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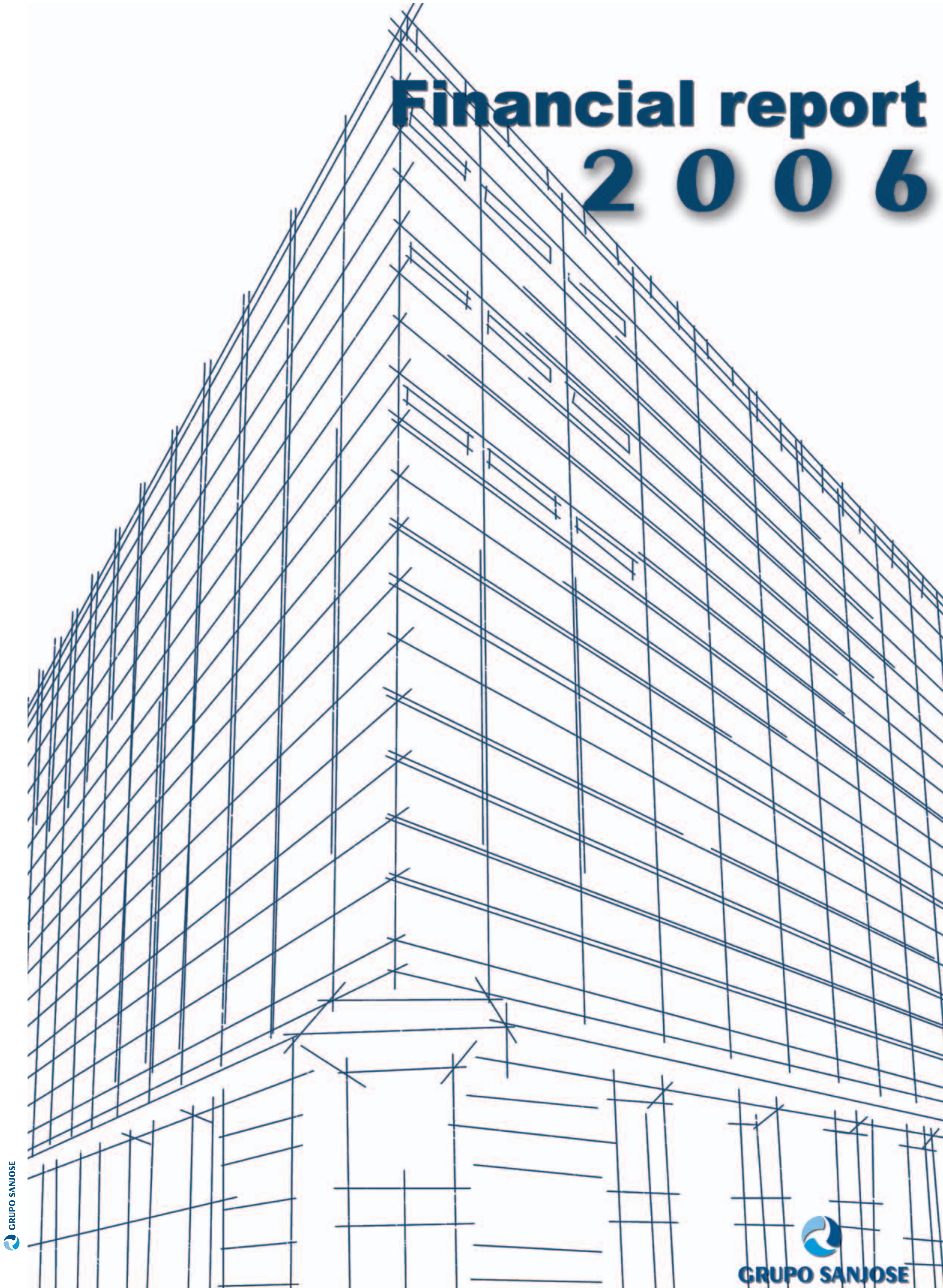
GRUPO SANJOSE

Financial report 2006



GRUPO SANJOSE

UDRA, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for 2006, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU-IFRSs)

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2.1 and 26). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2.1 and 26). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
UDRA, S.A.:

1. We have audited the consolidated financial statements of UDRA, S.A. and Subsidiaries comprising the consolidated balance sheet at 31 December 2006 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made. Our work did not include an examination of the 2006 financial statements of certain subsidiaries and associates, whose consolidated assets and loss represent approximately 11% and 1% respectively, of the related consolidated totals. The financial statements of these companies were audited by other auditors (see Appendixes I, II and III of the notes to the consolidated financial statements). Our opinion as expressed in this report on the consolidated financial statements of UDRA, S.A. and Subsidiaries is based, with respect to these companies, on the reports of the other auditors.

2. The accompanying consolidated financial statements for 2006 are the first that the Group has prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by Spanish corporate and commercial law, for comparison purposes, the Parent's directors present, in addition to the consolidated figures for 2006 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2005, which were obtained by applying the EU-IFRSs in force at 31 December 2006. Accordingly, the figures for 2005 differ from those contained in the approved consolidated financial statements for 2005, which were prepared in accordance with the accounting principles and standards in force that year. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 January and 31 December 2004, and to the Group's consolidated profit for 2005 are detailed in Note 2 to the accompanying consolidated financial statements. Our opinion refers only to the consolidated financial statements for 2006. On 27 March 2006, we issued our auditors' report on the consolidated financial statements for 2005, prepared in accordance with the accounting principles and standards in force in that year, in which we expressed an unqualified opinion.

3. In our opinion, based on our audit and on the reports of the other auditors referred to in paragraph 1 above, the accompanying consolidated financial statements for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of UDRA, S.A. and Subsidiaries at 31 December 2006, and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union, which were applied on a basis consistent with that used for the preparation of the financial statements for the preceding year, which were included in the consolidated financial statements for 2006 for comparative purposes.

4. The accompanying consolidated directors' report for 2006 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2006. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of UDRA, S.A. and Subsidiaries.

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

Miguel Laserna Niño
29 March 2007

INSTITUTO DE
CENSORES JURADOS
DE CUENTAS DE ESPAÑA

Miembro ejerciente:
DELOITTE, S.L.

Año 2007 Nº 01/07/07503
COPIA GRATUITA

Este informe está sujeto a la tasa aplicable establecida en la Ley 44/2002 de 22 de noviembre.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2006 AND 2005
(Thousands of Euros)

	NOTES	2006	2005
Non-current assets		**156.402**	**132.255**
Property, plant and equipment	8	61.331	57.595
Goodwill	9	17.626	12.665
Other intangible assets	10	274	302
Investments in associates and interests in joint ventures	11	43.737	30.031
Non-current financial assets	13.4	30.096	28.445
Deferred tax assets	19.4	2.863	2.780
Other non-current assets		476	437
Current assets		**1.212.559**	**1.016.226**
Inventories	12	317.193	224.599
Trade and other receivables:			
Accounts receivable	13.1	709.221	608.838
Tax receivables	19.5	64.189	55.885
Other current assets		290	13.320
Other current financial assets	13.3	50.299	64.065
Cash and cash equivalents	13.2	71.365	49.519
Total assets		**1.368.961**	**1.148.481**

	Notes	2006	2005
Equity		**281.043**	**222.764**
Share capital	14.1	1.312	1.312
Share premium	14.2	7.838	7.838
Reserves	14.3 et seq	147.580	113.192
(Treasury shares)	14.9	-	-
Valuation adjustments	14.8	-	-
Profit for the year attributable to the Parent		40.976	39.218
(Interim dividend paid)	6	-	-
Equity attributable to shareholders of the Parent		**197.706**	**161.560**
Minority interests	14.10	83.338	61.204
Non-current liabilities		**28.834**	**42.650**
Long-term provisions	15	8.287	8.986
Bank borrowings and other financial liabilities	16.1	7.277	7.084
Deferred tax liabilities	19.4	3.016	2.222
Other non-current liabilities		10.254	24.358
Current liabilities		**1.059.084**	**883.067**
Bank borrowings and other financial liabilities	16.1	215.647	142.079
Payable to Group companies	16.2	11.513	213
Trade and other payables:			
Trade payables	17	708.382	634.830
Tax payables	19.5	66.810	59.921
Other current liabilities		56.733	46.024
Total equity and liabilities		**1.368.961**	**1.148.481**

The accompanying Notes 1 to 26 and Appendixes I, II and III are an integral part of the consolidated balance sheet at 31 December 2006.

UDRA, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR 2006 AND 2005
(Thousands of Euros)

		(Debit) Credit	(Debit) Credit
	Notes	2006	2005
Continuing operations:			
Revenue	21.1	1.311.113	1.210.563
Other operating income		431	9.835
OPERATING INCOME		**1.311.544**	**1.220.398**
+/- Changes in inventories of finished goods and work in progress		54.922	6.921
Procurements	21.2	(940.040)	(844.357)
Other external expenses	21.2	(159.319)	(129.479)
Staff costs	21.3	(181.832)	(164.600)
Depreciation and amortisation charge	8 y 10	(6.209)	(7.184)
Changes in operating allowances		(2.284)	(2.915)
PROFIT FROM OPERATIONS		**76.782**	**78.784**
Finance income	21.7	8.395	6.354
Finance costs	21.8	(11.465)	(7.934)
Exchange differences (gains and losses)		1.900	(1.321)
Profit from changes in value of financial instruments		1.525	-
Profit of companies accounted for using the equity method	11	7.625	2.267
Other losses	21.9	(3.666)	(2.696)
PROFIT BEFORE TAX		**81.095**	**75.454**
Income tax	19.2	(24.450)	(23.447)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**56.645**	**52.007**
Discontinued operations:			
Profit for the year from discontinued operations		-	-
PROFIT FOR THE YEAR		**56.645**	**52.007**
Attributable to:			
Shareholders of the Parent		40.976	39.218
Minority interests	14.10	15.669	12.789
Earnings per share:			
From continuing operations			
Basic	5.1	259,1	237,9
Diluted	5.2	259,1	237,9

The accompanying Notes 1 to 26 and Appendixes I, II and III are an integral part of the consolidated income statement for 2006.

UDRA, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS FOR 2006 AND 2005
(Thousands of Euros)

	2006	2005
Cash flows from operating activities:		
Profit before tax	81.095	75.454
Depreciation and amortisation charge	6.209	7.184
Changes in operating allowances	2.284	2.915
Finance income	(8.395)	(6.354)
Finance costs	11.465	7.934
Translation differences	(1.900)	1.321
Profit from changes in the value of financial instruments	(1.525)	-
Profit of companies accounted for using the equity method	(7.625)	(2.267)
Other losses	3.666	2.696
Cash flows from operating activities	**85.275**	**88.883**
Other adjustments		
Income tax paid in the year	(23.740)	(23.130)
(Increase)/decrease in working capital:		
(Increase) decrease in inventories	(92.594)	(87.982)
(Increase) decrease in receivables	(100.383)	(61.665)
Increase (decrease) in payables	91.149	128.007
Other collections (payments) in operating activities	27.062	(25.537)
1.TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**(13.231)**	**18.576**
Investments:		
Property, plant and equipment	(12.958)	(14.228)
Intangible assets	(4.961)	-
Investments and other financial assets	(21.836)	(50.050)
Dividends received	4.841	1.582
Disposals:		
Property, plant and equipment and intangible assets	2.429	1.021
Investments and other financial assets	-	-
Other collections (payments) from investing activities:		
Change in cash and cash equivalents due to changes in the scope of consolidation	-	-
Other	-	-
2.TOTAL NET CASH FLOWS FROM INVESTING ACTIVITIES	**(32.484)**	**(61.675)**
Collections (Payments) on treasury share transactions	-	-
Dividends paid	(5.029)	(5.001)
Increase (Decrease) in borrowings		
Non-current	193	(43.416)
Current	73.568	106.278
Net interest:		
Received	8.395	6.354
Paid	(11.465)	(7.934)
Other collections (payments) from financing activities	1.900	(1.321)
3.TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	**67.562**	**54.960**
TOTAL NET CASH FLOWS FOR THE YEAR	**21.846**	**(11.861)**
Cash and cash equivalents at beginning of year	49.519	37.658
Exchange and measurement differences in cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	**71.365**	**49.519**

The accompanying Notes 1 to 26 and Appendixes I, II and III are an integral part of the consolidated cash flow statement for 2006.

UDRA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2006 AND 2005
(Thousands of Euros)

	Share Capital	Share Premium	Legal Reserve	Other Reserves of the Parent	Results of Consolidated Companies		Translation Differences	Interim Dividend	Treasury Shares	Profit for the Year	Minority Interests	Total
					Full/ Proportionate Consolidation	Equity Method						
Balances reported at 31 December 2004 (*)	1.312	7.838	263	19.805	67.489	(7.986)	(3.604)	-	-	35.156	52.913	173.186
Adjustments due to changes in accounting policies	-	-	-	-	2.517	-	-	-	-	-	1.167	3.684
Restated balances at 1 January 2005	**1.312**	**7.838**	**263**	**19.805**	**70.006**	**(7.986)**	**(3.604)**	**-**	**-**	**35.156**	**54.080**	**176.870**
Distribution of profit for 2004												
Reserves	-	-	-	3.912	20.198	6.045	-	-	-	(30.155)	-	-
Dividends	-	-	-	-	-	-	-	-	-	(5.001)	-	(5.001)
Translation differences	-	-	-	-	-	-	4.646	-	-	-	-	4.646
Minority interests	-	-	-	-	-	-	-	-	-	-	7.124	7.124
Other	-	-	-	-	(2.926)	2.621	212	-	-	-	-	(93)
Profit for the year	-	-	-	-	-	-	-	-	-	39.218	-	39.218
Balances at 31 December 2005	**1.312**	**7.838**	**263**	**23.717**	**87.278**	**680**	**1.254**	**-**	**-**	**39.218**	**61.204**	**222.764**
	Share Capital	Share Premium	Legal Reserve	Other Reserves of the Parent	Results of Consolidated Companies		Translation Differences	Interim Dividend	Treasury Shares	Profit for the Year	Minority Interests	Total
					Full/ Proportionate Consolidation	Equity Method						
Balances at 1 January 2006	**1.312**	**7.838**	**263**	**23.717**	**87.278**	**680**	**1.254**	**-**	**-**	**39.218**	**61.204**	**222.764**
Distribution of 2005 profit												
Reserves	-	-	-	2.770	31.419	-	-	-	-	(34.189)	-	-
Dividends	-	-	-	-	-	-	-	-	-	(5.029)	-	(5.029)
Transfer of reserves	-	-	-	-	(5.176)	5.176	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	(324)	-	-	-	-	(324)
Minority interests	-	-	-	-	-	-	-	-	-	-	22.134	22.134
Other	-	-	-	-	833	(310)	-	-	-	-	-	523
Profit for the year	-	-	-	-	-	-	-	-	-	40.976	-	40.976
Balances at 31 December 2006	**1.312**	**7.838**	**263**	**26.487**	**114.354**	**5.546**	**930**	**-**	**-**	**40.976**	**83.338**	**281.043**

(*) Balance reported under Spanish GAAP at 31 December 2004

The accompanying Notes 1 to 26 and Appendixes I, II and III are an integral part of the consolidated statement of changes in equity for 2006.

Notes to the Consolidated Financial Statements for 2006

1. Group activities

UDRA, S.A. ("the Parent"), was incorporated on 18 August 1987 for an unlimited period of time by virtue of a public deed executed in Pontevedra in the presence of the Notary of this city, Rafael Sanmartín Losada, under number 1539 of his protocol.

The Parent is registered at the Mercantile Registry of Pontevedra on sheet 88 of the Companies book 586, entry No. 1ª on page No. 8119. It has employer tax identification number A-36.046.993.

Its registered office is in Pontevedra, at calle Rosalía de Castro, 44.

Activities

The activities carried on by the companies in the Udra, S.A. Group are classified into the following business units:

1) Development of all forms of real estate construction.

2) Performance of all manner of public or private construction work, mainly buildings, road networks and hydraulic works.

3) Purchase and sale, administration, operation and any other similar activities in relation to all manner of rural or urban property.

4) Storage, distribution, purchase and sale and import of manufactured products.

5) Management and recruitment of personnel for all types of company, association and agency.

6) Study, design, development and purchase and sale of all manner of electronic, computer, telecommunications and audiovisual components, products and systems.

7) Full maintenance of hospital facilities, maintenance of operating theatres and electromedical equipment, and manufacture and sale of integrated systems for operating theatres, ICUs and patient rooms.

8) Study, design and installation of air conditioning, heating, industrial cooling and plumbing facilities, purchase and sale or manufacture of all kinds of related mechanisms; to sell and act as representative for third-party products.

