



FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Financial Statements and Directors' Report

2011

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.



FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Financial Statements

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEET AT 31 DECEMBER 2011

(in thousands of euros)

ASSETS	31/12/11	31/12/10
NON-CURRENT ASSETS	5,004,313	5,169,058
Intangible assets (Notes 2 & 5)	134,001	35,707
Concessions	6,706	7,367
Computer software	15,350	13,426
Concession arrangements, regulated assets	68,943	-
Concession arrangements, capitalised borrowing costs	2,741	3,317
Advances on concession arrangements, regulated assets	30,414	-
Other intangible assets	9,847	11,597
Property, plant and Equipment (Notes 2 & 6)	451,846	552,922
Land and buildings	69,973	85,481
Plant and other items of property, plant and equipment	365,057	414,658
Property, plant and equipment in the course of construction and advances	16,816	52,783
Investment property (Note 7)	-	226,964
Non-current investments in Group companies and associates (Notes 10-a & 22-b)	4,207,490	4,184,580
Equity instruments	2,291,908	2,247,074
Loans to companies	1,913,206	1,937,506
Derivatives (Note 12)	2,376	-
Non-current financial assets (Note 9-a)	98,365	76,012
Equity instruments	9,344	9,268
Loans to third parties	37,806	27,609
Derivatives (Note 12)	15,697	15,024
Other financial assets	35,518	24,111
Deferred tax assets (Note 19)	112,611	92,873
CURRENT ASSETS	3,014,131	2,102,598
Inventories	49,738	22,570
Goods held for resale	16,282	16,281
Raw materials and other supplies	5,630	5,794
Advances to suppliers	27,826	495
Trade and other receivables	769,820	727,274
Trade receivables for sales and services (Note 11)	697,489	652,289
Receivable from Group companies and associates (Note 22-b)	47,485	57,743
Sundry accounts receivable	13,279	11,520
Employee receivables	1,427	945
Current tax assets (Note 19)	78	747
Other accounts receivable from public authorities (Note 19)	10,062	4,030
Current investments in Group companies and associates	1,399,671	1,168,062
Loans to companies (Notes 10-b & 22-b)	1,388,204	1,137,417
Other financial assets	11,467	30,645
Current financial assets (Note 9-b)	26,263	12,018
Loans to companies	18,887	6,622
Debt securities	62	2,887
Derivatives (Note 12)	888	-
Other financial assets	6,426	2,509
Current prepayments and accrued income	6,513	2,584
Cash and cash equivalents	762,126	170,090
Cash	361,047	170,090
Cash equivalents	401,079	-
TOTAL ASSETS	8,018,444	7,271,656

The accompanying Notes 1 to 25 and Appendixes I to IV are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2011.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

EQUITY AND LIABILITIES	31/12/11	31/12/10
EQUITY (Note 13)	1,325,297	1,272,436
Shareholders' equity	1,359,472	1,295,249
Share capital	127,303	127,303
Registered share capital	127,303	127,303
Share premium	242,133	242,133
Reserves	889,889	867,741
Legal and by-law reserves	26,114	26,114
Other reserves	863,775	841,627
Treasury shares	(90,975)	(89,130)
Profit for the year	235,824	200,034
Interim dividend	(80,616)	(88,746)
Other Equity instruments	35,914	35,914
Valuation adjustments	(36,073)	(25,072)
Available-for-sale financial assets	8,007	7,932
Hedges (Note 12)	(44,080)	(33,004)
Grants, donations and legacies received	1,898	2,259
NON-CURRENT LIABILITIES	3,149,927	4,469,114
Long-term provisions (Note 15)	394,768	314,455
Provisions for third-party liability	148,477	118,994
Other provisions	246,291	195,461
Non-current payables (Note 16)	2,557,050	4,027,085
Debt instruments and other marketable securities	428,548	422,204
Bank borrowings	2,001,670	3,470,167
Obligations under finance leases	14,163	27,936
Derivatives (Note 12)	105,146	99,293
Other financial liabilities	7,523	7,485
Deferred tax liabilities (Note 19)	130,509	127,574
Trade and other non-current payables (Note 17)	67,600	-
CURRENT LIABILITIES	3,543,220	1,530,106
Short-term provisions	976	1,517
Current payables (Note 16)	2,263,567	610,420
Debt instruments and other marketable securities	4,888	4,888
Bank borrowings	2,151,426	456,425
Obligations under finance leases	25,637	38,697
Derivatives (Note 12)	888	-
Other financial liabilities	80,728	110,410
Current payables to Group companies and associates (Notes 10-c and 22-b)	748,530	498,357
Trade and other payables (Note 17)	529,969	419,529
Payable to suppliers	127,429	89,571
Payable to suppliers - Group companies and associates (Note 22-b)	19,677	17,388
Sundry accounts payable (Note 17)	145,359	89,150
Remuneration payable	39,312	43,305
Current tax liabilities (Note 19)	22,195	80,042
Other accounts payable to public authorities (Note 19)	67,372	40,198
Customer advances (Note 11)	108,625	59,875
Current accruals and deferred income	178	283
TOTAL EQUITY AND LIABILITIES	8,018,444	7,271,656

The accompanying Notes 1 to 25 and Appendixes I to IV are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2011.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of euros)

	31/12/11	31/12/10
CONTINUING OPERATIONS		
Revenue (Note 21)	1,691,470	1,680,978
Sales and services	1,454,468	1,325,333
Income from investments in Group companies and associates (Notes 21 & 22-a)	120,800	256,984
Finance income from marketable securities and other financial instruments of Group companies and associates (Notes 10, 21 & 22-a)	116,202	98,661
In-house work on non-current assets	893	2,126
Procurements	(291,072)	(197,720)
Cost of goods held for resale sold	(1,436)	(2,163)
Cost of raw materials and other consumables used	(133,117)	(101,688)
Work performed by other companies	(156,519)	(93,869)
Other operating income	62,100	74,143
Non-core and other current operating income	53,108	71,990
Income-related grants transferred to profit or loss	8,992	2,153
Staff costs	(823,899)	(823,240)
Wages, salaries and similar expenses	(621,548)	(624,912)
Employee benefit costs	(202,351)	(198,328)
Other operating expenses	(263,236)	(240,096)
Outside services	(171,247)	(158,521)
Taxes other than income tax	(8,686)	(7,321)
Losses on, impairment of and changes in provisions for trade receivables	373	(685)
Other current operating expenses (Note 21)	(83,676)	(73,569)
Depreciation and amortisation charge (Notes 5, 6 & 7)	(88,964)	(89,594)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants (Note 13-h)	549	512
Non current provisions (Note 15)	15,538	1,380
Impairment and gains or losses on disposals of non-current assets	140,673	946
Gains or losses on disposals and other (Note 7)	140,673	946
PROFIT FROM OPERATIONS	444,052	409,435
Financial income	3,846	2,519
From marketable securities and other financial instruments of non-Group third parties	3,846	2,519
Financial expenses	(233,899)	(160,962)
On debts to Group companies and associates (Note 22-a)	(17,050)	(7,255)
On debts to third parties	(213,081)	(149,705)
Interest cost relating to provisions	(3,768)	(4,002)
Changes in fair value of financial instruments (Note 12)	16,973	(30,500)
Held-for-trading financial assets/liabilities and other	16,973	(30,500)
Exchange differences	(928)	(5,993)
Impairment and gains or losses on disposals of financial instruments	18,279	(3,454)
Impairment and other losses (Note 9)	18,319	3,658
Gains or losses on disposals and other (Note 10-a)	(40)	(7,112)
FINANCIAL LOSS	(195,729)	(198,390)
PROFIT BEFORE TAX	248,323	211,045
INCOME TAX (Note 19)	(12,499)	(11,011)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	235,824	200,034
PROFIT FOR THE YEAR	235,824	200,034

The accompanying Notes 1 to 25 and Appendixes I to IV are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2011.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (in thousands of euros)

	31/12/11	31/12/10
Profit per income statement	235,824	200,034
Income and expense recognised directly in equity		
Arising available-for-sale financial assets	76	1,940
Arising from cash flow hedges	(34,440)	(34,977)
Grants, donations and legacies received	51	40
Tax effect	10,313	10,486
Income and expense recognised directly in equity	(24,000)	(22,511)
Transfers to profit or loss		
Arising from cash flow hedges	18,617	27,422
Grants, donations and legacies received	(549)	(512)
Tax effect	(5,430)	(8,090)
Total transfers to profit or loss	12,638	18,820
TOTAL RECOGNISED INCOME AND EXPENSE	224,462	196,343

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

B) STATEMENT OF CHANGES IN TOTAL EQUITY (in thousands of euros)

	Share capital (Note 13-a)	Share premium (Note 13-b)	Reserves (Notes 13-c, -d & -e)	Treasury shares (Note 13-e)	Profit (Loss) for the year	Interim dividend (Note 3)	Other equity instruments (Note 13-f)	Valuation adjustments (Notes 9-a & 13-g)	Grants (Note 13-h)	Equity
Equity at 31 December 2009	127,303	242,133	790,355	(89,130)	254,878	(88,746)	35,914	(21,724)	2,602	1,253,585
Total income and expense in the year					200,034			(3,348)	(343)	196,343
Transactions with shareholders and owners			77,386		(254,878)					(177,492)
Dividends paid			77,386		(254,878)					(177,492)
Equity at 31 December 2010	127,303	242,133	867,741	(89,130)	200,034	(88,746)	35,914	(25,072)	2,259	1,272,436
Total recognised income and expense					235,824			(11,001)	(361)	224,462
Transactions with shareholders and owners			22,148	(1,845)	(200,034)	8,130				(171,601)
Dividends paid			22,541		(200,034)	8,130				(169,363)
Treasury share transactions (net)			(393)	(1,845)						(2,238)
Equity at 31 December 2011	127,303	242,133	889,889	(90,975)	235,824	(80,616)	35,914	(36,073)	1,898	1,325,297

The accompanying Notes 1 to 25 and Appendixes I to IV are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2011. In particular, Note 13 "Equity" explains this statement.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of euros)

	31/12/11	31/12/10
Profit for the year before tax	248,323	211,045
Adjustments	(23,002)	10,041
Depreciation and amortisation charge (Notes 5, 6 & 7)	88,964	89,594
Impairment losses	(18,934)	(3,664)
Changes in provisions (Note 15)	72,060	79,161
Recognition of grants in profit or loss	(558)	(512)
Losses on derecognition and disposal of non-current assets (Note 7)	(140,697)	(940)
Gains on derecognition and disposal of financial instruments (Note 10)	40	7,112
Financial income (Note 21)	(240,848)	(358,164)
Financial expenses	233,899	160,961
Exchange differences	928	5,993
Changes in fair value of financial instruments (Note 12)	(16,973)	30,500
Other income and expenses	(883)	-
Changes in working capital	72,233	(28,246)
Inventories	(28,092)	(200)
Trade and other receivables	(57,125)	(20,357)
Other current assets	(3,929)	(757)
Trade and other payables	163,388	(4,639)
Other current liabilities	(2,009)	(2,293)
Other cash flows from operating activities	11,593	195,026
Interest paid	(195,684)	(109,301)
Dividends received	140,314	233,960
Interest received	77,031	64,966
Income tax recovered (paid)	(4,734)	8,611
Other amounts received (paid)	(5,334)	(3,210)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	309,147	387,866
Payments due to investment	(322,307)	(425,856)
Group companies and associates (Note 10-a)	(210,896)	(296,390)
Intangible assets (Note 5)	(16,852)	(6,521)
Property, plant and equipment (Note 6)	(65,162)	(102,510)
Investment property (Note 7)	(1,191)	(1,287)
Other financial assets	(28,206)	(19,148)
Collections from disposal	384,218	216,763
Group companies and associates (Note 9-b)	332	205,199
Intangible assets (Note 5)	144	210
Property, plant and equipment (Note 6)	8,597	2,933
Investment property (Note 7)	364,824	-
Other financial assets	10,321	8,421
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	61,911	(209,093)

Collections and payments relating to equity instruments		(2,187)	40
Disposal of treasury shares	43,129	—	—
Purchase of treasury shares	(45,367)	—	—
Grants, donations and legacies received	51	—	40
Collections and payments relating to financial liability instruments (Note 16)		400,569	122,576
Issue of:			
Bank borrowings	509,620	—	202,142
Borrowings from Group companies and associates	216,543	—	29,360
Other borrowings	4,649	—	2,910
Repayment of:			
Bank borrowings	(311,530)	—	(108,695)
Borrowings from Group companies and associates	(8,704)	—	(2,931)
Other borrowings	(10,009)	—	(210)
Dividends and returns on other equity instruments paid		(177,404)	(177,493)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		220,978	(54,877)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		592,036	123,896
Cash and cash equivalents at beginning of year		170,090	46,194
Cash and cash equivalents at end of year		762,126	170,090

The accompanying Notes 1 to 25 and Appendixes I to IV are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2011.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2011

CONTENTS		PAGE
1.	Company activities	1
2.	Basis of presentation of the financial statements	1
3.	Distribution of profit	3
4.	Accounting policies	4
5.	Intangible assets	15
6.	Property, plant and equipment	16
7.	Investment property	18
8.	Leases	19
9.	Non-current and current financial assets	20
10.	Investments in and payables to Group companies and associates	22
11.	Trade receivables for sales and services	26
12.	Derivative financial instruments	27
13.	Equity	31
14.	Share-based payment transactions	33
15.	Non current provisions	35
16.	Non-current and current payables	36
17.	Trade and other non-current and current payables	39
18.	Information on the nature and risks of financial instruments	40
19.	Deferred taxes and tax matters	44
20.	Guarantee commitments to third parties and other contingent liabilities	47
21.	Income and expenses	47
22.	Related party transactions and balances	48
23.	Information on the environment	52
24.	Other disclosures	52
25.	Explanation added for translation to English	53
	Appendix I — Group companies	
	Appendix II — Joint ventures	
	Appendix III — Associates and jointly controlled entities	
	Appendix IV — Report of the Board of Directors of Fomento de Construcciones y Contratas, S.A. for the distribution of an interim dividend for 2011	

1. COMPANY ACTIVITIES

Fomento de Construcciones y Contratas, S.A. is a company incorporated in Spain in accordance with the Spanish Limited Liability Companies Law, the core business of which is to provide general services, which include the collection and treatment of solid waste, the cleaning of public streets and sewer systems, the maintenance of green areas and buildings, water treatment and distribution and other complementary services. It also occasionally carries on construction activities as a member of the Panama Consortium (see Note 2). The Company's registered office is at c/ Balmes, 36 (Barcelona) and it carries on its activities basically in Spain.

Fomento de Construcciones y Contratas, S.A. is the Parent of the FCC Group, which comprises a broad spectrum of Spanish and foreign subsidiaries and associates that engage in activities such as construction, urban cleaning and integrated water cycle services, street furniture, passenger transport, passenger and aircraft ground handling, logistics, cement, real estate, energy, infrastructure management etc.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements were prepared from the accounting records of Fomento de Construcciones y Contratas, S.A. and of the joint ventures and consortia in which it has interests, and authorised for issue in accordance with the Spanish Commercial Code, Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law and Royal Decree 1514/2007 approving the Spanish National Chart of Accounts. In addition, all of the accounting principles and standards contained in the amendments of Royal Decree 1159/2010, of 17 September, the amendment of the industry plans and the applicable obligatory standards, resolutions and recommendations of the Spanish Accounting and Audit Institute (ICAC) were applied, so that the financial statements present fairly the Company's equity, financial position, results and cash flows in the corresponding year. It should be noted that, as a result of the publication in 2009 by the ICAC of a request for a ruling regarding the presentation for accounting purposes of the income of holding companies, "Income from Investments in Group Companies and Associates" and "Finance Income from Marketable Securities and Other Financial Instruments of Group Companies and Associates" were classified under "Revenue" in the accompanying income statement.

On 23 December 2010, Ministry of Economy and Finance Order EHA/3362/2010 was passed, approving the rules for adapting the Spanish National Chart of Accounts for public infrastructure concession operators. The above Order came into force on 1 January 2011 and is applicable to all concession operators that enter into concession arrangements with a concession grantor, as is the case of Fomento de Construcciones y Contratas, S.A., which carries on a part of its solid waste and water services management activities under concession. Accordingly, the Company has chosen to consider the financial statements for 2011 to be initial financial statements due to application of the new rules and, therefore, no comparative figures are included in this connection. In addition, application of the aforementioned Order did not have an impact on the Company's equity and only resulted in the reclassification of its assets for accounting purposes, as shown below in the balance sheet headings relating to 1 January 2011.

Concession arrangements, regulated assets	76,410
Concession arrangements, capitalised borrowing costs	3,317
Advances on concession arrangements, regulated assets	13,532
Other intangible assets	(4,363)
Land and buildings	(15,452)
Plant and other items of property, plant and equipment	(56,594)
Property, plant and equipment in the course of construction and advances	(13,533)
Deferred borrowing costs relating to concession financing	(3,317)

These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes. The financial statements for 2010 were approved by the shareholders at the Annual General Meeting held on 1 June 2011.

The balance sheets, income statements, statements of changes in equity and statements of cash flows of the joint ventures in which the Company has interests were proportionately consolidated on the basis of the Company's percentage of ownership of each joint venture.

The joint ventures were included by making the required timing and measurement uniformity adjustments, reconciliations and reclassifications and by eliminating reciprocal asset and liability balances and income and expenses. The detail of any material amounts relating to the joint ventures and the community association is included in these notes to the financial statements.

The accompanying balance sheet and income statement include the assets and liabilities at the percentage of ownership in the joint ventures shown below:

	2011	2010
Revenue	209,629	203,896
Profit from operations	22,409	23,577
Non-current assets	129,219	127,028
Current assets	257,285	233,461
Non-current liabilities	43,698	26,099
Current liabilities	307,890	295,531

Appendix II lists the joint ventures and indicates the percentage share of their results.

The Company also holds a 45% interest in the Consortium awarded the contract to construct Line 1 of the Panama City metro. The accompanying financial statements include the assets, liabilities, income and expenses, by percentage of ownership, as shown below:

	2011
Revenue	120,098
Profit from operations	11,312
Non-current assets	3,818
Current assets	125,634
Current liabilities	121,767

The financial statements are expressed in thousands of euros.

Since Fomento de Construcciones y Contratas, S.A. is the head of the FCC Group, it is obliged under current legislation to prepare separate consolidated financial statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, as well as all the provisions and interpretations implementing it. The consolidated financial statements of the FCC Group for 2011, prepared by the directors, will also be submitted for approval by the shareholders at the Annual General Meeting.

The consolidated financial statements of Fomento de Construcciones y Contratas, S.A. prepared in conformity with International Financial Reporting Standards (IFRSs) present total assets of EUR 22,447 million (31 December 2010: EUR 21,979 million) and equity attributable to the Company's shareholders of EUR 2,379 million (31 December 2010: EUR 2,563 million). In addition, consolidated sales and consolidated profit attributable to the Parent amount to EUR 11,755 million and EUR 108 million, respectively (31 December 2010: EUR 11,908 million and EUR 301 million).

3. DISTRIBUTION OF PROFIT

The proposed distribution of the profit of Fomento de Construcciones y Contratas, S.A. that will be submitted for approval by the shareholders at the Annual General Meeting is as follows:

	2011
Profit for the year, before distribution (in thousands of euros)	235,824
Distribution:	
Interim dividends (euros per share)	EUR 0.65 per share
Final dividends (euros per share)	EUR 0.65 per share
To voluntary reserves:	

The corresponding amount will be appropriated after the interim and final dividends on outstanding shares carrying dividend rights at the date of payment have been paid.

On 15 December 2011, it was resolved to distribute to the shareholders of Fomento de Construcciones y Contratas, S.A. an interim dividend out of the profit for the year equal to 65% gross of the par value of the shares, i.e. EUR 0.65 per share. The total amount of this dividend, EUR 80,616 thousand, was paid on or after 10 January 2012 on the outstanding shares carrying dividend rights (see Note 16-c).

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

4. ACCOUNTING POLICES AND MEASUREMENT BASES

The principal accounting policies and measurement bases used by the Company in preparing its financial statements for 2011, in accordance with the Spanish National Chart of Accounts, were as follows:

a) Intangible assets

a.1) Service concession arrangements

The service arrangements are recognised in accordance with the provisions of Ministry of Economy and Treasury Order EHA/3362/2010 approving the rules for adapting the Spanish National Chart of Accounts for public infrastructure concession operators. In relation to the foregoing, a distinction must be drawn between two clearly different phases:

- The first in which the concession operator provides construction or upgrade services which are recognised under intangible or financial assets in accordance with recognition and measurement standard 14, Income from Sales and Services of the Spanish National Chart of Accounts and the rules on the percentage of completion method contained in measurement standard 18, Sales, Income from Completed Work and Other Income of the rules for adapting the Spanish National Chart of Accounts for construction companies.
- The second phase in which the concession operator provides a series of maintenance or operation services of the related infrastructure which are recognised in accordance with recognition and measurement standard 14, Income from Sales and Services of the Spanish National Chart of Accounts.

In addition, an intangible asset is recognised when the demand risk is borne by the concession operator and a financial asset is recognised when the demand risk is borne by the concession grantor since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. In certain mixed arrangements, the operator and the grantor may share the demand risk, although this practice is practically non-existent at the Company.

For concessions classified as intangible assets, provisions for decommissioning, removal and rehabilitation and any steps to improve and increase capacity, the revenue from which is envisaged in the initial contract, are capitalised at the start of the concession and the amortisation of these assets and the adjustment for provision discounting are recognised in profit or loss. Also, provisions to replace and repair the infrastructure are systematically recognised in profit or loss as the obligation is incurred.

