock, which were recorded at a book value of €1,107 thousand, and Asesoría Financiera y de Gestión S.A. (Afigesa) owned 343,922 shares of Fomento de Construcciones y Contratas, S.A., representing 0.26% of its capital stock and recorded at a book value of €16,345 thousand. These shares are also deemed to be Parent Company shares in accordance with Article 87 of the revised Corporations Law.

In accordance with Article 79.4 of the Corporations Law, the following table details the variations in the number of shares during the year:

	FCC, S.A.	Afigesa	Cía. Auxiliar de Agencia y Mediación	Grucycsa	FCC Group
At December 31, 2004	434,322		316,008	475	750,805
Purchases or additions		414,468	90		414,558
Sales or Retirements		(70,546)		(475)	(71,021)
At December 31, 2005	434,322	343,922	316,098	—	1,094,342

## RESEARCH AND DEVELOPMENT ACTIVITIES

The FCC Group takes an active part in research, development and technological innovation. The Group's initiatives in this connection relate to aspects which have a direct or indirect relationship with the Group's business. In 2005 significant initiatives were carried out in each of the three strategic business lines, namely Services, Construction and Cement, which targeted environmental protection as a means of achieving sustainable growth.

In the area of Environmental services, the project to analyze the life cycle of water in waste treatment processes is of particular interest. The main aim of this project is to analyze "water", as an environmental indicator in the broadest sense of the word, in the treatment processes, defining the environmental impacts it suffers and evaluating the corrective measures required. This would permit the implementation of the complementary operations and measures required, whilst also providing an information and decision-making tool for all the sectors involved (companies, authorities and citizen groups with an interest in environmental issues). This project has been very well received by the Directorate General of Technological Policy of the Ministry of Education and Science.

In relation to waste disposal, mention should be made of the studies carried out on a closed aerobic compost system designed to process small and medium-sized organic waste, in addition to the preparation of an alternative fuel to replace traditional fuels (gas, coal, etc.) with the by-products of the sewage treatment plants.

In the Water business, work was focused mainly on industrial wastewater projects (reuse of industrial residual waters with zero effluent spill, design of anaerobic reactors, design of an advanced oxidation system for industrial wastewater difficult to biodegrade, etc.).

In the Versia business area, the Street Furniture sector is of particular interest, and is currently involved in the design of two technologically innovative projects. The first relates to the development of a light city vehicle, known as the EPISOL, with a hybrid electric propulsion system and two versions of engine, powered initially by a thermal engine and at a later stage by a battery and solar powered electric engine. Cemusa (a subsidiary) reached a cooperation agreement for this project with the Instituto Universitario de Investigación del Automóvil (INSIA), belonging to the Universidad Politécnica de Madrid and with the Instituto de Automovilística Industrial (IAI) belonging to the Centro Superior de Investigaciones Científicas. The second project is aimed at developing bus stop shelters as presented at the exhibition in Dallas (USA).

In the Construction area, noteworthy is FCC Construction S.A.'s membership of the Managing Board of the European Construction Technology Platform, an initiative which brings together over 600 organizations (industries, universities, research centers, etc.) and whose objective is to define a strategic research agenda for the industry and to try to carry out macro projects with public and private funding. Also, FCC Construcción S.A heads the Spanish Construction Technology Platform, an initiative which brings together over 140 organizations, with a similar structure and objectives to those of the above-mentioned European Construction Technology Platform.

The following projects carried out in 2005 are of particular interest: Tunconstruct, to improve underground construction; Manubuild, for the industrialization of construction; Arfrisol, for bioclimatic architecture and solar cooling; Hatcons, for the use of materials with a large number of features; and Fibras, for the use of steel fiber reinforced concrete.

Lastly, with regard to the activities of the Cement business, research and development work on new cement products and applications is carried out mainly in the Company's laboratories at the Olazagutía factory in Navarra. During 2005 work was carried out in various areas: evaluation of raw materials, studies of alternative fuels in cooperation with universities in the framework of the programs to promote technical research (PROFIT); participation in Standardization Committees, research work in cooperation with customers to improve products and create new applications, etc. Also, Cementos Portland Valderrivas is an active participant in research projects carried out at the Spanish Institute of Cement and its Applications (IECA).