Also, the Parent may subscribe to, purchase or acquire by another means shares and/or equity interests in other public and private limited companies, even if their company object differs from that of Udra, S.A., and may form new public or private limited companies with other legal entities or individuals, whatever valid purpose or activity the newly formed companies have.

Furthermore, UDRA, S.A. is Parent of the San José Group. Its main object is the management and control of all the business activities performed by the companies in which Udra, S.A. has a material and lasting ownership interest.

In view of the business activities carried on by the Group companies, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to their equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

The specific lines of business of each subsidiary, jointly controlled entity and associate are disclosed in Appendixes I, II and III.

2. Basis of presentation of the consolidated financial statements and basis of consolidation

2.1. Accounting principles

The consolidated financial statements for 2006 of UDRA, S.A. and Subsidiaries (UDRA, and Subsidiaries or "the Group") were prepared by the Parent's directors at the Board of Directors' Meeting held on 28 March 2007, in accordance with the International Financial Reporting Standards as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council (EU-IFRSs).

These financial statements present fairly the Group's consolidated equity and financial position at 31 December 2006, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

UDRA's consolidated financial statements were prepared from the accounting records of the Company and of the other Group entities. Each company prepares its individual financial statements in accordance with the accounting principles and policies in force in the country in which it operates and, accordingly, the required adjustments and reclassifications were made on consolidation to unify the policies used and to make them compliant with the EU-IFRSs.

The financial statements of UDRA, S.A. were prepared in accordance with prevailing Spanish accounting legislation and were approved by the shareholders at the Annual General Meeting on 30 June 2006.

The 2005 consolidated financial statements of UDRA, S.A. and Subsidiaries were prepared on the basis of the individual accounting records of UDRA, S.A. and of each of the companies included in the scope of consolidation, and were presented, in generally terms, in accordance with Spanish corporate and commercial law, the Spanish National Chart of Accounts and Royal Decree 1815/91, of 20 December, approving the rules for the preparation of the consolidated financial statements. Also, since the Group engages mainly in construction, the accounting standards contained in the Ministry of Economy and Finance Order of 27 January 1993, approving the rules adapting the Spanish National Chart of Accounts for construction companies were applied, and in relation to real estate activities, the accounting standards contained in the Ministry of Economy and Finance Order of 28 December 1994, approving the rules adapting the Spanish National Chart of Accounts for real estate companies were applied, in order to present fairly the consolidated equity, consolidated financial position and consolidated results of their operations. These consolidated financial statements were approved by the shareholders at the Annual General Meeting on 30 June 2006.

The 2006 consolidated financial statements of the Group and the individual financial statements of the Group companies for 2006 have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Parent's Board of Directors considers that the aforementioned consolidated financial statements will be approved without any material changes.

UDRA's activities are led by Grupo Empresarial San José, S.A. (construction, real estate, urban and industrial development).

2.2. Responsibility for the information and use of estimates

The information in these financial statements is the responsibility of the directors of the Parent.

In the preparation of the accompanying consolidated financial statements estimates were occasionally made by the management of the Group and of the consolidated companies to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

• The useful life of the property, plant and equipment and intangible assets (Notes 4.3 and 4.4);

• The measurement of assets and goodwill to detect any impairment losses thereon (Notes 4.5 and 4.2);

• The budgetary estimates which are considered for the recognition of results on contracts to which the percentage of completion method is applied in the construction and industrial business segments (Note 4.13),

• The probability of occurrence and the amount of uncertain or contingent liabilities (Note 4.18).

Although these estimates were made on the basis of the best information available at the date of preparation of these financial statements on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statements.

2.3. Currency

These financial statements are presented in euros, since this is the functional currency of the main economic environment in which the Group operates. Foreign operations are recognised in accordance with the policies established in Note 4.15.

2.4. Basis of consolidation

a) Subsidiaries

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise control; this capacity is evidenced by the power to manage the financial and operating policies of an investee so as to obtain benefits from its activities. Control is presumed to exist when the Parent has, directly or indirectly, 50% or more of the voting power of the subsidiaries, or even if this percentage is lower, there are agreements with other shareholders of the investees that give the Parent control.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is credited to profit and loss on the acquisition date. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interests in excess of the minority interests are allocated to the Parent.

Also, the share of third parties of:

• The equity of their investees is presented within the Group's equity under "Minority Interests" in the consolidated balance sheet.

• The profit or loss for the year is presented under "Minority Interests" in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Appendix I to these notes to the consolidated financial statements details the subsidiaries included in consolidation and significant information thereon.

b) Joint ventures

"Joint ventures" are deemed to be ventures that are jointly controlled by two or more unrelated companies.

A joint venture is a contractual arrangement whereby two or more companies ("venturers") have interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

The financial statements of jointly controlled entities are proportionately consolidated with those of the Company and, therefore, the aggregation of balances and subsequent eliminations are only made in proportion to the Group's ownership interest in the capital of these entities.

Similarly, interests in Spanish UTEs (unicorporated joint ventures), joint property entities and economic interest groupings were included in the accompanying consolidated financial statements in proportion to the Group's ownership in the assets, liabilities, income and expenses arising from the transactions performed by these entities, and reciprocal asset and liability balances and income, expenses and profits or losses not realised with third parties were eliminated.

The assets and liabilities assigned by the Group to jointly controlled operations and the Group's share of the jointly controlled assets are recognised in the consolidated balance sheet classified according to their specific nature. Similarly, the Group's share of the income and expenses of joint ventures is recognised in the consolidated income statement on the basis of the nature of the related items.

Appendix III to these notes to the consolidated financial statements details the joint ventures included in consolidation and significant information thereon.

c) Associates

Associates are companies over which the Parent is in a position to exercise significant influence, but not control or joint control, usually because it holds -directly or indirectly- 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group's interest in the associate, less any impairment of the value of the individual investment.

Any excess of the cost of acquisition over the part of the fair values of the identifiable net assets of the associate attributable to the Group at the acquisition date is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets of the associate owned by the Group at the acquisition date is recognised in profit and loss during the acquisition period.

If as a result of losses incurred by an associate its equity were negative, the investment should be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

Appendix II to these notes to the financial statements details the associates included in consolidation and significant information thereon.

d) Changes in the scope of consolidation

The main changes in the scope of consolidation in 2006 were as follows:

Transactions performed as part of the reorganisation of UDRA, S.A.

- On 2 March 2006, Constructora San José, S.A. sold all its shares in Comercial Udra, S.A. to Udra, S.A., at a gain of EUR 308 thousand.
- On 6 April 2006, Constructora San José, S.A. (CSJ) transferred the assets relating to its urban development activity through a capital contribution to Desarrollos Urbanísticos Udra, S.A.U. (DUU), an investee of Constructora San José, S.A. This contribution consisted of shares in Inmobiliaria Europea de Desarrollos Urbanísticos S.A. (IEDU), Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U. (IADU) and Desarrollo Urbanístico Chamartín, S.A. (DUCH), and of certain items of property, plant and equipment. The contribution was carried out maintaining the net carrying amount of the assets per Constructora San José, S.A.'s books.
- On 18 May 2006, Constructora San José, S.A. sold all of its shares in San José Infraestructuras y Servicios, S.A. to Grupo Empresarial San José, S.A. at their carrying amount.
- On 19 June 2006, Grupo Empresarial San José, S.A. increased capital through an exchange of Constructora San José, S.A. shares, in order to replicate in the Company the corporate structure of Constructora San José, S.A. so that it would be wholly owned by Grupo Empresarial San José, S.A.

Given that certain shareholders did not participate in this share exchange transaction, the interest ultimately held by Grupo Empresarial San José, S.A. in Constructora San José, S.A. totalled 99.97%.

For the purposes of this transaction, Constructora San José, S.A. was valued at EUR 204,348,276, equivalent to the consolidated underlying carrying amount at 31 December 2005. This transaction was exempt from transfer and stamp tax and VAT, by virtue of Article 108 of Securities Market Law 24/1998 of 28 July.

- On 30 June 2006 the Annual General Meeting of Constructora San José, S.A. resolved to approve the partial spin-off of this company on behalf of San José Infraestructuras y Servicios, S.A., through the contribution by the former to the latter of the lines of business other than construction, comprising mainly its ownership interests in property development activities (Inmobiliaria Udra, S.A.), urban developments (Desarrollos Urbanísticos Udra, S.A.U.) and industrial developments (Udra Industrial, S.A.U., in 2007 re-named San José Tecnologías, S.A.U.). This transaction was carried out by reducing the share capital of Constructora San José, S.A. and increasing share capital simultaneously in the beneficiary, for the total amount of the contributed ownership interests valued at the net carrying amount at 31 December 2005 per the accounting records of the split company. This transaction was registered in the Mercantile Registry on 27 September 2006.

As a result of this transaction, the interest of Grupo Empresarial San José, S.A. in San José Infraestructuras y Servicios, S.A. totalled 99.79%.

The abovementioned transactions will be carried out under the tax neutrality regime contained in Chapter VIII, Title VIII of Royal Decree Law 4/2004, of 5 March, on Spanish Corporation Tax.

<u>Other changes</u>

- Inclusion of Corsabe, S.C.R. in the scope of consolidation. Constructora San José, S.A. holds a 50.2% ownership interest in this company and until 31 December 2005 it was recognised under "Long-term Investment Securities". The cost of the investment was EUR 12,270 thousand.
- On 19 July 2006, Inmobiliaria Udra, S.A. sold all its shares in Udramed S.L.U. to Grupo Empresarial San José, S.A. for a total of EUR 3,200, equivalent to their carrying amount. Udramed, S.L.U. acquired a controlling interest in Parquesol Inmobiliaria y Proyectos, S.A., through a takeover bid for the latter company which was completed in January 2007 (Note 25).
- On 30 January 2006, San José Construction Group Inc. incorporated San José Real Estate Development, LLC, in which it holds a 100% ownership interest.
- On 25 July 2006, San José Real Estate Development LLC incorporated the company 1681 West Avenue LLC. At 31 December 2006, the former held a 70% ownership interest in the latter.
- On 24 May 2006, the Subsidiaries Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U. (IADU) and Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U. (IEDU) incorporated the Argentine company Centro Comercial Panamericano, S.A. (CCP), in which they held a 95% and 5% interest, respectively. In 2006 this company received from Argentimo, S.A. (in the form of a non-monetary contribution through the spin-off of Argentimo, S.A. to CCP), plots of land located in Buenos Aires, earmarked for commercial property development. This land was then sold to Panamerican Mall, S.A., in which Centro Comercial Panamericano, S.A. subsequently acquired a 20% holding.
- On 30 May 2006, the Subsidiaries Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U. (IADU) and Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U. (IEDU) incorporated Inmobiliaria Sudamericana de Desarrollos Urbanísticos. S.A. in which they held a 95% and 5% interest, respectively. The object of this new Company is to carry on real estate activities and its registered office is located in Argentina.

The consolidated financial statements do not include the tax effect, if any, that might arise from the inclusion of the reserves of the consolidated companies in the equity of the Parent, since it is considered that these reserves will be used as a source of self-financing at each consolidated company.

3. First-time adoption of International Financial Reporting Standards

2006 is the first year for which the Group has presented its financial statements in accordance with IFRSs. Since UDRA, S.A. presented consolidated financial statements in 2005, 1 January 2005 will be considered the date of transition to EU-IFRSs.

In the adaptation process, UDRA, S.A. adopted the following criteria from among the various alternative treatments set forth under IFRSs:

a) Translation differences at 1 January 2005 were recognised, net of the related tax effect, as opening reserves.

b) The Group chose to maintain the cost model for assets for own use.

c) Business combinations prior to the date of transition were not re-calculated and goodwill existing at 1 January 2005 was maintained after checking its carrying amount through the related impairment tests.

IFRS 1 requires that the first consolidated financial statements prepared in accordance with IFRSs include a reconciliation of the equity at the beginning and at the end of the immediately preceding period to the equity at the end of the preceding period and at the beginning of the comparative period to which these financial statements refer, respectively, prepared in accordance with Spanish GAAP in the case of the Group. Also, IFRS 1 requires a reconciliation of the profit or loss for the comparative period to the profit or loss for the same period under local GAAP.

The reconciliation of equity between Spanish GAAP and International Financial Reporting Standards at the transition date, i.e. 1 January 2005, is as follows (data in thousands of euros):

		Capital and Reserves	Minority Interest
Balance under Spanish GAAP at 01-01-05		**120,273**	**52,913**
	Intangible assets (1)	(266)	(104)
	Negative goodwill on consolidation (2)	270	-
	Deferred and other tax assets (3)	2,780	1,337
	Capitalised marketing costs (4)	(197)	(66)
	Impact of financial instruments (5)	(60)	-
	Other (6)	(10)	-
	Adjustment total	**2,517**	**1,167**
Balance under IFRSs at 01-01-05		122,790	54,080

Explanatory notes:

The adjustments presented in the foregoing tables were calculated discounting the tax effect and, accordingly, their impact on equity is after taxes. The assets and liabilities in the accompanying consolidated balance sheet include the deferred tax assets and liabilities, respectively, relating to this tax effect.

1) Elimination of start-up and preoperating costs: capitalised amounts were derecognised since they did not qualify as assets under IFRSs.
2) Effect of negative goodwill on consolidation: the amounts recognised in the balance sheet were derecognised.
3) Deferred tax assets and liabilities: tax loss and tax credit carryforwards were recognised in the accompanying consolidated balance sheet since their recovery is considered probable, and the deferred taxes whose reversal is highly unlikely were derecognised.
4) Includes the effect of the marketing costs capitalised to inventories.
5) Impact of exchange rate hedging instruments (USD).
6) Includes mainly the net effect of the restatement of non-current accounts payable and receivable.

4. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the consolidated financial statements for 2006 were as follows:

4.1. Non-current assets held-for-sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale should be expected to be completed within one year from the date of classification.

At 31 December 2006, the Group did not have any material non-current assets held for sale.

4.2. Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Any excess of the cost of the investments in the consolidated companies and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
2. If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.
3. The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired company that are not capable of being individually identified and separately recognised.

Goodwill acquired on or after 31 December 2004 is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2004. In both cases, at the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to "Net Impairment Losses" in the consolidated income statement. In accordance with IAS 36 Impairment of Assets, an impairment loss recognised for goodwill must not be reversed for subsequent years.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill arising from the acquisition of companies with a functional currency other than the euro is translated to euros at the exchange rates prevailing at the date of the balance sheet.

There were no business combinations in 2006.

Any deficiency of the cost of investments in consolidated companies and associates below the related underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is classified as negative goodwill and is allocated as follows:

1. If the negative goodwill is attributable to specific assets and liabilities of the companies acquired, increasing the value of the liabilities (or reducing the value of the assets) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
2. The remaining amount is presented under "Other Operating Income" in the income statement for the year in which the share capital of the subsidiary or associate is acquired.

■ 4.3. Other intangible assets

The other intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated companies. Only assets whose cost can be estimated reasonably objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

In both cases the consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to "Net Impairment Losses" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for property, plant and equipment (Note 4.5).

Administrative concessions and patents

Administrative concessions are recognised as assets when they have been acquired by the Group for consideration (in the case of concessions that can be transferred) or for the amount of the expenses incurred to directly obtain the concession from the related public agency.

The Group amortises these rights on a straight-line basis, in accordance with the estimated term of the concession.

In the event of non-compliance, leading to the loss of the concession rights, the carrying amount of the concession is written off.

Computer software

Computer software may be contained in a tangible asset or have physical substance and, therefore, incorporate both tangible and intangible elements. These assets are recognised as property, plant and equipment if they constitute an integral part of the related tangible asset, which cannot operate without that specific software.

Computer software is amortised on a straight-line basis over a three-year period from the date of entry into service of each application.

Computer system maintenance costs are charged to the consolidated income statement for the year in which they are incurred.

■ 4.4. Property, plant and equipment

Property, plant and equipment for own use are recognised at cost less any accumulated depreciation and any recognised impairment loss.

Replacements or renewals of complete items that lead to a lengthening of the useful life of the assets or to an increase in their economic capacity are recognised as additions to property, plant and equipment, and the items replaced or renewed are derecognised.

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

Finance costs are only capitalised when significant investments in qualifying assets are made (Note 4.14).

Work performed by the Group on its own property, plant and equipment is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and the manufacturing costs allocated using hourly absorption rates similar to those used for inventory valuation).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value; the land on which the buildings and other structures stand has an indefinite useful life and, therefore, is not depreciated.

The period property, plant and equipment depreciation charge is recognised in the consolidated income statement and is based on the application of the following depreciation rates, which are determined on the basis of the average years of estimated useful life of the various assets:

	Annual Depreciation Rate
Buildings	2
Plant	10
Machinery	15
Other fixtures, tools and furniture	12 - 33
Other items of property, plant and equipment	12 - 33

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment losses. Cost includes professional fees. Depreciation of these assets commences when the assets are ready for their intended use.