In addition, the borrowing costs arising from the financing of the infrastructure accruing from the construction until the entry into service of the infrastructure are included in the initial measurement of the intangible asset. When the infrastructure is ready to be placed into operation, the aforementioned costs are capitalised if they meet the requirements under the rules, provided that there is reasonable evidence that future income will enable the capitalised amount to be recovered.

These intangible assets are amortised on the basis of the demand for, or the use of, the infrastructure, taken to be the changes in and best estimates of the production units of each activity.

Concessions classified as a financial asset are recognised at the fair value of the construction or upgrade services provided. In accordance with the amortised cost method, the related finance income is recognised as revenue in profit or loss based on the effective interest rate resulting from the expected cash inflows and outflows of the concession. The borrowing costs arising from the financing of these assets are classified under “Finance Costs” in the income statement. As explained above, the income and expenses from the provision of maintenance or operation services are recognised in profit or loss in accordance with recognition and measurement standard 14, Income from Sales and Services of the Spanish National Chart of Accounts.

a.2) Other intangible assets

Other intangible assets, concessions and software, inter alia, are recognised at acquisition price or production cost. They are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. At 2011 year-end no indications of loss of value were identified in relation to any of the Company's intangible assets. The Company does not own any assets with indefinite useful lives.

In accordance with Order EHA/3362/2010 mentioned in the previous point, “Intangible Assets - Concessions” in the balance sheet includes the royalties paid for the award of the concession agreements.

Computer software maintenance costs are recognised in the income statement for the year in which they are incurred.

As a general rule, intangible assets are amortised on a straight-line basis over their years of useful life.

b) Property, plant and equipment and Investment property

Property, plant and equipment and investment property are carried at acquisition cost or at production cost if the Company has performed in-house work thereon and are subsequently reduced by the related accumulated depreciation and by any impairment losses. At 31 December 2011, there was no indication that any of the Company's property, plant and equipment or investment property had suffered an impairment loss and, therefore, the recoverable amount of the assets is higher than or the same as their carrying amount and, accordingly, no impairment losses were recognised in this connection.

Property, plant and equipment and investment property upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Non-current assets that necessarily take a period of more than twelve months to get ready for their intended use include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets.

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labour and general manufacturing costs).

The Company depreciates its property, plant and equipment and investment property by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Years of estimated useful life
Investment property	75
Buildings and other structures	25 - 50
Plant and machinery	5 - 15
Other fixtures, tools and furniture	8 - 12
Other items of property, plant and equipment	4 - 10

However, certain contracts have terms shorter than the useful life of the related fixed assets, in which case they are depreciated over the contract term.

c) Impairment of intangible assets, property, plant and equipment and investment property

Whenever there are indications of impairment of assets with a finite useful life (i.e. all the Company's intangible assets, property, plant and equipment and investment property), the Company tests the tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. To determine the recoverable amount of the assets tested for impairment, an estimate is made of the present value of the net cash flows arising from the cash-generating units (CGUs) to which the assets belong, and to discount the cash flows, a pre-tax discount rate is applied that reflects current market assessments of the time value of money and the risks specific to each cash-generating unit.

Where an impairment loss on assets subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the value that would have been determined had no impairment loss been recognised for in prior years. The reversal of the impairment loss is recognised as income in the income statement.

d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

d.1) Finance leases

In finance leases in which the Company acts as the lessee, the cost of the leased assets is presented in the balance sheet, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the income statement for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

On expiry of the leases, the Company exercises the purchase option and the lease arrangements do not impose any restrictions concerning exercise of this option. Also, the lease agreements do not contain any renewal, review or escalation clauses.

The assets recognised for transactions of this nature are depreciated on the basis of their nature and useful lives using criteria similar to those applied to items of property, plant and equipment taken as a whole.

There are no finance leases in which the Company acts as lessor.

d.2) Operating leases

When the Company acts as the lessee, it charges the expenses from operating leases to income on an accrual basis.

If the Company acts as the lessor, income and costs arising under operating leases are allocated to the income statement for the year in which they are incurred. Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the investments arising from the lease agreements directly attributable to the lease, which are recognised as an expense over the term of such agreements, applying the same method as that used to recognise lease income.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

e) Financial instruments

e.1) Financial assets

Classification

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.
- Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Company has the positive intention and ability to hold to the date of maturity.
- Held-for-trading financial assets: assets acquired with the intention of selling them in the near term and assets that form part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. This category also includes financial derivatives that are not financial guarantees and that have not been designated as hedging instruments.
- Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other investors.
- Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the aforementioned categories.

Initial recognition

These financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs, except for held-for-trading assets and investments in Group companies affording control, the costs of which are recognised directly in the income statement.

Subsequent measurement

- Loans and receivables and held-to-maturity investments are measured at amortised cost.
- Held-for-trading financial assets are measured at fair value and the changes in the fair value are recognised in profit or loss.

- Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).
- Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year, or if it is determined that it has become impaired, once the pre-existing gains in equity have been derecognised, they are taken to the income statement.

At least at each reporting date the Company makes valuation adjustments to financial assets not measured at fair value through profit or loss where there is objective evidence of impairment if the value is less than the carrying amount, in which case the impairment loss is recognised in the income statement. In particular, the Company calculates valuation adjustments relating to trade and other receivables by taking into account the specific insolvency risk of each account receivable.

The Company derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Company does not retain any credit or interest rate risk, provide any kind of guarantee or assume any other kind of risk. These transactions bear interest at market rates and the factor assumes the risk of insolvency and late payment of the debtor. Fomento de Construcciones y Contratas, S.A. continues to manage collection.

e.2) Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Borrowing costs are recognised on an accrual basis in the income statement using the effective interest method and are added to the amount of the financial instrument to the extent that they are not settled in the year in which they arise.

Bank borrowings and other current and non-current financial liabilities maturing within no more than 12 months from the balance sheet date are classified as current liabilities and those maturing within more than 12 months as non-current liabilities.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

e.3) Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and the securities issued are recognised in equity at the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in profit or loss.

The Company currently has in force a remuneration scheme for its executive directors and executive personnel, linked to the value of the Company's shares. This scheme is described in Note 14 "Share-based Payment Transactions".

e.4) Derivative financial instruments

The Company uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, these risks relate to changes in interest rates and the market prices of certain financial instruments. The Company arranges hedging financial instruments in this connection (see Note 12).

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

The Company uses hedges of the following types, which are accounted for as described below:

- Fair value hedges: in this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in profit or loss.
- Cash flow hedges: in hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.
- Hedges of net investments in foreign operations: the purpose of hedges of this nature is to hedge foreign currency risk relating to investments in subsidiaries and associates, and the foreign currency component is taken to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Although certain derivatives are not recognised as hedges, this is only for accounting purposes since for financial and management purposes all the hedges arranged by the Company have, at inception, an underlying financial transaction and the sole purpose of hedging such transaction.

Derivatives do not qualify for hedge accounting if the hedge fails the effectiveness test, which requires the changes in the fair value or in the cash flows of the hedged item directly attributable to the risk of the instrument to be offset by changes in the fair value or in the cash flows of the hedging instrument. When this does not occur, the changes in value of the instruments not classified as hedges are recognised in profit or loss.

The financial derivatives are measured by experts on the subject using generally accepted methods and techniques. These experts were independent from the Company and the entities financing it.

f) Inventories

Inventories are measured at the lower of acquisition or production cost and net realisable value. Trade discounts, rebates, other similar items and interest included in the face value of the related payables are deducted in determining the costs of purchase.

Assets received in payment of loans are measured at the lowest of the following three values: the amount at which the loan relating to the asset was recognised, production cost and net realisable value.

Production cost includes the costs of direct materials and, where applicable, direct labour and production overheads.

Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Company recognises the appropriate write-downs as an expense in the income statement when the net realisable value of the inventories is lower than acquisition or production cost.

g) Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the income statement in the period in which they arise.

h) Income tax

The income tax expense is calculated on the basis of profit before tax, increased or decreased, as appropriate, by the permanent differences between taxable profit and accounting profit. Based on the legislation applicable to the Company, the corresponding tax rate is applied to this adjusted accounting profit. Any tax relief and tax credits earned in the year are then deducted and any positive or negative differences between the tax charge estimated for the previous year's accounting close and the amount of tax subsequently paid are added to or deducted from, respectively, the resulting tax charge.

The temporary differences between the accounting profit and the taxable profit for income tax purposes, together with the differences between the carrying amounts of assets and liabilities recognised in the balance sheet and their tax bases give rise to deferred taxes which are recognised as non-current assets and liabilities. These amounts are measured at the tax rates that are expected to apply in the years in which they will foreseeably reverse, and in no circumstances are they discounted to present value.

The Company capitalises the deferred tax assets arising from temporary differences and tax loss carryforwards, except for those with respect to which there are reasonable doubts as to their future recovery.

i) Revenue and expense recognition

Revenue and expenses are recognised 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. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

The Company recognises each year as the period result on its contracts the difference between period production (measured at the selling price of the service provided during the period, as specified in the principal contract or in approved amendments thereto, and the selling price of other as yet unapproved services for which there is reasonable assurance of collection) and the costs incurred. Additionally, late-payment interest is recognised as income when it is approved or finally collected.

The difference between the amount of production and the amount billed until the date of the financial statements is recorded as "Unbilled Production" under "Trade Receivables for Sales and Services". Pre-billings for various items are recognised under "Current Liabilities – Trade and Other Payables – Customer Advances".

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

In accordance with the accounting principle of prudence, the Company only records realised income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recognised as soon as they become known, by recording the appropriate provisions.

j) Provisions and contingencies

The Company recognises provisions on the liability side of the accompanying balance sheet for present obligations arising from past events which the Company considers will probably require an outflow of resources embodying economic benefits to settle them on maturity.

These provisions are recognised when the related obligation arises and the amount recognised is the best estimate at the date of the accompanying financial statements of the present value of the future expenditure required to settle the obligation. The change in the year relating to the discount to present value is recognised as interest cost in the income statement.

Provisions for decommissioning, removal or rehabilitation and environmental provisions are recognised by increasing the value of the related asset by the present value of the expenses that will be incurred when operation of the asset ceases. The impact on profit or loss arises when the asset concerned is depreciated (as described in previous sections of this Note) and when the provisions are discounted to present value (as described in the preceding paragraph).

Provisions are classified as current or non-current in the accompanying balance sheet on the basis of the estimated maturity date of the obligation covered by them, and non-current provisions are considered to be those whose estimated maturity date exceeds the average cycle of the activity giving rise to the provision.

It should be noted that contingent liabilities due to possible obligations that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control, are not recognised in the financial statements as the probability that such obligation will have to be settled is remote.

k) Environmental assets and liabilities

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 upon completion of its operations. Also, the Company has non-current assets for the protection of the environment and bears any costs required for this purpose in the performance of its business activities.

The acquisition costs of these non-current assets used in environmental conservation are recognised under “Property, Plant and Equipment” or “Intangible Assets” based on the nature of the investment, and are depreciated or amortised over the useful lives of the assets or on the basis of the demand for or the use of the infrastructure in the service concession agreements. Also, in accordance with current accounting legislation, the Company recognises the expenses and provisions arising from its environmental obligations.

The Company’s environmental policy goes beyond strict compliance with current legislation in the area of environmental improvement and protection to include the establishment of preventative planning and the analysis and minimisation of the environmental impact of the activities carried on by it.

Company management considers that the possible contingencies relating to environmental protection and improvement at 31 December 2011 would not have a significant impact on the accompanying financial statements, which include provisions to cover any probable environmental risks that might arise.

l) Pension obligations

The Company has not established any pension plans to supplement the social security pension benefits. In accordance with the Consolidated Pension Plan and Fund Law, in specific cases where similar obligations exist, the Company externalises its obligations to its employees in this connection.

In addition, following authorisation by the Executive Committee, in the past an insurance policy was arranged and the premium paid to cover the payment of benefits relating to death, permanent occupational disability, retirement bonuses and pensions and other situations for, among other employees, certain executive directors and executives. In particular, the contingencies giving rise to benefits are those which entail the extinguishment of the employment relationship for any of the following reasons:

- Unilateral decision of the Company.
- Dissolution or disappearance of the Parent for whatever cause, including merger or spin-off.
- Death or permanent disability.
- Other causes of physical or legal incapacity.
- Substantial change in professional terms and conditions.
- Resignation of the executive on reaching 60 years of age, at the request of the executive and with the consent of the Company.
- Resignation of the executive on reaching 65 years of age, by unilateral decision of the executive.

The contributions made by the Company in this connection are recognised under “Staff Costs” in the income statement.

m) Grants

The Company accounts for grants received as follows:

m.1) Non-refundable grants

These are measured at the amount received or the fair value of the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders, which are recognised directly in equity.

m.2) Grants related to income

Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

n) Use of estimates

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets (see Note 4-c).
- The assumptions used in the calculation of the fair value of share-based payments (see Note 14).
- The useful life of the intangible assets, property, plant and equipment and investment property (see Notes 4-a and 4-b)
- The fair value of certain financial instruments (see Note 12)
- The calculation of certain provisions (see Notes 4-j and 15).

Although these estimates were made on the basis of the best information available at 31 December 2011, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively.

ñ) Related party transactions

The Company performs all its transactions with related parties on an arm's length basis.

Note 22, "Related party transactions and balances" to these financial statements details the main transactions with the significant shareholders of the Company, its directors and senior executives and between Group companies.

5. INTANGIBLE ASSETS

The changes in “Intangible Assets” in the accompanying balance sheet in 2011 and 2010 were as follows:

	Concessions	Computer software	Concession arrangements	Other intangible assets	Accumulated amortisation	Total
Balance at 31/12/09	23,814	15,099	3,883	13,768	(26,077)	30,487
Additions or charge for the year	667	5,197	—	657	(5,118)	1,403
Disposals or reductions	—	—	(566)	(210)	—	(776)
Transfers	—	—	—	4,593	—	4,593
Balance at 31/12/10	24,481	20,296	3,317	18,808	(31,195)	35,707
Additions or charge for the year	358	5,228	17,625	1,684	(12,086)	12,809
Disposals or reductions	(209)	(551)	(682)	(776)	1,961	(257)
Transfers and reclassifications due to concession arrangements	—	—	148,270	(2,905)	(59,623)	85,742
Balance at 31/12/11	24,630	24,973	168,530	16,811	(100,943)	134,001

The detail of the intangible assets and of the related accumulated amortisation at 31 December 2011 and 2010 is as follows:

	Cost	Accumulated amortisation	Net
<u>2011</u>			
Concessions	24,630	(17,924)	6,706
Computer software	24,973	(9,623)	15,350
Concession arrangements	168,530	(66,432)	102,098
Other intangible assets	16,811	(6,964)	9,847
	234,944	(100,943)	134,001
<u>2010</u>			
Concessions	24,481	(17,114)	7,367
Computer software	20,296	(6,870)	13,426
Concession arrangements	3,317	—	3,317
Other intangible assets	18,808	(7,211)	11,597
	66,902	(31,195)	35,707

The detail of the Company's most significant contracts due to service concession arrangements is as follows:

- El Campello urban solid waste treatment plant.
Construction and operation of the Integrated Urban Solid Waste Centre of El Campello (Alicante). It was awarded to the Company in 2003 and the construction phase was completed in November 2008, when the initial operation phase of 20 years began, which was subsequently extended to 21 years and 9 months. The net assets related to the above contract total EUR 46,197 thousand.

- Integrated management of the municipal water supply and sewerage service of Vigo.
Award of the Aqualia-FCC-Vigo joint venture (50% Fomento de Construcciones y Contratas, S.A. and 50% Aqualia Gestión Integral del Agua, S.A., wholly owned by the Company) of the operation of the concession, including investments for the extension, renovation and/or improvement of the existing infrastructures that the grantor placed at the disposal of the joint venture. It was awarded in 1991 for an initial term of 25 years, extendible for five-year periods up to a maximum legal term of 50 years. The grantor extended the concession in 2011 for a further five years until 2020. The net assets related to the above contract total EUR 24,716 thousand.
- Urban solid waste treatment plant at San Justo de la Vega (León).
Award of the Legio VII joint venture (with Fomento de Construcciones y Contratas, S.A. holding a 50% interest) for the construction and operation of the urban solid waste management system of the province of León. It was awarded in 2000 for an initial period of 20 years from the placing into operation of the recycling and composting plant in 2005. The net assets related to the above contract total EUR 8,195 thousand.

At the end of 2011 the Company did not have any material fully amortised intangible assets still in use.

At 31 December 2011, the Company did not have any intangible assets located outside Spain. There were also no assets used as security.

6. PROPERTY, PLANT AND EQUIPMENT

The changes in “Property, Plant and Equipment” in the accompanying balance sheet in 2011 and 2010 were as follows:

	Land and buildings	Plant and other items of property, plant and equipment	Property, plant and equipment in the course of construction and advances	Accumulated depreciation	Total
Balance at 31/12/09	96,256	911,216	61,906	(531,866)	537,512
Additions or charge for the year	19,919	50,687	31,904	(80,572)	21,938
Disposals or reductions	(367)	(29,145)	(72)	27,597	(1,987)
Transfers	19	36,395	(40,955)	—	(4,541)
Balance at 31/12/10	115,827	969,153	52,783	(584,841)	552,922
Additions or charge for the year	3,140	54,537	7,461	(72,926)	(7,788)
Disposals or reductions	(1,393)	(47,269)	(307)	41,203	(7,766)
Transfers and reclassifications due to concession arrangements	(18,792)	(84,692)	(43,121)	61,083	(85,522)
Balance at 31/12/11	98,782	891,729	16,816	(555,481)	451,846

The main changes in “Property, Plant and Equipment” relate to assets associated with the services and water concession agreements operated by the Company.

The Company owns buildings, the value of which, net of depreciation, and that of the land, were as follows at 2011 year-end:

	2011	2010
Land	24,338	32,020
Buildings	45,635	53,461
	69,973	85,481

The detail of the property, plant and equipment and of the related accumulated depreciation at 31 December 2011 and 2010 is as follows:

	Cost	Accumulated depreciation	Net
<u>2011</u>			
Land and buildings	98,782	(28,809)	69,973
Plant and other items of property, plant and equipment	891,729	(526,672)	365,057
Property, plant and equipment in the course of construction and advances	16,816	—	16,816
	1,007,327	(555,481)	451,846
<u>2010</u>			
Land and buildings	115,827	(30,346)	85,481
Plant and other items of property, plant and equipment	969,153	(554,495)	414,658
Property, plant and equipment in the course of construction and advances	52,783	—	52,783
	1,137,763	(584,841)	552,922

Of the net amount of property, plant and equipment, EUR 48,708 thousand (31 December 2010: EUR 85,730 thousand) relate to assets used in joint ventures.

In 2011 and 2010 the Company did not capitalise finance costs under "Property, Plant and Equipment".

At 2011 year-end the Company held various items of property, plant and equipment under finance leases (see Note 8).

At year-end all of the items of property, plant and equipment were used in the various production processes although some of the property, plant and equipment has been fully depreciated, amounting to EUR 260,103 thousand (31 December 2010: EUR 272,619 thousand), of which EUR 10,718 thousand related to structures (31 December 2010: EUR 10,201 thousand). The amounts relating to joint ventures were not material.

At 31 December 2011, the Company did not have any significant investments in property, plant and equipment abroad. It also did not have any significant firm purchase commitments relating to property, plant and equipment.

The Company's property, plant and equipment that is subject to restrictions on title relates mainly to assets under finance leases.

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2011 year-end the property, plant and equipment were fully insured against these risks.

7. INVESTMENT PROPERTY

“Investment Property” in the accompanying balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

On 29 December 2011, the Torre Picasso building was sold for EUR 400,000 thousand and gave rise to a gain of EUR 139,916 thousand for the Company, which is recognised under "Gains or Losses on Disposals and Other" in the accompanying income statement. As provided for in the sale agreement, Company undertook to settle the obligations assumed by it under the financing agreement entered into on 18 December 2009, amounting to EUR 250,000 thousand, and cancelled the mortgage that had been taken out on the building and the additional commitments securing the loan.

The changes in “Investment Property” in the accompanying balance sheet in 2011 and 2010 were as follows:

	Buildings	Accumulated depreciation	Total
Balance at 31/12/09	286,325	(55,813)	230,512
Additions or charge for the year	1,287	(3,904)	(2,617)
Disposals or reductions	(879)	—	(879)
Transfers	(52)	—	(52)
Balance at 31/12/10	286,681	(59,717)	226,964
Additions or charge for the year	2,117	(3,952)	(1,835)
Disposals or reductions	(289,132)	64,223	(224,909)
Transfers	334	(554)	(220)
Balance at 31/12/11	----	----	---

The average occupancy level of Torre Picasso is 100% (31 December 2010: 99%).

The figures included in profit or loss for 2011 and 2010 relating to the operation of the Torre Picasso building were as follows:

	2011	2010
Rental income	25,350	25,371
Transfer of costs to tenants	7,249	7,184
Profit net of taxes	12,723	12,572

8. LEASES

a) Finance leases

The Company, as lessee, has recognised assets leased under leases with basically a maximum term of two to five years and, in general, lease payments payable in arrears. Consequently, the present value of the payments does not differ significantly from their nominal value. The leased assets include notably the lorries and machinery used in the waste collection and cleaning services provided by the Company.

The characteristics of the finance leases in force at the end of 2011 and 2010 are as follows:

	2011	2010
Carrying amount	82,421	95,070
Accumulated depreciation	23,482	15,649
Cost of the assets	105,903	110,719
Finance costs	4,171	5,193
Capitalised cost of the assets	110,074	115,912
Lease payments paid in the year	(36,374)	(35,370)
Lease payments paid in prior years	(32,451)	(10,618)
Lease payments outstanding, including purchase option	41,249	69,924
Unaccrued finance charges	(1,449)	(3,291)
Present value of lease payments outstanding, including purchase option	39,800	66,633
Contract term (years)	2 to 5	2 to 5
Value of purchase options	977	1,034

The payment dates of the outstanding lease payments of the committed payments are shown in Note 16 to these financial statements.