## SIGNIFICANT EVENTS SUBSEQUENT TO YEAR-END

Fomento de Construcciones y Contratas, S.A., the parent company of the FCC Group, has had a direct or indirect interest in the following transactions:

- Acquisition of Abfall Services AG (ASA) for €278 million

On November 17, 2005, the FCC Group signed a contract with the EDF Group to acquire Abfall Service AG, leader in waste management in Central and Eastern Europe with operations in Austria, the Czech Republic, Slovakia, Hungary, Rumania and Poland. On March 8, 2006, the final purchase agreement was executed.

- Preferred bidder for the New York urban furniture contract

Closure of the contract with New York's Department of Transport is expected in 2006. On September 21, 2005, this body chose Cemusa, the FCC Group's outside advertising subsidiary, as the company to supply and maintain some 3,300 new bus stops, 330 billboards and 20 automatic public lavatories over a period of 20 years.

- Cementos Portland Valderrivas launched a tender offer for the shares of its investee Cementos Lemona.

On December 2, 2005, Cementos Portland Valderrivas, which already held 30.72% of Cementos Lemona, launched a tender offer to acquire 100% of the shares of the latter at a price of €32 per share. The total amount of the transaction, the acceptance period of which closed on February 20, 2006, was €234.2 million, paid in cash and financed with debt.

Per the figures of the agent of the aforementioned tender offer, the holders of shares representing 65.3% of the capital stock responded to the offer; when added to the 30.7% interest already held by Cementos Portland Valderrivas, the latter has a holding of 96.06% in Cementos Lemona, signifying that all the significant shareholders and 88% of the minority interests responded to the offer.

- FCC Construcción took over Autopista Central Gallega.

On January 13, 2006, the acquisition by FCC Construcción, S.A. of 10% of the shares held by Iniciativas de Infraestructuras y Servicios, S.A. in Autopista Central Gallega Concesionaria Española, S.A. Sole-Shareholder Company, for a total of €13,500 thousand was completed, and the FCC Group has a controlling interest of 54.64% in this company.

## OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

The management of financial risks aims to minimize the impact on the Company, and on the Group, of exchange and interest rate fluctuations and to ensure that the solvency and liquidity risks stay within reasonable limits.

The Company's and the FCC Group's current positioning in the international markets means that exchange rate risk, in the overall context of the Group, is of moderate impact. Nonetheless, and irrespective of its materiality, Group policy is to reduce, as far as possible, the negative effect that this risk might have on its financial statements as a result of both transactional and purely balance variations. In practice, the impact of the former is mitigated, if the volume of operations makes it advisable, by arranging adequate hedging instruments in the market. In the case of balance

sheet variations, Company policy, when the situation so advises and provided that the financial markets offer liquidity, instruments and terms, is to obtain coverage through the arrangement of financing transactions in the same currency as that of the asset.

Given the nature of our activities, in which working capital management plays an essential role, it is general Company and Group practice to take the index which most accurately reflects inflationary variations as a reference for its financial debt. Accordingly, Group policy consists of trying to maintain both the current financial assets, which to a large extent provide natural cover for our current financial liabilities, and Group debt linked to floating interest rates. As an exception to this general policy, in long-term transactions the Group arranges interest rate hedges provided that markets exist and the project's financial structure requires it.

The current aim of Fomento de Construcciones y Contratas, S.A. and its Group is to combine the development of the strategic areas with that of corporate transactions. This corporate growth policy will focus exclusively on acquisition in the strategic areas. The aim is to achieve this growth, in both sales and earnings, without exceeding leverage of 50% in the Group whilst maintaining a debt to gross operating income (EBITDA) ratio of under 2.5 times, which would maintain the Group's financial solvency.

In view of the current stability of the financial market and the low (41%) ratio of indebtedness to gross operating income (EBITDA) at Fomento de Construcciones y Contratas, S.A. and its corporate Group as of December 31, 2005, all the loan transactions can be renewed and, where necessary, extended, signifying that at mid-term there is no indication that the Group may have liquidity problems.