Assets held under finance leases are recognised in the corresponding asset category and are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

At 31 December 2006, "Property, Plant and Equipment" in the accompanying consolidated balance sheet included a net amount of EUR 5,983 thousand relating to assets held under finance leases (Note 8).

The consolidated companies assess at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). In this case the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life must be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated companies recognise the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

4.5. Asset impairment

At the end of each year, or at any date deemed necessary, the value of assets is analysed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the required write-down (if any). Where the identifiable asset does not generate cash flows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of cash-generating units to which goodwill or intangible assets with an indefinite useful life have been assigned, recoverability is systematically analysed at the end of each reporting period or under circumstances deemed necessary to perform such an analysis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. In calculating the recoverable amount of property, plant and equipment and goodwill, the Group used the value in use in practically all cases.

To estimate value in use, the Group prepares future pre-tax cash flow estimates based on the most recent budgets approved by Group management. These budgets include the best estimates available of income and costs of the cash-generating units based on industry projections, past experience and future expectations.

These projections cover the coming five years and cash flows for the following years are estimated by applying zero rates of growth. These cash flows are discounted to present value at a pre-tax rate which reflects the cost of capital of the business and the geographical area in which it is carried on. In order to calculate it, the current time value of money and the risk premiums generally used by analysts for the business and the geographical area are taken into account.

If the recoverable amount is lower than the carrying amount of an asset, an impairment allowance is recognised for the difference with a charge to "Net Impairment Losses" in the consolidated income statement.

4.6. Leases

4.6.1. Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Therefore, finance leases are deemed to be those in which substantially all the risks and rewards relating to the leased asset are transferred to the lessee.

When the consolidated companies act as the lessor of an asset, the aggregate present values of the lease payments receivable from the lessee plus the price of exercising the purchase option are classified as financing provided to third parties for the amount of the Group's net investment in the leases.

In both cases, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated income statement so as to produce a constant rate of return over the lease term.

4.6.2. Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor.

When the consolidated companies act as the lessor, they present the acquisition cost of the leased asset under "Property, Plant and Equipment". These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items and lease income is recognised in the income statement on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognised in the income statement on an accrual basis.

■ 4.7. Inventories

Inventories are stated at the lower of acquisition or production cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and production overheads, including the costs that have been incurred in bringing the inventories to their present location and condition at the point of sale. Trade discounts, rebates and other similar items are deducted in determining the acquisition cost.

The cost of inventories is calculated using the weighted average cost formula. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Land is stated at acquisition cost, plus the costs of demolishing buildings and other expenses related to the acquisition (non-recoverable taxes, registration expenses, etc.).

"Developments under Construction" includes the land development costs incurred through year-end and the costs of construction or acquisition of real estate developments, increased by the expenses directly allocable to them (costs of construction subcontracted to third parties, fees inherent to construction and project management fees), in addition to the reasonable portion of the costs indirectly allocable to the related assets, to the extent that these costs correspond to the development period, and the finance costs incurred during the construction period.

The Company assesses the net realisable value of the inventories at the end of each period and recognises the appropriate loss if the inventories are overstated. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

"Inventories" also includes advances to suppliers for the purchase of inventories amounting to EUR 4,098 thousand (Note 12).

■ 4.8. Trade receivables

Trade receivables do not earn interest and are recognised at nominal value, reduced by the estimated non-recoverable amounts.

■ 4.9. Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the related contract.

4.9.1. Financial assets

Financial assets are initially recognised at acquisition cost, including transaction costs.

The financial assets held by the Group companies are classified as:

- Loans and receivables: these financial assets are measured at amortised cost, which basically relates to the cash received less principal repayments, plus accrued interest receivable in the case of loans, and the present value of the consideration provided in the case of receivables.
- Held-to-maturity investments: the investments that UDRA intends and has the capacity to hold until final maturity; they are recognised at amortised cost.
- Financial assets recognised at fair value through profit or loss: this category include the financial assets held for trading and the financial assets that are managed and measured at fair value. They are recognised in the consolidated balance sheet at fair value and changes in fair value are recognised in the consolidated income statement. This category includes changes in the value of listed investment securities (Note 13.4).
- Available-for-sale financial assets: this category includes the remaining investments that do not fall into any of the categories described above. These investments are recognised in the consolidated balance sheet at fair value if this value may be calculated reliably. When the fair value of unlisted securities cannot be determined reliably, these assets are measured at acquisition cost or at a lower amount if there is evidence of impairment. Changes in fair value, net of the related tax effect, are charged or credited to "Equity - Valuation Adjustments" (Note 14.6) until the related securities are sold, at which time the cumulative amount recognised in this heading relating to these investments is recognised in full in the consolidated income statement. If fair value is lower than acquisition cost, the difference is directly recognised with a charge to the consolidated income statement.

4.9.2. Financial liabilities and equity

Financial liabilities are generally recognised at the cash amount received, net of transaction costs. In subsequent years, these liabilities are measured at amortised cost using the effective interest method.

Interest-bearing bank loans and overdrafts are recognised at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

4.9.3. Classification of financial assets and liabilities as current and non-current

In the accompanying consolidated balance sheet financial assets maturing within 12 months are classified as current assets and those maturing within more than 12 months as non-current assets.

Loans due within 12 months but whose long-term refinancing is assured through existing long-term credit facilities should be classified as non-current liabilities.

4.9.4. Equity instruments

Capital and other equity instruments issued by the Group are recognised in equity at the proceeds received, net of direct issue costs.

■ 4.10. Treasury shares

The San José Group had no treasury shares at 31 December 2006 and did not perform any transactions involving treasury shares in 2006.

■ 4.11. Derivative financial instruments and hedge accounting

The derivatives held by the Group basically relate to interest rate hedge transactions. The Group uses interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by Group policies approved by Group management, which provides written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. Conversely, for hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in income statement as they arise.

The fair value of cash flow derivatives is calculated (if they are not quoted on organised markets) based on the discounted of expected cash flows on the basis of the conditions prevailing on both spot and futures markets at year end.

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 forecasted 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.

At 31 December 2006, Constructora San José, S.A. and Udra Industrial, S.A.U. held interest rate swaps for notional amounts of EUR 105 million and EUR 50 million, respectively, maturing in 2009 and 2012. The impact of the change in fair value resulting from these contracts at the end of the reporting period is scantly material.

■ 4.12. Government grants

Grants received by the Group companies are recognised as follows:

1. Non-refundable grants related to assets: the Group companies deduct the amount of the grant from the amounts at which the related assets were recognised. In such cases, grants reduce the period depreciation or amortisation charge of each asset over the asset's useful life, and in the case of emission allowances (Note 4.3), they reduce the expense account which was debited in the income statement.
2. Grants related to income: grants related to income reduce the expenses to which they relate.

■ 4.13. Revenue 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:

- Sales of goods are generally recognised when the goods have been delivered and their related ownership has been transferred.
- Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.
- Revenues from completed work or projects (in both the construction and industrial businesses) are recognised using the percentage of completion method, whereby revenue from completed work is recognised by reference to the stage of completion of the contract at year-end. Under this method, revenues are determined on the basis of the percentage of total revenue per the main contract or approved amendments or addenda thereto. This percentage is established on the basis on the proportion that costs incurred for work performed to date bear to the total contract costs.

  An expected loss on the construction contract is recognised as an expense immediately. Contract costs are recognised on an accrual basis, and costs actually incurred in completed construction units and costs which may be incurred in the future but must be charged to the construction units that have been currently completed are recognised as an expense.

The application of this method for the recognition of the outcome of construction contracts is combined with the preparation of a budget for each construction contract detailed by construction unit. This budget is used as a key management tool in order to closely follow up, for each construction unit, any variances between budgeted and actual figures.

In exceptional cases in which it is not possible to estimate the total contract profit, the total contract costs incurred are recognised and reasonably assured sales relating to completed construction work are recognised as contract revenue up to the limit of the aforementioned contract costs incurred.

As regards construction work or projects performed on an order basis and by contract, the revenue from work performed not included in the contract, such as additional refurbishment and construction modifications, is recognised using the same method as for the main construction project, provided that there are no doubts as to their subsequent approval and that they are technically justified.

Consequently, progress billings and the amounts to be billed for work performed are recognised in the related trade receivables account with a credit to sales.

The amount of progress billings for work not yet performed is recognised under "Advances Received on Orders" on the liability side of the balance sheet

- The principal activity carried out by the Real Estate Division is the sale of houses and land. This activity is treated as a sale of goods in accordance with IAS 18. Revenue from this activity is recognised when the risks and rewards of ownership of the goods have been transferred to the buyer which usually is the date on which the public deed is executed. Amounts collected or represented by trade notes on contracts executed by the balance sheet date for property which has yet to be delivered are recognised under "Trade Payables" or "Other Non-Current Liabilities" on the liability side of the accompanying balance sheet, depending on whether they fall due in less than or more one year, respectively.
- Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to that asset's net carrying amount.
- Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

4.14. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Capitalised costs amounted to EUR 4,938 thousand in 2006.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the year in which they are incurred, on an accrual basis.

4.15. Foreign currency transactions

The Group's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in "foreign currency".

Transactions in currencies other than the euro are translated to euros at the exchange rates prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to euros at the closing rate. The non-monetary items valued at historical cost are translated to euros at the exchange rate prevailing at the acquisition date (historical cost). Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the exchange rates prevailing at the date when the fair value was determined. Any translation gains or losses are included in net profit for the year, except for the exchange differences arising from non-monetary assets and liabilities carried at fair value, in which case the changes in fair value are recognised directly in equity.

The foreign currency balances and transactions are denominated in US dollars or, to a lesser extent, in pounds sterling.

On consolidation, the balances in the financial statements of the consolidated companies with a functional currency other than the euro are translated to euros as follows:

- Assets and liabilities are translated at the closing rate.
- Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly.
- Equity is translated at the historical exchange rates.
- Any translation differences arising are classified separately in equity. Such differences are recognised as income or as expenses in the year in which the foreign operation is disposed of.

Foreign operations are an integral part of the activities of the reporting company, which carries out its business activities as if they were an extension of the company's operations and their functional currency were therefore that of the Company.

Goodwill arising on the acquisition of a foreign company is treated as an asset of the foreign company and is translated at the closing rate. Goodwill and fair value adjustments arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and are translated at the closing rate.

The detail of the principal companies which contribute assets and liabilities denominated in currencies other than the euro is as follows:

Entity	Location	Line of Business
Constructora San José Cabo Verde, S.A.	Cape Verde	Construction
Constructora San José Argentina, S.A.	Buenos Aires (Argentina)	Construction
CIMSA Argentina, S.A.	San Luis (Argentina)	Civil engineering
San José Uruguay, S.A.	Colonia Sacramento (Uruguay)	Industrialisation and marketing
San José Construction Group, Inc	Washington (USA)	Construction
San José Real Estate Development, LLC	Delaware (USA)	Property development
1681 West Avenue, LLC	Delaware (USA)	Property development
Tecnoartel Argentina, S.A.	Buenos Aires (Argentina)	Maintenance and installations
Constructora Panameña de Aeropuertos, S.A.	Ciudad de Panamá (Panamá)	Construction
San José Perú, S.A.C.	Lima (Peru)	Construction
Espinosa Arquitectos, S.A.	Lima (Peru)	Construction and development
Esparq Construcciones, S.A.	Lima (Peru)	Construction
Centro Comercial Panamericano, S.A	Buenos Aires (Argentina)	Property development
Argentimo, S.A.	Buenos Aires (Argentina)	Property development
Inmobiliaria Sudamericana de Desarrollos Urbanísticos. S.A.	Buenos Aires (Argentina)	Property development
Sefri Ingenieros Maroc, S.A.R.L	Morocco	Engineering and installation services
Udra Argentina, S.A.	Buenos Aires (Argentina)	Property
Inversiones Auchan Argentina, S.A.	Buenos Aires (Argentina)	Portfolio company
Auchan Argentina, S.A.	Buenos Aires (Argentina)	Retailing

The detail of the performance of the main currencies in which the Group operates with respect to the euro is as follows:

Country	Currency	Closing Rate	Average Exchange Rate
United States	US dollar	1.3213	1.2504
Mexico	Mexican peso	14.2850	13.7010
Argentina	Argentine peso	4.0535	3.8696
Cape Verde	Cape Verde escudo	110.2520	110.2520
Panama	Panamanian Balboa	1.3679	1.3037
Uruguay	Uruguayan peso	33.5929	31.2662
Peru	Peruvian sol	4.2209	4.2029
Morocco	Moroccan dirham	11.3323	11.1526

None of these countries are considered to be hyperinflationary economies in accordance with IAS 29.

4.16. Profit from operations

Profit from operations is presented after restructuring costs and the share of results of associates but before investment income and finance costs.

4.17. Income tax

The expense for the Spanish corporation tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated income statement, except when it arises from a transaction the results of which are recognised directly in equity, in which case the related tax is also recognised in equity.

The income tax expense represents the sum of the current tax expense and the change in the deferred tax assets and liabilities recognised (Note 19).

The current income tax expense is calculated on the basis of the taxable profit for the year. The taxable profit differs from the net profit shown in the consolidated income statement because it excludes income or expenses that are taxable or deductible in other years and also excludes items that will never become taxable or deductible. The Group's current tax liability is calculated by applying the tax rates approved or practically approved at the balance sheet date.

Deferred tax assets and liabilities are taxes expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the related tax bases used in the calculation of taxable profit. Deferred tax assets and liabilities are accounted for using the balance sheet liability method and are measured by applying to the related temporary difference or tax credit the tax rate that is expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences. A deferred tax liability is recognised for taxable temporary differences arising from investments in subsidiaries and associates and from interests in joint ventures, except when the Group is able to control the reversal of the temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Not withstanding the foregoing,

- Deferred tax assets are only recognised to the extent that it is considered probable that the consolidated companies will have sufficient future taxable profit against which the deferred tax assets can be utilised, and
- No deferred tax liabilities are recognised for non-deductible good will arising on an acquisition.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

Since 1 January 2006 the following Group companies file consolidated tax returns with Udra, S.A as the parent of the consolidated tax group:

- Udra, S.A.
- Grupo Empresarial San José, S.A.
- Constructora San José, S.A.
- Constructora Ávalos, S.A.U.
- Alcava Mediterránea, S.A.U.
- Balltagi Mediterrani, S.A.U.
- Cartuja Inmobiliaria, S.A.U.
- Construcción, Rehabilitación y Conservación, S.L.U.
- San José Infraestructuras y Servicios, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- San Pablo Plaza, S.A.U.
- Inversiones Patrimoniales Guadaiza, S.L.U.
- Udra Industrial, S.A.U.
- Instal 8, S.A.U.
- SM Klima, S.A.U.
- Sefri Ingenieros, S.A.U.
- Artel Ingenieros, S.L.U.
- Udra Mantenimiento, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Tecnocontrol, S.A.U.
- Comercial Udra, S.A.U.

- Trendy King, S.A.U. (formely Karhu Sport Spain)
- Basket King, S.A.U.
- Arserex, S.A.U.
- Udra Medios, S.A.U.
- Cadena de Tiendas, S.A.U.
- Outdoor King, S.A.U.
- Hood Sports, S.A.U.
- Fashion King, S.A.U.
- Gabinete de Selección, S.L.

4.18. Provisions

When preparing its consolidated financial statements, UDRA, S.A. made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing; and
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

4.18.1. Legal proceedings and/or claims in progress

At the end of 2006 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and its management consider that the outcome of these litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

4.19. Termination benefits

Under legislation prevailing in each case, the Spanish consolidated companies and certain Group companies located abroad are required to pay termination benefits to employees terminated without just cause. There are no redundancy plans making it necessary to record a provision in this connection.

The Company has recognised adequate provisions under "Other Current Liabilities" on the liability side of the accompanying balance sheet at 31 December 2006, in order to meet the contract termination costs of temporary employees in accordance with legal provisions.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

4.20. Consolidated cash flow statements

The following terms are used in the consolidated cash flow statement, which was prepared using the indirect method, with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

5. Earnings per share

5.1. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (after tax and minority interests) by the weighted average number of shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2006
Net profit for the year (thousands of euros)	56,645
Weighted average number of shares outstanding (thousands of shares)	218.6
Basic earnings per share (euros)	**259.1**

5.2. Diluted earnings per share

There was no potential dilutive effect arising from share options, warrants, convertible debt and other instruments at 31 December 2006 and, accordingly, the diluted earnings per share coincide with the basic earnings per share.