The finance leases arranged by the Company do not include lease payments the amount of which must be determined on the basis of future economic events or indices and, accordingly, in 2011 no expense was incurred in connection with contingent rent.

b) Operating leases

As lessee, the Company makes operating lease payments basically for the use of buildings and structures relating to the Central Services offices in Madrid and Barcelona, and for the leases of premises and industrial buildings used by the Company as offices, warehouses, changing rooms and garages in the course of its activities.

The amount relating to the aforementioned leases in 2011 totalled EUR 32,200 thousand (31 December 2010: EUR 31,891 thousand).

Also worthy of note among the lease agreements due to the sum involved is the lease agreement entered into between Fomento de Construcciones y Contratas, S.A. and the new owners of the buildings housing the FCC Group's Central Services offices, located at Federico Salmón 13, in Madrid and at Balmes 36, in Barcelona. On 29 December 2011, Fedemés, S.A., a wholly-owned investee of the Company and owner of the aforementioned buildings, sold them. On that same date, the new owners and Fomento de

Construcciones y Contratas, S.A. entered into two lease agreements on the two buildings for a non-cancellable minimum term of 30 years, extendable at the Company's discretion by two five-year periods, with an initial combined annual rent of EUR 5,040 thousand, adjustable each year based on the CPI. The new owners, in turn, granted a purchase option to the Company, which can be exercised only at the end of the lease term at the higher of fair value and the CPI-adjusted selling price.

At 2011 year-end there were non-cancellable future committed payments in relation to the above items amounting to EUR 239,391 thousand (2010: EUR 81,367 thousand). The detail, by maturity, of the non-cancellable future minimum payments at 31 December 2011 and 2010 is as follows:

	2011	2010
Within one year	24,591	18,383
Between one and five years	75,557	42,286
After five years	139,243	20,698
	239,391	81,367

9. NON-CURRENT AND CURRENT FINANCIAL ASSETS

a) Non-current financial assets

The detail of "Non-Current Financial Assets" at the end of 2011 and 2010 is as follows:

	Equity instruments	Loans to third parties	Derivatives	Other financial assets	Total
2011					
Loans and receivables	—	37,806	—	35,518	73,324
Available-for-sale financial assets	9,344	—	—	—	9,344
Held-for-trading financial assets (Note 12)	—	—	12,222	—	12,222
Hedging derivatives (Note 12)	—	—	3,475	—	3,475
	9,344	37,806	15,697	35,518	98,365
2010					
Loans and receivables	—	27,609	—	24,111	51,720
Available-for-sale financial assets	9,268	—	—	—	9,268
Held-for-trading financial assets (Note 12)	—	—	11,105	—	11,105
Hedging derivatives (Note 12)	—	—	3,919	—	3,919
	9,268	27,609	15,024	24,111	76,012

The detail, by maturity, of the loans and receivables is as follows:

	2013	2014	2015	2016	2017 and subsequent years	Total
Loans and receivables	8,115	3,523	3,608	3,665	54,413	73,324

Loans and receivables

The amounts granted to public entities for the performance of building work and installations in the water network, mainly in joint ventures, are recognised as loans and receivables. These loans earn interest at market rates. Loans and receivables also include long-term deposits and the deposits and guarantees required legally or contractually in the course of the Company's activities, as well as the loans granted to Xfera Móviles, S.A. described in the following section.

Available-for-sale financial assets

The detail at 31 December 2011 and 2010 is as follows:

	Effective percentage of ownership	Fair value
<u>2011</u>		
Shopnet Brokers, S.A.	14.88%	—
Vertederos de Residuos, S.A.	16.03%	9,076
Xfera Móviles, S.A.	3.44%	—
Other		268
		9,344
<u>2010</u>		
Shopnet Brokers, S.A.	14.88 %	—
Vertederos de Residuos, S.A.	16.03 %	8,998
Xfera Móviles, S.A.	3.44 %	—
Other		270
		9,268

At 31 December 2011, the Company had granted loans to Xfera Móviles, S.A. totalling EUR 24,115 thousand (31 December 2010: the same amount) for which a provision of EUR 3,685 thousand had been recognised (31 December 2010: EUR 22,085 thousand). The EUR 18,400 thousand reversal of this provision in 2011 is included under “Impairment and Gains or Losses on Disposals of Financial Instruments” in the income statement. In addition, at 31 December 2011, the Company had provided guarantees amounting to EUR 13,286 thousand for Xfera Móviles, S.A. (31 December 2010: EUR 3,995 thousand).

b) Current financial assets

The detail of "Current Financial Assets" at the end of 2011 and 2010 is as follows:

	Loans to companies	Derivatives	Other financial assets	Total
<u>2011</u>				
Held-to-maturity investments	—	—	62	62
Loans and receivables	18,887	—	6,426	25,313
Held-for-trading financial assets (Note 12)	—	888	—	888
	18,887	888	6,488	26,263
<u>2010</u>				
Held-to-maturity investments	—	—	2,887	2,887
Loans and receivables	6,622	—	2,509	9,131
	6,622	—	5,396	12,018

In 2011 the Company did not recognise any impairment losses on either its non-current or current financial assets.

10. INVESTMENTS IN AND PAYABLES TO GROUP COMPANIES AND ASSOCIATES

a) Non-current investments in Group companies and associates

At 31 December 2011 and 2010, the detail of "Non-Current Investments in Group Companies and Associates" is as follows:

	Cost	Accumulated impairment losses	Total
<u>2011</u>			
Equity instruments of Group companies	1,634,920	(3,492)	1,631,428
Equity instruments of associates	736,064	(75,584)	660,480
Loans to Group companies	1,907,486	—	1,907,486
Loans to associates	5,720	—	5,720
Derivatives	2,376	—	2,376
	4,286,566	(79,076)	4,207,490
<u>2010</u>			
Equity instruments of Group companies	1,590,260	(2,458)	1,587,802
Equity instruments of associates	735,809	(76,537)	659,272
Loans to Group companies	1,878,135	—	1,878,135
Loans to associates	59,371	—	59,371
	4,263,575	(78,995)	4,184,580

The changes in the line items in the foregoing table are as follows:

	Equity instruments of Group companies	Equity instruments of associates	Loans to Group companies	Loans to associates	Derivatives	Net impairment losses	Total
Balance at 31/12/09	1,347,826	735,809	1,293,965	54,741	—	(90,219)	3,342,122
Additions or charge for the year	250,000	—	40,925	5,465	—	(1,064)	295,326
Disposals or reversals	(7,566)	—	—	(440)	—	12,288	4,282
Transfers	—	—	543,245	(395)	—	—	542,850
Balance at 31/12/10	1,590,260	735,809	1,878,135	59,371	—	(78,995)	4,184,580
Additions or charge for the year	44,700	255	29,361	48	2,376	(2,281)	74,459
Disposals or reversals	(40)	—	(3)	(799)	—	2,200	1,358
Transfers	—	—	(7)	(52,900)	—	—	(52,907)
Balance at 31/12/11	1,634,920	736,064	1,907,486	5,720	2,376	(79,076)	4,207,490

Equity instruments of Group companies

The most significant changes in the foregoing table are as follows:

- Of particular note in 2011 was the investment in the form of a direct contribution to reserves, in accordance with Austrian legislation, of EUR 22,000 thousand at Alpine Bau GmbH and of EUR 10,500 thousand at Alpine Holding GmbH, companies controlled through the 100% interest in FCC Construcción, S.A. Also in 2011, as a result of the reorganisation of the Energy business area in the FCC Group, the Parent, Fomento de Construcciones y Contratas, S.A., paid out EUR 5,506 thousand in relation to the capital transactions of the investees FCC Energía, S.A., Saisei Renovables, S.L. and FCC Power Generation, S.L. The latter two companies were incorporated at the end of the year. The Company also paid off in full the amount outstanding on the wholly owned investee, Ecoparque Mancomunidad del Este, S.A., totalling EUR 4,201 thousand and also paid off in part the amount outstanding on the investee Valoración y Tratamiento de Residuos Urbanos, S.A. in which the Company holds an 80% interest, totalling EUR 1,500 thousand.
- In 2010, the subsidiary FCC Construcción, S.A., wholly owned by Fomento de Construcciones y Contratas, S.A., increased capital by EUR 50,000 thousand with a share premium of EUR 200,000 thousand. The increase was subscribed in full by the Company for an amount of EUR 250,000 thousand. Also of note in 2010 was the liquidation of Giza Environmental Services S.A.E., in which Fomento de Construcciones y Contratas, S.A. held a 70% interest. The Company derecognised this interest and the short-term loan granted in prior years (see Note 10-b), giving rise to a loss of EUR 7,114 thousand which was recognised under "Gains or Losses on Disposals and Other" in the accompanying income statement.

The detail, by company, of the investments in Group companies and associates is presented in Appendixes I and III, respectively, indicating for each company in which a direct ownership interest is held the company name, registered office, line of business, the percentage of capital held directly or indirectly, the amount of equity (capital, reserves and other), profit or loss, dividends received, whether or not it is listed and the carrying amount of the ownership interest.

In relation to the interest held by the Company in Cementos Portland Valderrivas, S. A. (see Appendix I), the latter is in the process of refinancing its main loans due to the failure to comply with certain ratios. The refinancing process is expected to be completed successfully in the first half of 2012. In this regard, the Cementos Portland Valderrivas Group is preparing a business plan for the 2012-2016 period, which

will be submitted to the creditor banks, in order to bring debt servicing in line with the funds that that Group is expected to generate.

Long-term loans to Group companies

The most significant amounts are as follows:

	2011	2010
Azincourt Investment, S.L., Sole-Shareholder Company	1,100,728	1,100,728
FCC Construcción, S.A.	400,000	400,000
Aqualia Gestión Integral del Agua, S.A.	149,250	149,250
FCC Versia, S.A.	140,000	140,000
WRG PFI Holdings Limited	40,370	30,007
Dédalo Patrimonial, S.L., Sole-Shareholder Company	30,916	23,949
Enviropower Investments, Ltd.	19,819	19,231
ASA Abfall Services AG	14,000	14,000
Other	12,403	970
	1,907,486	1,878,135

In the foregoing table the following is noteworthy:

- The participating loan of EUR 1,100,728 thousand granted to Azincourt Investment, S.L., Sole-Shareholder Company, wholly owned by Fomento de Construcciones y Contratas, S.A., which holds the portfolio representing 100% of the Waste Recycling Group acquired in 2006. This loan is repayable in a single payment in December 2013, like the bank loan with which it is associated (see Note 16). The loan earns fixed interest at 2.95% on a portion thereof and floating interest on another portion based on certain performance indicators of the borrower. At year-end interest of EUR 34,309 thousand had been earned on the participating loan (31 December 2010: EUR 32,931 thousand), which was recognised under “Finance Income from Marketable Securities and Other Financial Instruments of Group Companies and Associates” in the accompanying income statement.
- The long-term loan of EUR 400,000 thousand to the subsidiary FCC Construcción, S.A. It is repayable in a single repayment on 30 June 2013. The interest rate is 90-day Euribor plus a spread of 4%. The loan earned interest of EUR 15,644 thousand in 2011.
- The participating loan of EUR 149,250 thousand granted on 1 May 2010 to the subsidiary Aqualia Gestión Integral del Agua, S.A. It matures on 31 May 2013 and is automatically renewable for successive one-year periods. The interest is calculated on the basis of various accounting indicators of the borrower. The participating loan accrued interest of EUR 5,428 thousand in 2011.
- The long-term loan of EUR 140,000 thousand granted on 9 February 2007 to the investee FCC Versia, S.A., which initially matured in two years, automatically extendable by successive two-year periods. The interest rate is established on the basis of the average 3-month Euribor of the month prior to the month on which it is to be reviewed, plus a spread of 0.75%. At 2011 year-end this loan had earned interest of EUR 2,901 thousand (31 December 2010: EUR 2,094 thousand).

The other loans relate to amounts granted to Group companies that mature in more than one year and earn interest at market rates.

Long-term loans to associates

In 2011, EUR 52,531 thousand of the participating loan granted to Realia Business, S.A. in 2009 was reclassified from non-current to current. This loans earned interest of EUR 2,397 thousand in 2011 (31 December 2010: EUR 2,317 thousand).

b) Current investments in Group companies and associates

“Current Investments in Group Companies and Associates” includes basically the loans and other non-trade credit facilities granted to Group companies and associates, among other things, to cater for certain specific cash situations and other short-term investments. These investments are measured at the lower of cost and market, plus the related interest at market rates.

The most significant amounts are as follows:

	2011	2010
FCC Construcción, S.A.	526,924	422,406
Saisei Renovables, S.L/FCC Energía, S.A.	366,746	350,071
Azincourt Investment, S.L., Sole-Shareholder Company	246,714	166,641
Aqualia Gestión Integral del Agua, S.A.	118,918	125,683
Realia Business, S.A.	54,475	—
Dédalo Patrimonial, S.L., Sole-Shareholder Company	21,657	—
Enviropower Investments Ltd.	12,457	—
FCC Medio Ambiente, S.A.	11,095	22,738
Fedemes, S.L.	7,372	—
Corporación Financiera Hispánica, S.A.	2,217	15,000
Asesoría Financiera y de Gestión, S.A.	1,958	8,768
FCC Versia, S.A.	1,445	16,753
Other	27,693	40,002
	1,399,671	1,168,062

These loans mature annually and earn interest at market rates.

c) Current payables to Group companies and associates

The most noteworthy balances of “Current Payables to Group Companies and Associates”, which includes the loans received by the Company bearing interest at market rates and trade accounts payable to these companies, recognised under liabilities in the accompanying balance sheet, are as follows:

	2011	2010
Corporación Financiera Hispánica, S.A.	196,515	194,238
FCC Versia, S.A.	170,044	108,564
Fedemes, S.L.	69,219	3,396
Asesoría Financiera y de Gestión, S.A.	58,776	64,828
FCC Finance, B.V.	55,618	55,291
FCC Medio Ambiente, S.A.	32,109	24
Alpine Bau GmbH	22,000	—
Azincourt Investment, S.L., Sole-Shareholder Company	17,845	18,155
Proactiva Medio Ambiente, S.A.	17,395	17,271
Ecoparque Mancomunidad del Este, S.A.	17,060	11,504
FCC Construcción, S.A.	16,746	2,150
Aqualia Gestión Integral del Agua, S.A.	14,523	979
Alpine Holding GmbH	10,500	—
Aqualia Infraestructuras, S.A.	10,445	—
Remainder	39,735	21,957
	748,530	498,357

11. TRADE RECEIVABLES FOR SALES AND SERVICES

"Trade Receivables for Sales and Services" in the accompanying balance sheet includes the present value of the Company's sales and services.

	2011	2010
Production billed not yet collected	570,576	557,479
Unbilled production	126,913	94,810
Trade receivables for sales and services	697,489	652,289
Customer advances	(108,625)	(59,875)
Total trade receivables, net	588,864	592,414

The foregoing total is the net balance of trade receivables after deducting the balance of "Customer Advances" on the liability side of the accompanying balance sheet which, as required by accounting regulations, includes the collected and uncollected pre-billings for various items and the advances received (normally in cash).

"Production Billed Not Yet Collected" reflects the amount of the billings issued to customers for services provided pending collection at the balance sheet date.

"Unbilled Production" reflects the difference between the production recognised by the Company on each contract and the amount of the billings issued to the customers. The balance of this account relates basically to the price revisions under the various contracts which, although as yet unapproved, the Company considers will be duly billed since there are no doubts as to their being accepted.

The Company transfers title to trade receivables to banks without recourse against Fomento de Construcciones y Contratas, S.A. in the event of non-payment. The amount deducted from the trade receivables balance at year-end in this connection amounted to EUR 452,263 thousand (31 December 2010: EUR 300,492 thousand).

Of the net balance of trade receivables, EUR 124,907 thousand (31 December 2010: EUR 114,102 thousand) relate to balances from contracts performed through joint ventures.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The assets and liabilities relating to derivatives included in the accompanying balance sheet and the impact thereof on equity and the income statement are as follows:

	Fair value		Impact on equity	Impact on the income statement
	Assets (Note 9)	Liabilities (Note 16)		
<u>2011</u>				
Hedging derivatives	3,475	59,981	(44,080)	—
Other derivatives	15,486	46,053	—	16,973
	18,961	106,034	(44,080)	16,973
<u>2010</u>				
Hedging derivatives	3,919	42,894	(33,004)	—
Other derivatives	11,105	56,399	—	(30,500)
	15,024	99,293	(33,004)	(30,500)

Hedging derivatives

Following is a detail of the hedging derivatives arranged by the Company for 2011 and 2010, all of which are cash flow hedges, subdivided according to the hedged transaction, and including the type of derivative, the amounts arranged or notional amounts, the expiry date, the fair value at year-end and the impact on equity net of the tax effect:

2011

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value		Impact on equity
				Assets	Liabilities	
Syndicated loan (Note 16-b)	IRS	149,086	30/12/13	—	8,454	(5,917)
	IRS	11,693	30/12/13	—	608	(426)
	IRS	97,928	30/12/13	—	5,408	(3,786)
	IRS	129,113	30/12/13	—	9,248	(6,473)
	IRS	83,313	30/12/13	—	4,577	(3,204)
	BASIS SWAP	200,000	30/06/12	—	994	(696)
	BASIS SWAP	50,000	30/06/12	—	239	(167)
	BASIS SWAP	92,020	30/06/12	—	454	(318)
				-	29,982	(20,987)
Syndicated loan (Note 16-b)	IRS	1,225,000	08/05/14	—	28,541	(19,978)
	IRS	24,733	10/10/13	57	—	40
				57	28,541	(19,938)
Limited recourse borrowings (Note 16-b)	IRS	6,037	02/04/24	—	694	(486)
	IRS	3,019	02/04/24	—	347	(243)
	IRS	1,934	02/04/24	—	222	(155)
	IRS	1,704	02/04/24	—	195	(137)
				—	1,458	(1,021)
Share option plan (Note 14)	CALL (1 st plan)	61,596	30/09/13	904	-	(1,350)
	CALL (2 nd plan)	37,065	10/02/14	2,514	-	(784)
				3,418	-	(2,134)
Total				3,475	59,981	(44,080)

2010

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value		Impact on equity
				Assets	Liabilities	
Syndicated loan						
(Note 16-b)	IRS	148,023	30/12/13	—	12,709	(8,897)
	IRS	13,539	30/12/13	—	786	(550)
	IRS	113,389	30/12/13	—	7,093	(4,965)
	IRS	172,622	30/12/13	—	11,155	(7,809)
	IRS	96,465	30/12/13	—	5,996	(4,197)
	BASIS SWAP	105,000	30/06/11	—	(11)	8
	BASIS SWAP	245,000	30/06/11	—	(43)	30
	BASIS SWAP	26,998	30/06/11	—	(1)	1
	BASIS SWAP	46,016	30/06/11	—	(8)	6
				-	37,676	(26,373)
Limited recourse borrowings						
(Note 16-b)	IRS	200,000	18/12/24	—	5,218	(3,653)
	IRS	9,918	02/04/24	166	—	117
	IRS	4,959	02/04/24	53	—	37
	IRS	3,178	02/04/24	83	—	58
	IRS	2,799	02/04/24	47	—	33
				349	5,218	(3,408)
Share option plan						
(Note 14)	CALL (1 st plan)	61,596	30/09/13	1,065	-	(2,059)
	CALL (2 nd plan)	37,065	10/02/14	2,505	-	(1,164)
				3,570		(3,223)
Total				3,919	42,894	(33,004)

The detail, by maturity, of the notional amount of the hedging transactions arranged at 31 December 2011 is as follows:

	Notional maturity				
	2012	2013	2014	2015	2016 and subsequent years
IRS (syndicated loan)	76,097	395,036	—	—	—
BASIS SWAP	342,020	—	—	—	—
IRS (syndicated loan)	9,275	627,958	612,500	—	—
IRS (limited recourse borrowings)	331	834	1,016	1,061	9,452
CALL	—	61,596	37,065	—	—

Other derivatives

Following is the detail for 2011 and 2010 of the derivative financial instruments that do not qualify for hedge accounting, subdivided according to the hedged transaction, and including a detail of the type of derivative, the amounts arranged or the notional amount, the expiry date, the fair value at year-end and the impact on the income statement under "Changes in Fair Value of Financial Instruments":

2011

	Type of derivative	Amount arranged	Expiry	Fair value		Impact on the income statement
				Assets	Liabilities	
Share option plan (Note 14)	PUT (1 st plan)	61,596	30/09/13	—	29,560	8,351
	PUT (2 nd plan)	37,065	12/02/14	—	13,229	5,260
	IFE (1 st plan)	61,596	30/09/13	3,747	—	711
	IFE (2 nd plan)	37,065	12/02/14	4,148	—	78
				7,895	42,789	14,400
Convertible bonds (Note 13-f)	Trigger call	450,000	31/01/14	4,327	—	2,573
				4,327	—	2,573
Exchange rate hedge (WRG)	IRS	73,201	21/03/14	2,376	—1,188	2,376
	IRS	36,600	21/03/14	—	1,188	(1,188)
	IRS	36,600	21/03/14	—	—	(1,188)
				2,376	2,376	-
Equity swap	Share Swap	94,990	16/01/12	888	—	888
	Share Forward	94,990	16/01/12	—	888	(888)
				888	888	-
				15,486	46,053	16,973

2010

	Type of derivative	Amount arranged	Expiry	Fair value		Impact on the income statement
				Assets	Liabilities	
Share option plan (Note 14)	PUT (1 st plan)	61,596	30/09/13	—	37,910	(15,921)
	PUT (2 nd plan)	37,065	10/02/14	—	18,489	(8,471)
	IFE (1 st plan)	61,596	30/09/13	4,336	—	395
	IFE (2 nd plan)	37,065	10/02/14	5,014	—	(289)
				9,350	56,399	(24,286)
Convertible bonds (Note 13-f)	Trigger call	450,000	31/01/14	1,755	—	(6,214)
				1,755	—	(6,214)
				11,105	56,399	(30,500)

13. EQUITY

a) Share capital

The share capital of Fomento de Construcciones y Contratas, S.A. consists of 127,303,296 ordinary bearer shares of EUR 1 par value each.

