ADAPTATION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

SyV
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NOTE:

The financial information presented in this document was prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) issued by the International Accounting Standards Board (IASB). The following considerations must be borne in mind:

- SyV Group's auditors did not render any opinion on the financial information or on the impacts mentioned herein.
- The standards presently issued and adopted by the European Union are subject to the interpretations issued from time to time by IFRIC. In addition, IASB could issue new standards which could be applied voluntarily by the SyV group for fiscal years beginning as from January 1, 2005.
- To date, the IFRS have been submitted to a considerable review process and are being applied in the European Union and in a great number of countries simultaneously for the first time. For this reason, no detailed experience exists to which to recur for the resolution of certain technical matters which may arise during the application of said standards to sets of facts not specifically addressed by the IFRS.
- Changes arising out of any of the above matters or of the performance of sector practice could also affect certain decisions and interpretations adopted today by the SyV Group in preparation of the information reflected in this document.
- As a consequence of the above, it is possible that changes to this information may need to be introduced prior to being published as comparative financial information in the 2005 Annual Report.

CONTENTS:

1. Introduction

- The adoption of IFRS is mandatory only for the Consolidated Financial Statements of Listed Groups, reported as from 01/01/05.

- The transition date to IFRS is 01/01/04, adopting the initial criteria.

- 2004 data will be reported converted to IFRS for comparative purposes, as per the criteria adopted on the first conversion date (01/01/04).

- The individual Financial Statements are reported under local regulations.

- The adoption of IFRS does not imply any change in the dividend policy, or in the payment of taxes or the indebtedness capacity of the various companies which form the consolidated Group.

1. Introduction

SACYR VALLEHERMOSO is especially affected at:

ITINERE (Concessions):

- The capitalization of financial charges is not permitted after the placement into operation of the concession (IAS 23).
- Depreciation of assets subject to reversion is carried out on a straight-line basis, given the difficulty of establishing a consumption model different from lineal depreciation (IAS 38).
- The assets attached to the concession business activity are reported in a specific caption of the balance sheet.

VALLEHERMOSO (Housing Development):

- Sales are recorded when the physical delivery of the house takes place. Adoption of the same criterion on the level of the individual company in order to reduce differences vis-à-vis IFRS (IAS 18).
- Marketing expenses may not be capitalized, and are recorded as expenses for the period (IAS 2).

TESTA (Rental Property investments):

- Investments are recorded at historic cost, even at transition date (IAS 40). No impact compared to General Chart of Accts.
- The assets attached to the concession business activity are reported in a specific caption of the balance sheet.

2. Criteria adopted

TRANSITION DATE
01/01/2004

INITIAL DECISIONS (APPLICATION IFRS 1)

→

CONVERSION DATE CONSOLIDATED FINANCIAL STATEMENTS UNDER GENERAL CHART OF ACCOUNTS
31/12/2004

ESTABLISHMENT GROUP POLICIES

→

DATE PREPARATION CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS
01/01/2005

MANDATORY APPLICATION OF IFRS

2. Criteria adopted and adjustments made

- Valuation of all non-current assets of the Group at historical acquisition cost (IAS 16, 40 y 38).
- Non-retrospective application of IFRS3 to business combinations carried out prior to 31.12.2003.
- Reclassification of cumulative translation differences as at the transition date to reserves (IFRS 1).
- Application of IAS 32 and 39 as from January 1, 2004 (IFRS 1).
- Capitalization of financial expenses through the placement into operation of the assets (IAS 23).

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2. Criteria adopted and adjustments made

- Analysis of provisions, contingent assets and liabilities of the Group eliminating against reserves those which do not adjust to the premises established in IAS 37, or recording a provision if necessary.

- Generation of tax effects for adjustments of first application of IFRS (IAS 12).

- Evaluation of consolidation perimeter as at the transition date without detecting significant changes (IAS 27).

- Cancellation of on-balance-sheet deferred translation gains as at the transition date against reserves (IAS 21).

- Consolidation of “joint ventures” by proportional integration (IAS 31).