6. Distribution of the Parent's profit

The distribution of the Parent's profit for 2006 that the Board of Directors of UDRA, S.A. will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousands of Euros
Dividends	5,619
To voluntary reserves	3,949
Net profit for 2006	**9,568**

7. Segment reporting

7.1. Basis of segmentation

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

Primary segments - business segments

The business lines described below were established on the basis of the UDRA and Subsidiaries' organisational structure at 2006 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In 2006 UDRA, S.A. and Subsidiaries engaged mainly in the following major lines of business, which were the basis for the Group's primary segment reporting:

- Construction (civil engineering and building construction).
- Property development.
- Urban development.
- Industrial services.
- Commercial services.

Also, the income and expenses that cannot be specifically attributed to an operating line were recognised in the heading "Other".

Secondary segments - geographical segments

The Group's operations are located in Spain, the United States, Latin America (Argentina, Uruguay, Peru, Panama) and other European countries (Portugal, France, Germany).

7.2. Basis and methodology for segment reporting

Segment revenue is revenue that is directly attributable to the segment. This revenue does not include interest or dividend income, gains on sales of investments or gains on redemption or extinguishment of debt. The Group includes in segment revenue the share of results of associates and joint ventures accounted for using the equity method and the share of the revenue of joint ventures that are accounted for by proportionate consolidation.

Segment expense is expense resulting from the segment's operating activities that is directly attributable to the segment. Segment expense does not include interest, losses on sales of investments, losses on redemption or extinguishment of debt, income tax expense or general administrative expenses corresponding to the head-office that are not related to the operating activities of the segments. Segment expense includes the share of the expenses of joint ventures that are accounted for by proportionate consolidation.

Segment result is presented before any adjustments relating to the consolidation process, which are included in the "Consolidation Adjustments" column.

Segment assets and liabilities are operating assets and liabilities directly attributable to the segment and include the share of the joint ventures. Segment liabilities do not include income tax liabilities.

Segment information about these businesses is presented below.

Primary segment reporting

	Thousands of Euros													
	Construction		Property Development		Urban Development		Industrial Services		Commercial Services		Adjustments and Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
REVENUE:														
External sales	1,094,522	982,657	28,240	47,947	17,056	661	105,059	116,034	61,190	49,846	5,477	23,253	1,311,544	1,220,398
Inter-segment sales	17,506	7,477	589	156	-	-	2,479	5,980	3,160	45,792	(23,734)	(59,405)	-	-
Total	**1,112,028**	**990,134**	**28,829**	**48,103**	**17,056**	**661**	**107,538**	**122,014**	**64,350**	**95,638**	**(18,257)**	**(36,152)**	**1,311,544**	**1,220,398**
RESULTS:														
Segment result	66,870	56,520	6,696	14,051	6,054	1,116	(1,715)	3,527	51	2,518	(661)	1,052	77,295	78,784
Share of results of														
Associates	-	105	6,759	1,677	(74)	-	535	-	-	-	405	485	7,625	2,267
Investment income	12,006	3,369	67	226	191	-	480	-	646	860	(1,571)	578	11,819	5,033
Finance costs	(7,204)	(6,239)	(1,438)	(1,399)	(1,077)	(1,233)	(2,557)	(1,665)	(1,145)	(629)	1,956	3,231	(11,465)	(7,934)
Other gains or losses	(2,397)	520	83	(448)	64	4,351	(928)	(661)	162	(2,700)	(1,163)	(3,758)	(4,179)	(2,696)
Profit (Loss) before tax	**69,275**	**54,275**	**12,167**	**14,107**	**5,158**	**4,234**	**(4,185)**	**1,201**	**(286)**	**49**	**(1,034)**	**1,588**	**81,095**	**75,454**

Inter-segment sales are made at prevailing market prices.

	Thousands of Euros													
	Construction		Property Development		Urban Development		Industrial Services		Commercial Services		Adjustments and Other		Total Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
OTHER INFORMATION														
Additions to non-current assets	**9,373**	**3,409**	**2,872**	**1,065**	**5**	**-**	**375**	**1,896**	**118**	**6**	**220**	**-**	**12,958**	**6,377**
In Spain	9,118	3,199	2,872	1,013	-	-	375	1,896	47	6	220	-	12,630	6,115
Abroad	255	210	-	52	5	-	-	-	71	-	-	-	329	261
Depreciation and amortisation charge	**(2,858)**	**(2,413)**	**(192)**	**(153)**	**(632)**	**-**	**(1,382)**	**(726)**	**1,082**	**14**	**67**	**-**	**6,180**	**3,306**
BALANCE SHEET- ASSETS														
Segment assets	**956,245**	**737,490**	**297,762**	**195,176**	**104,053**	**123,495**	**120,193**	**121,257**	**33,687**	**53,990**	**(142,466)**	**(82,927)**	**1,369,474**	**1,148,481**
In Spain	790,050	628,052	213,719	141,083	60,066	85,008	120,193	120,642	26,376	37,202	(115,491)	(68,151)	1,094,913	943,836
Abroad	166,195	109,438	84,043	54,093	43,987	38,487	-	615	7,311	16,788	(26,975)	(14,776)	274,561	204,645
BALANCE SHEET-LIABILITIES														
Segment liabilities	**819,130**	**634,732**	**201,989**	**133,131**	**81,873**	**72,428**	**113,632**	**155,525**	**25,650**	**49,636**	**127,200**	**103,029**	**1,369,474**	**1,148,481**

There are no significant non-operating assets.

Secondary segment reporting

The breakdown of certain of the Group's consolidated balances based on the geographical location of the companies that gave rise to them is as follows:

	Thousands of Euros					
	Revenue		Total Assets		Additions to Property, Plant and Equipment and Intangible Assets	
	2006	2005	2006	2005	2006	2005
Spain	1,112,845	1,090,236	1,094,913	943,836	12,630	6,115
Portugal	104,755	103,160	162,637	125,229	204	190
United States	349	1,398	6,969	1,152	4	1
Argentina	66,339	4,782	57,282	47,767	91	19
Uruguay	-	-	153	172	-	-
Peru	20,272	724	33,203	10,672	29	30
Panama	6,030	9,789	7,283	10,627	-	13
France	-	-	1,025	1,014	-	-
Germany	186	-	4,135	5,817	-	9
Other	337	474	1,874	2,195	-	-
Total	**1,311,113**	**1,210,563**	**1,369,474**	**1,148,481**	**12,958**	**6,377**

8. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2006 and 2005 were as follows:

	Thousands of Euros					
	Land and Buildings	Plant and Machinery	Other Fixtures, Tools and Furniture	Other Items of Property Plant and Equipment	Property, Plant and Equipment in the Course of Construction	Total
	Cost					
Balance at 1 January 2005	**20,599**	**9,822**	**11,481**	**7,695**	**920**	**50,517**
Additions/Removals (net) due to						
change in the scope of consolidation	49,887	13,272	9,454	1,036	278	73,927
Additions	3,991	6,766	1,584	667	1,220	14,228
Disposals	(205)	(17)	(209)	(216)	-	(647)
Transfers and other	2,140	(58)	58	-	(2,140)	-
Balance at 31 December 2005	**76,412**	**29,785**	**22,368**	**9,182**	**278**	**138,025**
Additions/Removals (net) due to change						
in the scope of consolidation	-	93	5	35	5	138
Additions	3,050	410	1,575	7,483	440	12,958
Disposals	(1,433)	(159)	(329)	(398)	-	(2,319)
Exchange differences (net)	(5,819)	(1,493)	(1,077)	(43)	(15)	(8,447)
Transfers and other	771	(25)	198	(727)	(141)	76
Balance at 31 December 2006	**72,981**	**28,611**	**22,740**	**15,532**	**567**	**140,431**
	Accumulated depreciation					
Balance at 1 January 2005	**(2,710)**	**(5,319)**	**(9,399)**	**(3,426)**	**-**	**(20,854)**
Additions/Removals (net) due to change						
in the scope of consolidation	(14,302)	(6,933)	(7,971)	-	-	(29,206)
Charge for the year	(3,121)	(1,087)	(1,009)	(964)	-	(6,184)
Transfers	-	19	8	(28)	-	(1)
Disposals	52	30	18	108	-	208
Balance at 31 December 2005	**(20,081)**	**(13,290)**	**(18,353)**	**(4,310)**	**-**	**(56,034)**
Additions/ Removals (net) due to change						
in the scope of consolidation	-	(49)	(7)	3	-	(53)
Exchange differences	1,622	1,380	1,316	31	-	4,349
Charge for the year	(974)	(2,238)	(1,597)	(1,371)	-	(6,180)
Transfers	-	(3)	(48)	(9)	-	(60)
Disposals	21	564	623	287	-	1,495
Balance at 31 December 2006	**(19,412)**	**(13,636)**	**(18,066)**	**(5,369)**	**-**	**(56,483)**
Impairment losses:						
At 31 December 2006	(22,617)	-	-	-	-	(22,617)
Total property, plant and equipment, net	**30,952**	**14,975**	**4,674**	**10,163**	**567**	**61,331**

The net balance at 31 December 2006 included in the table above includes the following items:

- EUR 15,401 thousand relating to net property, plant and equipment owned by the Group's entities and branches located abroad, mainly those detailed in Note 4.15.
- EUR 5,983 thousand relating to net property, plant and equipment acquired by the consolidated companies acquired under finance leases.

The detail of these assets at 31 December 2006 is as follows:

	Thousands of Euros
Contract term (years)	3 - 10
Cash value	6,500
Lease payments outstanding (Note 16.1):	
Long term	6,301
Short term	899

Property, plant and equipment in use with a gross value of approximately EUR 15,714 thousand had been fully depreciated at 31 December 2006.

The Group companies take out the insurance policies they consider necessary to cover the possible risks to which their property, plant and equipment are subject.

9. Goodwill

9.1. Breakdown and material changes

The detail, by company giving rise to it, of the balance of "Goodwill" in the consolidated balance sheet is as follows:

	Thousands of Euros
SJB Mullroser GmbH.	99
Udra Industrial subgroup	738
San José Construction Group, Inc. subgroup	1,613
Constructora Ávalos, S.A.U.	165
Cartuja Inmobiliaria, S.A.U.	600
Construcción, Rehabilitación y Conservación, S.L.U.	75
Eraikuntza Birgaikuntza Artapena, S.L.U. (E.B.A.)	120
San José Perú subgroup	1,388
GESJ subgroup	6,431
Inmobiliaria Udra subgroup	2,987
Corsabe, S.C.R., S.A.	3,231
Sports Outfitters	174
San Jose France S.A.	5
Total gross	**17,626**
Less: accumulated impairment losses	-
Total net	**17,626**

On the basis of the estimates and projections available to Group management, the projected income of these companies attributable to the Group adequately supports the carrying amount of the recognised goodwill allocated to the related cash-generating units.

The changes (gross amounts) in 2006 in "Goodwill" in the consolidated balance sheet were as follows:

	Thousands of Euros	
	2006	2005
Beginning balance	**12,665**	**10,952**
Additions	4,961	1,727
Disposals	-	(14)
Ending balance	**17,626**	**12,665**

The most significant additions to goodwill on consolidation in 2005 arose from the inclusion of San José Perú S.A.C. in the scope of consolidation and the increase in the ownership interest in subsidiaries of Inmobiliaria Udra, S.A.

In 2006 the additions related mainly to 1681 West Avenue, LLC and Corporación San Bernat SCR, S.A. (CORSABE).

10. Other intangible assets

"Other Intangible Assets" includes the Group's concessions and licences. The breakdown of the balance of this heading in the consolidated balance sheet at 31 December 2006 and the changes therein in 2006 are as follows:

	Thousands of Euros
Cost	
Balance at 1 January 2006	**330**
Additions/Removals (net) due to change in	
the scope of consolidation	-
Additions	-
Disposals	-
Transfers and other	-
Balance at 31 December 2006	**330**
Accumulated amortisation	
Balance at 1 January 2006	**(28)**
Additions/ Removals (net) due to change in the scope of consolidation	(29)
Charge for the year	-
Disposals	-
Transfers	-
Balance at 31 December 2006	**(56)**
Impairment losses	
At 31 December 2006	-
Intangible assets, net	**274**

No material impairment losses were recognised.

11. Investments accounted for using the equity method

The Group's most significant investments in associates at 31 December 2006 were as follows:

	Thousands of Euros
Desarrollo Urbanístico Chamartín, S.A.	19,855
Panamerican Mall, S.A.	8,438
Pontegrán S.L.	13,937
Antigua Rehabitalia, S.A.	531
Zonagest, S.L	976
Total gross	43,737
Less: impairment losses	-
Total net	**43,737**

The investment in Pontegrán, S.A., includes goodwill amounting to EUR 9,657 thousand at 31 December 2006.

The gross changes in 2006 in this heading in the consolidated balance sheet were as follows:

	Thousands of Euros
Beginning balance	**30,031**
Profit for the year	7,625
Changes in the scope of consolidation	8,438
Dividends	(4,384)
Capital increase	240
Other changes	1,787
Ending balance	**43,737**

Appendix II details the main investments in associates including their name, the country of incorporation and the group's percentage of ownership of the capital.

12. Inventories

The detail of "Inventories" at 31 December 2006 is as follows:

	Thousands of Euros
Buildable plots of land	184,615
Raw materials and other supplies	2,049
Property developments in progress	108,933
Completed construction work	21,587
Advances	4,098
Other	2,048
Impairment allowance	(6,137)
Total	**317,193**

At 31 December 2006, the Group had entered into agreements for the sale of property amounting to EUR 27.8 million. The Group recognised the advances, in the formulas cash or notes receivable, received from customers with whom it had entered into the aforementioned sale agreements, amounting to EUR 5,518 thousand, under "Trade Payables – Advances Received on Orders" .

At 31 December 2006 the Group owned inventories amounting to EUR 166,960 thousand which had been mortgaged as security for mortgage loans or development loans granted by financial institutions for EUR 135,408 thousand (Note 16.1).

The detail, by location, of the Group's land is as follows:

	Thousands of Euros
Spain	165,005
United States	4,995
Portugal	1,078
Argentina	12,930
Peru	607
Total	**184,615**

There are no material amounts of inventories whose acquisition cost was lower than their net realisable value.

13. Financial assets

13.1. Trade and other receivables

"Trade and Other Receivables" in the accompanying consolidated balance sheet includes the present value of uncollected revenue, measured as indicated in Note 4.8, contributed by the Group's various lines of business and which form the basis of the profit from operations.

The detail of the balance of accounts receivable from non-Group companies at 31 December 2006 is as follows:

	Thousands of Euros
Progress billings receivable and trade receivables for sales	544,835
Amounts to be billed for work performed	126,435
Retentions	47,508
Allowance for bad debts	(9,557)
Total accounts receivable	**709,221**
Advances received on orders (Note 17)	(102,698)
Total net accounts receivable	**606,523**

Group management considers that the carrying amount of trade and other receivables approximates their fair value.

"Amounts to Be Billed for Work Performed" includes the work performed during the year but not yet billed to customers, which is recognised as period revenue in accordance with the method of recognition of revenue for completed construction work, based on the percentage of completion method used by the Group (Note 4.13).

The Group companies sell trade receivables to financial institutions, without recourse against the Group companies in the event of default. The receivables sold at year-end, which were deducted from the balance of accounts receivable, totalled EUR 54,421 thousand. These transactions bear interest under normal market conditions and the Group companies continue to manage collection. Also, future collection rights arising from construction project contracts awarded under the full payment of price method were sold for EUR 923 thousand. This amount was deducted from the balance of "Amounts to Be Billed for Work Performed".

Substantially all the risks and rewards associated with the receivables, as well as control over the receivables, were transferred through the sale and assignment of the receivables, since no repurchase agreements have been entered into between the Group companies and the financial institutions that have acquired the assets, and the financial institutions may freely dispose of the acquired assets without the Group companies being able to limit this right in any manner. Consequently, the balances receivable relating to the receivables assigned or sold under the aforementioned conditions were derecognised.

The Group does not have a significant concentration of credit risk, since exposure is spread over a large number of counterparties and customers. The average collection period of trade receivables is approximately 180 days.

13.2. Cash and cash equivalents

"Cash and Cash Equivalents" includes the Group's cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. There are no restrictions on the availability of these balances.

The detail of this balance at 31 December 2006 is as follows:

	Thousands of Euros
Cash on hand	622
Cash at banks and credit institutions	70,743
Total net cash and cash equivalents	**71,365**

13.3. Other current financial assets

"Other Current Financial Assets" includes deposits at banks, short-term time deposits and other loans maturing in over three months. The carrying amount of these assets approximates their fair value.

It also includes EUR 9,044 thousand relating to CORSABE SCR, S.A. securities.