All the shares carry the same rights and have been fully subscribed and paid.

The shares of Fomento de Construcciones y Contratas, S.A. are included in the selective Ibx 35 index, are publicly listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are traded through the Spanish stock market interconnection system.

The only investment of 10% or more owned directly or indirectly (through subsidiaries) by other companies, according to the information provided pursuant to current legislation, is that held by B-1998, S.L., which has a direct and indirect ownership interest of 53.829% in the share capital.

The aforementioned company, B-1998, S.L., in which Esther Koplowitz Romero de Juseu, Larranza XXI, S.L. and Eurocis, S.A. have direct or indirect ownership interests of 89.653%, 5.339% and 5.008%, respectively, has certain commitments to its shareholders which are recorded and published by the Spanish National Securities Market Commission (CNMV) and in the FCC Group's Corporate Governance Report.

Esther Koplowitz Romero de Juseu also directly owns 123,313 FCC shares and indirectly holds 39,172 FCC shares through Dominum Desga, S.L. (4,132 shares) and Ejecución y Organización de Recursos, S.L. (35,040 shares), companies wholly owned by Esther Koplowitz Romero de Juseu.

b) Share premium

The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use for other purposes.

c) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. 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 share capital amount.

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

At 31 December 2011, the legal reserve had reached the stipulated level.

d) Restricted reserves

"Other Reserves" in the accompanying balance sheet notably includes EUR 6,034 thousand of restricted reserves, equal to the par value of the treasury stock retired in 2002 and 2008 which, in accordance with Article 335.c of the Spanish Limited Liability Companies Law, are restricted, unless the same requirements as those stipulated for capital reductions are met.

e) Treasury shares

At 31 December 2011, the Company held 3,278,047 treasury shares (31 December 2010: 3,182,582 treasury shares), accounting for 2.57% of the share capital and amounting to EUR 90,975 thousand (31 December 2010: EUR 89,130 thousand).

In addition, at 31 December 2011, through Asesoría Financiera y de Gestión, S.A., (wholly owned by Fomento de Construcciones y Contratas, S.A.), the Company held 9,418,830 treasury shares (31 December 2010: 9,432,369), accounting for 7.40% of the share capital and with a carrying amount at that company of EUR 255,408 thousand (31 December 2010: EUR 194,766 thousand).

f) Other equity instruments

In accordance with recognition and measurement standard 9 of the Spanish National Chart of Accounts, "Other Equity Instruments" includes the measurement of the equity component resulting from accounting for the issue of convertible bonds into shares of the Company, which when added to the amount expressed under "Debt Instruments and Other Marketable Securities" in the accompanying balance sheet, makes up the total amount of the issue of such bonds.

In October 2009 Fomento de Construcciones y Contratas, S.A. launched an issue of bonds exchangeable for shares of the Company, the main characteristics of which were as follows:

- The amount of the issue is EUR 450,000,000 with a maturity date of 30 October 2014.
- The bonds were issued at par and with a face value of EUR 50,000.
- The bonds accrue interest at a fixed annual rate of 6.5% payable every six months.
- The exchange price of the bonds for shares of the Company is EUR 39.287 per share, which means that each bond will be convertible into 1,272.68 ordinary shares.
- The bonds are convertible or redeemable at the option of the holder or at the option of Fomento de Construcciones y Contratas, S.A., and the terms and conditions for the exercise of the option are included in the "Issue Agreement". Both newly issued shares and old shares held by the Company may be delivered.
- This issue is backed by the Company's equity and there are no other special third-party guarantees.
- The issue is underwritten by financial institutions and is intended for qualified international investors.

The shareholders at the Extraordinary General Meeting of Fomento de Construcciones y Contratas, S.A. held on 30 November 2009 to approve the convertibility of the bonds into shares of the Company passed the following resolutions:

- I) Pursuant to Article 414 of the Consolidated Spanish Limited Liability Companies Law, to increase share capital by the amount required to attend to requests by the holders of the bonds to convert them, up to an initially envisaged maximum of EUR 12 million, but subject to possible amendments in accordance with the provisions of the "Issue Agreement".
- II) To approve a buyback programme of the Company's treasury shares for the sole purpose of meeting the obligations to deliver treasury shares resulting from the bond issue and capital reduction of the Company mentioned in the following paragraph.
- III) To reduce the share capital by means of the retirement of the shares purchased under the buyback programme mentioned above or of the treasury shares already held, including for such purposes the treasury shares made available through a loan to the underwriters of the transaction. This capital reduction may be for a maximum nominal amount equivalent to the number of new shares issued by the Company to meet the requests to exchange the bonds.

In relation to the Company's treasury share buyback programme, it should be noted that, due to the existing treasury share position and the number of shares required to cover the possible conversion or exchange of the bonds, equivalent to 9.11% of the share capital, there is no dilution risk for the current shareholders arising from the bond issue.

At 31 December 2011 the number of loaned securities was 1,144,605 (31 December 2010: 1,313,322 shares).

It should also be noted in relation to this transaction that the Company has a trigger call option that allows it to call the bonds under certain circumstances (see Note 12).

g) Valuation adjustments

The valuation adjustments relating to hedges are disclosed in Note 12, "Derivative financial instruments", and those relating to available-for-sale financial assets are disclosed in Note 9, "Non-current and current financial assets"

h) Grants

The accompanying balance sheet includes grants received amounting to EUR 6,627 thousand (31 December 2010: EUR 6,594 thousand), net of the tax effect, with EUR 4,729 thousand having been taken to income (31 December 2010: EUR 4,335 thousand), of which EUR 549 thousand related to 2011 (31 December 2010: EUR 512 thousand). The above amount relates mainly to grants received by the joint ventures through which the Company jointly performs contracts.

14. SHARE-BASED PAYMENT TRANSACTIONS

In accordance with a decision by the Board of Directors of 29 July 2008, Fomento de Construcciones y Contratas, S.A. has a remuneration plan in force for the executive directors and executives which is linked to the value of the Company's shares. The participants in the plan receive a cash amount equivalent to the difference between the value of the shares at the date of exercise and at the reference date set in the plan.

The main features of the plan, which is divided into two tranches, are as follows:

First tranche

- Commencement date: 1 October 2008.
- Exercise period: from 1 October 2011 to 1 October 2013.
- Number of shares: 1,800,000 shares, of which 700,000 correspond to executive directors and senior executives (12 persons) and the remaining 1,100,000 to other executives (43 persons).
- The option exercise price is EUR 34.22 per share.

Second tranche

- Commencement date: 6 February 2009.
- Exercise period: from 6 February 2012 to 5 February 2014.
- Number of shares: 1,500,000 shares, of which 147,500 correspond to executive directors and senior executives (12 persons) and the remaining 1,352,500 to other executives (225 persons).
- The option exercise price is EUR 24.71 per share.

In accordance with applicable regulations, the Company calculates the present value of the amount to be settled at the end of the plan, and recognises the corresponding provision on a systematic basis with a charge to "Staff Costs" throughout the term of the plan. At each reporting date, the present value of the obligation is re-estimated and any difference with respect to the carrying amount recognised previously is taken to the income statement for the year.

At 31 December 2011, EUR 2,323 thousand in staff costs (the same amount as in 2010), net of the hedges indicated in the following paragraph, had accrued in relation to the obligations to employees, while the provision recognised in the accompanying financial statements amounted to EUR 2,054 thousand (2010: EUR 1,439 thousand).

In order to hedge the risk of a rise in the share price, the Company has arranged with financial institutions a call option and a put option for each of the tranches described above, together with an interest rate/dividend swap with the same exercise price, nominal amount and maturity as the plan. The treasury shares linked to this hedge were delivered to the aforementioned financial institutions. These treasury shares were delivered by Asesoría Financiera y de Gestión, S.A., which is wholly owned by Fomento de Construcciones y Contratas, S.A.

With respect to the hedge, only the call option qualifies as a cash-flow hedge and, accordingly, the changes in the fair value thereof are recognised in equity under "Valuation Adjustments" in the accompanying balance sheet, while the put option and the interest rate/dividend swap do not qualify for hedge accounting and, therefore, the changes in their fair value are taken to the income statement.

The impact on equity and on the income statement of the aforementioned derivative financial instruments at 31 December 2011 and 2010 is disclosed in Note 12 to these financial statements

Lastly, it should be noted in relation to the first tranche that no options were exercised within the exercise period relating to 2011 and, accordingly, no amounts were settled.

15. NON CURRENT PROVISIONS

The changes in 2011 were as follows:

	Litigation	Guarantees and obligations	Other provisions	Total
Balance at 31/12/09	65,963	44,539	97,425	207,927
Charge for the year	2,226	11,400	100,636	114,262
Amounts used	(667)	(3,178)	(2,509)	(6,354)
Reversals	—	(1,345)	(35)	(1,380)
Transfers	—	56	(56)	—
Balance at 31/12/10	67,522	51,472	195,461	314,455
Charge for the year	22,194	25,166	53,101	100,461
Amounts used	—	(2,604)	(2,006)	(4,610)
Reversals	—	(14,816)	(722)	(15,538)
Transfers	(457)	—	457	—
Balance at 31/12/11	89,259	59,218	246,291	394,768

Provisions for litigation

Provisions for litigation cover the contingencies of the Company acting as defendant in certain proceedings in relation to the liability inherent to the business activities carried on by it.

Provisions for guarantees and obligations

Provisions for guarantees and obligations include the provisions to cover the expenses arising from contractual and legal obligations of a non-environmental nature.

Other provisions

"Other Provisions" include the items not included under the foregoing headings, such as provisions to cover environmental contingencies, risks inherent to the business and international expansion, activities at concessions and the Company's obligations in relation to share-based payment transactions (see Note 14), inter alia.

16. NON-CURRENT AND CURRENT PAYABLES

"Non-Current Payables" and "Current Payables" include the following:

	Non-current	Current
2011		
Debt instruments and other marketable securities	428,548	4,888
Bank borrowings		
Limited recourse borrowings	9,975	226,297
Unlimited recourse borrowings	1,991,695	1,925,129
Obligations under finance leases	14,163	25,637
Derivatives (Note 12)	105,146	888
Other financial liabilities	7,523	80,728
	2,557,050	2,263,567
2010		
Debt instruments and other marketable securities	422,204	4,888
Bank borrowings		
Limited recourse borrowings	225,543	10,271
Unlimited recourse borrowings	3,244,624	446,154
Obligations under finance leases	27,936	38,697
Derivatives (Note 12)	99,293	—
Other financial liabilities	7,485	110,410
	4,027,085	610,420

The detail, by maturity, of "Non-Current Payables" is as follows:

	Maturity				2017 and subsequent years
	2013	2014	2015	2016	
Debt instruments and other marketable securities	—	428,548	—	—	—
Limited recourse borrowings	1,100	1,100	1,100	—	6,675
Unlimited recourse borrowings	1,217,338	762,276	5,301	6,780	—
Obligations under finance leases	4,482	5,782	2,000	1,166	733
Derivatives	59,541	44,146	—	—	1,459
Other financial liabilities	74	175	65	98	7,111
	1,282,535	1,242,027	8,466	8,044	15,978

a) Debt instruments and other marketable securities

On 30 October 2009, the Company launched an issue of subordinated convertible bonds amounting to EUR 450,000. This issue was intended for international institutional investors. The purpose of the issue was to strengthen the balance sheet equity structure due to the fact that the bonds are subordinate to the corporate loans arranged by the Company, and to diversify the Company's financing base, by supplementing the bank financing.

In accordance with applicable accounting regulations, in addition to their financial component, the convertible bonds have another component that is recognised in equity as described in Note 13-f to these financial statements. Note 13-f also describes the terms of the convertible bond issue. The balance recognised in this connection at 31 December 2011 under "Debt Instruments and Other Marketable Securities" in the accompanying balance sheet amounts to EUR 433,436 thousand (31 December 2010: EUR 427,092 thousand).

b) Bank borrowings

The short-term and long-term credit limit granted to the Company by the banks amounts to EUR 4,099,422 thousand (31 December 2010: EUR 4,115,893 thousand), EUR 182,598 thousand of which had been drawn down at 31 December 2011 (31 December 2010: EUR 425,115 thousand).

The main characteristics of the most significant non-current and current bank borrowings arranged by the Company in 2011 are as follows:

- On 11 August 2011 the Company entered into a syndicated loan to finance part of the 2011 investment plan for EUR 120,000 thousand which matures in three years (11 August 2014). The participating institutions are ICO, BBVA and Santander. The first repayment of 20% falls due in 2013 and the rest upon maturity.
- To optimise the FCC Group's treasury share position, on 15 April 2011, Fomento de Construcciones y Contratas, S.A. executed a transaction with Soci t  Generale on 6,165,000 treasury shares held by the wholly owned subsidiary, Asesor a Financiera y de Gesti n, S.A. without losing control thereof, in order to obtain EUR 127,920 thousand in liquidity. This transaction, with an initial maturity date of 14 October 2011, was renewed and the original terms and conditions were amended. EUR 32,930 thousand of the debt was repaid and at 31 December 2011, the outstanding debt in relation to this transaction amounted to EUR 95,036 thousand. On 16 January 2012 it was renewed once again with a maturity date of 16 April 2012 under the same terms and conditions as those in force at the end of 2011.

The credit facilities and loans arranged by the Company in prior years and maintained in 2011 include notably the following:

- On 30 July 2010, the Company renewed the syndicated loan for EUR 1,225,000 thousand, which was entered into in 2008 and matured on 8 May 2011, under a forward start arrangement. The loan matures in three years (8 May 2014) with repayment of 50% in 2013. It consists of three tranches: two loans of EUR 735,000 thousand and EUR 62,000 thousand and a credit facility of EUR 490,000 thousand. Therefore, the total amount of the new transaction entered into totals EUR 1,287,000 thousand and at 31 December 2011 it had been drawn down in full.
- On 23 October 2009 the Company arranged a credit facility of EUR 175,000 thousand with the European Investment Bank (EIB) which matures on 6 November 2012 and may be extended to 2015. The stipulated price is 3-month Euribor plus a fixed spread. The loan was granted to finance and develop certain environmental investments.

- On 29 April 2009, the Company arranged a syndicated loan of EUR 375,000 thousand in which 12 banks participated. On 4 and 27 of May the loan was extended to a total of EUR 451,000 thousand, divided into two tranches. The first, a loan of EUR 225,500 thousand and the second, a credit facility of EUR 225,500 thousand, both repayable in one payment on 28 April 2012, and bearing interest at Euribor plus a spread established on the basis of the FCC Group's debt ratio as per the financial statements for each year. This loan had been drawn down in full at 31 December 2011.
- On 18 December 2009, the Company arranged long-term limited recourse financing of EUR 247,500 thousand which matures in 2024 and bears interest at Euribor plus a spread stipulated in the agreement. This loan is secured by a mortgage on the Torre Picasso building under the terms and conditions indicated in Note 9 to these financial statements and had been repaid prior to the formal preparation of these financial statements.
- A long-term syndicated financing facility of EUR 800,000 thousand arranged by the Company on 19 July 2007 and maturing on 19 July 2012, with the possibility of an extension until 2014. The agreement is divided into two tranches: the first is a long-term loan of EUR 280,000 thousand, 50% of which had been repaid at 31 December 2011 and the second is a long-term loan of EUR 520,000 thousand. The established price comprises the reference rate (Euribor) plus a spread based on the variation in the net financial debt/EBITDA ratio of the FCC Group.
- A syndicated loan entered into by the Company on 25 January 2007. The loan replaced the bridge loan of EUR 1,030,000 thousand arranged in 2006 as part of the recourse financing for the acquisition of the UK Company Waste Recycling Group Ltd and its corporate group. The loan is structured in two tranches: the first for an initial amount of EUR 819,700 thousand and the second for GBP 200,000 thousand. Both tranches mature in December 2013 and are being repaid in half-yearly instalments amounting to 4.615% of the initial loan principal, and the remaining 40.005% is repaid at final maturity. The interest rate on the euro tranche is Euribor plus a spread calculated on the basis of the variation in the net financial debt/EBITDA ratio of the FCC Group. The interest rate applicable to the tranche in sterling is Libor and the spread is the same as that detailed for the tranche in euros. This syndicated loan has associated derivative instruments (see Note 12).

With regard to the Company's financing, it should be noted that certain ratios must be met concerning coverage of borrowing costs and levels of net debt in relation to EBITDA. All the ratios established were being met at year-end.

Senior management of the FCC Group expects to bring the refinancing processes of the financial debt maturing in 2012, which are described in the preceding paragraphs, to a successful conclusion.

c) Other current financial liabilities

Other current financial liabilities include mainly the interim dividend out of 2011 profit, which amounted to EUR 80,616 thousand (31 December 2010: EUR 88,746 thousand), as indicated in Note 3 to these financial statements.

17. TRADE AND OTHER NON-CURRENT AND CURRENT PAYABLES

a) Accounts payable to public authorities. Deferred payments

"Trade and Other Non-Current Payables" and "Sundry Accounts Payable" under "Trade and Other Payables" include the deferred payments of certain taxes and social security contributions, authorised by the Large Taxpayers Central Office of the State Tax Agency and the Social Security General Treasury, respectively, due to the delay in collection from public customers. The deferred amounts are payable monthly up to a maximum of four years at an interest rate of 5%.

The detail of the aforementioned deferred payments is as follows:

	2011
Trade and other non-current payables	67,600
Sundry accounts payable	63,406
	131,006

b) Deferral of payment to suppliers in commercial transactions

In relation to the resolution issued by the Spanish Accounting and Audit Institute (ICAC) on 29 December 2010 implementing Law 15/2010, of 5 July, on combating late payment in commercial transactions, it should be noted with respect to 2011 that in Spain the Company operates mainly with public customers such as the state, autonomous communities, local corporations and other public bodies which take considerably longer to settle their payment obligations than the periods established in public sector contract legislation and in Law 3/2004, of 29 December, on combating late payment. The resulting effects can be seen under "Changes in Working Capital" in the accompanying statement of cash flows.

Due to this situation, in order to adapt the Company's financial policy to reasonable levels of efficiency, the usual payment periods to the suppliers in the sectors in which the Company operates were maintained throughout 2011, which has offset in part the negative change in working capital mentioned above. In accordance with the resolutions issued by the ICAC and Transitional Provision Two of Law 15/2010, of 5 July, which establishes an applicable schedule of maximum payment periods, at 31 December 2011, it should be noted that the average payment period to suppliers, which is within the maximum period under the law, is 85 days for commercial transactions.

The Company's supplier payment policy described above is also supported by the provisions of Article 9 of Law 3/2004, which does not consider "deferral due to objective reasons" to be abusive (which is the serious delay in payment by the public authorities described above), taking into consideration deferrals arranged by mutual agreement with the suppliers of the usual payment period in the business sectors in which the Company operates. In any case, the Company acknowledges and pays suppliers, always by mutual agreement, the late-payment interest agreed in the agreements and provides those suppliers who request them, negotiable payment methods associated with actions for collection of a bill of exchange, and the discount costs, if any, are borne by the Company. Such agreements are also allowed under Directive 2011/7/EU of the European Parliament and of the Council of 16 February and are expressly provided for in the recent Consolidated Public Sector Contracts Law.

In compliance with the aforementioned ICAC resolution, the following table shows the payments made and the outstanding payments to suppliers.

PAYMENTS MADE AND OUTSTANDING PAYMENTS AT THE REPORTING DATE

	2011	
	Amount	%
Within the maximum payment period	169,694	57
Other	<u>127,181</u>	<u>43</u>
Total payments made in the year	296,875	100
Weighted average period of late payment	76 days	
Payments at year-end not made in the maximum payment period	51,256	

In 2010, in compliance with Transitional Provision Two of the aforementioned resolution, it was disclosed that the balance payable to suppliers at the end of that year totalled EUR 89,571 thousand. It was also indicated that the aforementioned Law 15/2010 entered into force on 5 July 2010 and, accordingly, applied to the agreements signed after that date and because of the period of time that normally elapses between the signing, the delivery of the goods or service and the maximum payment periods valid during the transitional period of application of the Law, there were no balances past due to highlight at the Company that exceeded the maximum limits established in the legislation in force.

18. INFORMATION ON THE NATURE AND RISKS OF FINANCIAL INSTRUMENTS

The financial risk management of the Group of which Fomento de Construcciones y Contratas is the Parent is centralised in its Financial Department, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk.

The concept of financial risk refers to the changes in the financial instruments arranged by the Company as a result of political, market and other factors and the repercussion thereof on the financial statements.

The FCC Group's risk management philosophy is consistent with its business strategy and seeks to achieve maximum efficiency and solvency at all times. To this end, strict financial risk management and control criteria have been established, consisting of identifying, measuring, analysing and controlling the risks incurred in the Group's operations, and the risk policy has been integrated into the Group organisation in the appropriate manner.

In line with this risk policy, the hedges are arranged to hedge the underlying transaction and not for speculative purposes.

The main financial risks affecting the Company are as follows:

Capital risk management

The Company manages its capital to ensure the profitability of its businesses while maximising shareholders' returns.

The cost of capital and the associated risks of each investment project are analysed by the Operational Areas and the Finance Division and are subsequently approved or rejected by the corresponding committee or by the Board of Directors. Other functional areas may also provide reports if so required.