3. a) Impacts in Results

Impact assessment:

Thds Euros	
2004 Net Income following General Chart of Accounting	**376,332**
Cancellation of allocation to the reversion fund	**39,664**
Straight-line Depreciation of Highway Investment	**(83,261)**
Cancellation of Goodwill allocation	**11,715**
Cancellation Deferred financial charges	**(49,311)**
Housing development sales adjustements	**(47,029)**
Non activation of marketing expenses	**(14,775)**
Equity-accounted companies IFRS adjustements	**(14,074)**
Other Adjustments	**(14,289)**
Impact on minorities	**23,152**
Impact on Corporate Tax	**49,020**
Change in Income	**(99,188)**
2004 Net Income following IFRS	**277,144**

3. b) Impact in Equity

Impact assessment:

Thds Euros	
2004 Equity according to General Charterd Accounting	1,980,497
Valuation of derivatives	95,792
Treasury Stock, net of provision	(6,055)
Housing development sales adjustments	(141,785)
Deferred financial expenses	(224,758)
Linealization of Reversion fund depreciation	(109,652)
Provisions	(12,344)
Refundable advances	45,482
Forex diferences trasferred to reserves	10,902
Important reparations	(4,162)
Other adjustments	(12,609)
Minorities	336,281
Change in Equity	(22,908)
Change in Income	(99,188)
2004 Equity according to IFRS	1,858,401

3. c) Significant impacts ITINERE

Main impacts:

- Capitalization of interest expense: (IAS 23) The capitalization of interest expense is only allowed until the asset is placed in a position to be used.

- Depreciation of investment: (IAS 38) *"The depreciation method used must reflect the consumption model …. If this model cannot be determined reliably the straight-line depreciation method must be adopted. …. On rare occasions, or perhaps on no occasion will sufficient evidence exist to support a depreciation method which causes lower cumulative depreciation than that obtained by using a straight-line method."*

  As long as no clear interpretation exists, concessions will be depreciated on a straight-line basis over the concession period, except when a consumption model can be determined.

Both matters imply major differences and impacts with respect to criteria pursuant to the General Chart of Accounts.

3. c) Significant impacts ITINERE

Impact assessment:

FINANCIAL CHARGES ITINERE	
IMPACT ON P&L	**Thd Euros**
Financial expenses	(49,311)
Losses in equity-accounted companies	(6,566)
Corporate Tax	14,488
Profit after Tax	(41,390)
Loss attributed to minorities	(12,648)
Consolidated Net Income	(28,742)
IMPACT ON BALANCE SHEET	**Thd Euros**
Deferred expenses	(455,895)
Equity-accounted companies	(40,996)
TOTAL IMPACT ASSETS	**(496,891)**
Reserves	(224,758)
Consolidated Net Income	(28,742)
Minorities	(102,513)
Deferred tax	(140,513)
TOTAL IMPACT LIABILITIES	**(496,891)**

STRAIGHT-LINE DEPRECIATION ASSETS	
IMPACT ON P&L	**Thd Euros**
Cancellation of reversion fund provisions	39,664
Highway straight-line depreciation	(83,261)
Corporate Tax	8,977
Profit after Tax	(34,620)
Loss attributed to minorities	(9,067)
Consolidated Net Income	(25,553)
IMPACT ON BALANCE SHEET	**Thd Euros**
Highway Investment acummulated depreciation	(940,581)
TOTAL IMPACT ASSETS	**(940,581)**
Reserves	(107,598)
Consolidated Net Income	(25,553)
Minorities	(147,786)
Reversion Fund	(571,947)
Deferred tax	(87,697)
TOTAL IMPACT LIABILITIES	**(940,581)**

3. d) Significant impacts VALLEHERMOSO

Main impacts:

- Recognition of sales in residential property development business (IAS 18). Sales are recorded "when the risks and advantages deriving from ownership of the asset are transferred". In the housing development business this is similar to the time of delivery or deeding.

  Sales of residential developments are not allowed to be recorded when the costs incurred in the housing development exceed 80% of the total estimated costs thereof, excluding the land value (criterion admissible as per Sectorial Adaptation of General Chart of Accounts for Real Estate Companies).