13.4. Non-current financial assets

The detail of "Non-Current Financial Assets" in the accompanying consolidated balance sheet and of the changes therein in 2006, excluding "Investments Accounted for using the Equity Method", is as follows:

	Thousands of Euros					
	Financial Assets at Fair Value	Loans and Other Receivables	Available-for-Sale Financial Assets	Other Investments	Allowances	Total
Balance at 1 January 2005	**-**	**2,587**	**7,404**	**-**	**(400)**	**9,591**
Additions or period charge	3,305	5,482	11,689	-	(95)	20,381
Disposals or reductions	-	-	(1,527)	-	-	(1,527)
Value adjustment	-	-	-	-	-	--
Balance at 31 December 2005	**3,305**	**8,069**	**17,566**	**-**	**(495)**	**28,445**
Additions or period charge	1,267	3,761	-	7,694	(513)	12,210
Disposals or reductions	-	-	(12,053)	-	70	(11,984)
Value adjustment	1,425	-	-	-	-	1,425
Balance at 31 December 2006	**5,997**	**11,830**	**5,513**	**7,694**	**(938)**	**30,096**

13.4.1. Financial assets at fair value

The financial assets presented above basically represent investments in equity securities of unlisted entities. These ownership interests are stated at the underlying carrying amount.

The detail of these investments is as follows:

Entity	%	Thousands of Euros
Dycasa, S.A.	11.60	3,528
Carlos Casado, S.A.	5.83	2,465
Other	-	4
		5,997

13.4.2. Loans and receivables

"Loans and Receivables" includes mainly participating loans granted to the associate Antigua Rehabitalia, S.L., which do not bear interest since, due to their participating nature, they are linked to the profit obtained by the Company.

13.4.3. Available-for-sale financial assets

"Available-for-Sale Financial Assets" includes equity investments (in unlisted companies) not included in the scope of consolidation. The detail of these investments and their carrying amount is as follows:

Entity	Thousands of Euros
Bodegas Altanza, S.A.	1,226
Renfapex 2000, S.A.	108
Unirisco SCR, S.A.	469
Udra México, S.A. de C.V.	1,032
Filmanova, S.L.	152
Filmanova Invest, S.A.	600
Editorial Ecoprensa, S.A.	1,500
Other	426
	5,513

14. Equity

14.1. Share capital

At 31 December 2006, the Parent's share capital was represented by 218,640 fully subscribed and paid registered shares of EUR 6 par value each.

At 31 December 2006 the shareholder structure of the Parent was as follows:

	Number of Shares	Percentage of Ownership
Jacinto Rey González	77,450	35.42%
Pinos Altos XR, S.L.	53,139	24.30%
Udra Valor, S.A.	23,567	10.77%
Other	64,484	29.51%
	218,640	**100.00%**

The shares of the Parent are not listed on the stock exchange.

14.2. Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase the capital of the entities which have recognised this account and does not establish any specific restrictions as to its use.

14.3. Legal reserve

Under the Consolidated Spanish 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 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 2006, this reserve had reached the stipulated level.

14.4. Restrictions on the distribution of dividends

There are no significant restrictions on the distribution of dividends.

14.5. Consolidated reserves

The detail, by company, of the balance of this account in the consolidated balance sheets, after considering the effect of consolidation adjustments and of the exchange differences recognised in equity as a result of the consolidation process, is as follows:

Net reserves attributed to subsidiaries

Entity	Thousands of Euros
UDRA, S.A.	29,170
SJB Müllroser	(1,958)
GESJ subgroup	109,859
Commercial subgroup	4,464
Udra Medios, S.A.U.	(206)
Cadena de Tiendas subgroup	(225)
Total	**141,104**

Net reserves attributed to entities accounted for using the equity method

Entity	Thousands of Euros	
	Reserves	Result
Desarrollo Urbanístico Chamartín, S.A.	(310)	(82)
Pontegrán S.L.	5,856	7,679
Antigua Rehabitalia, S.A.	-	51
Zonagest, S.L	-	(23)
Total	**5,546**	**7,625**

"Exchange Differences" includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and specifically the differences arising on the translation to euros of the balances of the consolidated companies whose functional currency is not the euro. This item also includes the tax effect relating to the tax deduction of these exchange differences through period additions to the investment valuation allowance (Note 19.3).

■ 14.6. Valuation adjustments

This heading in the consolidated balance sheets includes the net amount of the changes in the fair value of specific derivative instruments (Notes 4.9 and 4.11) under IAS 32 and 39.

■ 14.7. Treasury shares

At 31 December 2006 the Group did not hold any treasury shares and had not carried out any transactions involving treasury shares.

■ 14.8. Minority interests

The detail, by consolidated company, of the balance of "Minority Interests" and "Profit Attributed to Minority Interests" is as follows:

	Thousands of Euros	
Entity	Capital and Reserves	Profit
Grupo Empresarial San José, S.A. subgroup	67,669	15,669
	67,669	**15,669**

The changes in "Minority Interests" in 2006 are summarised as follows:

	Thousands of Euros
Beginning balance	**61,204**
Changes in the scope of consolidation	(332)
Profit for the year	15,669
Exchange differences	(951)
Other changes	7,748
Ending balance	**83,338**

15. Long-term provisions

The changes in 2006 in the balance of "Long-Term Provisions" in the consolidated balance sheet were as follows:

	Thousands of Euros
Balance at 1 January 2005	**5,193**
Charge for the year	3,729
Amounts used	(2,644)
Changes in the scope of consolidation	2,708
Balance at 31 December 2005	**8,986**
Charge for the year	152
Amounts used	(1,546)
Reclassifications and other	695
Balance at 31 December 2006	**8,287**

The balance at 31 December 2006 includes the balance of provisions for litigation.

16. Bank borrowings and other financial liabilities and debt instruments and other held-for-trading liabilities

16.1. Bank borrowings and other financial liabilities

The breakdown of the balance of this heading in the consolidated balance sheets is as follows:

	Thousands of Euros
Non-current:	
Finance lease obligations (Note 8)	6,301
Bank loans and credits	976
Total non-current	**7,277**
Current:	
Finance lease obligations (Note 8)	899
Discounted drafts	20,286
Bank loans and credits	194,462
Total current	**215,647**
Classification by maturity:	
Current	87,635
Non-current	
2008	-
2009	-
2010	-
After five years	135,286
Total	**222,924**
Amount maturing within 12 months and included in non-current liabilities	-
Amount maturing in over 12 months and included in current liabilities	128,050

All these loans bear interest at a rate tied to EURIBOR plus a market spread.

At 31 December 2006, the Group had EUR 65,250 thousand of undrawn credit facilities.

"Current" includes mortgage loans on the Group's developments amounting to EUR 135,408 thousand (Note 12).

16.2. Payable to Group companies

This item includes accounts payable to Group companies of a financial nature (Note 22).

16.3. Other non-current financial liabilities

This item includes mainly a capital call payable to Desarrollo Urbanístico Chamartín, S.A. amounting to EUR 8,264 thousand.

17. Trade and other payables

17.1. Trade payables

"Trade and Other Payables" includes mainly the amounts outstanding for trade purchases and related costs. The average payment period for trade purchases is approximately 190 days.

"Trade and Other Payables" also includes "Advances Progress Billings on Uncompleted Contracts" totalling EUR 102,698 thousand (Note 13.1), which relates to progress billings issued during the year for work yet to be performed which are not recognised as revenue for the period, in accordance with the method of recognition of revenue for completed construction work, based on the percentage of completion method used by the Group (Note 4.13), and to advances received from customers relating to the property development business.

Group management considers that the carrying amount of trade payables approximates their fair value.

17.2. Other current liabilities

"Other Current Liabilities" includes mainly the accounts payable relating to joint ventures. It also includes operating allowances totalling EUR 15,855 thousand and remuneration payable amounting to EUR 5,787 thousand.

18. Risk exposure

18.1. Credit risk exposure

The Group is not exposed to significant credit risk, since its customers and the institutions in which cash placements are made or with which derivatives are arranged are highly solvent entities, in which counterparty risk is not significant.

The Group's main financial assets are cash and cash equivalents, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is mainly attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for bad debts, estimated by Group management based on past experience and its assessment of the current economic environment.

The credit risk of liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group does not have a significant concentration of credit risk, since the credit risk exposure is spread over a large number of customers.

The Group took out credit insurance enabling it to reduce commercial credit risk arising from transactions with debtors.

18.2. Interest rate risk exposure

See Note 16.2.

18.3. Foreign currency risk exposure

The Group does not have and it did not perform any foreign currency risk hedging transactions in 2006. Its foreign currency exposure relates to its investments in the companies detailed in Note 4.15, which are financed in local currency.

18.4. Liquidity risk exposure

The Group's liquidity policy consists of the arrangement of committed credit facilities and short-term investments for an amount sufficient to cater for the projected liquidity needs for a given period based on the situations and expectations of the debt and capital markets.

At 31 December 2006, the Group had cash and cash equivalents amounting to EUR 71,365 thousand and consolidated working capital of EUR 153,475 thousand. The financial borrowings, totalling EUR 222,924 thousand, were principally secured by mortgage.

At 31 December 2006, the undrawn credit facilities and loans amounted to EUR 65,250 thousand.

Also, the Group's debt-to-total assets ratio was 11%.

19. Tax matters

The Group companies file individual tax returns in accordance with the tax legislation in force in each country. The Parent and other Group companies (Note 4.17) file consolidated income tax returns for the consolidated tax Group, the parent of which is Udra, S.A.

19.1. Years open for review by the tax authorities

UDRA, S.A. and certain of its subsidiaries have the last four years open for review by the tax inspection authorities for all the taxes applicable to them. The criteria that the tax authorities might adopt could give rise to contingent liabilities for which no provision has been recognised in the accompanying consolidated financial statements. Group management considers that the effect of this difference in criteria would not be material with respect to the consolidated financial statements at 31 December 2006.

In 2005 Contratas, Industrias y Materiales, S.A. (CIMSA), absorbed by Constructora San José, S.A. in that year, was inspected by the tax authorities with respect to VAT and income tax for 2002 and 2003, and assessments were issued for EUR 457 thousand. Constructora San José, S.A. filed an appeal against the enforcement proceedings, amounting to EUR 91 thousand, on which a decision has yet to be handed down.

In addition, Inmobiliaria Udra, S.A. was inspected with respect to income tax for 2000, 2001, 2002 and 2003 and VAT for 2001, 2002 and 2003. Assessments were issued for EUR 528 thousand, of which EUR 190 thousand were contested. A decision has yet to be handed down on the related appeal.

Construcción, Rehabilitación y Conservación, S.A. (CRC) was inspected with respect to income tax and VAT for 2002 and 2003 and assessments amounting to EUR 116 thousand were signed on an uncontested basis.

Taking into account the provisions recorded by the Group in this connection, Group management considers that the liabilities that might arise, if any, from the assessments issued would not have a material effect on the 2005 consolidated financial statements.

In view of the varying interpretations that can be made of the applicable tax legislation, the outcome of the tax audits of the open years that could be conducted by the tax authorities in the future could give rise to tax liabilities which cannot be objectively quantified at the present time. However, the Group's tax advisers and its management consider that the possibility of material liabilities arising in this connection additional to those already recognised is remote.

19.2. Reconciliation of the accounting profit to the taxable profit

The reconciliation of the accounting profit to the taxable profit was not included due to the disparity of tax legislation in the various countries in which the Group operates.

The temporary differences are due mainly to the ordinary and extraordinary provisions recognised for pensions, the adjustment for the accelerated depreciation of property, plant and equipment for tax purposes, and the adjustment for the depreciation taken for tax purposes on tangible assets under finance lease.

In 1998, 1999, 2000 and 2001 Constructora San José, S.A. applied the regime provided for in Article 21.1 of Corporation Tax Law 43/1995 to income amounting to EUR 988 thousand, EUR 1,386 thousand, EUR 21 thousand and EUR 35 thousand, respectively. This income will be included in the taxable profit pursuant to the method established in Article 34.1.b) of Royal Decree 537/1997 on the Corporation Tax Regulations. EUR 49 thousand were included in taxable profit in this connection in 2006.

The approval of Law 35/2006, of 28 November, which partially amends income tax for companies resident in Spain, establishes, inter alia, the reduction over two years in the Spanish income tax rate, which until 31 December 2006 stood at 35%, to 32.5% for tax periods commencing on or after 1 January 2007 and 30% for tax periods commencing on or after 1 January 2008. Consequently, in 2006 the companies belonging to the San José Group affected by this measure recalculated the amount of deferred tax assets and liabilities, taking into account the new tax rates and the year in which the corresponding reversal is expected to occur. As a result of this recalculation, a net adjustment of EUR 528 thousand was recognised under “Income Tax” in the accompanying consolidated income statement.

The effect on the income tax expense resulting from the application of different tax rates in other countries (United States and United Kingdom) is not significant.

19.3. Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement in 2006, the Group recognised in consolidated equity tax benefits for the items and amounts set forth below:

	Thousands of Euros
Translation differences deducted for tax purposes through additions to the investment valuation allowance	1,628
	1,628

19.4. Deferred taxes

Pursuant to the tax legislation in force in the countries in which the consolidated companies are located, in 2006 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes arose in 2006 and 2005 as a result of the following:

Deferred Tax Assets	Thousands of Euros
Tax losses	1,994
Adjustment of accounts payable	583
Other	286
Total	**2,863**

Deferred Tax Liabilities:	Thousands of Euros
Negative goodwill on consolidation	1,960
Revaluation of balances receivable and payable	553
Measurement of financial instruments	301
Other items	202
	3,016

The detail at 31 December 2006 of the prior years’ tax losses available for offset against future profits and the last years for offset are as follows:

Year Incurred	Thousands of Euros	Last Year for Offset
1998	739	2013; 2018
1999	679	2014; 2019
2000	619	2006;2010; 2015; 2020
2001	1,382	2007;2016
2002	2,000	2008;2012;2017;2022
2003	3,435	2013;2018;2023
2004	4,344	2019;2024
2005	4,384	2011;2020;2025
2006	1,312	2021;2026
	18,894	

There are no significant unused tax credits.

19.5. Tax receivables/Tax payables

The Group’s tax receivables and tax payables in the countries in which it is present are as follows:

	Thousands of Euros
Tax receivables:	
Income tax	5
VAT	36,246
Prepaid income tax	10,445
Tax refund	7,249
Other	10,244
Total	**64,189**
Tax payables:	
Personal income tax withholdings	938
Income tax	1,657
VAT	38,014
Social security costs	3,367
Deferred income tax liability	1,577
Personal income tax	20,379
Other	878
Total	**66,810**

20. Guarantee commitments to third parties

At 31 December 2006, the Group had received from financial institutions and insurers guarantees provided to third parties amounting to EUR 1,239,120 thousand, as follows:

	Thousands of Euros
Related to the Parent	11
Related to fully consolidated companies	1,227,782
	1,227,793

This amount includes mainly the guarantee of EUR 917,631 thousand given to the Spanish National Securities Market Commission (CNMV) by Udramed, S.L.U. with respect to the takeover bid for Parquesol Inmobiliaria y Proyectos, S.A., as described in Note 25.

This balance also includes the guarantees related to companies accounted for using the equity method, totalling EUR 9,516 thousand, given by the associate Desarrollo Urbanístico Chamartín, S.A. to the Tax Department of the Madrid Autonomous Community Government as security for the stay of collection proceedings, in order to file a claim with the Madrid Regional Economic-Administrative Tribunal against the transfer tax and stamp tax assessment and payment document received on 23 December 1998 with regard to the contract awarded for the Renfe urban development rights in the Chamartín railway station area of Madrid.

The remainder of the guarantees relate to provisional and final bonds to public and private agencies for tenders and contracts, most of which are provided by banks and insurance companies.

The directors of the Parent and of the subsidiaries do not expect any material liabilities to arise in relation to the above guarantee commitments.

21. Income and expenses

21.1. Revenue

The breakdown of "Revenue" in the consolidated income statement for 2006 is as follows:

	Thousands of Euros
Construction	1,094,522
Property development	28,240
Urban developments	17,056
Industrial services	105,059
Commercial services	61,190
Other	5,477
Revenue	**1,311,544**

The project backlog (work awarded but not yet performed) amounted to EUR 1,553,991 thousand at 31 December 2006, broken down as follows:

	Thousands of Euros
Construction	1,423,791
Industrial services	130,200
	1,553,991

21.2. Procurements and other external expenses

The breakdown of the balance of "Procurements" in the income statement for 2006 is as follows:

	Thousands of Euros
Purchases of raw materials and other supplies	360,494
Changes in goods for resale, raw materials and finished goods	19,000
Purchase volume discounts	(17)
Contract work carried out by other companies	560,563
Total procurements	**940,040**

“Contract Work Carried out by Other Companies” includes work that forms part of the Group’s own production process but is subcontracted to other companies.