## OUTLOOK FOR 2006

A description follows of the outlook for 2006 of the business areas composing the FCC Group, which are expected to lead to growth in the Group's net sales and earnings.

First, the construction backlog and services backlog at 2005 year-end amounted to €20,496.8 million, equivalent to approximately three years of annual production.

In the area of **Environmental Services**, this sector consolidated the important market share achieved, and its growth will be linked to extensions and, where necessary, the renewal of contracts, in addition to the start-up of treatment plants currently under construction.

In the **International** area, the growth strategy is based, on the one hand, on maintaining and expanding the activity in the markets of countries where we have a presence and, on the other hand, expansion into new geographical markets. This interest in expansion led to the acquisition of Abfall Services AG (ASA Group), an important group of companies specializing in integral waste management and treatment services, which is well established in many Central and Eastern European countries, and has very good prospects for growth in other Euro Zone states.

In the area of **Industrial Waste**, acquisition of the remaining holding in the Marepa Group is foreseen, which, together with the growth due to the investments made in the previous year and the entry into full operation of some of the new facilities already built, means that a significant increase in net sales is expected.

In the area of **Water Management**, the diversification strategy will continue; in spite of strong market concentration, this will continue to bring significant growth. Accordingly, the recent important contracts gained in various Spanish municipalities, the renewals of important contracts, the contracts for irrigation services, the implementation and management of desalination plants should be considered along with the boost received as a result of the acquisitions of companies in 2004, in addition to the growth in the international area, particularly with the recent contracts in Italy and Algeria.

At the beginning of 2006 the services backlog was €15,000 million, equivalent to over seven years of annual production.

The outlook for the **Versia** area in 2006 is of growth based mainly in the different sectors comprising this area, e.g. Logistics, with the consolidation of the management of the Grupo Logístico Santos, acquired in 2004, which positions it as one of the most important Spanish logistics operators.

The outlook for **Street Furniture** is of growth in the international area, where the maturation of the existing contracts in Brazil, Italy and USA is combined with the commencement of the Boston contract and the contract awarded recently for the installation and advertising exploitation of street furniture in New York for 20 years, consisting of the placement, maintenance and advertising exploitation of 3,300 bus stop shelters, 330 news stands and other elements of street furniture, which will consolidate it in the US market. The New York contract is currently under negotiation with the New York City Transport Department.

The **Parking** lots area stands out for the expansion of the contracts to increase the number of parking spaces managed, in particular the contract for 26,750 parking spaces in Zone V of the controlled surface parking spaces in Madrid for a period of 11 years (renewable up to 25 years).

In **Transportation**, in 2006 the new city service will commence in Benalmádena to transport passengers by road; as regards rail transport the Parla streetcar will be operated along similar lines to the Trambaix and Trambesós lines already in operation in Barcelona.

In the **Handling** sector, in Spain AENA initiated an invitation to tender process for the renewal of all the licenses at all the airports, and the Group's aim is to retain at least its market share.

Prospects for 2006 in the **Construction** sector are good in the domestic market, in line with those in 2005, since the existing backlog of projects at 2005 year-end amounted to €5,155 million, signifying a cover period for net sales of 18.5 months. Localized growth is forecast in the International market, on the one hand, in Central and North America through those investments already made and in process and, on the other, in Central and Eastern Europe.

The performance of the **Cement** area will be determined by the performance of the construction sector and the infrastructure plans. In Spain, estimates point to a deceleration in cement and concrete consumption, which will continue their growth trend but at lower rates than in 2005. The result of Cementos Portland Valderrivas's tender offer for Lemona will result in the inclusion of the net sales in the Portland Valderrivas Group, as a result of changing from equity method accounting to full consolidation of 100% of Cementos Lemona and of CDN USA, together with the consolidation of an additional 11.24% of the income which Lemona gets from Cementos Alfa S.A. in which Cementos Portland Valderrivas currently holds 80.15%.

