Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated Financial Statements for 2010 and Consolidated Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

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AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Grupo Empresarial San José, S.A.:

1. We have audited the consolidated financial statements of Grupo Empresarial San José, S.A. ("the Company") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position at 31 December 2010 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. 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 the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of Grupo Empresarial San José, S.A. and Subsidiaries at 31 December 2010, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

3. Without qualifying our audit opinion, we draw attention to Note 16.3 to the accompanying consolidated financial statements relating to the global economic and financial situation and, in particular, the situation of the construction and property industries in Spain, which has caused the Group to incur losses in recent years. In this context, on 21 April 2009, Grupo Empresarial San José, S.A. completed a process to renegotiate all its bank borrowings in order to adjust its financial obligations to the situation of the aforementioned industries, adapting the Group's financial structure to the cash flows envisaged in the Business Plan for 2009-2013.

4. The accompanying consolidated directors' report for 2010 contains the explanations which the directors of Grupo Empresarial San José, S.A. 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 2010. 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 Grupo Empresarial San José, S.A. and Subsidiaries.

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

Miguel Laserna Niño
25 February 2011

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union. In the event of discrepancy, the Spanish-language version prevails.

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GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

Consolidated Balance Sheet at 31 December 2010 and 2009.

(Thousands of Euros)

ASSETS	31-12-10	31-12-09
NON-CURRENT ASSETS		
Property, plant and equipment (Note 7)	**98,426**	**103,405**
Investment property (Note 8)	**556,666**	**553,353**
Goodwill on consolidation (Note 9)	**15,465**	**15,465**
Intangible assets (Note 10)	**1,502**	**1,937**
Investments in associates and joint ventures	**83,662**	**76,001**
Equity investments in associates (Note 11)	68,207	60,760
Loans to related companies (Note 13.4.)	15,455	15,241
Other non-current financial assets (Note 13.4)	**20,868**	**17,067**
Deferred tax assets (Note 20.4)	**75,218**	**82,230**
TOTAL NON-CURRENT ASSETS	**851,807**	**849,458**
CURRENT ASSETS		
Inventories (Note 12)	**1,278,996**	**1,329,289**
Trade and other receivables	**546,434**	**624,843**
Trade receivables for sales and services (Note 13.1)	506,430	571,623
Related companies receivables (Note 23)	473	419
Sundry accounts receivable	5,867	16,012
Public administrations (Note 20.6)	28,386	32,843
Other current assets	5,278	3,946
Other current financial assets (Note 13.3)	**19,805**	**10,578**
Cash and cash equivalents (Note 13.2)	**172,777**	**178,920**
TOTALCURRENT ASSETS	**2,018,012**	**2,143,630**
TOTAL ASSETS	**2,869,819**	**2,993,088**

EQUITY AND LIABILITIES	31-12-10	31-12-09
EQUITY		
Share capital	**1,951**	**1,951**
Issuance premium	**155,578**	**155,578**
Reserves	**263,763**	**306,421**
Translation differences	**(16,595)**	**(18,670)**
Equity-Valuation adjustments	**(16,423)**	**(21,639)**
Profit for the year attributable to the parent company	**(21,534)**	**(43,569)**
Equity attributable to shareholders of the Parent	**366,740**	**380,072**
Minority interests	**28,856**	**33,271**
TOTAL EQUITY (Note 14)	**395,596**	**413,343**
NON-CURRENT LIABILITIES		
Long-term provisions (Note 15)	**26,899**	**25,578**
Non-current bank borrowings (Note 16)	**1,396,059**	**1,390,006**
Bank loans and overdrafts	1,376,694	1,366,749
Finance lease creditors	4,854	5,871
Other financial liabilities	14,511	17,386
Derivative financial instruments (Note 17)	**30,706**	**40,217**
Deferred tax libilities (Note 20.4)	**66,035**	**90,858**
TOTAL NON-CURRENT LIABILITIES	**1,519,699**	**1,546,659**
CURRENT LIABILITIES		
Current payables	**23,604**	**25,390**
Current bank borrowings (Note 16)	**377,801**	**412,164**
Bank loans and overdrafts	372,645	403,215
Finance lease creditors	999	928
Other financial liabilities	4,157	8,021
Derivative financial instruments (Note 16 and 17)	**623**	-
Payables to related companies (Note 23)	**16,001**	**14,397**
Trade and other payables	**536,495**	**581,135**
Trade payables (Note 18.1 and 18.3)	466,917	512,312
Tax payables (Note 20.6)	53,521	51,568
Other current liabilities (Note 18.2)	16,057	17,255
TOTAL CURRENT LIABILITIES	**954,524**	**1,033,086**
TOTAL EQUITY AND LIABILITIES	**2,869,819**	**2,993,088**

Accompanying Notes 1 to 26 to the Consolidated Annual Report and Annex I, II and III are an integral part of the Consolidated Balance Sheet at 31 December 2010.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union. In the event of discrepancy, the Spanish-language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

Income statement for
2010 and 2009
(Thousand of Euros)

	Year 2010	Year 2009
CONTINUING OPERATIONS		
Revenue (Note 22.1)	**852,251**	**1,083,599**
Sales	788,485	1,030,342
Provisions of services	63,766	53,257
Other operating income (Note 22.1)	**13,304**	**8,942**
Gains on disposal of investment property	**482**	**-**
Change in inventories of finished goods and work in progress (Note 22.11)	**(29,006)**	**(86,076)**
Procurements (Note 22.2)	**(529,858)**	**(691,346)**
Cost of raw materials amd other consumables used	(152,247)	(232,201)
Works performed by other companies	(367,248)	(451,420)
Impairment of goods held for resale, raw materuials and other supplies	(10,363)	(7,725)
Staff costs (Note 22.3)	**(126,555)**	**(147,903)**
Wages, salaries and similar expenses	(100,347)	(116,776)
Employee benefit costs	(26,208)	(31,127)
Other operating expenses	**(134,884)**	**(145,711)**
Losses on impairment and change in allowances for trade receivables	(11,921)	(15,673)
Oher current operating expenses (Note 22.2)	(122,963)	(130,038)
Depreciation and amostisation charge (Notes 7, 8 and 10)	**(14,016)**	**(14,620)**
Excessive provisions (Note 22.10)	**1,487**	**17,490**
Impairment and gains or losseis on disposals of non-current assets (Note 22.9)	**(8,472)**	**(11,565)**
PROFIT FROM OPERATIONS	**24,733**	**12,810**
Finance income (Note 22.7)	**6,929**	**8,636**
Finance costs (Note 22.8)	**(60,818)**	**(79,844)**
Changes in fair value of financial instruments (Note 4.11)	**(3,402)**	**(4,693)**
Exhange differences	**2,313**	**(2,164)**
Impairment and gains or losses on disposals of financial instruments (Note 2.4.d)	**(5,682)**	**(1,623)**
FINANCIAL LOSS	**(60,660)**	**(79,688)**
Result of companies accounted for using the equity method (Note 11)	**2,549**	**(1,701)**
PROFIT (LOSS) BEFORE TAXES	**(33,378)**	**(68,579)**
Income tax (Note 20)	**9,796**	**24,267**
PROFIT (LOSS) FOR THE YEAR FROM CONTNUIING OPERATIONS	**(23,582)**	**(44,312)**
PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTEREST (Note 14.8)	**(2,048)**	**(743)**
PROFIT (LOSS) FOR THE YEAR	**(21,534)**	**(43,569)**

Accompanying Notes 1 to 26 to the Annual Report and Annex I, II and III form an integral part of the comsolidated income stratement for 2010

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GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

Consolidated statement of Cash Flows for 2010 and 2009

(Thousands of Euros)

	Year 2010	Year 2009
Cash Flows from operating activities		
(+) Profir (Loss) before tax	(33,377)	(68,579)
(+) Depreciation and amortisation charge	14,016	14,620
(+/-) Changes in operating allowances	30,072	42,567
(-) Financial income	(6,929)	(8,636)
(+) Financial costs	60,818	79,844
(+/-) Exchange differences	(2,313)	2,164
(+/-) Result of chages in value of financial instruments	3,402	4,693
(+/-) Result of companies accounted for using the equity method	(2,549)	1,701
(+/-) Other gains or losses	5,130	2,716
Total Cash Flows from operating activities	**68,270**	**71,090**
Other adjustments		
(+/-) (Increase) / Decrease in working capital	41,223	(58,720)
(+/-) Other collections/ (payments) due to operating activities	(2,156)	18,877
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	107,337	31,247
Investments:		
(-) Property, plant and equipment and investment property	(6,846)	(22,560)
(-) Intangible assets	(398)	(1,273)
(-) Shares and other financial assets	(15,845)	(14,998)
Total Investments	**(23,089)**	**(38,831)**
Dividends received:	**751**	**152**
Disposals:		
(+) Property, plant and equipment and investment property	1,180	2,051
(+) Intangible assets	79	13
(+) Shares and other financial assets	1,570	6,783
Total Disposals	**2,829**	**8,847**
Other collections/ (payments) due to operating activities	**(4,928)**	**(4,166)**
2. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	(24,437)	(33,998)
Other collections/ (payments) due to treasury share transactions	**(129)**	**22,424**
Dividends paid	**-**	**-**
Increase/ (decrease) in borrowings	**(34,722)**	**105,307**
Net interest		
Received	2,978	8,484
Paid	(60,005)	(90,292)
Total net interests	**(57,027)**	**(81,808)**
Other collections/ (payments) due to financing activities	**2,835**	**(8,040)**
3. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	(89,043)	37,883
TOTAL CASH FLOWS FOR THE YEAR	(6,143)	35,129

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	178,920	143,791
Changes in the year	(6,143)	35,129
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	172,777	178,920

Accompanying Notes 1 to 23 to Annual Report and Annex I, II and III are an integral part of the consolidated statement of Cash Flows for 2010.

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GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR 2010 AND 2009

A) STATEMENT OF RECOGNISED INCOMED AND EXPENSES

(Thousands of Euros)

	Year 2010	Year 2009
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**(23,582)**	**(44,312)**
Income and expenses recognised directly in equity		
- Cash flow hedges	(9,253)	(20,156)
- Other	(60)	-
- Tax effect	2,723	6,047
	(6,590)	**(14,109)**
Transfers to income statement		
- Cash flow hedges	17,070	13,830
- Other	(204)	-
- Tax effect	5,060	(4,149)
	11,806	**9,681**
TOTAL RECOGNISED INCOME / (EXPENSES)	**(18,366)**	**(48,740)**
a) Attributable to the Parent	**(16,318)**	**(47,997)**
b) Atributable to Minority Interests	**(2,048)**	**(743)**

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GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2010 AND 2009.