The breakdown of the balance of “Other External Expenses” in the income statement for 2006 is as follows:

	Thousands of Euros
Utilities	6,764
Repair and maintenance	1,361
Transport and freight costs	1,610
Insurance premiums and banking services	3,694
Independent professional services	12,439
Rents	39,806
Advertising and publicity	3,108
Other services	69,860
Taxes other than income tax	13,436
Other operating expenses	7,241
Total other operating expenses	**159,319**

The fees paid to the principal auditor for the audit of the 2006 financial statements of the consolidated companies amounted to EUR 307 thousand and the fees paid to other auditors for the audit of the financial statements of certain subsidiaries amounted to EUR 52 thousand.

The fees paid to the auditors for other engagements amounted to EUR 5 thousand.

21.3. Staff costs

The detail of “Staff Costs” is as follows:

	Thousands of Euros
Wages and salaries	139,488
Social security costs	42,344
Total	**181,832**

The average number of employees at the Group, by professional category, was as follows:

Category	Average Number of Employees
University graduates	447
Further education graduates	786
Clerical staff	242
Manual workers and line personnel	4,158
Total	**5,633**

21.4. Remuneration in kind

At 31 December 2006, there was no significant compensation involving the delivery of free or subsidised goods.

21.5. Share-based payments

There are no share-based payments.

21.6. Leases

<u>Operating leases</u>

At the reporting date the Group did not have any operating leases of a material amount nor had assumed future minimum lease payment obligations.

<u>Finance leases</u>

At 31 December 2006, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 7,200 thousand, which fall due mainly in 2010 and 2011. This balance is included under “Bank Borrowings and Other Financial Liabilities” on the liability side of the consolidated balance sheet (Note 16.1).

21.7. Finance income

The detail of the balance of "Finance Income" in the consolidated income statement is as follows:

	Thousands of Euros
Interest on loans	7,714
Income from equity investments	456
Other finance income	225
	8,395

21.8. Finance costs

The detail is as follows:

	Thousands of Euros
Interest on debts	11,067
Other finance costs	398
	11,465

21.9. Other gains and losses

The detail of other gains and losses is as follows:

	Thousands of Euros
Gains on disposals of property, plant and equipment	110
Other extraordinary gains transferred to ordinary income	(3,776)
	(3,666)

21.10. Changes in operating allowances

The changes in operating allowances in the consolidated balance sheet in 2006 were as follows:

	Thousands of Euros			
	Inventories (Note 12)	Operating Bad Debts (Note 13.1)	Other Provisions (Note 17.2)	Total
Balance at 1 January 2005	**-**	**8,926**	**3,993**	**12,919**
Charge for the year	-	3,606	-	3,606
Change in the scope of consolidation	19,563	2,406	11,308	33,277
Amounts used	**(1,671)**	**(4,061)**	**(685)**	**(6,417)**
Balance at 31 December 2005	17,892	10,877	14,616	43,385
Charge for the year	72	3,638	4,246	7,956
Amounts used	(12)	(272)	(536)	(820)
Foreign exchange rate changes	(2)	(105)	27	(80)
Reversals	(1,770)	(528)	(1,427)	(3,725)
Reclassifications and other	(10,043)	(4,053)	(1,070)	(15,166)
Balance at 31 December 2006	**6,137**	**9,557**	**15,855**	**31,550**

22. Balances and transactions with non-consolidated associates and joint ventures

All the material balances at year-end between the consolidated companies and the effect of the transactions performed between them during the year were eliminated on consolidation. The detail of the most significant balances between the Group and the non-consolidated associates and joint ventures and the effect of the transactions performed therewith on the income statement are as follows:

	Thousands of Euros
Assets:	
Pontegrán, S.A.	11,435
Other	78
Total	**11,513**

23. Remuneration

23.1. Remuneration of directors

The detail of the remuneration earned under all headings in 2006 by the directors of UDRA, S.A. and the Group company, jointly-controlled entity or associate obliged to pay such remuneration, is as follows:

	Thousands of Euros
Wages and salaries	1,714
Total	**1,714**

At 31 December 2006, the Company had not granted any advances, loans or other types of guarantees to its former or current directors, nor did it have any additional pension or life insurance obligations to them.

Pursuant to Article 127 ter.4 of the Spanish Companies Law, introduced by Law 26/2003 of 17 July, which amends the Securities Market Law and the Spanish Companies Law, in order to reinforce the transparency of corporations, the following information is provided about the Parent's directors:

Owner	Investee	Line of Business	Direct Ownership Interest	Functions
Jacinto Rey González	Pinos Altos XR, S.L.	Securities holding	55.0%	Director
Jacinto Rey González	Grupo Empresarial San José, S.A.	Securities holding	1.3%	Director
Jacinto Rey Laredo	Udra Valor XR, S.L.	Securities holding	4.6%	None
Jacinto Rey Laredo	Pinos Altos XR, S.L.	Securities holding	22.5%	None
Pedro Saenz-Diez Trías	Udra, S.A.	Development	-	Director
Pedro Saenz-Diez Trías	Inmobiliaria Udra, S.A.	Development	0.33%	Director
Pedro Saenz-Diez Trías	Douro Atlántico, S.L.	Development	-	Director
Pedro Saenz-Diez Trías	CIUVASA	Property	-	Director
Pedro Saenz-Diez Trías	RENFAPEX	Development	-	Director
Pedro Saenz-Diez Trías	Inversiones Roxas, S.A.	Property	95%	Director
Pedro Saenz-Diez Trías	Surasni, S.L.	Property	16%	Director
Pedro Saenz-Diez Trías	Inversiones Americanas de Desarrollos Urbanisticos, S.A.	Development	-	Director
Pedro Saenz-Diez Trías	Inversiones Europea de Desarrollos Urbanisticos, S.A.	Development	-	Director
Pedro Saenz-Diez Trías	Udramed, S.A.U.	Development	-	Director
Pedro Saenz-Diez Trías	Udramar, S.A.U.	Development	-	Director
Pedro Saenz-Diez Trías	Udrasol, S.A.U.	Development	-	Director
Pedro Saenz-Diez Trías	Udrasur, S.A.U.	Development	-	Director

Also, pursuant to the aforementioned Law, set forth below are the activities performed by the Sole Shareholder, as an employee or as an independent professional, at companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the Company's object:

Name	Activity Performed	Type ofArrangement	Company through which the Activity is Performed	Positions or Functions at theCompany Concerned
Jacinto Rey Laredo	Construction	Independent professional	Grupo Empresarial San José, S.A.	Director
Jacinto Rey González	Securities holding	Independent professional	Uninvest, S.C.R.	Director
Jacinto Rey González	Securities holding	Independent professional	Unirisco Galicia, S.C.R.	Director
Jacinto Rey González	Securities holding	Independent professional	Udra Valor, S.A.	Representative of Pinos Altos Inversiones, S.L.

a) Detail of investments in companies engaging in a similar activity

For the purposes of this section, and as established in Article 127 ter.4 of the Spanish Companies Law, the Parent considers that, despite the fact that its company object comprises a range of activities, which have historically been carried on by the Company, its activity is currently focused on the development of all kinds of property, the performance of public or private works, the purchase and sale, administration and operation of property; the purchase and manufacture of electronic, computer and telecommunications products and systems; the full maintenance of hospital facilities, maintenance of operating theatres and electromedical equipment; the manufacture and sale of integrated systems for operating theatres; and air conditioning projects and installation. Consequently, the information provided by the members of the Board of Directors to be disclosed in this section is confined to these activities.

b) Performance of similar activities by the directors as independent professionals or as employees

Also, in accordance with the aforementioned article the Parent did not receive any notification of any positions held or duties discharged by the directors other than those relating to the Group companies, jointly controlled entities and associates of the UDRA Group.

Similarly, as disclosed in the foregoing section, the Company did not receive any notification from its directors declaring that they carry on, as independent professionals or as employees, any activity that is identical, similar or complementary to the activity that constitutes the company object of UDRA, S.A. as defined above.

Information relating to the Group companies, jointly controlled entities and associates of the UDRA Group is detailed in the individual financial statements of the Parent.

23.2. Executives' remuneration and other benefits

The total remuneration earned in 2006 in all connections by the Parent's general managers and by employees who perform similar functions - excluding those who simultaneously sit on the Board of Directors (whose remuneration has been detailed above) may be summarised as follows:

Number of Executives	Thousands of Euros
63	9,026

Additionally, the Company does not have any pension or life insurance obligations to these executives.

24. Information on the environment

In view of the business activity carried on by the Company, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Company's equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

25. Events after the balance sheet date

On 30 November 2006, pursuant to Securities Market Law 24/1988, of 28 July, and to Royal Decree 1197/1991, of 26 July, on takeover bids, the investee Udramed, S.L.U. filed the prospectus for the takeover bid for all the shares of Parquesol Inmobiliaria y Proyectos, S.A. (Parquesol) with the CNMV, the offer price being EUR 23.1 per share, subject to a minimum acceptance of one half plus one of the shares comprising the total share capital of Parquesol.

At 31 December 2006, Udramed, S.L. had deposited the related security at the CNMV (Note 20).

The prospectus was accepted by the CNMV on 5 December 2006 and the bid acceptance period began on 7 December 2006. This period ended on 8 January 2007 and the offer was successful with 20,174,088 shares, representing 50.79% of the total share capital of Parquesol, accepting the bid. As a result, Udramed, S.L.U. took control of the company.

Grupo Empresarial San José, S.A., together with Udramed, S.L.U., entered into a double syndicated loan agreement for EUR 466,021 thousand to settle this transaction. The agent is Barclays and the conditions are as follows:

- The loan granted to Udramed, S.L.U. amounts to EUR 304,778 thousand and is repayable on maturity in seven years. The interest rate is tied to Euribor plus a spread subject to compliance with certain financial ratios. In addition, the company drew down EUR 10.4 million to cater for the transaction costs.

  Udramed, S.L.U. provided the shares it holds in Parquesol as security for the loan, which is also jointly and severally guaranteed by Inmobiliaria Udra, S.A.

  The company arranged a five-year swap for EUR 177 million to partially hedge the interest rate risk during the aforementioned period.
- The loan granted to Grupo Empresarial San José, S.A. amounts to EUR 161,243 thousand and is repayable on maturity in seven years. The interest rate is tied to Euribor plus a spread subject to compliance with certain financial ratios. In addition, the company drew down EUR 5.2 million to cater for the transaction costs.

  The shares of certain of Grupo Empresarial San José, S.A.'s investees were pledged as security for the loan.

  The company arranged a five-year swap for EUR 123 million to partially hedge the interest rate risk during the aforementioned period.

26. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group conform with IFRSs may not conform with other generally accepted accounting principles.

APPENDIX I
Consolidated subsidiaries

Thousands of Euros											
				Percentage of Voting Rights Held by the Parent				Data on the Investees (*)			
Company	Auditor	Location	Line of Business	Direct	Indirect	Other	Carrying Amount	Assets	Liabilities	Equity	Profit (Loss) for the Year
Constructora San José, S.A.	Deloitte, S.L.	Pontevedra	Construction	100	-	-	88.106	780.921	664.854	116.067	42.322
Constructora Avalos, S.A.U.	Deloitte, S.L.	Tres Cantos (Madrid)	Construction	-	100	-	1.073	42.214	38.449	3.765	49
Balltagi Mediterrani, S.A.U.	Deloitte, S.L.	Barcelona	Construction	-	100	-	60	17.034	16.214	820	69
Cartuja Inmobiliaria, S.A.U.	Deloitte, S.L.	Seville	Construction	-	100	-	3.884	60.168	53.508	6.660	315
Eraikuntza, Birgaikuntza Artapena, S.L.U.	Deloitte, S.L.	Vitoria	Construction	-	100	-	435	28.499	23.293	5.206	2.006
C.R.C., S.L.U.	Deloitte, S.L.	Santiago de Compostela	Construction	-	100	-	653	20.495	15.777	4.718	510
Alcava Mediterranea, S.A.	Deloitte, S.L.	Valencia	Construction	-	100	-	60	14.872	14.275	597	26
Constructora Udra Limitada	Deloitte, S.L.	Monaco (Portugal)	Construction	-	100	-	245	8.907	7.693	1.214	267
San José France, S.A.S.	Not audited	Le Haillan (Francia)	Portfolio company	-	100	-	982	1.025	22	1.003	51
San José BAU GmBH	Wisbert & Partner	Berlin (Germany)	Construction	-	84	16	101	165	44	121	(16)
SJB Mullroser	Wisbert & Partner	Mullroser (Germany)	Construction	-	84	16	-	3.971	5.207	(1.236)	8
Constructora San José Cabo Verde, S.A.	Not audited	Cape Verde	Construction	-	100	-	49	831	716	115	191
Constructora San José Argentina, S.A.	Ricardo Casal	Buenos Aires (Argentina)	Construction	-	90	10	224	4.028	3.186	842	238
CIMSA Argentina, S.A.	Ricardo Casal	San Luis (Argentina)	Civil engineering work	-	96	4	-	191	3	188	(41)
San José Uruguay, S.A.	Not audited	Colonia Sacramento (Uruguay)	Manufacturing and marketing	-	100	-	38	153	25	128	(4)
San José Construction Group, Inc	Goodman & Company	Washington (USA)	Construction	-	100	-	-	5.567	7.803	(2.236)	(1.545)
San José Real Estate Development, LLC	Not audited	Delaware (USA)	Property development	-	100	-	5.207	5.271	64	5.207	0
1681 West Avenue, LLC	Not audited	Delaware (USA)	Property development	-	70	30	5.217	5.102	(115)	5.217	(8)
Tecnoartel Argentina, S.A.	Ricardo Casal	Buenos Aires (Argentina)	Maintenance and installations	-	95	6	634	7.176	6.036	1.140	1.134
Constructora Panameña de Aeropuertos, S.A.	Bustamante y Bustamante	Panama City	Construction	-	95	5	786	7.283	6.157	1.126	59
San José Perú, S.A.C.	Deloitte, S.L.	Lima (Peru)	Construction	-	75	25	4.700	12.167	4.010	8.157	2.124
Espinosa Arquitectos, S.A.	Deloitte, S.L.	Lima (Peru)	Construction and development	-	75	25	1.297	3.144	2.909	235	207
Esparq Construcciones, S.A.	Deloitte, S.L.	Lima (Peru)	Construction	-	75	25	348	444	190	254	147

APPENDIX I
Consolidated subsidiaries

Thousands of Euros											
				Percentage of Voting Rights Held by the Parent				Data on the Investees (*)			
Company	Auditor	Location	Line of Business	Direct	Indirect	Other	Carrying Amount	Assets	Liabilities	Equity	Profit (Loss) for the Year
Corporación San Bernat SCR, S.A.	Audihispana	Barcelona	Holding company.	-	50,17	49,83	12.270	26.332	486	25.846	1.033
Desarrollos Urbanisticos Udra, S.A.	Not audited	Pontevedra	Property development	-	100	-	20.200	75.793	56.574	19.219	(980)
Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.	Not audited	Pontevedra	Property development	-	100	-	8.540	37.560	28.689	8.871	(200)
Inmobiliaria Americana de Desarrollos Urbanisticos, S.A.U.	Not audited	Pontevedra	Property development	-	100	-	60	29.510	30.149	(639)	(145)
Centro Comercial Panamericano, S.A.	KPMG	Buenos Aires (Argentina)	Property development	-	100	-	8.198	15.801	535	15.266	3.914
Argentimo, S.A.	KPMG	Buenos Aires (Argentina)	Property development	-	100	-	20.035	25.208	1.784	23.424	279
Inmobiliaria Sudamericana de Desarrollos Urbanisticos. S.A.	KPMG	Buenos Aires (Argentina)	Property development	-	100	-	716	1.487	181	1.306	315
Inversiones Patrimoniales Guadaiza, S.L.U.	Not audited	Pontevedra	Property development	-	100	-	8.905	19.319	19.288	31	(1)
San Pablo Plaza, S.L.U.	Not audited	Seville	Property development	-	100	-	9.064	12.262	3.198	9.064	(10)
Udra Industrial, S.A.U.	Deloitte, S.L.	Pontevedra	Installations	-	100	-	6.017	50.160	44.936	5.224	(1.819)
Sefri Ingenieros, S.A.U.	Deloitte, S.L.	Tres Cantos (Madrid)	Engineering and installation services	-	100	-	2.834	15.468	12.645	2.823	64
Udra Mantenimiento, S.L.U.	Not audited	Tres Cantos (Madrid)	Public phone maintenance and money collection services	-	100	-	3.006	1.044	988	56	1
Tecnocontrol Sistemas de Seguridad, S.A.U.	Not audited	Tres Cantos (Madrid)	Security systems maintenance	-	100	-	120	421	272	149	1
Tecnocontrol Servicios, S.A.U.	Deloitte, S.L.	Tres Cantos (Madrid)	Maintenance services	-	100	-	311	4.555	4.244	311	24
Tecnocontrol, S.A.U.	Deloitte, S.L.	Barcelona	Installation and assembly	-	100	-	1.898	99.077	95.545	3.532	(1.074)
Artel Ingenieros, S.L.U.	Deloitte, S.L.	Pontevedra	Design and installation of telephone networks	-	100	-	754	9.085	8.329	756	7
Sefri Ingenieros Maroc, S.A.R.L.	Not audited	Morocco	Engineering and installation services	-	75	25	-	1.042	1.147	(105)	4
Instal 8, S.A.U.	Not audited	Tres Cantos (Madrid)	Hydraulic installations	-	100	-	44	857	813	44	(134)
S.M.Klima, S.A.U.	Deloitte, S.L.	Seville	Installation and upkeep of air conditioning systems	-	100	-	45	1.846	1.799	47	(197)
Inmobiliaria Udra, S.A.	Deloitte, S.L.	Pontevedra	Property services	-	100	-	88.974	113.099	31.357	81.742	7.770
Douro Atlantico, S.L.U.	Deloitte, S.L.	Pontevedra	Property services	-	100	-	3.579	13.947	9.120	4.827	480