One of the objectives of this investment analysis, in addition to the habitual objectives (profitability, return period, risk assumed, strategic and market valuation), is to monitor very closely the net debt/EBITDA ratio at a reasonable level and within the range negotiated with banks.

Financial management, which is responsible for the management of financial risks, periodically reviews the debt-equity ratio and compliance with the financing covenants and the capital structure of the subsidiaries.

Interest rate risk

In order to ensure a position that is in the Company's best interest, an interest rate risk management policy is actively implemented based on the on-going monitoring of markets and assuming different positions based primarily on the asset financed.

Given the nature of the Company's activities, closely linked to inflation, its financial policy consists of ensuring that both its current financial assets, which to a large extent provide natural hedging for its current financial liabilities, and the Company's debt are partially tied to floating interest rates.

Even so, the Company performed interest rate hedging transactions in 2011, ending the year with various hedging instruments of varying maturities on 66.89% of the total net debt.

Complying with the policy of classifying original instruments as hedges, the Company has arranged interest rate hedges, mainly swaps (IRSs) in which the Company pays a fixed rate and receives a floating rate.

Foreign currency risk

A noteworthy consequence of the positioning of the FCC Group, to which the Company belongs, in international markets is the exposure resulting from net positions in foreign currencies against the euro or in one foreign currency against another when the investment and financing of an activity cannot be made in the same currency.

The Company's general policy is to mitigate, as far as possible, the adverse effect on its financial statements of exposure to foreign currencies, with regard to both transactional and purely equity-related changes. The Company therefore manages the effect that foreign currency risk can have on the balance sheet and the income statement.

The Company and the Group actively manage the foreign currency risk by arranging financial transactions in the same currency as that in which the related asset is denominated, i.e. efforts are made, at all times, to obtain in local currency the financing required for the local activity of the company in the country of origin of the investment, with a view to creating a natural hedge or a matching of the cash flows generated to the financing. However, there are occasions when, due to the weakness of the currency of the country of origin of the investment, this is not possible because long-term financing cannot be obtained in that currency. In this case, financing will be obtained either in euros or in the most closely correlated foreign currency.

Solvency risk

The most relevant ratio for the purposes of measuring solvency and debt repayment capacity is net debt/EBITDA. The Company's ratios are reasonable and fulfil the conditions negotiated with banks.

Liquidity risk

The Company is present in various markets in order to facilitate the obtainment of financing and to mitigate liquidity risk.

Despite the adverse situation that affected the financial markets throughout 2011, the Company has remained adequately positioned and has anticipated any potential adversity by paying close attention to the evolution of the factors that may help to resolve liquidity difficulties in the future and to the various sources of financing and their characteristics.

To ensure adequate management of this risk, the Company closely monitors the maturities of all the credit lines and financing so that they can be renewed in sufficient time and on the best terms offered by the market, analyses the suitability of the financing on a case-by-case basis and studies alternatives with more favourable terms, where necessary.

In order to diversify its liquidity risk, the Company operates with over 130 Spanish and international financial institutions.

Credit risk

The provision of services or the acceptance of orders from customers, whose financial solvency cannot be guaranteed at the time of acceptance, is not known or cannot be assessed by the Company, together with situations that may arise during the provision of a service or execution of an order that could affect the customer's financial position could result in the risk of non-payment of the amounts owed.

Fomento de Construcciones y Contratas, S.A. requests commercial reports and assesses the financial solvency of its customers before entering into agreements with them and also engages in on-going monitoring of customers, and has a procedure in place to be followed in the event of insolvency. In the case of public customers, the Company follows the policy of not accepting projects without an allocated budget and financial approval.

2011 saw the materialisation of the risk relating to the delay in collection from certain public customers for the provision of urban environmental services due to the economic crisis which has affected the financial equilibrium of public customers. Permanent monitoring and control committees have been established to minimise the volume of assets generated and thereby reduce the financial cost assumed and prevent it from increasing in the future.

Credit risk can also be due to counterparty breach of a financial asset, equivalents or derivatives contract. To manage this risk, the Company restricts the use of these contracts to cases where the counterparties are credit institutions with proven creditworthiness and solvency. These contracts are also arranged with a large number of institutions, thereby diversifying the risk.

Concentration risk

This risk arises from the concentration of financing transactions with common features such as:

- Sources of financing: the Company and the FCC Group obtain financing from a large number of Spanish and international banks.
- Markets: the Company operates basically in the domestic market and, therefore, the debt is concentrated mainly in euros.
- Products: the Company arranges a broad spectrum of financial products, including loans, credit facilities, debt instruments, syndicated transactions and discounting facilities.

Sensitivity analysis

In relation to the sensitivity test on derivatives and net debt, the amounts obtained in relation to the derivatives in force at year-end with an impact on equity are shown below (in thousands of euros). In this respect, in view of the possible instability of the financial market, the sensitivity test was performed using, on the one hand, three upward scenarios of the interest rate curve at 31 December 2011, assuming an increase in the curve of 50 bp, 100 bp and 125 bp and, on the other hand, a downwards scenario of the interest rate curve with a fall of 100 bp, 75 bp and 50 bp.

Derivatives	-100 bp	-75 bp	-50 bp	+50 bp	+100 bp	+125 bp
Impact on equity	(27,950)	(25,190)	(17,620)	17,350	34,510	42,960

As in the case of derivatives, a table is shown below summarising the effect that the aforementioned upwards and downwards changes in the interest rate curve and in the interest rates on the net debt, after excluding any hedged debt, would have on the Company's income statement:

Net debt	-100 bp	-75 bp	-50 bp	+50 bp	+100 bp	+125 bp
Impact on the income statement	(15,520)	(11,640)	(7,760)	7,760	15,520	19,400

19. DEFERRED TAXES AND TAX MATTERS

a) Tax receivables and payables

The detail of the tax receivables and payables is as follows:

a.1) Tax receivables

	2011	2010
Non-current		
Deferred tax assets	112,611	92,873
	112,611	92,873
Current		
Current tax assets	78	747
Other accounts receivable from public authorities	10,062	4,030
	10,140	4,777

"Deferred Tax Assets" includes basically the temporary differences arising from the provisions and expenses recognised for accounting purposes that will be tax deductible in subsequent years, the deferral of losses contributed by joint ventures which will be included in the tax base for the following year and the temporary differences arising from the measurement of the derivative liabilities.

a.2) Tax payables

	2011	2010
Non-current		
Deferred tax liabilities	130,509	127,574
	130,509	127,574
Current		
Current tax liabilities	22,195	80,042
Other accounts payable to public authorities:	67,372	40,198
Tax withholdings payable	9,817	9,510
VAT and other indirect taxes payable	17,849	8,043
Accrued social security taxes payable	18,525	18,053
Other	21,181	4,592
	89,567	120,240

"Deferred Tax Liabilities" includes mainly the deferral of the depreciation charge relating to the non-current assets held under leases and that relating to investments in property, plant and equipment subject to accelerated depreciation pursuant to Law 4/2008, in addition to the deferral of the profits contributed by joint ventures which are included in the tax base for the following year.

b) Reconciliation of the accounting profit to the taxable profit

The reconciliation of the accounting profit to the taxable profit for income tax purposes is as follows:

	2011		2010		
Accounting profit for the year before tax			248,323		211,045
	<u>Increase</u>	<u>Decrease</u>		<u>Increase</u>	<u>Decrease</u>
Permanent differences	93	(70,848)	(70,755)	97	(1,697)
Adjusted accounting profit			177,568		209,445
Temporary differences					
- Arising in the year	78,463	(78,036)	427	82,654	(55,675)
- Arising in prior years	71,381	(28,371)	43,010	45,797	(1,952)
Taxable profit			221,005		280,269

The permanent differences relating to 2011 shown in the foregoing table include notably those arising from the monetary adjustment of EUR 58,227 thousand to determine the tax relief on the gains on the sale of the Torre Picasso building.

The changes in deferred tax assets and liabilities in 2011 and 2010 were as follows:

	Deferred tax assets	Deferred tax liabilities
<u>Taxable timing differences</u>		
Balance at 31/12/09	54,827	103,325
Arising in the year	24,796	16,703
Arising in prior years	(586)	(13,739)
Other adjustments	(1,445)	(4,044)
Balance at 31/12/10	77,592	102,245
Arising in the year	23,539	23,411
Arising in prior years	(8,511)	(21,414)
Other adjustments	(462)	650
Balance at 31/12/11	92,158	104,892
<u>Temporary differences arising in the balance sheet</u>		
Balance at 31/12/09	13,469	25,915
Arising in the year	1,812	(586)
Balance at 31/12/10	15,281	25,329
Arising in the year	5,172	288
Balance at 31/12/11	20,453	25,617
Total at 31/12/11	112,611	130,509

c) Tax recognised in equity

At 31 December 2011 the tax recognised in equity related basically to the change in value of the Company's hedging instruments amounting to EUR 18,269 thousand (31 December 2010: EUR 13,383 thousand).

d) Reconciliation of accounting profit to the income tax expense

The reconciliation of the accounting profit to the income tax expense is as follows:

	2011	2010
Adjusted accounting profit	177,568	209,445
Income tax charge (30%)	53,270	62,834
Tax credit for intra-Group double taxation	(34,757)	(76,759)
Reinvestment tax credit	(9,987)	(126)
Other tax credits and tax relief	(824)	(3,509)
Other adjustments	4,797	28,571
Income tax expense	12,499	11,011

Of note in 2011 was the application of the tax credit for reinvestment of extraordinary income resulting from the sale of the Torre Picasso building (see Note 7). The tax credit was applied to income totalling EUR 81,700 thousand. The investment will be made in 2010-2014 in assets included among those provided for in Article 42 of Royal Decree-Law 4/2004, which will be held for the legally stipulated time periods.

The income tax expense relates in full to continuing operations.

e) Tax loss and tax credit carryforwards

At year-end the Company did not have any tax loss or tax credit carryforwards.

f) Years open for review and tax audits

Fomento de Construcciones y Contratas, S.A. has all the years not yet statute-barred open for review by the tax authorities for the taxes applicable to it. The criteria that the tax authorities might adopt in relation to the years open for review could give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's senior executives consider that any resulting liabilities would not significantly affect the Company's equity.

With respect to the years audited, it should be noted that the Company has been issued tax assessments in the last four years relating mainly to income tax and has filed the corresponding appeals, unless it has signed assessments on an uncontested basis. The income tax deficiency relating to the appealed assessments amounts to EUR 43,210 thousand, EUR 25,160 thousand of which relate to the tax assessments for 1991 to 1994. A judgment has not yet been handed down by the Supreme Court on the corresponding appeal filed by the Company. All of the tax assessments have been provided for.

To comply with the legal requirements concerning transfer pricing, the Company has established the necessary procedures to support its transfer prices and considers that there are no significant risks that they could give rise to any contingent liabilities.

g) Other tax disclosures

Under authorisation 18/89, Fomento de Construcciones y Contratas, S.A. files consolidated income tax returns with all the other Group companies that meet the requirements established by tax legislation.

20. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

At 31 December 2011, Fomento de Construcciones y Contratas, S.A. had provided guarantees amounting to EUR 608,407 thousand (31 December 2010: EUR 616,135 thousand) to government agencies and private-sector customers, mainly as performance bonds for services provided under urban cleaning contracts.

At year-end the Company had also provided guarantees to third parties for certain Group companies amounting to EUR 725,892 thousand (31 December 2010: EUR 518,007 thousand).

Fomento de Construcciones y Contratas, S.A. and the joint ventures in which it has interests are acting as defendants in lawsuits in relation to the liability inherent to the various business activities carried on by the Company in the performance of the contracts awarded, for which the related provisions have been recognised (see Notes 15 and 4-j). Accordingly, any resulting liabilities would not have a significant effect on the Company's equity.

21. INCOME AND EXPENSES

The net revenue and the income from sales and services include the dividends and the accrued interest on the financing granted to investees. Of the Company's total revenue, EUR 120,098 thousand were generated abroad, due specifically to the construction of Line 1 of the Panama City metro (see Note 2). The rest of the revenue was earned almost entirely in Spain.

Of the total revenue, EUR 209,629 thousand (31 December 2010: EUR 203,896 thousand) relate to contracts jointly managed through joint ventures.

The interest earned on the financing granted to investees (see Note 10) includes notably that relating to FCC Construcción, S.A. amounting to EUR 43,814 thousand (31 December 2010: EUR 33,748 thousand), to Azincourt Investment, S.L., amounting to EUR 34,309 thousand (31 December 2010: EUR 32,931 thousand), and to FCC Energía, S.A. amounting to EUR 16,831 thousand (31 December 2010: EUR 12,447 thousand).

Operating income included notably, on the one hand, the billings for costs charged to the tenants of the Torre Picasso in proportion to related interest (see Note 7), which amounted to EUR 7,249 thousand (31 December 2010: EUR 7,184 thousand) and, on the other hand, the transactions with Group companies and associates performed by the Company in relation to work and services amounting to EUR 69,020 thousand (31 December 2010: EUR 65,705 thousand). These include most notably EUR 27,450 thousand (31 December 2010: EUR 24,601 thousand) billed to FCC Construcción, S.A., which is wholly owned by the Company.

The operating expenses include EUR 69,800 thousand recognised under "Other Current Operating Expenses", with a balancing entry under "Long-Term Provisions" (see Note 15) in relation to lawsuits, guarantees and obligations, environmental risks and other (31 December 2010: EUR 60,400 thousand relating to international expansion). In addition, the Company also acquired services and purchased consumables from Group companies and associates amounting to EUR 29,355 thousand (31 December 2010: EUR 29,060 thousand).

22. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related party transactions

The detail of the transactions with related parties in 2011 and 2010 is as follows:

	Group companies	Joint ventures	Associates
<u>2011</u>			
Services	64,990	3,847	183
Services received	29,128	227	—
Dividends	115,959	4,534	307
Financial expenses	16,920	130	—
Financial income	113,774	2,415	13
<u>2010</u>			
Services	61,111	3,955	639
Services received	28,542	161	357
Dividends	255,371	1,252	361
Financial expenses	7,213	42	—
Financial income	96,305	2,356	—

b) Related party balances

The detail of the related party balances at 31 December 2011 is as follows:

	Group companies	Joint ventures	Associates
<u>2011</u>			
Current financial assets (Note 10)	1,338,468	58,648	2,555
Non-current financial assets (Note 10)	3,546,917	650,160	10,413
Current payables (Note 10)	731,132	17,398	—
Trade receivables	42,145	5,246	94
Trade payables	19,354	282	41
<u>2010</u>			
Current financial assets (Note 10)	1,163,816	1,333	2,913
Non-current financial assets (Note 10)	3,467,129	701,737	15,714
Current payables (Note 10)	481,086	17,270	1
Trade receivables	53,646	3,987	110
Trade payables	17,121	223	44

The detail of the trade receivables from and payables to Group companies and associates is as follows:

Company	2011		2010	
	Receivable	Payable	Receivable	Payable
Aqualia Gestión Integral del Agua, S.A.	10,606	1,497	10,241	1,306
FCC Construcción, S.A.	4,006	2,051	13,864	1,250
Conservación y Sistemas, S.A.	5,086	970	8,656	1,196
Limpieza e Higiene de Cartagena, S.A.	4,427	—	5,392	—
Empr. Mixta M.A. Rincón de la Victoria, S.A.	2,296	158	1,395	158
FCC Medio Ambiente, S.A.	2,121	1,125	2,813	1,108
Tirme, S.A.	1,581	9	1,528	16
Gandia Serveis Urbans, S.A.	1,452	2	—	—
FCC Ámbito, S.A.	1,411	—	2,006	378
Emp. Municipal Desarrollo Sost. De Ubeda, S.A.	1,236	—	976	—
Ingeniería Urbana, S.A.	1,195	—	1,073	—
FCC Versia, S.A.	947	214	974	137
Sistemas y Vehículos de Alta Tecnología, S.A.	57	418	80	1,047
Tratamiento Industrial de Aguas, S.A.	53	4,668	53	4,544
Per Gestora Inmobiliaria, S.L.	22	3,332	—	2,456
Other	10,989	5,233	8,692	3,792
	47,485	19,677	57,743	17,388

c) Remuneration of the directors of the Company and senior executives of the FCC Group

The bylaw stipulated emoluments for members of the Board of Directors of Fomento de Construcciones y Contratas, S.A. amounted to EUR 1,974 thousand in 2011 (31 December 2010: EUR 1,937 thousand).

The executive directors of Fomento de Construcciones y Contratas, S.A. earned the following amounts (in thousands of euros):

	2011	2010
Fixed remuneration	3,778	3,724
Variable remuneration	888	1,639
	4,666	5,363

The senior executives listed below, who are not members of the Board of Directors, earned total remuneration of EUR 6,951 thousand in 2011 (2010: EUR 6,668 thousand).

2011 and 2010

José Luís de la Torre Sánchez	Chairman of FCC Servicios
Miguel Hernanz Sanjuan	General Internal Audit Manager
Dieter Kiefer	Chairman and CEO of Cementos Portland Valderrivas
José Mayor Oreja	Chairman of FCC Construcción, S.A.
Victor Pastor Fernández	General Finance Manager
Antonio Gómez Ciria	General Administration and Information Technologies Manager
Eduardo González Gómez	General Innovation and Sustainability Manager
José Manuel Velasco Guardado	General Communication and Corporate Responsibility Manager
Francisco Martín Monteagudo	General Human Resources Manager

An insurance policy was taken out and a premium was paid to cover payments arising from contingencies relating to death, permanent disability benefits, retirement bonuses and other items in relation to certain executive directors and directors of Fomento de Construcciones y Contratas, S.A. (see Note 4-l).

Except as indicated in the foregoing paragraphs, no other remuneration, advances, loans or guarantees have been granted to the directors and there are no pension or life insurance obligations to former or current directors.

d) Detail of investments in companies engaging in similar activities and performance of similar activities by the directors or persons related to them as independent professionals or as employees

In relation to the investments held by the directors of Fomento de Construcciones y Contratas, S.A., or persons related to them, in the share capital of companies outside the FCC Group; or in relation to whether they, as independent professionals or as employees, engage in a similar or complementary activity to that which constitutes the company object of the Group; or in relation to whether they themselves or a person acting on their behalf have performed, with the Company or with any company of the same Group, other transactions outside the course of the Company's ordinary business operations or in conditions that were not on an arm's-length basis; it should be mentioned that the aforementioned directors have stated that they or persons related to them:

- Do not carry on, as independent professionals or as employees, any activity that is, similar or complementary to the activity that constitutes the Company's object.
- Do not own any investments in the share capital of companies engaging in an activity that is, similar or complementary to the activity that constitutes the company object of Fomento de Construcciones y Contratas, S.A.
- Had not performed, with the Company or any company of the same Group, other transactions outside the course of the Company's ordinary business operations, or in conditions that were not on an arm's length basis.

The foregoing does not include the director B-1998, S.L. which has notified that its representative, Esther Koplowitz Romero de Juseu is also a member of the Board of Directors of Veolia Environnement, S.A. Henri Proglío is also a member of the Board of Directors of Veolia Environnement, S.A. and Chairman of Electricité de France (EDF).

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

Name or company name of director	Group company name	Position
CARTERA DEVA, S.A.	CEMENTOS PORTLAND VALDERRIVAS, S.A. REALIA BUSINESS, S.A.	DIRECTOR DIRECTOR
EAC INVERSIONES CORPORATIVAS, S.L.	CEMENTOS PORTLAND VALDERRIVAS, S.A. FCC CONSTRUCCIÓN, S.A. REALIA BUSINESS, S.A.	DIRECTOR DIRECTOR DIRECTOR
FERNANDO FALCÓ FERNÁNDEZ DE CÓRDOVA	FCC CONSTRUCCIÓN, S.A. WASTE RECYCLING GROUP LIMITED REALIA BUSINESS, S.A.	DIRECTOR DIRECTOR DIRECTOR
RAFAEL MONTES SÁNCHEZ	FCC CONSTRUCCIÓN, S.A. CEMENTOS PORTLAND VALDERRIVAS, S.A. ALPINE HOLDING GMBH REALIA BUSINESS, S.A.	DIRECTOR DIRECTOR DIRECTOR DIRECTOR
JUAN CASTELLS MASANA	WASTE RECYCLING GROUP LIMITED CEMENTOS PORTLAND VALDERRIVAS, S.A. ALPINE HOLDING GMBH	DIRECTOR DIRECTOR DIRECTOR
BALDOMERO FALCONES JAQUOTOT	FCC ENERGÍA, S.A. (Sole-Shareholder Company) FCC POWER GENERATION, S.L. (Sole-Shareholder Company)	CHAIRMAN CHAIRMAN
FELIPE B. GARCÍA PÉREZ	FCC ENERGÍA, S.A. (Sole-Shareholder Company) FCC ENVIRONMENTAL LLC. FCC POWER GENERATION, S.L. (Sole-Shareholder Company)	DIRECTOR DIRECTOR DIRECTOR
JAVIER RIBAS	FCC ENVIRONMENTAL LLC. ALPINE HOLDING GMBH	DIRECTOR DIRECTOR

These directors hold positions or discharge functions and/or hold ownership interests of less than 0.01% in all cases in other FCC Group companies in which Fomento de Construcciones y Contratas, S.A. directly or indirectly holds a majority of the voting power.

23. INFORMATION ON THE ENVIRONMENT

As indicated in Note 1, by its very nature, the Company's Services line of business is 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, wastewater treatment, etc.), but also as a result of performing these activities using production techniques and systems designed to reduce environmental impact in accordance with the limits established in the relevant legislation.