B) STATEMENTS OF CHANGES IN TOTAL EQUITY

(Thousands of Euros)

	Capital	Issuance premium	Legal Reserve	Other reserves of the Parent	Consolidated reserves		Translation differences	Adjustments to equity	Proft (Loss) for the year	Equity attributable to the Parent	Minority Interests	Total Equity
					In IG/IP companies	In associates						
Balance at 31 December 2008	1,312	7,838	263	31,549	169,071	15,226	(9,270)	(7,684)	(46,359)	161,946	273,286	435,232
Distribution 2008 profit:												
-to reserves	-	-	-	5,071	(51,430)	-	-	-	46,359	-	-	-
Translations differences	-	-	-	-	-	-	(9,400)	-	-	(9,400)	(2,359)	(11,759)
Capotal increase and merger (Note 1)	639	147,740	-	130,530	(47,033)	-	-	-	-	231,876	(214,617)	17,259
Adjustments to equity	-	-	-	-	-	-	-	8,553	-	8,553	(8,553)	-
Changes in the scope of consolidations (Note 1)	-	-	-	-	-	-	-	-	-	-	11,800	11,800
Transfers	-	-	-	-	20,688	-	-	(14,076)	-	6,612	-	6,612
Others (Note 1)	-	-	-	(1)	34,489	(2,001)	-	(4,004)	-	28,482	(25,543)	2,939
Recognised income and expenses	-	-	-	-	-	-	-	(4,428)	(43,569)	(47,997)	(743)	(48,740)
Balance at 31 December 2009	1,951	155,578	263	167,149	125,785	13,225	(18,670)	(21,639)	(43,569)	380,072	33,271	413,343
Distribution 2009 profit:												
-to reserves	-	-	-	(74,257)	32,389	(1,701)	-	-	43,569	-	-	-
Translations differences	-	-	-	-	-	-	2,075	-	-	2,075	457	2,532
Changes in the scope of consolidations (Note 1)	-	-	-	-	910	-	-	-	-	910	(2,824)	(1,914)
Recognised income and expenses	-	-	-	-	-	-	-	5,216	(21,534)	(16,319)	(2,048)	(18,366)
Balance at 31 December 2010	1,951	155,578	263	92,892	159,085	11,524	(16,595)	(16,423)	(21,534)	366,739	28,856	395,596

Notes 1 to 26 together with Appendix I, II and III form an integral part of the consolidated Statement of Changes in Equity for year 2010.

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Grupo Empresarial San José, S.A. and Subsidiaries

Notes to the Consolidated Financial Statements for 2010

1. Group activity

Grupo Empresarial San José, S.A. (hereinafter "the Parent"), formerly Udra S.A., 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 Pontevedra notary, Rafael Sanmartín Losada, under number 1539 of his protocol.

At the Ordinary and Extraordinary General Shareholders Meeting of the Company held on 17 June 2008, it was agreed to change the corporate name into that of "Grupo Empresarial San José S.A.", which was duly formalised by means of a public deed dated 17 July 2009.

The Parent is registered in the Mercantile Register of Pontevedra on sheet 88 of the Companies book 586, entry no. 1 on page no. 8119. Its employer identification number is A-36.046.993.

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

Activities

The activities carried on by the Parent and its investees (Grupo San José) 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. Lease of all manner of assets.

5. Design, construction and management of electricity and renewable energy facilities.

6. Storage, distribution, purchase and sale and import of manufactured products.

7. Management and recruitment of personnel for all types of company, association and organisation.

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

9. Full maintenance of hospital facilities, maintenance of operating theatres and electro medical equipment, and manufacture and sale of integrated systems for operating theatres, ICUs and patient rooms.

10. 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.

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11. Healthcare: construction of hospital facilities and public and private healthcare maintenance services; electro medicine and gas facilities and maintenance.

12. Installation work and services: integral installation work, electrical, mechanical and hydraulic installation work, turnkey projects and special installation work, as well as the maintenance of all manner of other facilities not related to the healthcare industry such as industrial facilities, other properties, etc.

13. Infrastructure and transport: performance of infrastructure and transport studies, projects and installation work, including those relating to airports, ports, railways and other types of transport infrastructure.

14. Energy and environment: performance of studies and projects focused on the production and sale of energy and industrial maintenance, waste water treatment, installation of water treatment plants and other environmental activities.

The Group companies, whose business activities have to meet certain environmental requirements, have adopted the relevant environmental measures in order to comply with current legislation in this connection. Since the costs relating to these requirements are not considered to be material with respect to equity, financial position and results of these companies, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

Under no circumstances shall the company object be deemed to include activities the performance of which requires any type of administrative authorisation which the Company does not hold.

Also, the Parent may subscribe to, purchase or acquire by any other means shares and/or other equity interests in other public and private limited companies, even if their company object differs from that of Grupo Empresarial San José, 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 may have.

Furthermore, Grupo Empresarial San José, S.A. is the 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 it has a material and lasting ownership interest.

The San José Group's activities are led by Grupo Empresarial San José, S.A. (a holding and real estate company), which in turns mainly participates in: Constructora San José, S.A. (construction), San José Desarrollos Inmobiliarios, S.A. (formerly Inmobiliaria Udra, S.A.) (Real estate), Sanjose Tecnologías, S.A.U. (technology), San José Energía y Medio Ambiente, S.A. (energy), and Desarrollos Urbanísticos Udra, S.A. (urban development).

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.

Segregation of branch of activity of Grupo Empresarial San José, S.A. (formerly, Udra, S.A.) and capital increase at San José Desarrollos Inmobiliarios, S.A. (formerly, Inmobiliaria Udra, S.A.)

The shareholders at the Ordinary and Extraordinary General Meeting Grupo Empresarial San José, S.A., held on 28 June 2010 resolved to approve the segregation of the real estate branch activity of the company, being the beneficiary San José Desarrollos Inmobiliarios, S.A.

Grupo Empresarial San José, S.A. has resolved to segregate the real estate business and transfer this activity to San José Desarrollos Inmobiliarios, S.A. that increases its share capital. The total number of shares representing this capital increase is allotted to Grupo Empresarial San José, S.A. who subscribes shares by providing the segregated branch activity business.

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Capital increase of the beneficiary company does not include irrevocable subscription.

The segregation transaction is subject to the Structural Modifications Act 3/2009, Chapter VIII, Tile VII, mergers, segregations, transfer of assets and exchange of shares established by Legislative Royal Decree 4/2004 on 5 March on Profit Tax.

The total value of the branch amounts to EUR 33,945 thousand according to the segregation balance at 31 December 2009, according to the study executed by KPMG, acting as independent expert appointed by the Trade Registrar of Pontevedra, and its report issued on 11 May 2010.

Consequently, the receiving company increases its share capital in EUR 31,267 thousand arranged into 5,211,192 shares of EUR 6.00 par value each and share premium of EUR 2,678 thousand. The new shares bear the right to share profit from 1 January 2010.

This transaction was recorded at the Registrar of Companies of Pontevedra on 7 September 2010

Spin-off of San José Tecnologías, S.A.U. in favour of Constructora San José, S.A., Sanjosé Energía y Medio Ambiente, S.A. and Sanjosé Concesiones y Servicios, S.A.U.

In the first half of the year 2010, the Board of Directors of San José Tecnologías, S.A.U., Constructora San José, S.A., Sanjosé Energía y Medio Ambiente, S.A. and Sanjosé Concesiones y Servicios, S.A.U., have agreed on the spin-off of the company San José Tecnologías, S.A.U. and its division into three business activities, each of which is transferred en bloc to the beneficiary company assuming the shares of the divided company according to its participation percentage.

The business activities are identified:

- Engineering and industrial construction, including construction, mechanical, electrical, plumbing, telecommunications and mechanical assembly facilities of any type of building, infrastructure, transport network, and industrial plant, even renewable and cogeneration power plants. This business activity is executed by SANJOSE TECNOLOGIAS S.A.U., and associates. Net value of the business activity branch amounts to EUR 5,045 thousand according to the balance sheet at 31 December 2009.

  The beneficiary entity of this branch of activity is CONSTRUCTORA SAN JOSE, S.A., who will increase its share capital in EUR 74 thousand due to the issuance of 28,446 shares of EUR 2.60 par value each fully subscribed and paid up. These shares have an issuance premium of EUR 4,971 thousand

- Maintenance of all type of facilities, including real estate maintenance activities (residential buildings, administrative buildings, sport facilities or industrial installations), maintenance of electro medicine equipment, telecommunications, treatment of gases or fire protection, maintenance of sanitary facilities and integral management of buildings and facilities of whatever use, cleaning, gardening and maintenance activities, restoration and refurbishment by SANJOSE TECNOLOGIAS S.A.U., or by of its associates. At 31 December 2009, net value of the business activity branch amounts to EUR 2,386 thousand.

  Beneficiary entity of this branch of activity is SANJOSE CONCESIONES Y SERVICIOS S.A.U., who increases its share capital in EUR 2,386 thousand by the issuance of 397,686 shares of EUR 6,00 par value each fully subscribed and paid up. New shares do not have issuance premium.

- Energy development and electricity generation through the development, management and maintenance of power plants of any type of electricity, heat, thermal, cogeneration energy or even wind, solar, biomass, biogas, hydraulic and renewable energies. This branch of activity is developed by SANJOSE TECNOLOGIAS S.A.U., and associates. At 31 December 2009, net value of business activity amounts to EUR 3,978 thousand.

  Beneficiary entity of his branch of activity is SANJOSE ENERGIA Y MEDIO AMBIENTE, S.A who increases its share capital in EUR 3,978 thousand by the issuance of 3,978,415 shares of EUR 1 par value each fully subscribed and paid up. New shares do not have issuance premium.

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The aforementioned spin-off will qualify for taxation under the tax neutrality regime provided for in Chapter VIII of Title VII on the Special Regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 of 5 March approving the Consolidated Spanish Corporation Tax Law.

At the date of issuing the attached financial statements, the aforementioned transaction was pending record at the Mercantile Register.

Transactions executed within the Group during previous years:

Merger of Parquesol Inmobiliaria y Proyectos, S.A. and its investees Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestión, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. and Parque Usera, S.L.

On 7 April 2008, the directors of the group company Parquesol Inmobiliaria y Proyectos, S.A. (absorbing company) and of its subsidiaries Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestión, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. and Parque Usera, S.L. signed a merger by absorption plan, which was filed at the Madrid and Valladolid Companies Registry for subsequent publication at the Official Gazette of the Companies Mercantile Registry (BORME).

The aforementioned "Merger Plan" was approved by the shareholders at the respective Annual General Meetings of the companies involved in the merger on 26 June 2008.

On completion of this merger, Parquesol Inmobiliaria y Proyectos, S.A. (currently and by virtue of the aforementioned merger, Grupo Empresarial San José S.A.) now occupies the legal position of the absorbed companies and will be the sole legal person in terms of the ownership, management and disposal of the assets of the absorbed companies.

The transactions of the absorbed companies will be considered to have been performed by Parquesol Inmobiliaria y Proyectos, S.A. (absorbing company) for accounting purposes from 1 January 2008.

Since at the date of the merger all the share capital of the absorbed companies was owned directly or indirectly by the absorbing company, it was not necessary to increase the share capital of the latter or exchange shares or other equity interests.

This merger qualified for taxation under the special tax regime provided for in Chapter VIII of Title VII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Corporation Tax Law, of which the tax authorities will be formally notified.