  The individual company changes (in General Chart of Accounts on 01-01-05) the method for recognizing sales, going from 80% to 100%.

- Marketing expenses: Capitalization of marketing expenses related to the development is not allowed (IAS 2).

- Capitalization of interest expense: (IAS 23) Capitalization of interest expense on housing developments is allowed until the placement thereof in a position to be sold or used. Vallehermoso has chosen to capitalize the interest expenses.

4. d) Significant impacts VALLEHERMOSO

Impact assessment:

SALE OF HOUSING DEVELOPMENT	
IMPACT ON P&L	Thds Euros
Net Income	(189,985)
Inventories increase	142,956
Corporate Tax	16,460
Consolidated Net Income	(30,659)
IMPACT ON BALANCE SHEET	Thd Euros
Clients	(684,950)
Inventories	637,625
IMPACT ON ASSETS	(47,324)
Reserves	(141,785)
Consolidated Net Income	(30,569)
Accounts payable	293,550
Operating provisions	(75,714)
Deferred Tax	(92,806)
IMPACT ON LIABILITIES	(47,324)

CANCELLATION OF MARKETING EXPENSES	
IMPACT ON P&L	Thds Euros
Marketing expenses	(14,775)
Corporate Tax	5,171
Consolidated Net Income	(9,604)
IMPACT ON BALANCE SHEET	Thd Euros
Inventories	(26,051)
Advanced Tax	9,118
IMPACT ON ASSETS	(16,933)
Reserves	(7,329)
Consolidated Net Loss	(9,604)
IMPACT ON LIABILITIES	(16,933)

4. e) Significant impacts TESTA

Main impacts:

- **<u>Valuation of rental property</u>:** (IAS 40)
  - <u>Book value</u>: maintained at cost and depreciated.
  - <u>Reasonable value model</u>:
    - Assets valued at "*fair value*". Appraisal performed by independent expert advised.
    - Changes affect the income statement (except the first application, which affects reserves).
    - Assets not depreciated.
    - When asset is sold, the book value is cancelled and the difference with respect to the sale price is income.
  - Obligation to break-down in a note the reasonable value of these assets, even if the revaluation alternative is not selected.

TESTA has chosen: 1) to continue valuing properties at book value and 2) to capitalize interest expense until the placement into operation of the asset. Consequently, the application of IFRS does not entail any significant impacts.

4. f) Significant impacts SACYR

Principal impacts:

- **Degree of advance**: (IAS 11) SACYR follows the procedure of recognizing in each fiscal year as income on its construction works the difference between production (value as per sale price of the construction project executed during the said period, which is backed by the master contract signed with the owner or by changes or additions approved by the latter) and the costs incurred during the year. This is due to the fact that in the construction sector, on occasion, income and costs of construction works may undergo considerable changes during the execution period, which are difficult to foresee and quantify objectively. Consequently, it is interpreted that this method is contemplated by IAS 11 and, in any case, would not entail significant differences with the pure method of degree of advance.

- **Losses forecasted in construction projects**: SACYR already records losses forecasted in construction projects. Consequently, this does not represent any impact for SACYR.

- **Bidding costs**: SACYR does not capitalize bidding costs. Consequently, they do not represent any impact for this purpose.

4. Other adjustments and reclassifications

Start-up costs:

First establishment costs are charged to expenses at the time incurred and cannot be capitalized.

Capital increase costs:

Reported as lower Equity. In 2004 depreciation carried out is adjusted as per General Chart of Accounts.

Research and development costs:

Development costs can only be recorded under certain circumstances. Research cost cannot be recorded.

Goodwill:

Not amortized systematically. An impairment test is performed annually.

4. Other adjustments and reclassifications

Leasing:

Leasing contracts are reclassified according to the nature of the asset. The debt is recorded on the Liability side without including the deferred financial cost, which is imputed to expenses in proportion to the accrual of financial costs.

Debt formalization costs:

Reported by decreasing the debt on the Liability side, attributing these costs to expenses during the life of the loan.

Treasury Stock:

Reported by decreasing Equity. Gains on treasury stock transactions are recorded under reserves and not as income for the year.