APPENDIX I
Consolidated subsidiaries

				Thousands of Euros							
				Percentage of Voting Rights Held by the Parent				Data on the Investees (*)			
Company	Auditor	Location	Line of Business	Direct	Indirect	Other	Carrying Amount	Assets	Liabilities	Equity	Profit (Loss) for the Year
Douro Atlantico Sociedade Inmobiliaria, S.A.	Deloitte, S.L.	Oporto (Portugal)	Property services	-	100	-	11.521	48.929	38.729	10.200	(462)
Burgo Fundiarios, S.A.	Deloitte, S.L.	Oporto (Portugal)	Property services	-	100	-	510	33.869	33.817	52	(18)
Udra Argentina, S.A.	Ricardo Casal	Buenos Aires (Argentina)	Property services	-	90	10	637	749	28	721	7
Copaga, S.L.U.	Deloitte, S.L.	Vigo (Pontevedra)	Property services	-	100	-	1.820	4.326	4.305	21	(600)
Udrasol Inmobiliaria, S.L.U.	Not audited	Tres Cantos (Madrid)	Property services	-	100	-	-	5.754	5.761	(7)	(3)
Udrasur Inmobiliaria, S.L.U.	Not audited	Tres Cantos (Madrid)	Property services	-	100	-	2	426	424	2	(446)
Udramar Inmobiliaria, S.L.U.	Not audited	Tres Cantos (Madrid)	Property services	-	100	-	-	12.346	12.362	(16)	(3)
Udralar, S.L.	Not audited	Tres Cantos (Madrid)	Property services	-	55	45	1	93.812	93.810	2	(771)
San José Concesiones y Servicios, S.A.U.	Not audited	Pontevedra	Provision of health care and social services	-	100	-	60	59	1	58	(2)
San José Infraestructuras y servicios	Deloitte, S.L.	Pontevedra	Assembly and maintenance of infrastructures	-	99,79	0,21	116	116.284	4	116.280	(22)
UdraMed, S.L.U.	Deloitte, S.L.	Tres Cantos (Madrid)	Construction	-	100	-	3	7.922	8.006	(84)	(87)
Iniciativas Galebal, S.L..	Not audited	Palma de Mallorca	Property development	-	56	44	-	7	19	(12)	(18)
Comercial Udra, S.A.U.	Deloitte, S.L.	Pontevedra	Sales	100	-	-	2.166	11.681	5.469	6.212	108
Hood Sports, S.A.U.	Not audited	Madrid	Production, warehousing and distribution of manufactured goods	-	100	-	60	274	192	82	1
Outdoor King, S.A.U.	Not audited	Madrid	Production, warehousing and distribution of manufactured goods	-	100	-	60	1.160	697	463	35
Trendy King, S.A.U.	Not audited	Madrid	Marketing and distribution of sports items in Spain	-	100	-	1.515	2.005	133	1.872	149
Fashion King, S.A.U.	Not audited	Madrid	Marketing, production, distribution, import and export of clothes	-	100	-	24	708	651	57	30
Arserex, S.A.U.	Not audited	Madrid	Marketing and distribution of sports items in Spain	-	100	-	2.844	6.156	2.953	3.203	359

APPENDIX I
Consolidated subsidiaries

				Thousands of Euros							
				Percentage of Voting Rights Held by the Parent				Data on the Investees (*)			
Company	Auditor	Registered Office	Line of Business	Direct	Indirect	Other	Carrying Amount	Assets	Liabilities	Equity	Profit (Loss) for the Year
Basket King, S.A.U.	Not audited	Madrid	Marketing and distribution of sports items in Spain	-	100	-	977	1.864	734	1.130	153
Cadena de Tiendas, S.A.U.	Not audited	Pontevedra	Marketing, production, distribution, import and export of clothes	100	-	-	60	3.555	3.774	(219)	(193)
Inversiones Auchan Argentina, S.A.	KPMG	Buenos Aires (Argentina)	Portfolio company	-	93,54	6,46	1.615	18.596	96	18.500	(3.112)
Auchan Argentina, S.A.	KPMG	Buenos Aires (Argentina)	Commercial distribution	-	78,9	21,1	31.476	32.452	22.226	10.226	(3.632)
Running King, S.A.U.	Not audited	Pontevedra	Marketing, production, distribution, import and export of clothes	-	100	-	1	198	371	(173)	(50)
Gabinete de Selección, S.L.	Not audited	Vigo (Pontevedra)	Staff recruitment and placement	100	-	-	38	39	-	39	-
Udra Medios, S.A.U.	Not audited	Pontevedra	Editing, production, reproduction and public dissemination of books, newspapers, magazines and any picture or sound distribution medium	100	-	-	1.294	2.365	1.105	1.260	(34)

(*) Data obtained from the information prepared in accordance with IFRSs for the purposes of the consolidated financial statements, converted at the rate prevailing at the closing date in the case of foreign companies.

APPENDIX II
Consolidated associates

Thousands of Euros											
				Percentage of Voting Rights Held by the Parent				Data on the Investees (*)			
Company	Auditor	Location	Line of Business	Direct	Indirect	Other	Carrying Amount	Assets	Liabilities	Equity	Profit (Loss) for the Year
Pontegran, S.L.	Deloitte, S.L.	Madrid	Property development	-	45	55	11.509	50.574	30.626	19.948	17.049
Antigua Rehabilitalia, S.A.	Deloitte, S.L.	Madrid	Property development	-	40	60	480	106.824	105.498	1.326	127
Zonagest, S.L.	Not audited.	Madrid	Property development	-	20	80	1.000	27.803	26.863	940	(117)
Desarrollo Urbanístico Chamartín, S.A.	Deloitte, S.L.	Madrid	Property development	-	28	73	19.855	75.548	56.329	19.219	(980)
Panamerican Mall, S.A.	KPMG	Buenos Aires (Argentina)	Property development	-	20	80	6.067	183.038	59.914	123.124	144

(*) Data obtained from the information prepared in accordance with IFRSs for the purposes of the consolidated financial statements, translated at the exchange rates prevailing at the closing date in the case of foreign companies.

APPENDIX III
Joint ventures included in the scope of consolidation

Joint Venture	Percentage of Ownership	Sales (Thousands of Euros)
UTE A.I. La Nava	100%	456
UTE Abastecimiento Fuensaldaña	80%	58
UTE AC-301 Padrón	100%	2,788
UTE Acceso Zona Contacto Toledo	100%	520
UTE Accesos Vall de Ebrón	70%	-
UTE Adec. Expo/92	100%	-
UTE Adecuación Cámara de comercio	100%	2,391
UTE Aeropuerto de Barcelona	33%	8,450
UTE Aeropuerto Menorca	50%	13,466
UTE Agua Potable Protección Legionelosis	100%	-
UTE Alcoi	100%	406
UTE Alcorcón	100%	341
UTE Almanjayar	75%	9,607
UTE Almuradiel	100%	-
UTE Altea	100%	-
UTE Alumbrado Público en Coveta Fuma 2º	100%	2
UTE Ampliac. Hosp.. Verge	20%	-
UTE Aparcamiento Aeropuerto Málaga	20%	-
UTE Arcade-Pontecaldelas	50%	-
UTE Artel- Enditel	70%	-
UTE Autovía 45 Encinas Reales	70%	1,319
UTE Autovía Salamanca	100%	2,068
UTE Avda Europa – Jerez	100%	199
UTE Aviación General Tecno-Sefri	80%	-
UTE Baeza	100%	-
UTE Bajondillo	100%	-
UTE Barañáin	50%	-
UTE Boñar	95%	-
UTE Brunete	40%	-
UTE C.P. La Eliana	100%	76
UTE Cabezuela	100%	-
UTE Camino Santiago	100%	-
UTE Campus Aljarafe	75%	-
UTE Cañada Ancha	100%	68
UTE CAP Rubí 3	80%	354
UTE Captación de Bombeo Cubillo Butrón	80%	45
UTE Cárcel Segovia	99%	-
UTE Casa de Niños Quijorna	20%	-
UTE Ccb Mallorca	55%	-
UTE CEIP Joan Maragall	100%	856
UTE CEIP San Jordi	100%	2,369
UTE CEIP San José Calasanz Bigastro	100%	1,389
UTE Cejoysa	60%	-
UTE Centro de Salud Lucero	100%	2,071
UTE Chiclana	100%	-
UTE Chipiona	100%	620

Joint Venture	Percentage of Ownership	Sales (Thousands of Euros)
UTE Cidade	50%	10,654
UTE Ciudad de la Cultura	50%	-
UTE Ciudad de la Luz	100%	7
UTE Ciudad de la Luz	100%	-
UTE Climatización Edificio I.C.O.	100%	-
UTE Climatización El Empecinado	20%	52
UTE Comunicación de Cocheras Vallecas	100%	1
UTE Copisa- Tecno Ferroviari Lánoia i El Bages	40%	435
UTE Cruz Roja	80%	-
UTE Cubillo	20%	45
UTE Cutar de Málaga	80%	42
UTE Depuradora Cutar	20%	8
UTE Desagüe de pluviales Ronda Parque	100%	-
UTE Dique Este	50%	15
UTE El Egidillo	60%	14,048
UTE El Puerto	100%	1,343
UTE Embalse Contreras	50%	9,355
UTE Escola Bressol	100%	415
UTE Estación Ave Zaragoza	55%	1,791
UTE Estadio municipal de la Montcada	100%	1,764
UTE Estero	100%	-
UTE Eugenia Montijo	90%	-
UTE Eulen Mantenimiento Andujar	50%	-
UTE Extinción Incendios Residencia Alcázar	80%	145
UTE Fachada Filología UV	100%	45
UTE Facultad de Farmacia	100%	893
UTE Fundación Isonomía	100%	-
UTE Gespa Mas Oliva	50%	7
UTE Guadalorce	100%	-
UTE Henares	60%	956
UTE Hospital Andujar	80%	-
UTE Hospital Almansa	100%	3,479
UTE Hospital Cruz Roja	20%	-
UTE Hospital de Asturias	42,50%	14,744
UTE Hospital de Guadix	50%	-
UTE Hospital de Villablino	20%	-
UTE Hospital Lugo	50%	21,261
UTE Hospital Valle de los Pedroches	60%	211
UTE Hospital Valle del Guadiato	60%	531
UTE Hospital Verge Cinta	80%	464
UTE Hotel Cardenal RAM de Morela	54%	32
UTE I.E.S. Barrio Bajo	80%	-
UTE Ingeniería Industrial	50%	5,563
UTE Inst. Comunicac. Novo Hosp. Lugo	50%	-
UTE Instalación electrica Novo Hospital Lugo	50%	2,395

Joint Venture	Percentage of Ownership	Sales (Thousands of Euros)
UTE Jarosa El Escorial	100%	1,515
UTE La Granja - Jerez	100%	1,824
UTE La Lama	75%	-
UTE Laboratorio Tecnología UJI	100%	29
UTE Lonja Elche	100%	-
UTE M-40 Las Tablas	50%	19,130
UTE Manserja	40%	78
UTE Marquesinas lleida	20%	5
UTE Marquesinas Lérida	20%	3
UTE Mecánicas SCH	50%	-
UTE Mejora M607 y M617 Becerril	100%	(17)
UTE Metro Ligero Madrid	30,34%	74,644
UTE Ministerio de Economía	100%	67
UTE Mirador de la Centinela	100%	-
UTE Museo Antonia Mir	100%	316
UTE Museo BSCH	50%	-
UTE Museo del Prado	100%	914
UTE Navahermosa Mayasa	50%	-
UTE Nivel Sótano FCHS	100%	259
UTE Novo Hospital	95%	-
UTE Nueva Estación Pinar del Rey	100%	11,533
UTE Nuevo Edificio World Trade Center	80%	-
UTE Nuevo Puerto	100%	-
UTE O/Ceip Beethoven	100%	1,276
UTE Obras complementarias Bioingeniería	88%	69
UTE Palma	99%	-
UTE Parque Lineal Rivas	75%	5,845
UTE PCI Línea 3 Metro de Madrid	80%	82
UTE Pinofranqueado	60%	-
UTE Piscina Getafe	100%	-
UTE Piscina Parla	100%	4,033
UTE Piscina Ribaroja	100%	122
UTE Pista 15	50%	-
UTE Pista 18	100%	-
UTE Planta A400M	80%	5,105
UTE Plataforma Satélite	50%	-
UTE Playas Zona 3	25%	-
UTE Plaza el Árbol	100%	1,829
UTE Polideportivo Cabanes	100%	1,250
UTE Politécnica Lagunillas	70%	-
UTE Presa Uzquiza	90%	-
UTE Prolong. Avda. Alvaro Domecq	100%	26
UTE Puente Genil – Córdoba	100%	-
UTE Puerto de la Atunara	80%	306
UTE Radiales M-50	33%	-

Joint Venture	Percentage of Ownership	Sales (Thousands of Euros)
UTE Red Saneam. Teruel	20%	-
UTE Redes Telefonía Ministerio del Interior	20%	109
UTE Redes TIC	100%	-
UTE Reforma Aulas Edificio 19	100%	-
UTE Reforma Aulas Facultad Derecho	100%	51
UTE Reforma Biblioteca Edificio 20	100%	-
UTE Reforma Cafetería Universidad Jaime I	100%	-
UTE Reforma del Pabellón 12	100%	-
UTE Reforma Despachos Derecho UA	100%	12
UTE Reforma Facultad Ciencias	100%	-
UTE Reforma Laboratorios Química UV	100%	358
UTE Reforma Nivel 0	100%	-
UTE Reformas Biológicas UV	100%	1,768
UTE Remodelación el Prado	50%	42,144
UTE Renovación Red Saneamiento Teruel	80%	-
UTE Residencia Estudiantes	100%	-
UTE Residencial Docente Do Burgo	100%	120
UTE Río Fervedoira	100%	(61)
UTE Rivas Oeste	100%	2,013
UTE Ronda Sur	50%	-
UTE San Lucar	100%	1,936
UTE Saneamiento en Kareaga Goikoa	100%	54
UTE Santa Maria de la Isla	100%	-
UTE Santa Marta Magasca	60%	-
UTE Sede Diputación Málaga	50%	16,468
UTE Segundo Cinturón Vigo	50%	2,506
UTE Set Cortadura Subestación	50%	898
UTE Sistema de luces aeropuerto de Palma	100%	-
UTE Solar Facultad de Psicología	100%	-
UTE Son Tous - Tecnocontrol	20%	15
UTE Son Tous	40%	-
UTE Subestación transformadora Olesa	50%	-
UTE Subestación transformadora Río Adaja	50%	295
UTE Sum Ordenadores Gama Media	50%	-
UTE Sum. Proyectores proa.Fomento	50%	3,574
UTE Sum.Equip.Inform. Canarias	50%	1,154
UTE Talavera	20%	10,219
UTE Tarongers	80%	-
UTE Tecno TelventBy-Pass Sur Tunel Norte	50%	2,244
UTE Tecnoditec Comunicaciones	60%	168
UTE Tecosa-Tecno Sistema Seguridad Arroyos	50%	-
UTE Tercia Baena	100%	-
UTE Toledo Zona de Contacto	100%	-
UTE Torrejón	100%	-
UTE Torrelaguna	50%	-

Joint Venture	Percentage of Ownership	Sales (Thousands of Euros)
UTE Tratamiento Agua Potable Villanubla	100%	61
UTE Trauma V. Hebrón	80%	1,080
UTE Tunel M-30	50%	1,668
UTE Túneles Castell de Granada	50%	-
UTE Umbrete	100%	7,031
UTE UNED Alcira	80%	-
UTE Universidad de Santiago	20%	124
UTE Urb. Barrio San Isidro	100%	8,414
UTE Urbanización Daimiel	100%	1
UTE Hangar Audi	75%	-
UTE Variante Iscar	100%	-
UTE Velilla	50%	-
UTE Viciendas Dehesa Vieja	50%	-
UTE Vvdas. Alcosa	80%	856
UTE WTC Sevilla	20%	-

(*) Data obtained from the information prepared in accordance with IFRSs for the purposes of the consolidated financial statements, translated at the exchange rates prevailing at the closing date in the case of foreign companies.