Merger of Udra, S.A. (currently GRUPO EMPRESARIAL SAN JOSÉ, S.A.) and Grupo Empresarial San José S.A., San José Infraestructuras y Servicios, S.A., Udramed, S.L.U., Parquesol Inmobiliaria y Proyectos, S.A. and LHOTSE Desarrollos Inmobiliarios, S.L.

On 7 April 2008, the directors of GRUPO EMPRESARIAL SAN JOSÉ, S.A. (formerly, Udra S.A., absorbing company) and of the subsidiaries of Grupo Empresarial San José, S.A., San José Infraestructuras y Servicios, S.A., Udramed, S.L.U., Parquesol Inmobiliaria y Proyectos, S.A. and LHOTSE Desarrollos Inmobiliarios, S.L. signed a merger by absorption plan, which was filed at the Pontevedra, Madrid and Valladolid Mercantile Registries for subsequent publication in the Mercantile Registry Official Gazette (BORME).

On 19 and 20 May 2008 the requisite independent valuers' reports were prepared on the content of the merger plan detailed and on the assets and liabilities contributed by the absorbed companies, together with the directors' report explaining and giving reasons for the merger from the legal and economic standpoint, making special reference to the share exchange ratio and the specific valuation difficulties encountered.

The aforementioned "Merger Plan" was approved by the shareholders at the respective Annual General Meetings of the companies involved in the merger on 26 and 27 June 2008. However, at 31 December 2008, the corresponding public deeds had not yet been executed or filed at the relevant Mercantile Registries.

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The transactions of the absorbed companies are considered to have been performed by the Company (absorbing company) for accounting purposes from 1 January 2008. The aforementioned public deed was registered at the Mercantile Registry on 17 July 2009. After completion of said registration on 20 July 2009, the Company started to quote on the stock exchange.

On completion of this merger, GRUPO EMPRESARIAL SAN JOSÉ, S.A. (formerly, Udra S.A.) now occupies the legal position of the absorbed companies and will be the sole legal person in terms of the ownership, management and disposal of the assets of the absorbed companies.

The aforementioned merger entails proportionally consolidating 100% of the balances and transactions of the Company Lhotse Desarrollos Inmobiliarios, S.L, in the Group's Consolidated Financial Statements. As by 31 December 2008 said company was under joint control, it was therefore proportionally consolidated. The effect on the Consolidated Equity attributable to the Group at 1 January 2009 consists of an increase of EUR 17,257 thousand, due to the capital increase in order to include this company's minority share.

In addition, completion of said merger entails that certain effects on Equity, such as adjustments to equity, which at 31 December 2008 were attributed to minority interests, may now directly affect the Parent's shareholders.

This merger qualified for taxation under the special tax regime provided for in Chapter VIII of Title VII of Legislative Royal Decree 4/2004 of 5 March approving the Consolidated Spanish Corporation Tax Law, of which the tax authorities will be formally notified.

Merger of Sanjose Tecnologías, S.A.U and the investees: Artel Ingenieros S.L.U., SefriIngenieros S.A.U., Instal 8 S.A.U. and SM Klima S.A.U.

The shareholders at the Annual General Meetings of Sanjose Tecnologías, S.A.U., Artel Ingenieros S.L.U., SefriIngenieros S.A.U., Instal 8 S.A.U. and SM Klima S.A.U., held on 30 June 2008, approved the plan for the merger of these companies through their absorption by Sanjose Tecnologías, S.A.U. The merger balance sheets approved are those at 31 December 2007, which were included in the audited annual financial statements of that year.

The aforementioned merger took place through the absorption of Artel Ingenieros S.L.U., SefriIngenieros S.A.U., Instal 8 S.A.U. and SM Klima S.A.U. by Sanjose Tecnologías, S.A.U., and the absorbing company acquired all of the assets and liabilities of the absorbed companies through the transfer en bloc of all the assets, rights and obligations of all types of the absorbed companies to the absorbing company, which acquired them by universal succession and which was subrogated to all the rights and obligations of the absorbed companies, which will be dissolved without liquidation once the merger has been definitively registered at the Mercantile Registry.

Pursuant to Article 250 of the Consolidated Spanish Companies Law, since Sanjose Tecnologías, S.A.U. owns all the shares of Artel Ingenieros S.L.U., SefriIngenieros S.A.U., Instal 8 S.A.U. and SM Klima S.A.U., it is not necessary to increase the share capital of the absorbing company or fix a share exchange ratio. Similarly, neither the directors nor independent valuers are required to prepare reports in relation to the merger plan.

The assets and liabilities transferred in the merger were included in the accounting records of Sanjose Tecnologías, S.A. at the same amounts as those at which they had been carried in the accounting records of the absorbed companies.

The transactions of the absorbed companies will be considered to have been performed by Sanjose Tecnologías, S.A. for accounting purposes from 1 January 2008.

The aforementioned merger qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004 of 4 March, approving the Consolidated Spanish Corporation Tax Law.

No tax benefits were enjoyed by Artel Ingenieros S.L.U., Sefri Ingenieros S.A.U., Instal 8 S.A.U. and SM Klima S.A.U., in respect of which Sanjose Tecnologías, S.A. must assume the fulfilment of certain requirements, pursuant to Articles 90.1 and 90.2 of the aforementioned Legislative Royal Decree 4/2004.

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Spin-off of investee Tecnocontrol, S.A.U. branch of activity in favour of Tecnocontrol Servicios, S.A.U.

At the Annual General Meeting held on 30 June 2009, Tecnocontrol Servicios S.A.U., Tecnocontrol S.A.U. and San José Tecnologías S.A.U. approved the partial spin-off of "Tecnocontrol S.A.U." and "Tecnocontrol Servicios S.A.U." by unanimous decision of the sole shareholder of both companies —"San José Tecnologías S.A.U."— as regards the department engaged in corrective and preventive maintenance of mechanical, electrical and plumbing facilities of "Tecnocontrol, S.A.U." in favour of "Tecnocontrol Servicios S.A.U". The merger balance sheets approved are those at 31 December 2008, which were included in the audited annual financial statements of that year.

As a result of the partial spin-off of Tecnocontrol S.A.U. assets and liabilities, Tecnocontrol Servicios S.A.U., by universal succession and transfer en bloc, will acquire all the legal obligations related to the aforementioned assets and liabilities, with the beneficiary company assuming all the impairment and obligations arising from the spin-off equity. The aforementioned partial joint spin-off project has been duly formalised through public deed dated 28 December 2009, and submitted to the Mercantile Register for registration on 30 December 2009. The final registration at the Mercantile Register is dated 22 January 2010.

The aforementioned merger qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004 of 4 March, approving the Consolidated Spanish Corporation Tax Law.

No tax benefits were enjoyed by Tecnocontrol in respect of which Tecnocontrol Servicios S.A.U and San José Tecnologías S.A.U must comply with certain requirements pursuant to Articles 90.1 and 90.2 of said Royal Decree 4/2004.

Merger by absorption of Sanjose Tecnologías, S.A.U. and the investee Tecnocontrol, S.A.U.

Sanjose Tecnologías S.A.U., and Tecnocontrol S.A.U. Annual General Meetings, held on 30 June 2009, approved the joint spin-off of business branch and merger by absorption project of Tecnocontrol S.A.U. as the absorbed company by Sanjosé Tecnologías, S.A., as absorbing company. The merger balance sheets approved are those at 31 December 2008.

The aforementioned merger was executed through the absorption of Tecnocontrol S.A.U. by San José Tecnologías. pursuant to article 233 SCA, which implies the extinction of the absorbed company, the transfer en bloc of its assets and liabilities to the absorbing company, acquiring by universal succession the absorbed company's rights and obligations. The aforementioned joint merger project has been duly made public through public deed dated 28 December 2009, and submitted to the Mercantile Register for registration on 30 December 2009. The final registration at the Mercantile Register is dated on 22 January 2010.

Pursuant to Article 250 of the Consolidated Spanish Companies Law, since Sanjose Tecnologías, S.A.U. owns all the shares of Tecnocontrol S.A.U., it is not necessary to increase the share capital of the absorbing company or fix a share exchange ratio. Similarly, neither the directors nor independent valuers are required to prepare reports in relation to the merger plan.

The assets and liabilities transferred in the merger will be included in the accounting records of Sanjose Tecnologías, S.A.U. at the same amounts as those at which they are carried in the accounting records of the absorbed companies.

The transactions of the absorbed companies are considered to have been performed by Sanjose Tecnologías S.A.U.as from 1 January 2009. These transactions were reflected in the accounts upon completion of the merger through its registration at the Mercantile Registry.

The aforementioned merger qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004, of 4 March, approving the Consolidated Spanish Corporation Tax Law.

No tax benefits were enjoyed by Tecnocontrol S.A.U., in respect of which Sanjose Tecnologías S.A.U must assume the fulfilment of certain requirements, pursuant to Articles 90.1 and 90.2 of the aforementioned Legislative Royal Decree 4/2004.

Merger of Constructora San José, S.A. and the investees: Alcava Mediterránea, S.AU., Constructora Avalos, S.A.U., BalltagiMediterrani, S.A.U. and Construcción, Rehabilitación y Conservación., S.L.U.

The shareholders at the Annual General Meeting of Constructora San José, S.A. held on 28 June 2008 and those at the Annual General Meetings of Alcava Mediterránea, S.AU., Constructora Avalos, S.A.U., BalltagiMediterrani, S.A.U. and Construcción, Rehabilitación y Conservación., S.L.U. held on 30 June 2008 approved the plan for the merger of these companies through the absorption of the latter companies by Constructora San José, S.A. The merger balance sheets approved are those at 31 December 2007, which were included in the annual financial statements of that year.

The aforementioned merger took place through the absorption of Alcava Mediterránea, S.AU., Constructora Avalos, S.A.U., BalltagiMediterrani, S.A.U. and Construcción, Rehabilitación y Conservación., S.L.U. by Constructora San José, S.A., and the absorbing company acquired all of the assets and liabilities of the absorbed companies through the transfer en bloc of all the assets, rights and obligations of all types of the absorbed companies to the absorbing company, which acquired them by universal succession and was subrogated to all the rights and obligations of the absorbed companies, which were dissolved without liquidation once the merger plan had been executed in a public deed and registered at the Mercantile Registry on 17 February 2009.

Pursuant to Article 250 of the Consolidated Spanish Companies Law, since Constructora San José, S.A. owns all the shares of Alcava Mediterránea, S.A.U., Constructora Avalos, S.A.U., BalltagiMediterrani, S.A.U. and Construcción, Rehabilitación y Conservación., S.L.U., it is not necessary to increase the share capital of the absorbing company or fix a share exchange ratio. Similarly, neither the directors nor independent valuers are required to prepare reports in relation to the merger plan.

The assets and liabilities transferred in the merger were included in the accounting records of Constructora San José, S.A. at the same amounts as those at which they had been carried in the accounting records of the absorbed companies.