4. Other adjustments and reclassifications

Provisions:

Provisions must obey an actual obligation (legal or implicit), must generate an outflow of funds and must be able to be estimated. Provisions have been evaluated and meet the requirements of IAS 37.

Exchange differences:

Gains and losses are carried to income for the year.

Translation differences:

Gains and losses are recorded under Equity.

4. Other adjustments and reclassifications

Extraordinary income and expenses:

Extraordinary items are not allowed to be included and are reclassified to the relevant chapter depending upon their nature.

Minority interests:

Classified under Equity on the Balance Sheet.

Financial instruments:

From the transition date it is necessary to value financial instruments when they are for hedging (complying with established conditions). Changes in value are recorded under Equity. On the contrary, when they do not meet the conditions for hedging, they are recorded as income for the period.

5.a) Consolidated Balance Sheet as of 30st Dec '04

Thds Euros

December-04

ASSETS	IFRS	Gen. Chart. Acc	diference
SHAREHOLDER'S DEBT	**0**	**0**	**0**
NON CURRENT ASSETS	**7,893,747**	**8,364,411**	**(470,664)**
Start- up expenses	0	16,676	(16,676)
Intangible assets	153,254	514,258	(361,004)
Real Estate Investments	1,896,740	0	1,896,740
Concessional projects	3,691,051	0	3,691,051
Tangible Fixed Assets	630,631	6,823,553	(6,192,922)
Non current financial Assets	1,492,499	973,470	519,029
Controlling company treasury stock	0	6,883	(6,883)
non-current assets (LT Accounts receivable)	29,571	29,571	0
GOODWILL IN CONSOLIDATION	**110,209**	**103,027**	**7,182**
DEFERRED EXPENSES	**0**	**609,648**	**(609,648)**
CURRENT ASSETS	**4,598,398**	**4,640,024**	**(41,626)**
Inventories	2,901,075	2,288,824	612,251
Accounts receivable	1,482,436	2,136,313	(653,877)
Other financial current assets	100,338	100,338	0
Short term treasury stocck	0	0	0
Cash and equivalents	114,549	114,549	0
TOTAL ASSETS	**12,602,354**	**13,717,110**	**(1,114,756)**

5.a) Consolidated Balance Sheet as of 30st Dec '04

Thds Euros

December-04

SHAREHOLDER'S EQUITY AND LIABILITIES	IFRS	Gen. Chart. Acc.	diference
EQUITY	**1,858,401**	**1,980,497**	**(122,096)**
Controlling company Equity	**1,522,120**	**1,980,497**	**(458,377)**
Share Capital	266,153	266,153	0
Other reserves	1,066,085	1,397,656	(331,571)
Controlling company losses and gains	277,144	376,332	(99,188)
Interim dividens paid durind the year	(59,645)	(59,645)	0
Treasury stock	(27,618)	0	(27,618)
Minorities IFRS	**336,281**	**0**	**336,281**
MINORITIES	**0**	**546,686**	**(546,686)**
LOSSES IN CONSOLIDATION	**0**	**11,799**	**(11,799)**
NON CURRENT LIABILITIES	**7,127,251**	**7,783,043**	**(655,792)**
Deferred revenues	414,641	419,830	(5,189)
Provisions for contingencies and expenses	53,591	607,497	(553,906)
Long term accounts payable	6,659,019	6,755,716	(96,697)
CURRENT LIABILITIES	**3,616,702**	**3,395,085**	**221,617**
Issuance of bonds and other marketable securities	370,674	372,678	(2,004)
Due to Banks	1,079,668	1,089,080	(9,411)
Due to equity accounted companies	42	42	0
Trade accounts payable	1,814,077	1,510,117	303,959
Other non.trade accounts payable	279,739	252,621	27,118
Operating Provisions	71,226	169,297	(98,071)
Other Current Liabilities	1,275	1,250	25
TOTAL LIABILITIES	**12,602,354**	**13,717,110**	**(1,114,755)**

5.b) Consolidated P&L as of 31/12/04.