The performance of production activities described above requires the use of specialised structures, plant and machinery that are efficient in terms of environmental protection and conservation. At 31 December 2011, the acquisition cost of the non-current assets assigned to the above activity totalled EUR 1,125,887 thousand (31 December 2010: EUR 1,071,384 thousand), with accumulated depreciation amounting to EUR 621,914 thousand (31 December 2010: EUR 574,048 thousand).

Company management considers that any possible contingencies in relation to the protection and improvement of the environment at 31 December 2011 would not have a material impact on the accompanying financial statements.

As indicated in Note 1, Fomento de Construcciones y Contratas, S.A. is the parent of the FCC Group which operates various business lines and, due to the nature thereof, pays particular attention to controlling the impact on the environment. These matters are discussed in detail in the Group's Corporate Social Responsibility report, which is published annually on FCC's website, www.fcc.es, among other channels, and provides the reader with more representative information than that included in this Note.

24. OTHER DISCLOSURES

a) Employees

The average number of employees at the Company in 2011 and 2010 was as follows:

	2011	2010
Managers and university graduates	433	418
Other qualified line personnel	355	323
Clerical and similar staff	930	911
Other salaried employees	24,838	25,866
	26,556	27,518

At 31 December 2011, the number of employees, directors and senior executives of the Company, by gender, was as follows:

	Men	Women	Total
<u>2011</u>			
Directors	13	5	18
Senior executives	7	—	7
Managers and university graduates	307	118	425
Other qualified line personnel	292	73	365
Clerical and similar staff	449	480	929
Other salaried employees	18,471	5,703	24,174
	19,539	6,379	25,918

	Men	Women	Total
<u>2010</u>			
Directors	14	5	19
Senior executives	7	—	7
Managers and university graduates	310	118	428
Other qualified line personnel	266	63	329
Clerical and similar staff	443	470	913
Other salaried employees	19,301	5,569	24,870
	20,341	6,225	26,566

b) Fees paid to auditors

“Outside Services” in the accompanying income statement includes the fees of EUR 212 thousand (31 December 2010: the same amount) for financial audit services and of EUR 15 thousand for other services rendered to the Company.

25. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

GROUP COMPANIES

APPENDIX I

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Impairment						From operations	From continuing operations
AEBA, Ambiente y Ecología de Buenos Aires, S.A. Tucumán, 1321 - 3ª - Buenos Aires - Argentina -Urban cleaning-	834	763	Direct 50.00 Indirect 2.50	—	1,000 (ARS)(*)	1,189 (ARS)(*)	—	(1,747) (ARS)(*)	(1,095) (ARS)(*)
Alpine Bau GmbH Alte Bundesstrasse, 10 Wals Siezenheim - Salzburg (Austria) -Construction -	22,000	—	Direct — Indirect 89.65	—	5,927	352,302	—	(12,187)	7,577
Alpine Holding GmbH Reichenhallerstrasse, 7 - Salzburg (Austria) -Construction -	10,500	—	Direct — Indirect 86.50	—	109	42,037	—	(244)	3,857
Aqualia Gestión Integral del Agua, S.A. Federico Salmón, 13 - Madrid -Water management-	254,768	—	Direct 99.99 Indirect 0.01	42,500	145,000	268,436	8,645	91,174	58,083
Armigesa, S.A. Pza. Constitución, s/n - Armilla (Granada) -Urban cleaning-	612	—	51.00	83	1,200	11	—	256	164
A.S.A. Abfall Service AG Hans-Hruschka-Gasse, 9 - Himberg (Austria) -Urban cleaning-	226,784	—	Direct 99.98 Indirect 0.02	—	5,000	56,869	—	(7,968)	(852)
Asesoría Financiera y de Gestión, S.A. Federico Salmón, 13 - Madrid -Financial services-	3,008	—	Direct 43.84 Indirect 56.16	—	6,843	400,916	—	18,767	102,265
Azincourt Investment, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Holding company-	3	3	100.00	—	3	(325,855)	(19,463)	2,322	(2,250)
Cementos Portland Valderrivas, S.A. Estella, 6 - Pamplona -Cement-	298,638	—	Direct 59.30 Indirect 12.23	—	56,896	1,168,480	(599)	65,523	(31,655)

GROUP COMPANIES

APPENDIX 1/2

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Impairment						From operations	From continuing operations
Compañía Auxiliar de Agencia y Mediación, S.A., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Holding company-	1,657	—	100.00	—	61	13,101	—	218	2,471
Compañía General de Servicios Empresariales, S.A., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	60	—	100.00	2	60	17	—	2	1
Corporación Española de Servicios, S.A. Federico Salmón, 13 - Madrid -Corporate vehicle-	44	—	Direct 99.99 Indirect 0.01	1	60	16	—	2	1
Corporación Financiera Hispánica, S.A. Federico Salmón, 13 - Madrid -Holding company-	69,818	—	Direct 99.99 Indirect 0.01	—	58,393	353,003	—	7,478	6,313
Dédalo Patrimonial, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Holding company-	61	61	100.00	—	61	289	86	(27)	(1,757)
Ecoparque Mancomunidad del Este, S.A. Federico Salmón, 13 - Madrid -Urban cleaning-	16,803	—	Direct 99.99 Indirect 0.01	—	16,805	2,493	—	1,403	1,382
Egypt Environmental Services SAE Cairo - Egypt -Urban cleaning-	7,760	2,665	Direct 97.00 Indirect 3.00	1,543	36,400 (EGP)(*)	(969) (EGP)(*)	—	12,995 (EGP)(*)	7,859 (EGP)(*)
Empresa Comarcal de Serveis Mediambientals del Baix Penedés - ECOBP, S.L. Plaza del Centre, 3 - El Vendrell (Tarragona) -Urban cleaning-	200	—	66.60	83	540	61	—	417	251
Empresa Municipal de Desarrollo Sostenible Ambiental de Úbeda, S.L. Pza. Vázquez Molina, s/n - Úbeda (Jaén) -Urban cleaning-	720	—	90.00	—	800	450	—	438	256



GROUP COMPANIES

APPENDIX 1/3

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Impairment						From operations	From continuing operations
Europea de Gestión, S.A., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	63	—	100.00	2	60	22	—	4	3
FCC Construcción, S.A. Balmes, 36 - Barcelona -Construction-	525,551	—	Direct 99.99 Indirect 0.01	70,000	180,000	531,651	—	170,574	108,762
FCC Construcciones y Contratas Internacional, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	3	—	100.00	—	3	—	—	—	—
FCC Fomento de Obras y Construcciones, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	3	—	100.00	—	3	—	—	—	—
FCC Inmobiliaria Conycon, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	3	—	100.00	—	3	—	—	—	—
FCC International, B.V. Amsteldijk, 166 - Amsterdam (Netherlands) -Holding company-	49,910	—	100.00	5	40,840	—	—	(28)	5
FCC Medio Ambiente, S.A. Federico Salmón, 13 - Madrid -Urban cleaning-	35,102	—	Direct 98.98 Indirect 1.02	—	43,272	154,042	424	45,234	33,433
FCC Power Generation, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Energy -	3	—	100.00	—	3	—	—	—	—
FCC Versia, S.A. Federico Salmón, 13 - Madrid -Management company-	62,625	—	Direct 99.99 Indirect 0.01	—	40,337	156,923	—	8,812	37,789
FCC 1, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	3	—	100.00	—	3	—	—	—	—

GROUP COMPANIES

APPENDIX 1/4

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Net impairment losses						From operations	From continuing operations
F-C y C, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Corporate vehicle-	3	—	100.00	—	3	—	—	—	—
Fedemés, S.L. Federico Salmón, 13 - Madrid -Real Estate-	10,764	—	Direct 92.67 Indirect 7.33	1,088	10,301	16,816	—	31,171	24,468
Gandia Serveis Urbans, S.A. LLanterners, 6 - Gandia (Valencia) -Urban cleaning -	78	—	65.00	—	120	—	—	1,190	325
Limpiezas Urbanas de Mallorca, S.A. Fusters, 18 - Manacor (Balearic Islands) -Urban cleaning-	5,097	—	Direct 99.92 Indirect 0.08	—	308	2,455	—	885	553
Per Gestora Inmobiliaria, S.L. Pza. Pablo Ruiz Picasso, s/n - Madrid -Property management and administration-	69	—	Direct 99.00 Indirect 1.00	—	60	29	—	46	32
Saisei Renovable, S.L., Sole-Shareholder Company Federico Salmón, 13 - Madrid -Energy -	6,503	—	100.00	—	5,503	—	—	—	—
Serveis Municipals de Neteja de Girona, S.A. Pl. del Vi, 1 - Girona -Urban cleaning -	45	—	75.00	—	60	—	—	—	—
Societat Municipal Medioambiental d'Igualada, S.L. Pl. del Ajuntament, 1 - Igualada (Barcelona) -Urban cleaning -	870	—	65.91	—	1,320	—	—	63	35
Tratamientos y Recuperaciones Industriales, S.A. Anglí, 31 - Barcelona -Waste treatment-	21,455	—	Direct 74.92 Indirect 0.08	652	72	8,088	—	859	802

GROUP COMPANIES

APPENDIX 1/5

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Net impairment losses						From Operations	Continuing Operations
Valoración y Tratamiento de Residuos Urbanos, S.A. Riu Magre, 6 - Pol. Ind. Patada del Cid -Quart de Poblet (Valencia) -Waste treatment-	2,500	—	80.00	—	3,125	(45)	—	(173)	(90)
TOTAL	1,634,920	3,492		115,959					

(*) (ARS): Argentinian peso, (EGP): Egyptian pound.

NOTE:

- Of the companies shown above, only Cementos Portland Valderrivas, S.A. is a listed company and its market price at the balance sheet date was EUR 6.81. The average market price in the last quarter of 2011 was EUR 8.91.

- As required by Article 155 of the Consolidated Spanish Limited Liability Companies Law, in 2011 the Company made the related notifications to the companies in which it had acquired direct or indirect holdings of over 10%.

JOINT VENTURES

	% of ownership
ABASTECIMIENTO VILLALÓN	20.00
AGUAS TOMELLOSO	20.00
AIGÜES DE LLEIDA	50.00
ALMEDA	51.00
AMPLIACIÓ LIXIVITATS	20.00
AQUALBAL	20.00
AQUALIA - FCC - MYASA	20.00
AQUALIA - FCC - OVIEDO	5.00
AQUALIA - FCC SALAMANCA	5.00
AQUALIA - FCC - SAN VICENTE	20.00
AQUALIA - FCC VIGO	50.00
ARGÍ GUEÑES	70.00
ARUCAS II	70.00
ASEOS EMT	50.00
AZUD VILLAGONZALO	20.00
BARRIO CARMELITAS	20.00
BILBOKO LORATEGIAC	60.00
BILBOKO SANEAMENDU	50.00
BILBOKO SANEAMENDU B	50.00
BIOCOMPOST DE ÁLAVA	50.00
BOADILLA -	50.00
BOMBEO VALMOJADO	20.00
CAMÍ SA VORERA	20.00
CANA PUTXA	20.00
CANAL DEL ARAMO	20.00
CANDAS	20.00
CANGAS	50.00
CASTELLAR DEL VALLÈS	50.00
CASTELLAR POLÍGONOS	50.00
CEMENTERIOS PERIFÉRICOS II	50.00
CENTRO DEPORTIVO GRANADILLA DE ABONA	20.00
CENTRO DEPORTIVO VILLENA	80.00
CGR GUIPUZCOA	35.14
CHIPIONA	50.00
CIUTAT VELLA	50.00
CN III	45.00
COLEGIOS SANT QUIRZE	50.00
COMPLEJO DP. CABEZO DE TORRES	20.00
CONSERVACIÓN Y SISTEMAS	60.00
CONTENEDORES MÓSTOLES	30.00
CTR DE L'ALT EMPORDÀ	45.00
CTR-VALLES	20.00
CUENCA	20.00
CYCSA-EYSSA VIGO	50.00
DEIXALLERIES	20.00
DOS AGUAS	35.00
ECOPARQUE CÁCERES	50.00
ECOURENSE	50.00
EDAR ALMANSA	5.00
EDAR CUERVA	5.00
EDAR ELCHE	20.00
EDAR RANILLA	25.00
EDAR REINOSA	5.00
EDAR SAN VICENTE DE LA BARQUERA	5.00
ENERGÍA SOLAR ONDA	25.00
EXPL. PL. BIO LAS DEHESAS	50.00
F.L.F. LA PLANA	47.00

	% of ownership
FANGOS IBIZA Y FORMENTERA	20.00
FCC - ACISA - AUDING	45.00
FCC - ANPE	80.00
FCC - ERS LOS PALACIOS	50.00
FCC - FCCMA ALCOY	20.00
FCC - FCCMA R.B.U. - L.V. JAVEA	20.00
FCC - FCCMA R.B.U. SAN JAVIER	20.00
FCC - FCCMA R.B.U TUDELA	20.00
FCC - FCCMA SEGRÍA	20.00
FCC - FCCMA S.U. DENIA	20.00
FCC - HIJOS DE MORENO, S.A.	50.00
FCC - LUMSA	50.00
FCC - PALAFRUGELL	20.00
FCC - PAS SALAMANCA	70.00
FCC - PERICA	60.00
FCC - RAGA MAJADAHONDA	75.00
FCC - SUFI MAJADAHONDA	50.00
FCC - SUFI PESA	50.00
FCC - SYF PLAYAS	40.00
FCC - TEGNER	50.00
FCCSA - GIRSA	80.00
FCCSA - VIVERS CENTRE	50.00
FUENTES XÀTIVA	50.00
GESTIÓ DE RUNES DEL PAPIOL	40.00
GESTIÓN INSTALACIÓN III	34.99
GESTIÓN PISCINA DE MULA	20.00
GESTION SERVICIOS DEPORTES CATARROJA	99.50
GIREF	20.00
GIRSA - FCC	20.00
G. RESIDUOS AENA PALMA	100.00
GUADIANA	20.00
INTERIORES BILBAO	80.00
JARDINES MOGAN	51.00
JARDINES PROTECCIÓN ESPECIAL	50.00
JUNDIZ	51.00
KABIEZESGO KIROLDECIA	60.00
LA CANDA	30.00
LA LLOMA DEL BIRLET	80.00
LAS YUCAS	50.00
LEA - ARTIBAI	60.00
LEGIO VII	50.00
LEKEITIOKO MANTENIMENDUA	60.00
L.V. SAN SEBASTIÁN	20.00
L.V. Y RBU ARUCAS	70.00
LIMPIEZA BENICASSIM	35.00
LIMPIEZA CARRIL BUS	30.00
LIMPIEZA Y RSU LEZO	55.00
LOGROÑO LIMPIO	50.00
LOTES A Y B FUENLABRADA 2010	50.00
MANACOR	30.00
MANCOMUNIDAD DE ORBIGO	20.00
MANTENIMENT	100.00
MANTENIMENT REGIONAL DE CORNELLÁ	60.00
MANTENIMIENTO COLEGIOS BILBAO	60.00
MANTENIMIENTO COMISARÍAS	100.00
MANTENIMIENTO DE COLEGIOS II	60.00
MANTENIMIENTO DE EDIFICIOS	60.00
MANTENIMIENTO INSPECCION DE TRABAJO	100.00
MÉRIDA	10.00
MOLINA	5.00
MOLLERUSA	60.00

	% of ownership
MONTCADA	50.00
MURO	20.00
MUSKIZ III	70.00
NAVE JUNDIZ	51.00
NIGRÁN	10.00
NIJAR	20.00
ONDA EXPLOTACIÓN	33.33
PAMPLONA	80.00
PARQUES SINGULARES MÓSTOLES	50.00
PAVIMENTO ZONA I	50.00
PINTO	50.00
PISCINA CUBIERTA BENICARLO	65.00
PISCINA CUBIERTA C. DEP. ALBORAYA	99.00
PISCINA CUBIERTA MANISES	99.50
PISCINA CUBIERTA MUN. L'ELIANA	99.50
PISCINA CUBIERTA PAIPORTA	90.00
PISCINA MUNICIPAL ALBATERA	93.00
PLA D'URGELL	100.00
PLANTA BIOMETANIZACIÓN LAS DEHESAS	50.00
PLANTA DE TRATAMIENTOS VALLADOLID	60.00
PLANTA RSI TUDELA	60.00
PLAYAS GUIPUZKOA	55.00
UTE PONIENTE ALMERIENSE	50.00
POSU - FCC VILLALBA	50.00
POZUELO	20.00
PUENTE LADRILLO	20.00
PUERTO	50.00
PUERTO II	70.00
QUINTO CONTENEDOR	50.00
RBU VILLA-REAL	47.00
R.S. PONIENTE ALMERIENSE	50.00
REDONDELA	10.00
REFORMA PLAZA DEL CRISTO	20.00
REPARACIONES CASA CAMPO	100.00
REPOSTADOS ENTREVÍAS	50.00
RESIDENCIA	50.00
RIVAS	30.00
RSU TOLOSALDEA	60.00
S.U. BENICASSIM	35.00
S.U. BILBAO	70.00
SALTO DEL NEGRO	50.00
SAN FERNANDO	20.00
SANEAMIENTO URBANO CASTELLÓN	65.00
SANT QUIRZE	50.00
SANT QUIRZE DEL VALLÉS	50.00
SANTA COLOMA DE GRAMANET	61.00
SANTOMERA	60.00
SANTURTZIKO GARBIKETA	60.00
SANTURTZIKO GARBIKETA II	60.00
SASIETA	75.00
SAV - FCC TRATAMIENTOS	35.00
SELECTIVA LAS PALMAS	55.00
SELECTIVA SAN MARCOS	65.00
SELECTIVA UROLA-KOSTA	60.00
SELLADO VERTEDERO LOGROÑO	50.00
SIMÓN HERNÁNDEZ	50.00
TABLADA	20.00

	% of ownership
TANATORIO PATERNA	50.00
TIRVA FCC - FCCMA RUBÍ	20.00
TORREJÓN	25.00
TORRIBERA IV	50.00
TRANSPORTE DE BARRENA TXINGUDI	60.00
TRANSPORTE SAN MARCOS	80.00
TREMP	51.00
TÚNEL PUERTO ALGECIRAS	30.00
TÚNELES DE BARAJAS	25.00
TXINGUDI	75.00
TXINGUDICO GARBIKETA	73.00
URNIETA	20.00
UROLA ERDIA	60.00
URRETXU Y ZUMARRAGA	65.00
VALDEMORO	100.00
VALDEMORO 2	100.00
VERTEDERO ARTIGAS	50.00
VERTEDERO GARDELEGUI II	70.00
VERTEDERO PINTO FASE II	50.00
VERTRESA	10.00
VIGO RECICLAJE	70.00
VILLALÓN DE CAMPOS	20.00
VINAROS	50.00
VIVIENDAS MARGEN DERECHA	60.00
WTC ZARAGOZA	51.00
ZARAGOZA DELICIAS	51.00
ZARAUTZ	20.00
ZARAUZCO GARBIETA	60.00
ZONZAMAS FASE II	30.00
ZURITA	50.00

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

APPENDIX III

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Net impairment losses						From operations	From continuing operations
Clavegueram de Barcelona, S.A. Acer, 16 - Barcelona -Urban cleaning-	733	—	20.33	97	3,606	3,921	—	506	398
Ecoparc del Besòs, S.A. Rambla Cataluña, 91-93 - Barcelona -Urban cleaning-	2,621	—	Direct 31.00 Indirect 18.00	—	7,710	(252)	22,814	5,240	1,968
Ecoserveis Urbans de Figueres, S.L. Pg. Empordà Internacional, Calle A, parcela 50 - Vilamalla (Girona) -Urban cleaning-	301	—	50.00	170	601	110	—	488	404
Empresa Mixta de Limpieza de la Villa de Torrox, S.A. Pz. de la Constitución, 1 - Torrox (Malaga) -Urban cleaning-	300	—	50.00	—	600	658	—	398	280
Empresa Mixta de Medio Ambiente de Rincón de la Victoria, S.A. Pz. Al Andalus, 1 - Rincón de la Victoria (Malaga) -Urban cleaning-	301	—	50.00	—	601	474	—	527	87
Gestión Integral de Residuos Sólidos, S.A. Santa Amalia, 2 - Valencia -Urban cleaning-	4,732	—	49.00	34	781	1,540	61	123	(27)
Globalvía Infraestructuras, S.A. Paseo de la Castellana, 141 (Edificio Cuzco) IV - Madrid -Infrastructure management-	529,570	—	50.00	—	957,274	128,286	—	(5,381)	(43,207)
Ingeniería Urbana, S.A. Saturno, 6 - Alicante -Urban cleaning-	3,786	—	35.00	909	6,064	5,980	—	3,312	2,013
Palacio de Exposiciones y Congresos de Granada, S.A. Ps del Violón, s/n - Granada -Equipment management-	255	—	50.00	—	510	—	—	—	—

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

APPENDIX III/2

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2011 Profit (Loss)	
	Assets	Net impairment losses						From operations	From continuing operations
Pallars Jussà Neteja i Serveis, S.A. Pau Casals, 14 - Tremp (Lleida) -Urban cleaning-	25	—	40.80	7	60	7	—	46	46
Proactiva Doña Juana E.S.P.S.A Calle 98 n° 9-03 of. 804 Ed. Torre Sancho Santa Fe de Bogotá (Colombia) -Urban cleaning-	284	284	Direct 23.75 Indirect 27.05	—	2,250,000 (COP)(*)	36,373 (COP)(*)	—	(2,963,259) (COP)(*)	(2,969,540) (COP)(*)
Proactiva Medio Ambiente, S.A. Cardenal Marcelo Spínola, 8 - Madrid -Urban cleaning-	119,542	75,300	50.00	3,393	56,250	11,488	—	1,874	8,582
Realía Business, S.A. Paseo de la Castellana, 216 - Madrid -Property development-	67,637	—	Direct 27.20 Indirect 2.98	—	66,570	471,766	(2,208)	(6,414)	(30,714)
Servicios Urbanos de Málaga, S.A. Ulises, 18 - Madrid -Urban cleaning-	1,610	—	51.00	231	3,156	486	—	546	546
Suministros de Agua de Queretaro S.A. de C.V. Santiago de Queretaro (Mexico) -Water management-	4,367	—	Direct 24.00 Indirect 2.75	—	347,214 (MXN)(*)	288,758 (MXN)(*)	—	63,406 (MXN)(*)	15,064 (MXN)(*)
TOTAL	736,064	75,584							4,841

(*) (COP): Colombian peso, (MXN): Mexican peso.