The transactions of the absorbed companies are considered to have been performed by Constructora San Jose, S.A. for accounting purposes from 1 January 2008.

The aforementioned merger qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004 of 4 March, approving the Consolidated Spanish Corporation Tax Law.

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

2.1 Accounting principles

These consolidated financial statements for 2010 of Grupo Empresarial San José, S.A. and Subsidiaries ("Grupo San José " or "the Group") are formally prepared by the Parent's directors, in accordance with 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"), taking into account all the mandatory accounting principles and rules and measurement bases in IFRSs, and, accordingly, they present fairly the Grupo San Jose's consolidated equity and financial position at 31 December 2010 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Grupo San José'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

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accounting principles and rules 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 IFRSs.

The consolidated financial statements of Grupo San José and Subsidiaries for 2009, prepared in accordance with EU-IFRSs, were approved by the shareholders at the Annual General Meeting of Grupo Empresarial San José, S.A. (formerly named Udra, S.A.) held on 28 June 2010. Also, the 2010 consolidated financial statements of the Group and the individual financial statements of the Group companies for 2009 have not yet been approved by the shareholders at the respective Annual General Meetings. However, the Parent's directors consider that the aforementioned consolidated financial statements will be approved without any changes.

Standards and interpretations applicable for the year

New accounting standards were enforced in 2010 and therefore they were taken into account when preparing the consolidated financial statements attached hereto:

- IFRS 3 Revision, "Business Combinations". The revised version of this regulation modifies the recognition of business combination, scope, goodwill measurement and recognisition and measuring the fair value of the acquiree.

- IAS 27 Amendment, "consolidated and individual financial statements!. It modifies the recognition of changes in equity ownership of companies of the Group and external partners.

- IAS 39 Amendment, "Financial instruments: recognition and measurement of eligible hedged items". Guide of eligible hedge items.

- IFRS 2 Amendment , "Share-based payments within the Group". Detailed explanation on share-based payments within the companies of the Group.

- IFRS 5 Amendment, "Loss of control of a subsidiary".

- IFRIC 12, "Service Concession Arrangements ". It deals with Service Concession Arrangements where a private company executes or acquires new or existing infrastructure for public use (see Note 13.4.4).

- IFRIC 15, "Agreements for the Construction of Real Estate". How should property development recognise income when selling products before completion.

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation". Hedges regarding exchange rate risk, hedge instruments and adjustments due to reinvestments.

- IFRIC 17, "Distributions of Non-cash Assets to Owners ".

- IFRIC 18, "Assets received from customers".

These amendments have not had a significant impact on 2010 consolidated financial statement,

IFRS 1" Presentation of Financial Statements " and IFRS 7 Amendments "Additional Breakdown" were enforced in 2009.

At the date of preparation of these consolidated financial statements the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their date of effectiveness is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

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		Obligatory application
Standards, amendments and interpretations:		
IAS 24 Revision	Redefinition related parts and reduction of information requirement.	1 January 2011
IFRS 9 (1)	It replaces IFRS 39 on classification, assets and liabilities measurement requirements.	1 January 2013
IFRS 7 (I) Amendment	Breakdown on transfers of financial assets.	1 July 2011
Standards, amendments and interpretations:		
IFRS 14 Amendment	Minimum Obligatory Advance Payments	1 January 2011
IFRIC 19 Amendment	Payment of financial liabilities with equity instruments	1 July 2010

(1) Standards, amendments and interpretations not adopted by the European Union at the date of the preparation of these consolidated financial statements.

The directors have assessed the potential impact of applying these standards in the future and consider that their entry into force will not have a material effect on the consolidated financial statements.

2.2 Responsibility for the information and use of estimates

The information in these consolidated 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 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:

1. The useful life of the property, plant and equipment and intangible assets (see Notes 4.3 and 4.4).
2. Measurement of goodwill arising on consolidation (see Note 4.2).
3. The budgetary estimates which are considered for the recognition of results on contracts to which the percentage of completion method is applied (construction and industrial areas, see Note 4.12).
4. Assessment of potential impairment losses (see Notes 4.2, 4.5, 4.7 and 4.9).
5. The probability of occurrence and the amount of uncertain or contingent liabilities (see Note 4.17).
6 The classification of leases as operating or financial leases (see Note 4.6)
7. The fair value of certain financial instruments (see Note 4.9).
8. The fair value of assets and liabilities resulting from business combinations (see Note 2.4).

Although these estimates were made on the basis of the best information available at 31 December 2010 on the events analysed, events that might take place in the future might make it necessary to significantly change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the consolidated income statements for the years affected.

2.3 Currency

These consolidated financial statements are presented in Euros, since this is the functional currency of the main economic environment in which the SANJOSE Group operates. Foreign operations are recognised in accordance with the policies established in Note 4.14.

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The breakdown of the closing and average exchange rates of the period used to prepare the consolidated financial statements for 2010 is as follows:

Country	Currency	Closing Rate at 31.12.2010	Average Exchange Rate for 2010
United States	US Dollar	1.32	1.33
Mexico	Mexican peso	16.39	16.83
Argentina	Argentine peso	5.26	5.19
Panama	Panamanian balboa	1.30	1.31
Peru	Peruvian sol	3.68	3.72
Cape Verde	Cape Verde escudo	110.26	110.26
Chile	Chilean peso	612.20	666.50
Romania	Romanian Leu	4.27	4.20
India	Rupee	60.06	60.76

None of these countries are considered to be hyperinflationary economies as defined by IAS 29

At 31 December 2010, main balances and transactions in foreign currency correspond to those from Chile, Peru and Argentina and provide the Group with total assets and turnover for year 2010 of EUR 222,466 thousand and EUR 59,221 thousand, respectively (see Note 6).

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 owns directly or indirectly half or more of the voting power of the investee or, if this percentage is lower, when there are agreements with other shareholders of the investee that give the Parent control.

Inmoprado Laguna, S.L., in which the Group holds ownership interests of 50%, has been fully consolidated in these consolidated financial statements, as well as in those for 2009 because the Group exercises, in practice, effective control over them.

The investment in the Group Company Otoño, S.L. was accounted for using the equity method because it is scantly material with respect to the fair presentation that the consolidated financial statements should provide.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are recognised 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 or loss on the acquisition date.

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The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised. Subsequently, any losses applicable to the minority interests in excess of the carrying amount of these minority interests are recognised with a charge to the Parent's investments. The minority's share of:

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

2. The profit or loss for the year: It is presented under "Profit (Loss) Attributable to 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 (unincorporated joint ventures), joint property entities and economic interest groupings were included in the accompanying consolidated financial statements in proportion to the Group's interest 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 effective control or joint management. Because it usually 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 there from 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 individual investment.

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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 or 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 consolidated 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 2010 were as follows:

1. Incorporation in Santiago de Chile, dated 31 May 2010, of "Constructora San José, S.A. Agencia en Chile" with a total share capital of CLP 2,000 million (EUR 2,633 thousand), fully subscribed by "Constructora San José, S.A., having paid at 31 December 2010 CLP 1,000 million (EUR 1,317 thousand). The object of this company is the construction and operation of any type of project and assembly.

2. Acquisition of shares by the company Constructora Panameña de Aeropuertos, S.A. and subsequent reduction of share capital. This transaction modifies the participation percentage from 94.8% to 97%. Share capital is reduced from $ 1,000,000 to $ 100,000.

3. During 2010, "Constructora San José, S.A." and "Sanjose Tecnologías, S.A.U." paid up the remaining payment for the incorporation of the "Sociedad Concesionaria San José – Tecnocontrol, S.A" in year 2009 according to the agreement under concession regime granted by the State of Chile for a total of EUR 12,255 thousand. Besides, in order to offset exchange differences between CLF and EU, participation increase in EUR 244 thousand. Share capital was fully paid up at 31 December 2010.

4. Incorporation in New Delhi (India), dated 24 May 2010, of the company "San Jose India Infrastructure & Construction Private Limited" with a total share capital of Rs. 610,000 represented by 61,000 shares of which the Group, through Constructora San José, S.A., subscribes 99.99%, of Rs 610,000 (EUR 10,900) par value totally paid up. The object of this company is the development, construction and operation of infrastructure.

5. During 2010, the associate Corsabe, S.C.R., S.A., associate of "Constructora San José, S.A." by the 28.02% of its share capital, has reduced its share capital in a total of EUR 3,910 thousand by partner refund.

6. In 2010, spin-off of the real estate branch of activity of the Parent in favour of "San José Desarrollos Inmobiliarios, S.A.", parent of the Real Estate Division of the Group was completed. Therefore, this company increases its share capital in 5,211,192 shares without right for minority shareholders. This transaction was recorded at the Mercantile Register of Pontevedra on 7 September 2010 (see Note 1).

   As a result of this transaction, the Groups participation at the company increases from 94.95% to 97.17%..

7. In 2010, the Parent has increased its participation in "San José Desarrollos Inmobiliarios, S.A." in EUR 756 thousand, what represents 1.524% of its share capital, through the acquisition of shares to minority interests. This transaction was executed by exchange of treasury shares of the Parent who has sold a total of 115,431 treasury shares previously purchased at market price (see Note 14).

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8. Redemption by "Udra Medios S.A.U." of the shares of "Promoción Cultura Galega 2007, S.L.". This transaction was executed at a cost of EUR 3,025. Since situations prior to the purchase were not made public, the Group decided to execute right to redemption.

9. At 1 June 2010 agreements entered at the Extraordinary General Meeting of the Group "Supra Desarrollo Inmobiliario, S.A.", held on 19 February 2010 and which establish capital reduction and transformation of the company into a limited liability company are executed through public deed. Share capital of the company was reduced from EUR 1 million to EUR 10 thousand. The Parent owns 55% of the shares.

10. At 8 April 2010, the company "Parquesoles Portugal, SGPS, S.A." sold the shares of "Metrocity – Investimentos Imobiliarios Ibéricos, S.A." to Edifer Imobiliaria. 500,000 shares of EUR 1 par value each for EUR 600 thousand. The company distributed profit of previous years for EUR 1,350 thousand.

11. At 24 March 2010, the company Zonagest, S.L. (society in which the Group participated in 15% of its share capital through the society "San José developments real estate, S.A.") has made a reduction and subsequent capital increase. The reduction was carried out by 100% of the share capital, in the process simultaneously to carry out a capital increase amounting to EUR 2 million, in which the Group has renounced the exercise of preferential subscription rights. Thus, at 30 June 2010, the group does not maintain any participation in this society.

    The impact of the operations referred to in paragraphs 8, 9, 10 and 11 above amounts to a total of 2,352 thousand Euros, registered under the heading "deterioration and proved by disposal of financial instruments" of the account of consolidated results for the year 2010 Deputy. In addition, under this heading include the deterioration of financial accounts charge provided by the group in the year 2010.

12. At 16 December 2010, the company of the group "San José Desarrollos Inmobiliarios, S.A." entered an agreement with the partner that participates jointly to 50% equity of the company "Green Inmuebles, S.L.", who expressed the intention to proceed with a capital reduction of EUR 3,258 thousand in order to partially offset accumulated losses, and simultaneous increase capital EUR 1,119 thousand with a total share premium of EUR 4,558 thousands fully subscribed by "San José Desarrollos Inmobiliarios, S.A." and paid up through capitalization of credits.