Euros	IFRS	Gen. Chart. Acc.	Change Absolute	Change Relative
Net Income	**3,512,581**	**3,703,323**	**(190,742)**	**(5.2%)**
Other income	607,678	459,000	148,678	32.4%
Total Income	**4,120,259**	**4,162,323**	**(42,064)**	**(1.0%)**
Assets depreciation	(197,647)	(117,394)	(80,252)	68.4%
Variation in Operating provisions	(13,776)	(10,614)	(3,162)	29.8%
Other operating expenses	(3,438,491)	(3,454,678)	16,187	(0.5%)
Total operating expenses	**(3,649,913)**	**(3,582,686)**	**(67,227)**	**1.9%**
EBITDA	**470,345**	**579,636**	**(109,291)**	**(18.9%)**
Financial Results (without provisions)	(238,605)	(189,399)	(49,207)	26.0%
Depreciation of Goodwill in consolidation	(629)	(12,847)	12,218	(95.1%)
Results from equity- accounted companies	(4,148)	9,925	(14,074)	(141.8%)
Other profit and losses (without provisions)	93,730	99,982	(6,252)	(6.3%)
Variation in intangible/tangible assets/portfolio provisions	15,686	20,440	(4,754)	(23.3%)
PROFIT BEFORE TAXES	**336,378**	**507,738**	**(171,360)**	**(33.7%)**
Corporate Tax	(50,428)	(99,448)	49,020	(49.3%)
TOTAL PROFIT	**285,950**	**408,290**	**(122,340)**	**(30.0%)**
Minorities	(8,806)	(31,958)	23,152	(72.4%)
NET ATTRIBUTABLE PROFIT	**277,144**	**376,332**	**(99,188)**	**(26.4%)**
CASH FLOW	473,510	536,411	(62,902)	
EBITDA (*)	681,768	747,309	(65,541)	
GROSS MARGIN (EBITDA / NET INCOME)	13.4%	15.7%	(2.3%)	
PBT / NET INCOME	9.6%	13.7%	(4.1%)	
NET MARGIN (NET PROFIT / NET INCOME)	7.9%	10.2%	(2.3%)	
EBITDA / NET INCOME	19.4%	20.2%	(0.8%)	
CASH FLOW / NET INCOME	13.5%	14.5%	(1.0%)	
NET DEBT	7,349,962	7,497,152	(147,190)	
NET EQUITY	1,858,401	1,980,497	(122,096)	
TOTAL ASSETS	12,602,354	13,717,110	(1,114,756)	
WORKING CAPITAL	981,696	1,244,939	(263,243)	

5.c) Conversion by business activity

CONSTRUCTION | **Housing Development**

CONSTRUCTION (ThdsEuros)	IFRS	Gen. Chart. Ac.	Diference
EQUITY	377,443	376,451	992
NET INCOME	1,304,331	1,304,311	20
EBIT	81,820	81,832	(12)
EBITDA	109,432	109,432	0
PROFIT AFTER TAXES	63,237	63,094	143

HOUSING DEVELOPMENT (Thds Euros)	IFRS	Gen. Chart. Ac.	Diference
EQUITY	202,339	382,653	(180,314)
NET INCOME	879,292	1,069,278	(189,986)
EBIT	151,118	212,496	(61,378)
EBITDA	150,013	211,415	(61,402)
PROFIT AFTER TAXES	76,801	116,772	(39,971)

5.c) Conversion by business activity

CONCESSION

PROPERTY

CONCESSIONS (Thds Euros)	IFRS	Gen. Chart. Ac.	Diference
EQUITY	515,472	637,134	(121,662)
NET INCOME	322,916	322,916	0
EBIT	121,997	165,701	(43,704)
EBITDA	246,451	247,893	(1,442)
PROFIT AFTER TAXES	(52,241)	12,997	(65,238)

PROPERTY (Thds Euros)	IFRS	Gen. Chart. Ac.	Diference
EQUITY	1,041,532	1,061,500	(19,968)
NET INCOME	191,983	191,983	0
EBIT	115,146	114,596	550
EBITDA	145,997	146,193	(196)
PROFIT AFTER TAXES	155,411	155,099	312