NOTE:

- Of the companies shown above, only Realía Business, S.A. is a listed company and its market price at the balance sheet date was EUR 1.09. The average market price in the last quarter of 2011 was EUR 1.14.

- As required by Article 155 of the Consolidated Spanish Limited Liability Companies Law, in 2011 the Company made the related notifications to the companies in which it had acquired direct or indirect holdings of over 10%.

"REPORT OF THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. FOR THE DISTRIBUTION OF AN INTERIM DIVIDEND IN 2011"

In accordance with Article 277 of the Consolidated Spanish Limited Liability Companies 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 that:

1. The after-tax profit of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. at 31 October 2011 amounted to EUR 121,900 thousand.
2. The Company's after-tax cash flow in the first ten months of 2011 amounted to EUR 181,400 thousand.
3. The Company's cash and cash equivalents at 31 October 2011 amounted to EUR 117,600 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 changes with respect to the foregoing data, the directors consider that there is sufficient liquidity for the distribution of an interim dividend of EUR 82,747 thousand out of 2011 profit.

The number of shares carrying the entitlement to an interim dividend is calculated by subtracting the treasury shares existing at the date of payment of the dividend from the 127,303,296 shares representing the total share capital.

Accordingly, it is proposed that the following interim dividend out of 2011 profit be approved:

Gross % of the par value of each share carrying dividend rights	65.0%
Gross interim dividend per share (EUR)	0.650

The legally required personal income tax or corporation tax withholdings, as appropriate, will be made from the gross interim dividend declared.

The members of the Board resolved unanimously:

1. To approve the report transcribed above; and
2. To distribute an interim dividend out of the profit for 2011 in the amount indicated in the report, which will be paid on 10 January 2012 and will be duly announced on a timely basis

Madrid, 15 December 2011



FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Director's Report

CONTENTS	PAGE
-----------------	-------------

1. COMPANY ACTIVITIES, PERFORMANCE IN 2011 AND DIVIDENDS	3
2. TREASURY SHARE TRANSACTIONS	5
3. RESEARCH AND DEVELOPMENT ACTIVITIES	6
4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES	17
5. OUTLOOK FOR 2012	19
6. ANNUAL CORPORATE GOVERNANCE REPORT	23

1. COMPANY ACTIVITIES, PERFORMANCE IN 2011 AND DIVIDENDS

The Company's core business is to provide general services, which include the collection and treatment of solid waste, the cleaning of public streets and sewer systems, the maintenance of green areas and buildings, water treatment and distribution and other complementary services. Occasionally, it also performs construction activities as a member of a consortium in Panama.

Fomento de Construcciones y Contratas, S.A. is the Parent of the FCC Group, which comprises a broad spectrum of subsidiaries that engage in activities such as construction, urban cleaning and integrated water cycle services, urban furniture, passenger transport, passenger and aircraft ground handling, logistics, cement, real estate, energy, infrastructure management, etc., and therefore the reader should refer to the consolidated report which provides more representative information of the financial highlights.

The economic and financial information included in this directors' report has been prepared in accordance with the Code of Commerce and the Consolidated Spanish Limited Liability Companies Law.

The figures below are expressed in millions of euros.

Company's performance in 2011

Major aggregates	2011	2010	Variation	
			Absolute	%
Revenue	1,691.5	1,681.0	10.5	0.6%
Profit from operations	444.1	409.4	34.7	8.5%
Margin (%)	26.3%	24.4%		
Financial loss	(195.7)	(198.4)	2.7	-1.4%
Profit before tax	248.3	211.0	37.3	17.7%
Net profit	235.8	200.0	35.8	17.9%
Distributable dividend per share (euros)	1.30	1.43		

Revenue in 2011 increased by 0.6% to reach EUR 1,691.5 million. This item includes the dividends received from the Company's subsidiaries, which amounted to EUR 120.8 million, whereas in 2010 they amounted to EUR 257.0 million.

Profit from operations amounted to EUR 444.1 million, up 8.5% from the EUR 409.4 million recognised in 2010.

Financial loss, at EUR 195.7 million, was 1.4% lower than the 2010 figure of EUR 198.4 million. Net profit for the year amounted to EUR 235.8 million, up 17.9% from 2010.

Dividends

The Board of Directors proposes to distribute a final dividend of EUR 0.65, 65% of the par value of each of the outstanding shares at the date of payment, and to allocate the remainder to unrestricted reserves. Previously, on 10 January 2012 an interim dividend of EUR 0.65 per share was distributed, pursuant to a resolution of the Board of Directors dated 15 December 2011.

2. TREASURY SHARE TRANSACTIONS

At 2011 year-end Fomento de Construcciones y Contratas, S.A. held 3,278,047 treasury shares, representing 2.57% of share capital, valued at EUR 90,975 thousand.

Also, at year-end Asesoría Financiera y de Gestión, S.A. (Afigesa), a company wholly-owned by the Parent Fomento de Construcciones y Contratas, S.A. held 9,418,830 shares of Fomento de Construcciones y Contratas, S.A., representing 7.4% of its share capital, with a carrying amount of EUR 255,048 thousand.

In accordance with Article 148-d of the Consolidated Spanish Limited Liability Companies Law, the changes in the number of shares during the year are detailed in the table below:

	FCC, S.A.	Asesoría Financiera y de Gestión, S.A.	FCC Group
At 31 December 2010	3,182,582	9,432,369	12,614,951
Intra-Group acquisitions and sales	95,465	(95,465)	-
Acquisitions or additions	2,373,358	181,926	2,555,284
Sales or disposals	(2,373,358)	(100,000)	(2,473,358)
At 31 December 2011	3,278,047	9,418,830	12,696,877

3. RESEARCH AND DEVELOPMENT ACTIVITIES

With the aim of promoting a Group R&D&I strategy, an Innovation Committee was formed, to coordinate innovation within the FCC Group. Its main mission is to make the innovation activities compatible with the Company's strategy and to establish the lines of research. It enables seamless, ongoing communication among all the business areas, establishes the Group's general guidelines and objectives and pushes for the conversion of innovative ideas into end projects and developments which can set the FCC Group apart from its competitors.

In 2011, the **Department of Innovation Management**, which was created in 2010, continued to promote and coordinate the R&D&I activity at Group level, with the aim of achieving results that would hone the Group's competitive edge, achieve more sustainable development and maintain its vanguard position in services to the community.

In 2011 an **Innovation Portal** was started up for the FCC Group's internal communication. This portal is fed with information of general interest and details of the R&D&I projects being developed in the Group's various areas. The Group also prepared the documentation required to organise the *Invierte Economía Sostenible-2011* programme of the Spanish Centre for the Development of Industrial Technology (CDTI), which aims to encourage private industrial capital initiatives in the energy and environment industry, involving joint investment with public funds in SMEs engaged in technological and innovative businesses with a high potential for economic growth. With the approval of the CDTI, the necessary documentation was prepared to create a venture capital company to manage forthcoming investments in the framework of the project. An investment of EUR 21 million is expected within five years: FCC will contribute a maximum of EUR 12 million and CDTI will contribute EUR 9 million.

In order to implement an **R&D&I management system** at FCC S.A. in accordance with the UNE 166002:2006 standard, the Group prepared a management handbook and various procedures and forms to establish the basic guidelines and to systematize the R&D&I activity, and also began preparation of the FCC Group's biennial **R&D&I report**.

Among the **Corporate R&D&I** projects, the following must be highlighted:

- **IISIS Project – Integrated Research on Sustainable Islands:** The IISIS project, prepared to fit into the CDTI's *Inmpronta 2011* programme, was one of seven selected from among over 40 proposals. It is led by FCC S.A. through the Environment and Energy areas, with the participation of other Group areas such as Aqualia, FCC Construcción and Cementos Portland Valderrivas, together with various outside companies (Acerinox, Prainsa, etc.). It has a total budget of EUR 15,007,823 and its objective is to conduct advanced and ambitious research into sustainable property developments for the future, including:
 - Elements, materials, technologies and systems required to develop the building in a marine environment, without constituting a threat to the environment
 - Self-sufficiency in every respect, achieved through all kinds of integrated facilities
 - Advanced transport logistics and intelligent management and control systems.
- **Integrated HR Management Platform (INCORPORA):** The project consists of embarking on an action plan to implement advanced personnel management processes which encourage and promote development, communication and a healthy work environment, through the efficient management of specialised HR services, in the context of diversity and internationalisation.

- **International Project Management Model:** The FCC Construcción IT department, assisted by the corporate IT department, led the design and development of a new international business management model which re-utilises the technological platform for the economic, financial and management processes. This platform, which was developed over the past few years at national level, integrates the management processes specific to the Company's international subsidiary's business.
- **Intelligent Multisourcing System (SIM):** The working framework is defined for the design and development of an innovative IT service provision system based on the new capabilities and advantages offered by the concept of outsourcing and the corresponding transformation required.
- **New Integrated Corporate Management Capabilities (CAPACIDADES):** This is an IT department project of a transversal nature in which the support tools required for new processes defined within the platform were developed to expedite the work flow, thus reducing costs and improving the Company's overall performance.

In 2011 the business areas performed the following R&D&I activities:

ENVIRONMENTAL SERVICES

Work continued on the different research projects launched in prior years, mainly:

- **BIO+ Project:** With a view to making the urban waste treatment process more eco-efficient, a model is being developed to enable process monitoring on an industrial scale of the various biomethanation technologies. In conjunction with Aqualia, a pilot project was executed involving thermal hydrolysis prior to anaerobic digestion, to enhance biogas production, and to reduce and improve the quality of end waste.

The following projects were started up:

- **Plug-in electric hybrid flusher truck project** (in the machinery section): It consists of a 5 m³ polyester flusher tank with a reduced width of 2.2 m mounted on an electric-hybrid chassis, rechargeable from the grid and capable of providing the service in solely electric mode. While in operation, the vehicle emits no polluting gases and a minimum level of noise.
- **Project involving the drying of treatment plant refuse** (in the waste treatment section)
- **Integrated service management software project:** Combination of the existing day-to-day service management programmes into a single integrated global tool.
- **System for inspecting and improving recyclable waste in household collections:** The company carries out periodic inspections of household waste collections on pre-established routes, using mobile devices to ascertain whether the municipal regulations are followed and waste is correctly separated. By analysing the results, the volume of recycled waste can be increased, privileged rates can be offered to citizens who recycle and plans can be mapped out to organise awareness campaigns and reduce the cost of waste treatment.
- **Tools for communication management between service agents:** To improve the channel of communication between the various service agents, a tool has been designed to manage service requests and the capture of incidents, which reduces response time, eliminates administrative formalities and simplifies follow-up of the jobs. This development enables information to be captured through smart phones, and provides access to web-based management from anywhere, georeferencing of all the information and a state-of-the-art analytical platform.

- **Machinery activity monitoring platform:** Based on the possibilities of obtaining data on vehicle activity through sensors, control centre readings, individual signals, etc., work is being done on capture, telemetry, geopositioning, transmission, storage and standardisation, so that a more detailed analysis can be made of the machinery to optimise its use.
- **Built-in global communications management device:** Development of a built-in device for vehicles which combines the functions of voice communication, geopositioning, telemetry, data capture from sensors, control centre readings and introduction of service data. Its standard use in the Environmental Services area enables all the service information to be managed uniformly, regardless of the type of vehicle in which it is installed.
- **Service activity monitoring and geopositioning system:** Processes aimed at characterising the geographical scope of the services (inventories of containers, black spots, special action areas, proposed routes of action, etc.) and analysing the activity performed (locating vehicles, collections made, localised incidents, etc.).

WATER

R&D&I activities in this business area included notably the following:

1. **UNE 166002:2006 certification.** The “R&D&I Project Management System” certification, approved in December 2010, was audited by AENOR in November 2011, leading to the annual renewal of the certificate.
2. **R&D&I Aqualia Forum.** The purpose of this event, organised by the Department of Marketing and Communication, is to bring together the Company’s various stakeholders and to incorporate their views into the corporate strategy. The next meeting, which will be held in 2012, will discuss the use of waste water as a source of bioenergy production. This forum will be attended by members of the industry’s employers’ organisation, government agency representatives and researchers in this area, in addition to Aqualia’s representatives.
3. In 2011, in accordance with the company’s strategic plan, the R&D activity for the obtainment of sustainable technologies was geared towards achieving the following **objectives**:
 - a. **Quality** (supply of drinking water, re-utilisation of waste water, desalination and measurement)
 - b. **Sustainability** (reduction of energy consumption, use of sludge as a resource and alternative treatments)
 - c. **Integrated management** (management systems, capture of resources and communication)

Since the creation of the R&D&I department in 2008, 14 public-funded projects have been awarded, with an approved budget for Aqualia valued at EUR 14 million.

In 2011 the following projects were completed:

- **Rehabilitation technology for the elimination of nutrients (Ávila):** In this joint project with Bluewater Bio, the objective of complying with European waste discharge standards was achieved with an improvement in the operating cost.
- **Advanced sludge digestion (Loyola-San Sebastián):** In this joint project with local entities and Aguas del Añarbe, a new automatic digester control system was demonstrated.

In the meanwhile, work continued on the following projects:

- **Membrane bioreactor (MBR) technology (Vigo):** Joint project with the Universidad de Santiago de Compostela, with the objective of developing an energy-efficient water re-utilisation system using self-cleaning membranes.
- **ELAN technology – autotrophic nitrogen removal (Vigo):** Joint project being executed with the Universidades de Vigo and Santiago de Compostela, to install a return load treatment system in the purifiers, reducing energy costs.
- **Microalgae pilot plant (Arcos de la Frontera):** Joint project being executed with the Universidad de Cádiz, Iberdrola and Bio-Oil, to evaluate innovative bioreactors for photopurification and the production of energy from biomass.
- **Sustainable recovery of sludge (Salamanca):** Joint project with the Universidad de Salamanca, to develop a new digestion line to optimise the production of biogas and improve the end quality of the sludge, thus obtaining a very dry hygienic product. A part of the project is shared with FF MA (Bio+).
- **Customer management tools** to improve the capture and evaluation of the technical and economic processes of operation of the services, coordinated from Madrid with the participation of various areas of implementation:
 - Balanced Score Card
 - Customer Relationship Management

Also, in 2011 progress was made on the two large projects relating to bioenergy production through microalgae cultures used as waste water purification processes:

- **ALL-GAS Project**, included in the “Algae to Biofuel” initiative of the EU’s Seventh Framework Programme. It began in May and is being implemented in Chiclana, with a final objective of 10 ha of cultures.
- **CENIT VIDA Project** presented within the CDTI’s Strategic National Consortia for Technical Research programme, regarding the integrated recovery of algae. The first milestone was presented in September and the first pilot plants were built in Arcos.

In 2011 new funding was obtained for five projects:

- **“Sustainable biofuel production from the advanced co-digestion of industrial waste and urban sludge” project**, subsidised by the Basque Country’s GAITEK programme.
- **“Research into treatment, re-utilisation and control technologies for the future sustainability of water purification (ITACA)” project**, integrated into the CDTI’s INNPRONTA programme, to develop more sustainable technologies for the re-utilisation of energy and resources in urban effluents.
- **“Optimisation of production and development of drying and storage of microalgae on a pre-industrial scale” project**, within the Spanish Ministry for Science and Innovation’s INNPACTO programme for the recovery of purification by-products.

INDUSTRIAL WASTE

With regard to activities at strategic points for the industry, the following are noteworthy:

1. **Development of options for energy recovery from waste:** A **new project** was launched to develop processes to optimise particle size and reduce moisture in waste scraps from paper mill pulpers. The purpose of the tests conducted is to manufacture a solid alternative fuel for use in cement factories.
2. **Participation in the CDTI raw materials forum** prior to the Coordination and Support Action which is to take place in 2012 and will cover the substitution of critical raw materials (CRW).
3. **Participation in European consortia in 2011.** In 2011 the Group participated in two European consortia in response to calls for strategic development projects within the **EU's Seventh R&D Framework Programme**; however the projects were ultimately not selected.
 - **REACSOIL**-Reactive nanoparticles for soil and groundwater remediation.
 - **REBLADE**-Recycling of wind turbine generator blades.

The following project was completed in 2011:

- **MARINEFUEL Project:** Its objective was to develop a new high value-added alternative fuel manufactured by regenerating used engine oil waste, intended for use in fishing fleet marine diesel engines. The results of the project were favourable, and no major differences were detected between marine fuel and traditional fossil fuels.

CONSTRUCTION

Noteworthy R&D&I activities in this area were as follows:

1. FCC Construcción participates in the European Construction Technology Platform (ECTP), in the E2BA Association (Energy Efficient Buildings Association), in the **ENCORD Group** (European Network of Construction Companies for Research and Development), in **reFINE** (Research for Future Infrastructure Networks in Europe) and in the **Spanish Construction Technology Platform** (PTEC). The aim of these organisations is to combine the efforts of research centres, industries and universities in all areas relating to research, development and technological innovation:

Among the projects carried out in 2011, the following should be highlighted:

On the one hand, work continued on the projects launched in prior years, such as:

- **RS Project:** Sustainable refurbishing of buildings.
- **OLIN Project:** Study of improved embankment and subgrade qualities and treatments to enable the construction of sustainable linear structures.
- **DAÑOS EN PUENTES Project:** Low-cost dynamic tests for the maintenance of bridges subjected to uncontrolled environmental loads, using wireless sensors.
- **BALI Project:** Acoustically efficient and healthy systems and buildings.

- **DEPOSITOS Project:** Design of a bitumen storage system modified with powdered end-of-life tyres (ELT) for plants manufacturing hot mix asphalts.
- **ECORASA Project:** Integrated use of construction and demolition waste arising from property development works inside the urban area and at the construction site itself, as a fill material for drainage ditches.
- **VITRASO Project:** Diagnosis and prediction of building construction noise transmission routes.
- **CEMESFERAS Project:** Research into the manufacture of glass microspheres with cementing properties.

On the other hand, the following new projects were launched in 2011:

- **SPIA Project:** New high visibility signage systems including a personal stand-alone luminous system.
- **PRECOIL Project:** New intelligent collective prevention systems in dynamic linear infrastructure environments.
- **NANOMICRO Project:** Based on nanomicrocements and their application in concrete wind towers.

VERSIA

1. Urban Furniture

Work continued on projects launched in prior years:

- **TEC-MUSA (sustainable and accessible urban mobility technologies):** Development, through a multidisciplinary consortium formed by companies, associations and research groups, of a range of technologies and their integration into vehicles for passenger and goods urban transport services, with zero or low emissions and advanced customer access and communication features.
- **EPISOL (electric vehicle powered by fuel cells and solar energy):** Development of a light urban vehicle featuring hybrid electric propulsion with two motorisation versions: a heat engine in a first phase and a fuel cell in a more advanced phase, using solar panels in both cases. Each model of the vehicle has a system that enables the batteries to be charged from the electricity mains, so that they are fully charged at the start of each journey, greatly reducing the demands placed on the heat engine and/or fuel cell. In 2011 CEMUSA continued to work in conjunction with INSIA (the University Institute for Automotive Research of the Universidad Politécnica de Madrid) to develop this vehicle.
- **C-CYCLES:** Development of a complete unattended bicycle hire system which functions with smart cards, enables payment by credit card and incorporates an Internet point. The project responds to the need for sustainable urban mobility promoting multi-modal transport. There are plans to continue developing other features: electric bicycles, solar power.

- **LED Lighting Projects:** The company is working on a LED lighting project which aims to reduce energy consumption and, therefore, greenhouse gas emissions. Studies are being performed simultaneously in relation to the reduction of light pollution. Tests carried out in 2011 showed an average illumination of 700 lux and 85% savings in consumption versus fluorescent lighting. The company will continue to test the product to achieve surface illumination of 800 lux.
- **Solar PV Projects:** Development of a solar PV project which, together with LED lighting, will eliminate greenhouse gas emissions and in certain cases reduce network connection costs.
- **Digital Advertising Projects:** Implementation of digital advertising systems incorporating LCD screens and LED screens and, in both cases, the technology required for them to be viewed properly outdoors.
- **WiFi EN PARADAS Project:** Development of a bus stop WiFi system compatible with the system that could be built into the buses so that the user does not lose his connection and can continue his session when moving from bus stop to bus or vice versa.

The following project was started up in 2011:

- **PUNTO DE RECARGA Project:** Development of an electric vehicle recharge system.

2. Logistics

The projects in this area are as follows:

- **CSLOG (SGA):** In 2011 various modules were developed based on the SGA (warehouse management) system owned by FCC Logística, implementing the customers' different logistics requirements.
- **C+D Project:** A functionality was implemented in CSLOG for cross-docking with customers' stores. In 2011 the basic line was fully developed, a billing interface was added, as were enhanced goods distribution processes and a web layer for inquiries from customer stores regarding logistics information.
- **"DIRECTOS" Project:** Software developed with a view to optimising goods loading and shipment to the delivery point using geopositioning.
- **CITA PREVIA:** This is customised software for the management of the new customs activity "Puesto Inspección Fronteriza" (border control kiosk). It consists of providing support to the customs authorities during the container inspection process. An improvement made in 2011 connects the system to the automated gate at the Port of Valencia, allowing the free flow of vehicles.