    As a result, the group will proceed to hold 75% of the investee company.

    Such agreements have been executed through public deed at 13 January 2011.

    Pursuant to this agreement:

    - Consolidated financial statements for year 2010 include the ownership of the Group of "Green Inmuebles, S.L." by the method of global integration, as well as those for year 2009, yet taking into consideration new ownership's percentage.

    - Subsidiaries with an ownership percentage of 100% of its share capital, "Green cinemas, S.L." and "Discoval, S.L.", which were incorporated in the consolidated financial statements of the Group at 31 December 2009 by applying the equity method, have been recorded under the global integration method in year 2010. Impact on equity, including both assets and liabilities, is not relevant.

13. Incorporation at 19 November 2010 of the company "Tecnologías Renovables de Aragón, S.A." with a total share capital of EUR 61,000 represented by 61,000 shares owned by San José Energía y Medio Ambiente, S.A. who fully subscribes 100% of the shares. The main object of the company will be the production and commercialization of energy.

14. Incorporation at 6 July 2010 of the company "Tecnologíes Renovables de Catalunya, S.A." with a total share capital of EUR 61,000 represented by 61,000 shares owned by San José Energía y Medio Ambiente, S.A. who fully subscribed 100% of the shares. The main object of the company will be the production and commercialization of energy.

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15. Incorporation in Bucharest (Romania) at 8 April 2010 of the company "Pontus Euxinus Tehnologii Renovabile, S.R.L." with a total share capital of EUR 10,000 represented by 100 shares of EUR 100 par value each owned by San José Energía y Medio Ambiente, S.A., who subscribes 75% of the shares totally paid up. The object of this company is the production, transport and distribution of electrical energy.

16. At 27 May 2010 the company "Top Brands, S.A.", located in Buenos Aires (Argentina) increased its share capital to ARS 1,467,225.The company of the Group Arserex, S.A., subscribed 953,697 shares (totally paid up),increasing its ownership interest to 65% of the share capital. The object of the company is the design and trading of textiles.

The main changes in the scope of consolidation in 2009 were as follows:

1. During 2009, the Extraordinary General Meeting of "Constructora San José Argentina, S.A." approved its capital increase by 2,746,528 shares of ARS 1 par value each. This capital increase has been fully subscribed and paid by "Udra México, S.A. de C.V." The Group's ownership interest has gone from 90% at 31 December 2008 to 95.00% at 31 December 2009.

2. The purchase of shares from the Group company "Poligeneracio Parc de L'Alba ST-4, S.A.", focused on the construction, commissioning and maintenance of polygeneration plants, was executed through public deed on 23 April 2009. The "Tecnocontrol, S.A." Group Company with an 86% ownership interest at 31 December 2008 sold 600,000 shares of the former company to third parties, as initially agreed with the remaining shareholders (said operation has not generated any profits or losses for the Group). At 31 December 2009, the San José Group (through Tecnocontrol, S.A.) had, therefore, a 76% ownership interest in "Poligeneracio Parc de L'Alba ST-4, S.A." share capital.

3. The "Xornal de Galicia, S.A." Group Company had its capital increased through two operations on 15 April 2009 for EUR 2.6 million.

   Xornal de Galicia, S.A share capital at 31 December 2009 consisted, therefore, of 360,000 fully subscribed and paid shares of EUR 10.00 par value each. The San José Group, through Udra Medios, S.A.U., has reduced its ownership interest in this company from 100% at 31 December 2008, to 79.15% at 31 December 2009. The dilutive effect on equity is irrelevant.

4. On 15 January 2009, the Group company "Udra Medios, S.A.U." incorporated "Udramedios Editorial de Galicia, S.L.", with an initial EUR 4,000 share capital, represented by 400 fully subscribed and paid shares by Udra Medios, S.A.U of EUR 10.00 par value each.

5. In 2008, the San José Group, through its investee "Constructora San José, S.A.", acquired 52.5% of the Portuguese company "Zivar, Investimentos Imobiliarios, S.A." share capital. As the effect was irrelevant, a decision was made on that date not to include the aforementioned shareholding in the scope of consolidation. At 31 December 2009, said company was included in the scope of consolidation through the fully consolidated method, generating the need to allocate the excess amount from that operation for EUR 2,579 thousand to higher value of property inventories.

6. On 7 May 2009, the Group company Parquesol Inmobiliaria y Proyectos, S.A. (currently Grupo Empresarial San José, S.A.), increased the share capital of the Group company Sofía Hoteles, S.L. by EUR 14,213 thousand, to EUR 15,535 thousand issuing 2,364,902 new fully subscribed and paid shares of EUR 6.01 par value each, by contributing with two properties located in Malaga, and a hotel under construction in the aforementioned properties (see Note 8).

7. On 22 December 2009, the investee San José Desarrollos Inmobiliarios, S.A. purchased shares for 45% of Udra Lar, S.L. share capital, holding 55% of its share capital at 31 December 2008.

   Consequently, at 31 December 2009, the SANJOSE Group, through its investee San José Desarrollos Inmobiliarios, S.A., owned the entire share capital of Udra Lar, S.L. The price paid by the group to repurchase said shareholding amounted to EUR 1.4 thousand.

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8. On 30 July 2009, the investee Zonagest, S.L. increased its capital by EUR 222 thousand, waiving its preferential acquisition rights from its shareholding in said company through San José Desarrollos Inmobiliarios, S.A. At 31 December 2009, the Group's ownership interest in Zonagest, S.L. has, thus, been reduced from 20% to 15% of its share capital. At 31 December 2009, the Group's Board estimates there is still "significant influence", which justifies the integration through the equity method in the current consolidated financial statements.

9. Incorporation in Santiago de Chile, dated 9 December 2009, of "Sociedad Concesionaria San José – Tecnocontrol, S.A." with a share capital of CLP 11,000 million represented by 11,000 shares fully subscribed by the Group, of a total CLP 11,000 millions par value (EUR 14,482 thousand), with CLP 2,000 million (EUR 2,633 thousand) paid at 31 December 2009. The company object will be the construction and subsequent management of 2 hospitals awarded to the Group in Chile during 2009.

10. Incorporation in Santiago de Chile, dated 16 December 2009, of Inversiones Sanjosé Chile Limitada with a share capital of CLP 1,480 thousand (EUR 2 thousand), fully subscribed by the Group.

11. On 13 October 2009, the Group companies "Constructora San José, S.A." and "San José Desarrollos Inmobiliarios, S.A.", sold by single agreement the shares held in "Deconalva, S.A." and "Sierra de Nipe, S.A.". The total sold price amounted to USD 10 million, to be paid no later than 8 October 2011, receiving mortgages and personal guarantees from the purchasing party as collateral. The receivables derived from this operation are recorded under "Other non-current financial assets" of the consolidated balance sheet for the year ended 31 December 2009 and is currently recorded under "Other current financial assets". This transaction has implied a loss for the SANJOSE Group amounting to EUR 1,641 thousand, recorded under "Impairment and gains or losses on disposals of financial instruments" from the income statement consolidated in 2009.

12. On 9 July 2009, the Group Company "San José Real Estate Development, LLC" signed an agreement for the purchase of the remaining capital (USD 10,000) to complete the overall share capital of "1681 West Avenue, LLC", real estate company settled in Miami, United States. The impact on the Group's equity is insignificant.

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.

2.5 Information comparison

Information recorded on the consolidated financial statements for year 2009 is provided for comparison purposes only.

2.6 Changes in accounting criteria

No significant changes in accounting criteria have taken place during 2010.

3. Distribution of the Parent's profit

Parent Company Directors will propose to the General Shareholders' Meeting the recognition of 2010 losses, EUR 3,560 thousand, with a charge to "Prior years' losses", to offset the profits the Parent Company generates in the future.

4. Accounting principles and policies and measurement bases

The accounting principles and policies and measurement bases used in preparing the Group's consolidated financial statements for 2010 were as follows:

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4.1 Non-current assets classified as held for sale

Non-current assets classified as held for sale relate to assets whose sale in their present condition is highly probable and whose sale is expected to be completed within one year from the reporting date. Therefore, the carrying amount of these items will be recovered through the proceeds from their disposal rather than through continuing use.

In general, non-current assets classified as held for sale are measured at the lower of carrying amount at the classification date and fair value less estimated costs to sell. Tangible and intangible assets that are amortisable because of their nature are not depreciated or amortised while they are classified as held for sale.

If the carrying amount of the assets exceeds their fair value less estimated costs to sell, the carrying amount of the assets is adjusted by the amount of the excess with a charge to the consolidated income statement. If the fair value of the assets subsequently increases, the losses previously recognised are reversed and the carrying amount of the assets is increased up to the limit of the carrying amount that would have been determined had no impairment loss been recognised, with a credit to the consolidated income statement.

At 31 December 2010 and 2009, 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, associate 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.

The detail of the allocation of the excess amounts paid in business combinations that occurred in 2010 is shown in Note 9.

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 1 January 2005 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, if there is any impairment, the goodwill is written down with a charge to "Impairment or Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. Under IAS 36, Impairment of Assets, an impairment loss recognised for goodwill must not be reversed in a subsequent period.

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 in 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.

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 it 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 consolidated 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 "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years is similar to those used for property, plant and equipment (see 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 over 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 three years from the 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.

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4.4 Property, plant and equipment and investment property

Property, plant and equipment

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

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.

Borrowing costs are only capitalised when significant investments in qualifying assets are made, which are those that take a substantial period of time to get ready for their intended use (see Note 4.13). Borrowing costs incurred to acquire property, plant and equipment for own use are charged to the consolidated income statement on an accrual basis and are not capitalised.

The Group work on their own assets is entered at the accumulated cost (external costs plus in-house costs), determined on the basis of in-house materials consumption and manufacturing costs, calculated using absorption rates similar to those used for the valuation of inventories.

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 Percentage
Buildings	2
Plant	10
Machinery	15
Other fixtures, tools and furniture	12-33
Other fixed assets	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 classified on the basis of their nature and are depreciated over their expected useful lives on the same basis as owned assets.

The consolidated companies assess at each 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). If so, 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.

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

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

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.

Investment in concessions

Concession agreements imply an agreement between a concessional entity, usual a public entity, and companies of the Group for providing public services though the operation of several assets necessary for the provision of services.

Concessional Rights imply the monopoly exploitation of a service for a period of time, after which, real estate necessary for the provision of services becomes property of the concessional company.

Income derives from the provision of services can be received directly from customers or from the concesional company. Prices for services are usually established by the concessional company.

This type of projects is usually financed with long-term borrowings; cash flows generated by the involved companies and assets as hedge. Since cash flow is the main hedge for returning borrowings, shareholders will not receive profits till certain annual conditions have been satisfied.