Business performance

Market performance

The outlook for the construction industry is positive due to the favourable macroeconomic forecasts for infrastructure development and services since the Spanish economy continues to grow, considerably above the European average, and requires infrastructures to satisfy the needs of its increasing population, which has grown by over 10% in only ten years.

The arrival of over four million immigrants has brought with it an upturn in the labour force, consumption and demand for infrastructure and services that leads to the growth of the Spanish economy.

On the other hand, the number of tourists visiting Spain has risen over the last ten years by almost 60% to reach over 55 million in 2006. This growth has been accompanied by a structural change in the type of tourists since the visitors who own property and spend long periods in Spain have increased, with the concomitant effect that this has on the demand for infrastructure, equipment, goods and services.

As a result of this macroeconomic climate the Construction division expects the growth trend of the last few years to be maintained, backed up by an increase in government tenders, robust demand for commercial construction and the maintenance of the residential cycle.

The Industrial Services division shows strong potential for growth in answer to the increasing demand for energy that affects investment in production and distribution assets and maintenance services.

With regard to the Property division, the average number of persons per household continues falling while the population and the changes in Spain's demographic structure indicate sustainable demand for 450,000 – 500,000 units per year. Certificates for new construction projects grew in the second half of 2006, partly as a result of the introduction of the new Technical Building Code and, therefore, the level of supply is expected to decline gradually.

Prices started to slow in 2006 and we believe this trend will continue over the next few years, although with gradual rather than sharp declines. The rise in interest rates led to an increase in the accessibility ratio to reach the 1995 level. However, the drop in inflation, lower taxes and stable employment support households' disposable income.

The present conditions are less favourable than in previous years and the gradual adjustment that was announced so many years ago but never actually materialised is now being consolidated. The demand for homes will continue to be curbed, partly due to the increased effort required to purchase a new property, although the drop in inflation, lower taxes and stable employment will continue to support households' disposable income. The cooling off of activity with lower demand and foreseeably less activity will lead to the continuing, albeit smooth, decline in prices.

Risks arising from business activities

The Group carries on its activities in industries, countries and socio-economic and legal environments that entail different levels of risk. The Group controls these risks in order to avoid decreased shareholder returns or difficulties for its customers. It uses instruments in order to identify these risks sufficiently in advance or to avoid them by minimising risks.

Main indicators of consolidated financial results

Pursuant to applicable legislation, all groups of companies whose shares are admitted to trading on secondary markets or that exercise control over listed companies or groups of companies are obliged to file consolidated financial statements from 2005 onwards.

In 2006 the San José Group launched a takeover bid through its subsidiary UDRAMED for the Parquesol real estate group. This transaction was finally settled in January 2007 and, therefore, Udra, S.A. is legally obliged to file consolidated financial statements in accordance with IFRSs from 2007.

However, San José Group management decided to bring this adaptation forward a year and prepared the consolidated financial statements of Udra, S.A. and Subsidiaries for 2006 in accordance with International Financial Reporting Standards (IFRSs).

As a result of the preparation of the San José Group's financial statements in accordance with IFRSs the Group was able to provide third parties (analysts, public authorities, financial institutions, potential partners and investors, etc.) with the following:

• Financial information that is uniform, convergent and comparable with that of the main construction groups in Spain and abroad that operate under IFRSs

• A clearer and more transparent view of its financial situation and its ability to generate liquidity from its ordinary activities. Adequate information with respect to the Group's ability to manage its exposure to financial risks arising from its business diversification and international presence, disclosing the Group's risk hedging policy.

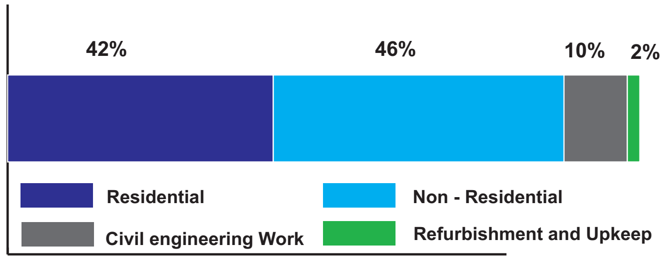
• A more detailed disclosure of the business structure and its ability to create wealth through segment reporting (by activity or market).

Equity

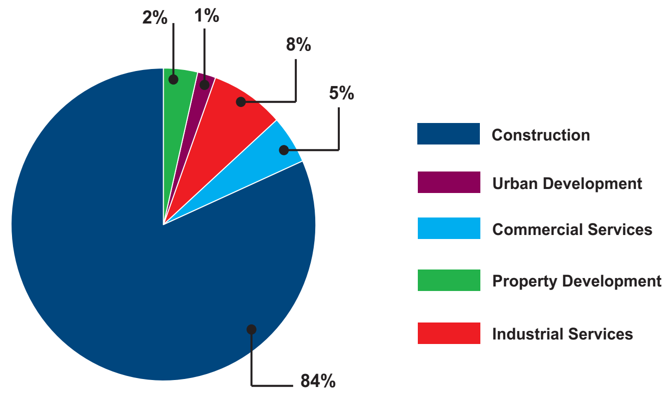
The Group's equity stood at slightly over EUR 281 million at 2006 year-end after the distribution of the 2005 profit of EUR 39 million and taking into account the almost EUR 41 million profit for 2006. The Group has reserves at consolidated companies amounting to EUR 120 million, of which almost EUR 115 million relate to fully or proportionately consolidated companies and EUR 6 million to companies accounted for using the equity method (mainly Pontegrán).

• The Group's revenue increased by 7.5% compared to the figure at 2005 year-end.
• The Group's sales continued to depend on the construction industry, which accounted for 83% of the total business volume.
• Within the construction activity, dependence on building construction continued to be high although there was an optimum balance between residential and non-residential.

	Millions of Euros
Construction	1,094.5
Property development	28.2
Urban development	17.1
Industrial services	105.1
Commercial services	61.2
Other	5.4
Revenue	**1,311.5**



• There was a balance in sales by type of customer, with private customers accounting for 52% and public-sector customers for 48%.
• The Group's international sales accounted for 12% (Portugal, Peru, Argentina, Panama and the US, in order of importance).



Financial leverage ratio: At 31 December 2006, the Group's cash and cash equivalents amounted to EUR 71.4 million and the bank borrowings at that date totalled EUR 222.9 million. Therefore, the Group's net financial debt amounted to EUR 151.5 million, representing a ratio of 11% on the Group's total assets.

ROE: Since the Group's net profit amounted to EUR 56.6 million, the return on equity was 20.1% as compared with 23.3% in 2005.

Financial structure ratio: The total assets-to-equity stood at 4.87 at 2006 year-end, compared with 5.16 in 2005.

Main events and actions of the Group's business units

The Company's activity is characterised and defined by its position as a holding company whose main object is to manage and control the overall business activities of the companies in which it holds a material and lasting ownership interest. In this respect, after the completion of the corporate restructuring of the UDRA Group, to which it belongs, the Company is currently the head of the construction, industrial, property and urban development divisions of the aforementioned Group.

The Company's growth responds mainly to profitability criteria and to the business expansion in the various strategic industries in which it currently operates.

Investments in other industries, represented by the securities portfolio, will continue depending on the evolution of their value and on the financial opportunities that may arise.

The basic strategy that characterises the Company as part of the UDRA Group and Subsidiaries may be summarised as follows:

1. Maintenance of the level of shareholder independence.
2. Investment in human capital formation and cutting-edge technology to drive development.
3. Industry diversification and internationalisation as the cornerstones of stability and growth.
4. Integrated project management, offering a global service.
5. Focus on companies with significant strategic importance, substantial returns on investment and a marked social component.

Objectives for 2007

The estimated revenue for 2007 (with the backlog standing at EUR 1,554 million at 2006 year-end) amounts to EUR 1,845 million (including Parquesol), representing an increase of 27% with respect to the Udra Group's sales in 2006. The detail by subgroup is as follows:

- Construction	1,410 million
- Technology / Industrial services:	120 million
- Property / Urban development:	300 million
- Commercial services and other:	15 million

Construction: consolidate its position as one of Spain's leading construction groups, while continuing to comply with quality requirements and deadlines. Strengthen the civil engineering business with further significant infrastructure projects and studying the possibility of corporate acquisitions.

Technology / Industrial services: further specialisation and optimisation of resources in order to manage projects that require greater technological and financial commitment. This will enable us to position ourselves in a higher value added segment.

Property: design and optimally implement the integration of Parquesol's businesses in order to maximise the synergies that the Group can contribute to the new company.

Balance overall revenue by giving greater weight to the international business, promoting development in the countries in which we are already present and in new countries.

Increase our presence in the concession and service businesses.

■ Information on events relating to the environment and to human capital

In view of the business activities carried on by the Group companies, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Group's equity, financial position and results.

The Group's human resources policy consists basically of maintaining and hiring committed and knowledgeable teams with a high degree of specialisation, capable of generating new business opportunities and offering the best customer service.

In addition, specialised training in each business has been fostered in order to improve the Group's processes and security.

Events after the balance sheet date

On 30 November 2006, pursuant to Securities Market Law 24/1988, of 28 July, and to Royal Decree 1197/1991, of 26 July, on takeover bids, the investee Udramed, S.L.U. filed the prospectus for the takeover bid for all the shares of Parquesol Inmobiliaria y Proyectos, S.A. (Parquesol) with the CNMV, the offer price being EUR 23.1 per share, subject to a minimum acceptance of one half plus one of the shares comprising the total share capital of Parquesol.

The prospectus was accepted by the CNMV on 5 December 2006 and the bid acceptance period began on 7 December 2006. This period ended on 8 January 2007 and the offer was successful with 20,174,088 shares, representing 50.79% of the total share capital of Parquesol, accepting the bid.

The Company, together with Udramed, S.L.U., entered into a double syndicated loan agreement for EUR 466,021 thousand to settle this transaction. The agent is Barclays and the conditions are as follows:

- The loan granted to Udramed, S.L.U. amounts to EUR 304,778 thousand and is repayable on maturity in seven years. The interest rate is tied to Euribor plus a spread subject to compliance with certain financial ratios. In addition, the company drew down EUR 10.4 million to cater for the transaction costs.
  The Company provided the shares it now holds in Parquesol as security for the loan.
  The Company arranged a five-year swap for EUR 177 million to partially hedge the interest rate risk during the aforementioned period.
- The loan granted to Grupo Empresarial San José, S.A. amounts to EUR 161,243 thousand and is repayable on maturity in seven years. The interest rate is tied to Euribor plus a spread subject to compliance with certain financial ratios. In addition, the Company drew down EUR 5.2 million to cater for the transaction costs.
  The shares of certain of the Company's investees were pledged as security for the loan.
  The Company arranged a five-year swap for EUR 123 million to partially hedge the interest rate risk during the aforementioned period.

Future outlook

In 2007 the Company will continue to manage the activities of investees in which Udra, S.A. holds a material ownership interest and will continue to consider the acquisition of ownership interests in other complementary or strategic industries for the Group. The consolidation of the various investees in their respective activity sectors and their current backlog point to a significant increase in revenue in 2007.

Research and development

Due to the nature of the Company's business, no research and development activities were performed in 2006.

Treasury share transactions

The Company did not perform any transactions involving treasury shares in 2006.

Use of financial instruments in risk management

Interest rate risk: this is the main risk to which the Group is exposed as a result of the bank debt described in the notes to the financial statements. In order to minimise exposure to this risk, the Group's financial management has arranged cash flow hedges to protect the Company against any foreseeable interest rate increases in the future.

Foreign currency risk: the Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, there is currently no significant foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the euro. In view of the Group's geographical expansion over the last few years, exposure to foreign currency risk may arise in the future. Should this risk arise, the best solution will be analysed in order to minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

Liquidity risk: the Group has sufficient liquidity to cover its expected medium and short-term obligations in the form of credit facilities with various financial institutions and short-term investments. Any cash surpluses are used to make short-term investments in highly liquid deposits with no risk.

Available self-financing is used as far as possible to finance investing activities, thereby ensuring shareholder return, attention to debt requirements and the management of working capital.

Credit risk: credit risk, which arises from customer defaults, is managed by means of the preventive assessment of the solvency rating of the Group's potential customers at the beginning of the relationship and throughout the duration of the contract, evaluating the credit rating of the outstanding amounts receivable and reviewing and segregating the estimated recoverable receivables from doubtful receivables.

Signatures of the Directors

The 2006 consolidated financial statements of UDRA, S.A. and Subsidiaries, consisting of the consolidated balance sheet, consolidated income statement, notes to the consolidated financial statements and directors' report, were authorised for issue by the Board of Directors of UDRA, S.A. at its meeting on 28 March 2007. The aforementioned consolidated financial statements and directors' report for the year ended 31 December 2006 are presented on 70 sheets of officially stamped paper, sequentially numbered from 0I8605501 to 0I8605569 and 0I8605571, the last two pages being signed by all the Directors.

Mr. Jacinto Rey González

Mr. Pedro Sáenz-Díez Trías

Mr. Ramón Barral Andrade

Mr. Jacinto Rey Laredo

Mr. Jerónimo Páez López

UDRA, S.A. AND SUBSIDIARY COMPANIES PROFORMA

Proforma Consolidated Financial Statements of Grupo Udra, taking into account completion of the Takeover Bid for Grupo Parquesol as though it took place in fiscal year 2006.

UDRA, S.A. AND SUBSIDIARY COMPANIES
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2006
(Thousand euros)

	2006 (*)
Non current assets	**644,184**
Tangible fixed assets	535,876
Goodwill	17,626
Other intangible assets	368
Stakes in associated companies and joint ventures	37,175
Non current financial assets	32,149
Deferred taxes	17,329
Other non current assets	3,662
Current assets	**1,974,269**
Inventories	1,031,670
Trade debtors and other accounts receivable	
Debtors	725,660
Public Administrations	82,177
Other current assets	6,496
Other financial current assets	50,668
Cash and cash equivalent	77,598
Total assets	**2,618,453**
	UDRA (*)
Net worth	413,935
Share capital	1,312
Share premium	7,838
Reserves	147,580
(Treasury stock)	-
Adjustments to worth due to valuation	-
Result of fiscal year attributed to parent company	40.976
(Paid interim dividend)	-
Net worth attributable to shareholders of Parent Company	**197,706**
Minority interests	216,230
Non current liabilities	**708,888**
Long-term provisions	10,831
Debts with credit entities and other financial liabilities	660,018
Liabilities for deferred taxes	23,398
Other non current liabilities	14,642
Current liabilities	**1,495,630**
Debts with lending entities and other financial liabilities	505,965
Debts with Group companies	12,569
Trade creditors and other accounts payable	
Trade creditors	823,967
Public Administrations	74,443
Other current liabilities	78,686
Total net worth and liabilities	**2,618,453**

(*)Proforma financial position statement of Grupo Udra taking into account completion of the Takeover Bid for Parquesol as if it took place on 31 December 2006.

UDRA, S.A. AND SUBSIDIARY COMPANIES
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2006
(Thousand euros)

	(Debe) Haber
	2006 (*)
Continuing operations:	
Net sales	1,555,262
Other operating income	3,537
OPERATING INCOME	**1,558,799**
+/- Change in inventories of finished products and of products being manufactured	(68,510)
Supplies	(940,326)
Other external costs	(173,563)
Personnel expenses	(189,116)
Amortization and depreciation	(11,587)
Change in operating provisions	(1,769)
OPERATING EARNINGS	**173,928**
Financial income	8,542
Financial costs	(28,366)
Exchange rate changes (gains and losses)	1,900
Earnings due to changes in value of financial instruments	6,291
Earnings of equity accounted entities	7,437
Other profit or loss	(3,666)
EARNINGS BEFORE TAX	**166,065**
Income Taxes	(53,882)
FISCAL YEAR EARNINGS FROM CONTINUING OPERATIONS	**112,183**
Discontinued Operations:	
Fiscal year earnings from discontinued operations	-
FISCAL YEAR EARNINGS	**112,183**

(*) Proforma consolidated profit and loss account of Grupo Udra, taking into account the stake held in Parquesol as a result of the takeover bid as if it had been held over the entire year 2006.