With regard to the cement business in the US, the outlook is of an increase in demand, together with a price increase in the areas of influence of CDN (Maine) and Giant (North and South Carolina and Virginia). In 2006 Giant's plant in Harleyville, which was recently modernized and upgraded, will come into full production and the project to transform the production process from wet to dry at Giant's plant in Keystone will commence. Completion is planned for mid-2008 and will result in production cost savings and increased production capacity.

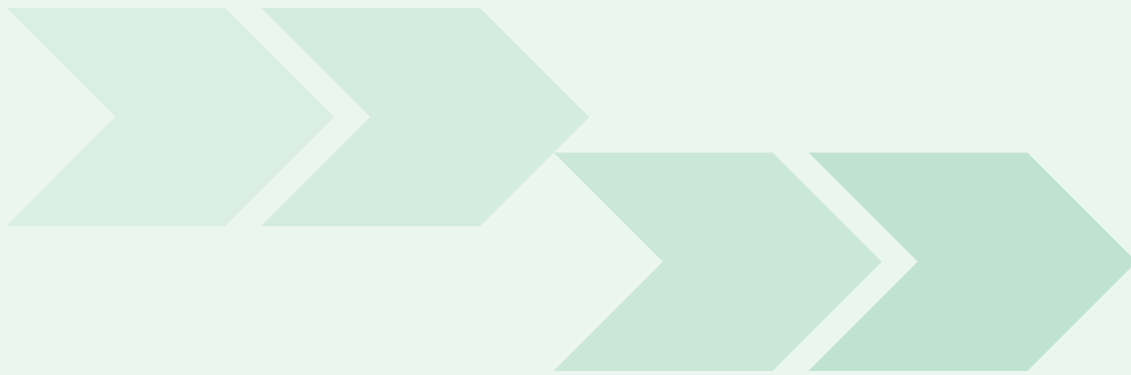
In the **Real Estate business**, an increase in sales is foreseen for Realia, based mainly on the strength of the property development activity, which will result in the delivery of a significant number of real estate products. The turnover of leased property and leased surface area will also increase, which is expected to generate an improvement in sales at 2006 year-end.

Investments in progress will continue in the Guadalajara, Leganés, Murcia and Santiago Compostela shopping malls.

The domestic market business strategies focus on policies for the acquisition of land requiring urban development management and permitting the incorporation of added value, the commencement of property development activities in new markets (Valladolid, Zaragoza, etc), the materialization of opportunities to acquire office buildings, based on location and rate of return, the development of shopping mall projects which are currently self sponsored, and to facilitate growth through the completion of certain corporate acquisitions.

In the international market, work will begin on the property developments and their marketing following the acquisition of land in Portugal and Poland, and the aim in the asset protection segment is to acquire an important package of real estate within the European Economic Community, which will facilitate Realia's growth and contribute significant added value.





# AUDITOR'S REPORT

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.



*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of  
FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.:

1. We have audited the financial statements of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. comprising the balance sheet as of December 31, 2005, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. As required by Spanish corporate and commercial law, for comparison purposes the directors present, in addition to the 2005 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2004. Our opinion refers only to the 2005 financial statements. On April 8, 2005, we issued our auditors' report on the 2004 financial statements in which we expressed an unqualified opinion.
3. Fomento de Construcciones y Contratas, S.A. is the head of a corporate group which presents consolidated financial statements separately from the accompanying financial statements. On this same date we issued our auditors' report, on the 2005 consolidated financial statements of Fomento de Construcciones y Contratas, S.A. and Subsidiaries prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRSs), which presented consolidated equity attributable, consolidated assets and consolidated income attributable of €2,232 million, €8,939 million and €421 million, respectively, in which we expressed an unqualified opinion.
4. In our opinion, the accompanying financial statements for 2005 present, in all material respects, a true and fair view of the net worth and financial position of Fomento de Construcciones y Contratas, S.A. as of December 31, 2005, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.
5. The accompanying directors' report for 2005 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2005. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.  
Registered in ROAC under no. S0692

Javier Parada Pardo  
April 12, 2006