Investment property

"Investment Property" in the consolidated balance sheet reflects the net values of land, buildings and other structures (whether they are owned by the Group or are being used by the Group under a finance lease) held either to earn rentals or for capital appreciation. At 31 December 2010, the assets recognised under "Investment Property" related mainly to office buildings, hotels, leisure centres, land and parking spaces and the items of property, plant and equipment associated with them, such as machinery and furniture, whether owned by the Group or held under finance lease.

Hotels and leisure centres leased to third parties in which the Group does not participate in management and has not retained the risks associated therewith are classified as "Investment Property". If the Group participates in management, these assets are classified as "Property, Plant and Equipment".

Investment property is presented at acquisition or production cost revalued, where appropriate, pursuant to the applicable legislation. The same measurement basis, depreciation methods, estimated useful lives and recognition criteria are used for investment property (see Note 8).

Properties under construction or development for future use as investment property are classified under "Investment Property in Progress" in the consolidated balance sheet (see Note 8) until their construction or development has been completed, at which time they are transferred to "Investment Property".

However, the investment property that meets the conditions for classification as "Non-Current Assets Classified as Held for Sale" is measured in accordance with the rules applicable to non-current assets held for sale and discontinued operations (see Note 4.1).

Borrowing Costs

The accounting treatment of borrowing costs is described in Note 4.13.

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In 2010, the Group has not capitalised borrowing costs under "Inventories" in the attached consolidated balance sheet.

4.5 Asset impairment

At the end of each year, or whenever it is 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 an 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 allocated, recoverability is systematically analysed at the end of each reporting period or whenever it is deemed necessary to perform such an analysis on the basis of the existing circumstances.

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 uses 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 growth rates. 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 the rate, 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 of an asset is less than its carrying amount, an impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" 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 this event, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated income statement so as to reflect a constant periodic rate of return over the term of the agreements.

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 asset remain with the lessor.

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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 companies of the Group 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" in the consolidated balance sheet reflects the assets that the consolidated companies:

- Hold for sale in the ordinary course of business.
- Are in the process of constructing or developing for such sale.
- Expect to consume in the production process or in the provision of services.

Consequently, land and other property held for sale or for inclusion in a property development in the ordinary course of the Group's business and not for capital appreciation or to earn rentals are treated as 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 cost of purchase.

The cost of inventories is calculated by 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.). The Group does not capitalise the borrowing costs incurred on the loans obtained to finance the purchase of land to the carrying amount thereof during the period between its acquisition and the date on which the construction begins, which is when they are transferred to "Developments under construction".

"Developments under construction" includes the land development costs incurred up to 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 borrowing costs incurred during the construction period. The borrowing costs capitalised to "Inventories" in 2010 amounted to EUR 2,630 thousand (EUR 9,590 thousand in 2009).

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.

Also, "Inventories" includes advances to suppliers for the purchase of inventories amounting to EUR 29,564 thousand (see Note 12).

4.8 Trade receivables and customer advances

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

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The amount of customer advances received prior to the recognition of the sale of the buildings is recognised under "Current Liabilities - Trade and Other Payables" in the consolidated balance sheet (see Note 18.3).

4.9 Financial Instruments

Definitions

A "financial instrument" is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An "equity instrument" is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as a specified interest rate, foreign exchange rate, financial instrument price or market index), the initial investment in which is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and which is generally settled at a future date.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates.
- Rights and obligations under employee benefit plans.
- The rights and obligations arising from insurance policies.
- Contracts and obligations relating to share-based employee remuneration.

Initial recognition of financial instruments

Financial instruments are initially recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Specifically, debt instruments are recognised from the date on which the legal right to receive or the legal obligation to pay arises. Derivative financial instruments are generally recognised from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net is recognised on the date from which the rewards, risks, rights and obligations attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date.

Derecognition of financial instruments

Financial assets are only derecognised when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all the risks and rewards of ownership are transferred or, even if they are not substantially transferred or retained, control over the financial asset is transferred.

Financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are repurchased, even if they are going to be placed on the market again in the future.

Fair value of financial instruments

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques sufficiently used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of financial derivatives traded on organised, transparent and deep markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure the derivatives not traded on organised markets.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organised markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value") using valuation techniques commonly used by the financial markets ("net present value", option pricing models, etc.).

Amortised cost of the financial instruments

"Amortised cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments, plus or minus, as appropriate, the portion allocated to the consolidated income statement, calculated using the effective interest method, of the difference between the initial cost and the repayment value of the financial instruments. In the case of financial assets, amortised cost also includes any write-downs due to impairment.

The "effective interest rate" is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, by the fees and transaction costs that must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is estimated as for fixed rate instruments and is recalculated on each contractual repricing date on the basis of the changes in the future cash flows arising there from.

Classification and measurement of financial assets and liabilities

Financial instruments are classified in the consolidated balance sheet into the following categories:

Financial Assets

- Held-for-trading financial assets: financial assets acquired with the intention of realising them at short term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and derivatives not designated as hedging instruments.
- Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity. They do not include loans and accounts receivable from third parties. These assets are measured at "amortised cost".
- Originated loans and receivables: financial assets originated by the Group in exchange for supplying cash, goods or services directly to a debtor, which are measured at amortised cost.
- Available-for-sale financial assets: these include securities acquired that are not held for trading purposes and are not classified as held-to-maturity investments, and equity instruments owned by the Group and issued by entities other than subsidiaries, joint ventures or associates.

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Held-for-trading financial assets and available-for-sale financial assets are measured at fair value at subsequent measurement dates. In the case of marketable securities, the gains and losses from changes in fair value are recognised in net profit or loss for the year. In the case of available-for-sale financial assets, the gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

Financial Liabilities

Financial liabilities are classified in accordance with the content of the contractual arrangements. The main financial liabilities held by the Group are held-to-maturity financial liabilities, which are measured at amortised cost.

Interest-bearing bank loans and credit facilities are recognised at the proceeds received, net of direct issue costs. Borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are recognised in the consolidated 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.

Trade payables are not interest bearing and are stated at their face value.

Grupo San Jose recognises the derecognising of financial assets when they expire or whenever cash flow rights over the financial assets have been transferred together with the inherent risks and profits through sale of assets, factoring credit transfers, sale of assets with put option at fair value.

On the other hand, Grupo San Jose will not recognise the derecognising of financial assets and will recognise financial liabilities equal to the received consideration in transfers of assets in which risks and profits are not transferred.

Equity

Equity instruments are classified in accordance with the content of the contractual arrangements. Equity instruments issued by the Parent are recognised in consolidated equity at the proceeds received, net of direct issue costs.

4.10 Shares of the Parent

The SANJOSE Group did not hold any treasury shares at 31 December 2010 and 2009.

In 2010, the Group has purchased treasury shares for a total amount of EUR 115,43. These treasury shares have been used consideration in exchange of shares of its associate "San José Desarrollos Inmobiliarios, S.A." (see Note 2).

4.11 Derivative financial instruments and hedge accounting

The Group's activities expose it mainly to interest rate risk and, accordingly, the Group uses financial derivatives, basically interest rate swaps (IRSs), as part of its strategy to reduce its exposure to interest rate risk. When these transactions meet certain requirements, they qualify for hedge accounting.

In order for a transaction to be classified as a hedge it must be carried out at the inception of the transactions or of the instruments included in the hedge, provided there is adequate documentation of the hedging relationship. The hedge accounting documentation must include adequate identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

Consequently, only hedges that are considered to be highly effective over their entire life are considered to qualify for hedge accounting. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument or instruments are offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument or instruments.

To measure the effectiveness of hedges, it is analysed whether, from inception to the end of the term defined for the hedge, it can be expected, prospectively, that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument(s) and, retrospectively, that the results of the hedge are within a range of 80% to 125% of the results of the hedged item.

Hedges are classified into the following categories:

- **Fair value hedges.** These hedges hedge the exposure to changes in the fair value of financial assets or liabilities or unrecognised firm commitments, or of an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it could affect the consolidated income statement.
- **Cash flow hedges.** These hedges hedge the exposure to changes in cash flows that is attributable to a particular risk associated with a financial asset or liability or to a highly probable forecast transaction, provided that it could affect the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, when the hedge no longer qualifies for hedge accounting or the designation as a hedge is revoked.

When, pursuant to the foregoing paragraph, hedge accounting of a fair value hedge is discontinued, in the case of hedged items carried at amortised cost, the value adjustments made as a result of the hedge accounting discussed above are recognised in the consolidated income statement through maturity of the hedged items using the effective interest rate recalculated at the date of discontinuation of hedge accounting.

Also, when hedge accounting of a cash flow hedge is discontinued, the cumulative gain or loss on the hedging instrument recognised in consolidated equity is retained in equity until the forecast hedged transaction occurs, when it will be transferred to consolidated income statement or the cost of acquisition of the asset or liability to be recognised will be adjusted, if the hedged item is a forecast transaction which results in the recognition of a financial asset or a financial liability.

In the case of the derivative financial instruments arranged by the Group that meet the aforementioned requirements for classification as a cash flow hedge, the changes in the fair value in 2010 were recognised under "Equity – Valuation Adjustments" in the accompanying consolidated balance sheet (see Note 14.6).

The changes in 2008 in the fair value of the derivative financial instruments arranged by the Group that do not fully meet the aforementioned requirements for classification as a hedge were recognised under "Changes in Fair Value of Financial Instruments" in the consolidated income statement (see Note 17).

To determine the fair value of the interest rate derivatives (IRSs), the Group uses an in-house IRS valuation model where the inputs are the Euribor market curves and long-term swap rates to establish the fair value of the interest rate derivative structures. In order to calculate the fair value of option-based derivatives (collars), the Group uses Black-Scholes option pricing models and variations thereon, taking as an input the implied volatility in the markets for the corresponding strikes and times to expiry.

At 31 December 2010, the Group held interest rate swaps (IRSs and collars) for a total notional amount of EUR 718,467 million, expiring between 2011 and 2024. The negative impact of the change in fair value resulting from these arrangements at the end of the reporting period was approximately EUR 12,655 thousand, approximately. Of this amount, EUR 3,402 thousand were recognised under "Changes in Fair Value of Financial Instruments" in the accompanying consolidated income statement for 2010, since they did not fully qualify for hedge accounting (see Note 17).

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4.12 Revenue and expense recognition

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

1. Sales of goods are generally recognised when the goods have been delivered and title thereto has been transferred.

2. Specifically, 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.

3. Revenue from completed work or projects (in both the construction and industrial businesses) is 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, revenue is 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 of 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.

4. The principal activity carried out by the Real Estate Division is the sale of houses and land. 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. In this regard:

   a. Sales of properties and land and the related costs are recognised in the consolidated income statement when substantially all the risks and rewards of ownership have been transferred, i.e., when the properties are delivered and the sale is executed in a public deed. The deliveries of cash by the customers as payments on account, from the date of the signing of the private agreement to the date on which the sale is executed in a public deed, are recognised under "Trade Payables" on the liability side of the consolidated balance sheet.

   b. The sales of building plots on which the Group has acquired the obligation with the local authorities to carry out urban development work, which affects all the building plots under the urban development plan,

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and which cannot be considered to be carried out specifically for the owners of the parcels sold, are broken down into two items: the sale of the building plot and the sale of the urban development work associated therewith.