3. Maintenance and Systems

This project in this area is as follows:

- **PLATAFORMA TECNOLÓGICA AVANZA:** This project, which is based on smart traffic monitoring mechanisms which can manage road control devices, offering users all the information obtained for their specific study and analysis, was expanded with various services required for the tunnel and shadow toll freeway projects. The major milestones reached in 2011 consisted of certain enhancements implemented in the VR1 Vialitoral and Autoestrada Tramontana roads in Portugal and in the Monrepós tunnels in Huesca. New processes are continuously being incorporated, which will significantly enhance the platform's efficiency and operations.

4. Airport Handling

The project in this area is as follows:

- Development of the **Groundstar tool** to optimise the planning and control of aeronautical processes. During a first stage of implementation at the Flightcare bases in Spain in 2011, the tool replaced the "handelnet" system and entailed a change in the billing tool in use. This new system, which is much more versatile than its predecessor, enables communications with other systems and incorporates resource management tools.

CEMENTOS PORTLAND VALDERRIVAS

In 2011 the R&D&I department was consolidated. In the meanwhile, the company continued to work on the three links of the same chain: research, development, and applications and innovation.

The Cementos Portland Valderrivas Group has continued to promote research into new higher value-added products and/or new markets. Over the past two years these efforts have borne fruit, culminating in the development of 11 new special cements with very competitive advantages in terms of faster setting time, resistance to harsh outdoor conditions, the much lower environmental impact of their manufacturing process and their ability to inertise certain pollutants. These products, due to their very specific qualities, could occupy new market niches because of their competitive nature. Many of the original developments were carried out at the Group's R&D&I laboratory at the Olazagutía factory.

In 2011 the R&D&I Department obtained government grants for the development of various cutting edge research projects, mainly in the area of new materials, which involved about 140 of the organization's employees (80 of them belonging to Cementos Portland Valderrivas, S.A., which leads many of the projects approved).

The applications of the new products and technical assistance in various projects in which they have been trialled formed another focus for the Group's activities in 2011 – mainly in relation to the use of microcements in the Pajares tunnels and Ultraval in the Ordicia tunnels, tests performed jointly with AENA and various preliminary studies conducted on contaminated soil conglomerates in Flix (Tarragona).

The Group also began work on the technological assessment of its new products and its forthcoming positioning for marketing its current product portfolio. To this end, it joined forces with a company which provides management, strategic consultancy and interim management services, and specialises in incorporating disruptive innovation into business models. The first stage began with the preparation of the technological packages of these products, the corresponding market studies and action plans.

All the foregoing initiatives have had significant indirect benefits, such as contacts with numerous companies in different business areas, universities, research centres and public agencies, which have positioned the Group as an R&D&I benchmark for the development and application of cement-based materials, enabling it to enter into agreements with other entities.

Other noteworthy initiatives carried out in 2011 were the **publication of the first R&D&I monographic document**, the organisation of the “**International Conference on Cement Chemistry**” and the **protection of intellectual property**, in connection with which the Group actively engaged in applying for possible patents.

Ultimately, the Group is aware that a commitment to innovation and radical change is the path to be followed; accordingly, in 2011 it began to develop an ambitious project, the objective of which is to convert the company into a dynamo of innovation at all levels (“**Promoting Innovation**”).

Within the framework of this project and with the participation of over 70 executives, an initial diagnosis was made of the company’s vision for innovation, and the required **Action Plan** was subsequently prepared to transform the organisation. This Plan consists of 23 projects which cover all the spheres of innovation, starting from vision and governance and going on to customer management and required resources, and will involve over 80 employees from all the areas. All these projects should be finalised in February so that they can be trialled and validated during the first half of 2012.

Knowledge management is the management of the intangible assets which generate value for the organisation, and is most essential in these times of crisis. This initiative, closely linked to innovation, was launched in 2011 with the performance of an initial diagnosis of the Group’s perception of this area.

For this purpose a 40-hour **workshop** was held, attended by 14 employees of various corporate divisions, mostly representing all the organisation’s businesses and areas. The workshop provided training on all the facets of knowledge management and an analysis was made of the Group’s situation with regard to all these reference points. A detailed list was prepared of all the Group’s strengths and weaknesses, which were prioritized by all the participants and subsequently evaluated by the Steering Committee to establish measures for improvement.

New Products and Markets were selected as a **pilot area** to create the first **Community of Practice**, since they constitute one of the Group’s strategic pillars which can most rapidly generate value. Once implemented, the experience will be replicated in other areas of the organisation, creating new Communities of Practice until all the components of the organisation are involved within the medium term.

The salient projects which were under development or launched in 2011 were as follows:

- **HORMIGÓN ULTRARRÁPIDO Project:** The aim of this project is to develop a concrete which, immediately after being spread, acquires certain mechanical service properties. It could then be offered to the international community for use in repairs and construction in civil emergency/protection services, for example prior to imminent catastrophes, for civil and industrial repairs which have high added value due to their urgency, and for military applications.
- **ESCOMBRERAS Project:** The aim of this project is to remove an historical waste disposal facility, restoring the environment to its initial state and re-utilising all the recovered materials.
- **HORMIGONES POROSOS Project:** The main objective is to develop a new range of multifunctional porous concretes which have high mechanical strength and greater resistance to surface wear and tear, are longer lasting and self-maintaining in terms of their porosity level and have better acoustic and heat insulation, with a view to obtaining new energy-efficient applications in the construction industry.
- **MICROCEMENTOS Project:** The objective is to develop a new range of microcements (TP-1) and biomicrocements with a maximum particle size of one micron. These microcements need to be developed for use in microinjections and as a microaddition in cements and concretes to improve their properties.
- **CEMESFERAS Project:** The objective is to develop and manufacture new products with cementing properties based on glass microspheres, so that they can be used as cement manufacturing components and significantly reduce greenhouse gas emissions. As and when the project is being executed the bases for standardisation of these products will have to be set.
- **NANOMICRO Project:** Led by Cementos Portland Valderrivas, with the participation of FCC Construcción. The main objective of this project is to develop a range of microcements which have a particle size of less than one micron and can withstand extreme weather conditions.
- **FLOTTEK Project:** It consists of studying the viability and development of a floating concrete structure to support a deep-water wind turbine, where seabed foundations are no longer viable. The platform must be sufficiently capable of floating and remaining stable to enable the wind turbine to function properly in the climate conditions of its location. This calls for concretes which are highly durable and physically very permeable and have a strong chemical resistance to chlorides and sulphates.
- **MUGIELEC Project:** The objective is to develop all the systems and equipment required to optimise power supply from various points of the grid for charging electric vehicles.
- **SIGERAPI Project:** The purpose of this project is to find a solution for noise management in the manufacturing industry, providing a tool which enables the production process to be integrated with prediction modules and which does not require the users to have an advanced knowledge of acoustics to use it or to interpret the results.
- **SAGER Project:** The project concerns bulk storage of electric power and its use. Its material objective is the design and manufacture of artificial concrete caverns with advanced mechanical characteristics obtained by developing new cements. The bulk storage energy system will be based on the development of two technologies designed to respond to the needs detected: Electrochemical storage system and CAES (compressed air energy storage in an artificial cavern).

In 2011 the technology departments of FCC Construcción and the Cementos Portland Valderrivas Group collaborated on projects aimed at modernising and updating concrete paving technologies. In this connection, in 2011 a Manual of Recommendations was jointly published with the assistance of the Catalan Department of Public Works and the Spanish Institute for Cement and its Applications (IECA), for the design and construction of double-layered road surfaces. Research was also conducted on the laying of compacted concrete paving, using traditional machinery to place the aggregate.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The concept of financial risk refers to the changes in the financial instruments arranged by the Group as a result of political, market and other factors and the repercussion thereof on the consolidated financial statements. The FCC Group's risk management philosophy is consistent with its business strategy and seeks to achieve maximum efficiency and solvency at all times. To this end, strict financial risk management and control criteria have been established, consisting of identifying, measuring, analysing and controlling the risks incurred in the Group's operations, and the risk policy has been integrated into the Group organisation in the appropriate manner. In line with this risk policy, the FCC Group arranges hedges initially to hedge the underlying transaction and not for speculative purposes.

In order to ensure a position that is in the FCC Group's best interest, an interest rate risk management policy is actively implemented based on the on-going monitoring of markets and assuming different positions based primarily on the asset financed. Given the nature of the Group's activities, closely linked to inflation, its financial policy consists of ensuring that both its current financial assets, which to a large extent provide natural hedging for its current financial liabilities, and the Group's debt are partially tied to floating interest rates. Even so, the FCC Group performed interest rate hedging transactions using various hedging instruments of varying maturities. Complying with the policy of classifying original instruments as hedges, the FCC Group has arranged interest rate hedges, mainly swaps (IRSs) in which the Group companies pay a fixed rate and receive a floating rate.

A noteworthy consequence of the FCC Group's positioning in international markets is the exposure resulting from net positions in foreign currencies against the euro or in one foreign currency against another when the investment and financing of an activity cannot be made in the same currency. The FCC Group's general policy is to mitigate, as far as possible, the adverse effect on its financial statements of exposure to foreign currencies, with regard to both transactional and purely equity-related changes. The FCC Group therefore manages the effect that foreign currency risk can have on the balance sheet and the income statement.

The Group actively manages its foreign currency risk by arranging financial transactions in the same currency as that in which the related asset is denominated, i.e. efforts are made, at all times, to obtain in local currency the financing required for the local activity of the company in the country of origin of the investment, with a view to creating a natural hedge or a matching of the cash flows to the financing. However, there are occasions when, due to the weakness of the currency of the country of origin of the investment, this is not possible because long-term financing cannot be obtained in that currency. In this case, financing will be obtained either in the currency of the consolidated group or in the most closely correlated foreign currency.

The FCC Group is present in various markets in order to facilitate the obtainment of financing and to mitigate liquidity risk. This risk results from the timing mismatches between the funds generated by the activities and the funds needed for the payment of debts, working capital etc. Despite the adverse situation that affected the financial markets throughout 2011, the FCC Group has remained adequately positioned and has anticipated any potential adversity by paying close attention to the evolution of the factors that may help to resolve liquidity difficulties in the future and to the various sources of financing and their characteristics.

The Group also strives to reduce credit risk as far as possible, is careful to ask for commercial reports and assesses the financial solvency of its customers before entering into agreements with them and also engages in on-going monitoring of customers, and has a procedure in place to be followed in the event of insolvency. In the case of public customers, the Group follows the policy of not accepting projects without an allocated budget and financial approval. The provision of services or the acceptance of orders from customers, whose financial solvency cannot be guaranteed at the time of acceptance, is not known or cannot be assessed by the Group, together with situations that may arise during the provision of a service or execution of an order that could affect the customer's financial position could result in the risk of non-payment of the amounts owed.

5. OUTLOOK FOR 2012

Set forth below are the prospects for 2012 for the various business areas composing the FCC Group. The construction and services backlog at 2011 year-end, which amounted to EUR 35,237.6 million, guarantees the continuation of a high level of activity over the coming years.

In the **Services** area, broadly speaking, business in Spain is likely to continue to suffer from the impact of the general economic crisis; however, current activities abroad are expected to be consolidated and to grow significantly.

The **Environmental Services** area reflects a general economic situation which has a direct effect on budgets and the financial situation of local municipal corporations, which has led city councils to request service reductions.

Also, the debt was arranged with maturity close to the year of provision of the services and the outlook for 2012 appears promising which, together with a foreseeable rise in interest rates, could affect finance costs.

However, the main contracts are expected to be maintained and other minor contracts to be renewed or extended.

Mention should be made of the positive effect expected for 2012 of the launch of the activity of certain waste treatment plants, such as those located in Valencia and Guipúzcoa.

In the **International** area, the slight upswing in 2011 in all the activities is expected to be consolidated. Among these is notably the improved functioning of the Allington incinerator in the UK, the soil decontamination project in the Czech Republic and new contracts in Bulgaria.

Also in the UK a significant investment plan was prepared, mainly in the area of new PFI projects, the recovery of materials and obtainment of energy from waste, which will contribute in the coming years to boosting revenue.

Business within the ASA Group is expected to expand, especially in Poland where the level of activity is expected to double in 2013, due to a legislative change which obliges all the municipalities to issue invitations to tender for refuse collection from 2012, and we therefore expect to provide this service to over 800,000 inhabitants.

In the **Industrial Waste** area in Spain, the last quarter of 2011 witnessed a slump in the prices of certain recovered materials (paper, cardboard, etc.), which sometimes dropped to 30% of their value in the preceding months. Also, due to the decline in Spanish manufacturing, the volume of waste being treated is falling steeply, a trend which is expected to continue in 2012 and which could affect the industry's revenue. With regard to the Flix (Tarragona) reservoir decontamination project which was begun in 2010, the decontamination tasks as such are expected to begin around the third quarter, once the preparatory work is completed.

In the first quarter of 2012 the Group is expected to start up the plant for the recovery of foundry waste and its conversion into an iron and steel aggregate for Arcelor Mittal in Guipúzcoa. Also scheduled is the inauguration of the new controlled non-hazardous industrial waste depot in Castañeda (Cantabria) through the subsidiary IACAN, with an estimated annual intake of 170,000 tonnes of waste.

Additionally, the new end-of-life tyre recovery plants are fully operational in the Canary Islands, as is the plant that recovers waste for conversion into an alternative fuel for the cement industry in Castellbisbal (Catalonia).

With regard to foreign projects in the Industrial Waste area, in Italy a total of 150,000 tonnes of contaminated sludge is expected to be treated in Syracuse (Sicily). In Portugal, after a brilliant 2011, in which more than 160,000 tonnes of waste were treated at the Chamusca plant belonging to the subsidiary Ecodeal, new tenders are expected to be put out by the Portuguese Government, such as that for the remediation of various contaminated industrial sites in the Barreiros area.

In the US, the subsidiaries FCC Environmental and International Petroleum Corp. will foreseeably continue to expand their presence in the used oil collection and re-utilisation market. Also, in the third quarter an oil refinery plant construction project for Baltimore (Maryland) will be presented to the authorities concerned for approval. With regard to the subsidiary Apex/FCC, it should be mentioned that its presence in the gas- and oil-field waste business will increase. At 2011 year-end a mobile fracture water treatment plant was also incorporated and authorisation was requested for the construction of a new plant in South Texas.

In the **Water Management** area, the Group maintains its leadership position in the Spanish market as the first integrated cycle operator funded by Spanish capital. At the same time, it has continued to bolster its international presence, promoting the geographical diversification strategy initiated five years ago.

In 2012, with an economic crisis prevailing in Spain, household and industrial consumption is expected to remain flat, with very little activity in new property developments which would enable the scope of contracts to be expanded to new customers in areas already being served; however, tenders are expected to be put out by large municipalities which previously did not consider indirect management and which, in view of their financial situation, seek to balance their budgets with the award of their water services. At the same time, our presence in various regions already consolidated in the international market has mitigated the impact of the Spanish crisis and will continue to do so, since we will take advantage of our presence in regulated markets which are gradually opening up to expert companies to resolve their historical problems of managing this resource.

In 2011 significant new contracts were obtained in the international market. Noteworthy among these is the network leak detection and repair contract for the city of Riyadh (Saudi Arabia); the water supply and treatment management contract for the city of Fundão (Portugal), which addresses an infrastructure renewal plan, the aim of which is to modernise the water distribution and treatment system in the Portuguese municipality, which is located near Serra da Estrela in the centre of the country and has a population of 32,177 inhabitants; the desalination plant engineering, supply, erection and start-up contract for La Minera Candelaria in Chile (80% owned by the US company Freeport and 20% by the Japanese company Sumitomo), which will supply drinking water to a population of approximately 175,000 inhabitants in the Northern region of Copiapó, near the Atacama desert; the waste water treatment plant construction contract for the Cutzamala municipality (Mexico); the pump station construction contract for Mexico City (Mexico); the contract for the construction of the country's largest water treatment plant in Niksic (Montenegro). Also mentionable is the start-up of the contracts for the exploitation, operation and maintenance of the Mostaganem and Cap d'Jinet desalination plants in Algeria.

In Spain, numerous contracts have been arranged, renewed and extended in various municipalities, among which the following are highlighted:

- Renewal of the integrated water cycle management contract in Ávila where Aqualia has been the operator since December 1988, providing service to 58,245 inhabitants
- Operation, upkeep and maintenance contract for 11 purification plants of the Baix Ebre regional council (Tarragona)
- Extension of the integrated water cycle management contract for the Adeje municipality (Santa Cruz de Tenerife)
- Renewal of the management contract in the Iscar municipality (Valladolid)
- Management of the supply and treatment service and the construction of a regulating reservoir for the LLagostera municipality (Gerona)
- Renewal of the purification and sewerage service for the Puerto de Santamaría municipality (Cádiz)
- Supply and treatment service contract for the Caspe municipality (Zaragoza), and upgrade of its drinking water plant
- Supply and treatment service contract for the Fraga municipality (Zaragoza)
- Supply and treatment contract for the Arico municipality (Tenerife)
- Algeciras waste water treatment plant management contract
- Integrated water management contract for the Baena municipality (Córdoba)
- Supply and treatment management contract for the Yepes municipality (Toledo)
- Supply and treatment management contract for the Islantilla municipality (Huelva)
- Renewal of the supply management contract for Guía de Isora (Tenerife)
- Supply and treatment management contract for the Yuncler municipality (Toledo)
- Purification service management contract for the Chipiona municipality (Cádiz)

At the beginning of 2012 the Services area backlog amounted to EUR 25,719 million, representing nearly seven years of production.

For 2012, the **Versia** area plans to divest itself of Airport Handling assets which, together with the sale in December 2011 of companies belonging to the Parking Lot section, would push revenue down as a result of the change in the scope of consolidation caused by these two measures, which are in keeping with the FCC Group's asset rotation policy.

By area, there are hopes that the New York **Urban Furniture** contract will be further consolidated and this, together with the obtainment of new contracts, will boost the volume of business in this area. Also, the launch of new Logistics contracts will lift sales slightly, softening the impact of the steady fall in consumer spending since the start of the crisis. The Maintenance and Systems area will suffer from the public sector investment containment policy.

In the **Construction** area, 2012 revenue in Spain is expected to be lower than that recognised in 2011, since there is a lull in residential building construction caused by the property market crisis and public sector budget restrictions which will affect the execution of civil engineering works.

To offset the weakness of the Spanish market, the companies composing the area are making a strong effort to expand their activities abroad. This measure will foreseeably drive foreign sales upwards in 2012 compared to 2011 levels.

The business abroad is carried on primarily in numerous Central and East European countries (through the Alpine group) and is rounded off by activities in the American market, where the Group is present through investees operating mainly in Central America and Mexico; FCC Construcción will also continue to develop the foreign business directly in Europe, Algeria and certain areas of the Middle East.

In the **Energy** area, in 2011 contacts were made and negotiations initiated to admit a shareholder of recognised prestige, interested in investing in the renewable energy section. An agreement was entered into with the Japanese multinational Mitsui & Co. Ltd., which will culminate in the formulation of a joint venture in which the FCC Group will hold a maximum ownership interest of 50% and be able to embark on the international expansion of this business area.

Given the direction of the activities underway, it is hoped that the area will be better placed financially to undertake new renewable energy projects. In this respect, it is of utmost interest to explore all the growth opportunities likely to arise in the energy area, either by acquiring ownership interests in new projects or by bidding for public-sector contracts for new power not only in Spain, but also in East European EU member countries and the US, since all these areas share the characteristic of the legal certainty required for medium-term investment commitments and their respective governments have expressed the wish to boost the development and promotion of renewable energies.

In the **Cement** area, it should be mentioned that at global level it has been unexpectedly difficult for the International Monetary Fund to remedy the structural problems faced by the advanced economies struck by the crisis, and even more complicated to formulate and execute reforms. While these economies are expected to expand steadily, growth will be weak and fitful. The outlook of emerging economies appears to be even more uncertain, although growth is more likely to be vigorous, especially in the economies which can counter the effect of a flagging foreign demand for the product by softening their policies. In the euro zone, leaving aside the major problems caused by financial turbulence, the situation is more diverse. Households in general appear to have fewer concerns than in the US, and there has been a much lower level of job destruction, except in the peripheral economies hit by the crisis, such as Spain. These economies face a major structural challenge which consists of adopting reforms which will enable them to recover and maintain their competitive edge more easily.

Against this backdrop, the macroeconomic projections of the Banco de España (January 2012) point to a substantial drop in Spanish GDP in 2012 (-1.5 %) and a modest recovery in 2013 (0.2 %), with positive rates from the first quarter of 2013, bringing the Spanish economy closer to its potential growth rate. This macroeconomic scenario is the result of a significant contraction in domestic demand, partially offset by a high contribution of the net foreign balance. In turn, the decline in domestic demand is the result of the combined effect of a steep fall in its public- and private-sector components, in a context in which household spending will be restricted due to the impact of tax consolidation on these agents' incomes, and by lower employment levels. Residential investment will continue to fall in 2012 and 2013, although not as sharply as in recent years, after overcoming its hardest phase of adjustment. Weak demand, poorer economic prospects and austere financial conditions will determine further decreases, albeit moderate, in private-sector spending on production over the next two years. Bearing in mind this panorama for 2012, the Company's sales forecasts are conditioned by the timetable for recovery in Spain. The Spanish market continues at historically low levels with a downward trend. Oficemen views very favourably the measures adopted by the Government to extend the VAT reduction for another year and to restore the first-time home buyer's tax credit. It is also confident that measures will shortly be put in place which will re-energise public works, the current situation of which is extremely worrying. In view of these prospects, a new plan is being worked out to adapt the Cement Group's structures to this reality.

6. ANNUAL CORPORATE GOVERNANCE REPORT