The revenue relating to the sale of the building plot is recognised when substantially all the risks and rewards of ownership have been transferred, usually when the property is delivered and the sale is executed in a public deed.

The revenue attributable to the sale of the urban development work (which is determined on the basis of the projected costs of the urban development work as a whole, calculated in proportion to the square metres of the building plot sold with respect to the total square meters of the urban development work plus the estimated profit margin on the sale) is recognised when the urban development work has been substantially completed, at which time a provision is recognised for the estimated costs to be incurred in completing the work.

c. Rental income is recognised on an accrual basis and incentive-related income and the initial costs of lease agreements are allocated to income on a straight-line basis.

d. Asset exchange transactions. An asset exchange transaction is an acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

   The assets received in an exchange transaction are recognised at their fair value, provided that it can be considered that the exchange has commercial substance and that the fair value of the asset received, or otherwise of the asset given up, can be reliably measured. The fair value of the asset received is taken to be the fair value of the asset given up plus, where applicable, the fair value of any monetary consideration paid in exchange, unless there is clearer evidence of the fair value of the asset received.

   In asset exchange transaction that do not meet the above-mentioned requirements, the asset received is recognised at the carrying amount of the asset given up plus the amount of any monetary consideration paid or committed on the acquisition.

   Income relating to the derecognition of assets given up in an asset exchange transaction is recognised when substantially all the risks and rewards of ownership of the asset have been transferred to the counterparty in the exchange, with the value assigned to the asset received being recognised as the balancing entry.

Amounts collected or instrumented in notes and bills under contracts executed at the balance sheet date in relation to properties not yet delivered are recognised under "Trade Payables" or "Other Non-Current Liabilities" on the liability side of the accompanying consolidated balance sheet, depending on whether they fall due in less than or more than one year, respectively.

5. 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 over the expected life of the financial asset to that asset's carrying amount.

6. Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

7. Government grants related to property, plant and equipment are recognised in the consolidated balance sheet as deferred income when the Group has satisfied the conditions established for their award and, consequently, there are no reasonable doubts as to their collection. These grants are allocated to income, with a credit to "Other Operating Income" in the consolidated income statement, systematically over the years of useful life of the assets, for which the grants were provided.

   Grants awarded for the purpose of covering or financing expenses incurred by the Group are recognised as income in the periods in which the related expenses are incurred once the conditions have been met.

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An expense is recognised in the consolidated income statement when there is a decrease in the future economic benefit related to a reduction of an asset, or an increase in a liability, which can be measured reliably. This means that an expense is recognised simultaneously to the recording of the increase in a liability or the reduction of an asset.

An expense is recognised immediately when a disbursement does not give rise to future economic benefits or when the requirements for recognition as an asset are not met.

Also, an expense is recognised when a liability is incurred and no asset is recognised, as in the case of a liability relating to a guarantee.

4.13 Borrowing costs

Borrowing costs directly attributable to the construction or production of property developments or investment property, 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. If borrowings have been obtained specifically for the construction of such assets, the interest and the other capitalised finance charges relate to the actual costs incurred in the year, less the income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets. To the extent that funds have been borrowed generally, the amount of borrowing costs eligible for capitalisation is determined by applying the capitalisation rate that relates to the weighted average of the borrowing costs applicable to the average borrowings outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

However, the capitalisation of borrowing costs is suspended during extended periods in which active development of a qualifying asset is suspended.

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 consolidated income statement in the period in which they are incurred, on an accrual basis, using the effective interest method.

4.14 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 "foreign currency balances and transactions".

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:

1. Assets and liabilities are translated to Euros at the exchange rates prevailing on the balance sheet date.

2. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly.

3. Equity is translated at the historical exchange rates.

4. Any translation differences arising are classified separately in equity. Such translation differences are recognised as income or as expenses in the year in which the foreign operation is realised or disposed of.

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:

Company	Location	Business activity
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 works
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 installation work
Constructora Panameña de Aeropuertos, S.A.	Panama City (Panama)	Construction
San José Perú, S.A.C.	Lima (Peru)	Construction
Inmobiliaria 2010, S.A.	Lima (Peru)	Construction and development
Rexa Constructora, 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
SefriIngenieros Maroc, S.A.R.L	Morocco	Engineering and installation services
Udra Argentina, S.A.	Buenos Aires (Argentina)	Real estate
Udra México, S.A. de C.V.	Mexico	Holding company
San Jose India Infrastructure & Construction Private Limited	New Delhi (India)	Construccion
Pontus Euxinus Tehnologii Renovabile, S.R.L.	Bucarest (Romania)	Industrialisation and marketing
Concesionaria San Jose Tecnocontrol, S.A.	Santiago de Chile (Chile)	Construccion and hospital Management
ZIVAR – Invertimentos Imobiliários, S.A.	Lisbon (Portugal)	Property development
Carlos Casado, S.A.	Buenos Aires (Argentina)	Equity holding

None of these countries are considered to be hyperinflationary economies as defined by IAS 29.

4.15 Profit (Loss) from operations

"Profit (Loss) from Operations" in the consolidated income statement includes the profits and losses from the Group companies' ordinary operations, excluding the financial loss and the share of results in associates.

4.16 Income tax

The income tax expense of the Spanish companies and the taxes of a similar nature applicable to the consolidated foreign companies are recognised in the consolidated income statement, except when they arise from a transaction whose results 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 changes in the deferred tax assets and liabilities recognised (see Note 20).

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The difference, if any, between the taxable profit or tax loss and the tax income or expense recognised is treated as a deferred tax asset or liability, as applicable. A deferred tax liability is one that will generate a future obligation for the Group to make a payment to the related tax authorities. A deferred tax asset is one that will generate a right for the Group to a refund or to make a lower payment to the related tax authorities in the future.

The Group's liability for current income tax is calculated using tax rates which have been approved on the balance sheet date.

Tax assets relating to tax credits and tax relief and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not deducted for tax purposes in the related tax return until the conditions for doing so established in the related tax regulations are met. The Group considers it probable that they will be deducted in future periods.

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 consolidated financial statements and the related tax bases used in the calculation of the taxable profit or tax loss. 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 asset 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.

Notwithstanding the foregoing:

1. Deferred tax assets arising from temporary differences, tax credits, tax relief and tax loss carry forwards, if any, are recognised to the extent that it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised; and

2. No deferred tax liabilities are recognised for non-deductible goodwill 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 Parent has also been the Parent of the consolidated tax group. At 31 December 2010, the following SANJOSE group companies filed consolidated tax returns, with "Grupo Empresarial San José, S.A." (formerly "Udra, S.A") as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, 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.
- Sanjosé Tecnologías, S.A.U.
- Udra Mantenimiento, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Gestión y Selección de Personal S.L.

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- Basket King S.A.
- Arserex S.A.
- Comercial Udra S.A.
- Udramedios S.A.
- Cadena de Tiendas S.A.U.
- Trendy King S.A.U.
- Outdoor King S.A.U.
- Hood Sports S.A.U.
- Fashion King S.A.U.
- Running King S.A.U.
- Enerxías Renovables de Galicia, S.A.
- Xornal de Galicia, S.A.U.
- Asesoramiento y Gestión Integral de Edificios, S.A.U. (AGEINSA).
- Azac, S.A.U.
- Hotel Rey Pelayo, S.L.
- Lardea, S.L.
- Parquesol Construcciones, Obras y Mantenimientos, S.L.
- Sofía Hoteles, S.L.U.
- Urbemasa, S.A.U.
- San José Concesiones y Sevicios, S.A.U.
- SanJosé Energía y Medioambiente, S.A.
- Udramedios Editora de Galicia, S.L.
- San Jose Desarrollos Inmobiliarios, S.A.
- Udralar, S.L.
- Udramar Inmobiliaria, S.L.U.
- Udrasol Inmobiliaria, S.L.U.
- Udrasur Inmobiliaria, S.L.U
- Copaga, S.L.U
- Douro Atlantico, S.L.U.
- Poligeneraciones parc de L´Alba
- Tecnologías Renovables de Aragón, S.A.
- Tecnologies Renovables de Catalunya, S.A.
- Xornal Galinet, S.A.

4.17 Provisions

When preparing its consolidated financial statements, the San José Group made a distinction between:

1. 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

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2. 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.

4.17.1 Provisions for urban development costs

These provisions relate to the estimated costs not yet incurred in the urban development of previously sold plots of land (basically in relation to the second phase of the Valladolid Parquesol Subdivision Plat), estimated on the basis of technical and economic studies carried out. The distribution among the various plots of the total costs to be incurred in the urban development work is made in proportion to the square metres of the previously sold plots with respect to the total urban development area (see Note 15).

4.17.2 Provisions for completion of construction projects and warranty costs

Provisions for the completion of construction projects are recognised for the estimated amount required to meet the expenses necessary for the completion of the property developments in progress when these developments have been substantially completed, and the cost thereof is transferred to "Completed Buildings". Provisions for warranty costs, particularly after-sales expenses, other costs and the ten-year warranty required under Spanish regulations governing real estate companies, are recognised at the date of sale of the relevant products, based on the best estimate of the expenditure required to settle the Group's liability (see Note 15). However, the Group has taken out insurance policies to cover the potential risks arising from the ten-year warranty.

4.17.3 Litigation and/or claims in process

At the end of 2010 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 the Parent's directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

4.18 Termination benefits

Under the legislation in force 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 recognise a provision in this connection.

Also, the Company has recognised sufficient provisions under "Other Current Liabilities" on the liability side of the accompanying consolidated balance sheet at 31 December 2010 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.

4.19 Current/Non-current classification

In the consolidated balance sheet, assets and liabilities expected to be recovered, used or settled within twelve months from the balance sheet date are classified as current items, except for inventories, which are presented in full under "Current Assets" in the consolidated balance sheet, since it is expected that they will be realised in

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the normal course of the building plot and property sale business, and the liabilities associated with inventories (borrowing costs and customer advances), which are presented under "Current Liabilities" in the consolidated balance sheet, regardless of their maturity. Prior to year-end, if a liability does not give the Group an unconditional right to defer the settlement for at least twelve months from the balance sheet date, the liability is classified as a current item.

The Group holds financial liabilities which are classified as current liabilities in the consolidated balance sheet, since they are subject to the financing of current property assets. Maturities are broken down in Note 16.

4.20 Joint ventures

Grupo San José recognises its investments in Joint Ventures (JV) by including them proportionately in the consolidated balance sheet according to the groups temporal and measurement criteria as well as the elimination of profits or gains as a result of transactions between the Group and the JV.

Consolidated income statement also includes proportionately income and expenses resulting from the joint venture. Equally, consolidated statements of cash flows and statement of changes in equity include proportionately items arising from Joint ventures.

4.21 Transactions with associates

Grupo San José executes all transactions with associates at market price. Transfer prices do not imply significant risk; therefore, liabilities will not be derived.

4.22 Assets of natural environment

Assets of natural environment are those which are used for the Group's business activity and whose main goal is to minimise environmental impact and protection of the environment, as well as the reduction and elimination of future pollution.

The Groups' business activity, due to its nature, does not have a significant impact on the environment.

4.23 Consolidated cash flow statements

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

1. 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.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

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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:

	Fiscal Year 2010	Fiscal Year 2009	Change
Net profit (loss) for the year attributable to the Parent (thousands of Euros).	(21,534)	(43,569)	22,035
Weighted average number of shares outstanding	65,026,083	65,026,083	-
Basic earnings per share (Euros/share)	(0.33)	(0.67)	(0.34)

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 2010 and, accordingly, the diluted earnings per share coincide with the basic earnings per share.

6. Segment reporting

6.1 Basis of segmentation

Segment reporting is generally 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 organisational structure of Grupo Empresarial San José, S.A and Subsidiaries at 2010 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 years 2010 and 2009 Grupo Empresarial San José, S.A. and Subsidiaries engaged mainly in the following major lines of business, which were the basis for the Group's primary segment reporting:

1. Construction (civil engineering, building construction and industrial works).

2. Property and urban development.

3. Energy Activity

4. Concessions and Services

Also, the income and expenses that cannot be specifically attributed to any operating line are attributed to "Other".

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Secondary segments - geographical segments

The Group's operations are located in Spain, the United States, Latin America (Argentina, Uruguay, Peru, Panama, Paraguay and Chile) and Brazil, Africa (Cape Verde), Asia (India) and other European countries (Portugal and France).

6.2 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 or gains arising from sale of investments or redemption or settlement of debts. 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 proportionately consolidated joint ventures.

Segment expense is expense resulting from the segment's operating activities that are directly attributable to the segment. These expenses do not include interest or losses arising from the sale of investments or redemption or settlement of debts, 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 proportionately consolidated joint ventures.

The segment's results are presented before any adjustments relating to the consolidation process, which are included in the "Consolidation Adjustments" column.

Segment assets and liabilities are those directly related to the operations of the segments and include the proportional part relating to joint ventures. Segment liabilities do not include income tax liabilities.

Segment information about these businesses is presented below.

Year 2010:

	Thousands of Euros					
	Construction	**Real estate and urban development**	**Energy**	**Concession and services**	**Adjustments and other**	**TOTAL**
Revenues:						
Net Revenue						
External sales	710,727	86,677	6,558	30,055	18,234	852,251
Inter-segment sales	14,957	580	-	-	(15,537)	-
	725,684	**87,257**	**6.558**	**30,055**	**2,697**	**852,251**
Profit:						
Profit (Loss) from operations	36,017	(13,093)	920	3,199	(2,309)	24,733
EBITDA	49,830	13,581	2,228	3,798	(1,328)	68,109
Associates Profit (loss)	(406)	2,955	-	-	-	2,549
Investment income	9,539	497	-	-	(3,107)	6,929
Finance and similar costs	(9,532)	(58,346)	(373)	22	638	(67,591)
Profit/(Loss) before tax	**35,618**	**(67,987)**	**547**	**3,221**	**(4,776)**	**(33,378)**

Sales between segments take place at market prices and consist mainly in construction, real estate and urban development transactions.

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Year 2009:

	Thousands of Euros					
	Construction	Real estate and urban development	Energy	Concession and services	Adjustments and other	TOTAL
Revenues:						
Net Revenue						
External sales	889,162	141,872	4,800	32,700	15,065	1,083,599
Inter-segment sales	20,940	688	-	1,985	(23,613)	-
	910,102	**142,560**	**4,800**	**34,685**	**(8,548)**	**1,083,599**
Profit:						
Profit (Loss) from operations	43,653	(22,484)	340	1,702	(10,400)	12,810
EBITDA	56,672	14,395	1,306	1,791	(3,076)	71,088
Associates Profit (loss)	3,102	(4,727)	-	-	(76)	(1,701)
Investment income	12,798	6,530	2	50	(10,744)	8,636
Finance and similar costs	(15,791)	(72,363)	(29)	(135)	8,474	(79,844)
Profit/(Loss) before tax	**36,805**	**(115,211)**	**211**	**1,618**	**7,998**	**(68,579)**

Information regarding the amount of assets and liabilities contributed to the Group by the defined segments is as follows:

	Thousands of Euros											
	Construction		Real estate and urban development		Energy		Concession and services		Adjustments and others		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Other disclosures:												
Additions to fixed assets:												
In Spain	27	120	3,261	22,719	2,014	6	35	8,387	1,120	1,915	6,457	33,147
Abroad	321	1.225	221	865	-	-	-	-	875	-	1,417	2,090
	348	1,345	3,482	23,584	2,014	6	35	8,387	1,995	1,915	7,874	35,237
Depreciation and amortisation charge	2,128	2,808	9,631	10,424	508	248	579	930	1,170	210	14,016	14,620
Balance sheet												
Assets-												
Segment assets-												
In Spain	660,167	713,389	1,689,949	2,302,134	21,069	5,673	17,809	107,781	(26,590)	(597,458)	2,362,404	2,531,519
Abroad	169,472	164,571	289,397	243,111	-	-	-	-	49,400	53,887	508,269	461,569
	829,639	877,960	1,976,346	2,545,245	21,069	5,673	17,809	107,781	25,810	(543,571)	2,870,673	2,993,088
Liabilities-												
Segment liabilities	611,340	652,534	1,860,659	2,092,726	16,803	11,970	14,634	89,782	(28,359)	(267,267)	2,475,077	2,579,745

There are no significant non-operating assets.

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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					
	Net Revenue (INCN)		Total Assets		Additions to property, plant and equipment and investment property	
	2010	2009	2010	2009	2010	2009
Spain	684,682	882,416	2,351,343	2,520,011	5,427	22,164
Portugal	106,420	130,472	259,537	260,013	141	-
Cape Verde	16,134	7,035	10,454	12,650	247	-
United States	57	30	5,605	5,251	-	-
Argentina	17,960	53,417	147,278	131,471	962	1,161
Uruguay	-	-	153	153	-	-
Peru	16,515	5,128	42,273	28,963	69	402
Panama	-	-	174	2,801	-	-
France	1,529	1,413	21,321	21,824	-	-
Germany	-	-	164	164	-	-
Domican Republic	-	3,688	-	-	-	-
Brazil	-	-	9,910	9,787	-	527
Chile	8,612	-	22,461	-	-	-
Other	342	-		-	-	-
TOTAL	**852,251**	**1,083,599**	**2,870,673**	**2,993,088**	**6,846**	**24,254**

7. Property, plant and equipment

Changes in 2010 and 2009 in "Property, Plant and Equipment" in the consolidated balance sheet were as follows:

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Year 2010:

	Thousands of Euros				
	Land and buildings	Technical plants and machinery	Other property, plant and equipment	Current fixed assets	Total
Cost:					
Balances at 1 January 2010	76,481	13,181	45,806	14,293	**149,761**
Additions / disposals due to changes to the scope of consolidation	(109)	(144)	474	-	**221**
Additions	1,159	397	539	2,080	**4,175**
Disposals	(908)	(476)	(5,794)	(10)	**(7,188)**
Exchange differences (net)	426	131	86	-	**643**
Transfers and other	9,046	(795)	967	(16.363)	**(7,145)**
Balances at 31 December 2010	**86,095**	**12,294**	**42,078**	-	**140,467**
Accumulated amortisation:					
Balances at 1 January 2010	(6,574)	(8,743)	(30,437)	-	**(45,754)**
Additions / disposals due to changes to the scope of consolidation	78	69	(517)	-	**(370)**
Provisions	(864)	(445)	(3,393)	-	**(4,702)**
Disposals	141	578	5,116	-	**5,835**
Exchange differences (net)	-	(67)	(56)	-	**(123)**
Transfers and other	2,947	(1,891)	2,360	-	**3,416**
Balances at 31 December 2010	**(4,272)**	**(10,499)**	**(26,927)**	-	**(41,698)**
Impairment losses:					
Balances at 1 January 2010	(776)	174	-	-	**(602)**
Transfers	174	(174)	-	-	-
Disposals	259	-	-	-	**259**
Balances at 31 December 2010	**(343)**	-	-	-	**(343)**
Total property, plant and equipment	**81,480**	**1,795**	**15,151**	-	**98,426**

"Land and buildings" include EUR 48.6 million corresponding to the plot of land property of Carlos Casado, S.A., of which EUR 36.4 million correspond, at 31 December 2010, to the highest capital gain of this item when taken over by the Group in 2008. Land for agriculture and cattle industry purposes as well as for bio-fuel production located in Argentina, Uruguay and Paraguay. There is a put option over 100 thousand hectares in favour of Cresca, S.A., 50% participated by the Group, for 350 USD/Ha.

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Year 2009:

	Thousands of Euros				
	Land and buildings	Technical plants and machinery	Other property, plant and equipment	Current fixed assets	Total
Cost:					
Balances at 1 January 2010	80,243	18,351	44,238	6,902	**149,734**
Additions due to changes to the scope of consolidation	2	-	1,845	-	**1,847**
Disposals due to changes to the scope of consolidation	-	(1,481)	-	-	**(1,481)**
Additions	239	715	910	7,512	**9,376**
Disposals	(1,898)	(1,401)	(797)	-	**(4,096)**
Exchange differences (net)	(1,333)	(21)	(51)	(1)	**(1,406)**
Transfers and other	(772)	(2,982)	(339)	(120)	**(4,213)**
Balances at 31 December 2010	76,481	13,181	45,806	14,293	**149,761**
Accumulated amortisation:					
Balances at 1 January 2010	**(4,125)**	**(11,497)**	**(25,248)**	-	(40,870)
Additions/Disposals (net) due to change in the scope of consolidation	(9)	1,100	-	-	**1,091**
Provisions	(955)	(720)	(3,346)	-	**(5,021)**
Disposals	17	154	703	-	**874**
Exchange differences	-	30	48	-	**78**
Transfers and other	(1,502)	2,190	(2,594)	-	**(1,906)**
Balances at 31 December 2010	**(6,574)**	**(8,743)**	**(30,437)**	-	**(45,754)**
Impairment losses:					
Balances at 1 January 2010	**(776)**	-	-	-	**(776)**
Transfers					
Disposals		174			**174**
Balances at 31 December 2010	**(776)**	**174**	-	-	**(602)**
Total property, plant and equipment	**69,131**	**4,612**	**15,369**	**14,293**	**103,405**

Main additions incurred in year 2010 correspond to the completion of the execution of the polygeneration power plant located in Cerdanyola del Vallés (Barcelona) for EUR 2,080 thousand. As a consequence of its implementation and operation, the Group has transferred the cost recorded under "Investment Property in progress" to "Lands and Buildings" for EUR 16,363 thousand. This asset is subject to Project Finance funding system (see Note 16.1).

In addition to this, certain premises located in Porriño (Pontevedra) and offices in Valladolid, Malaga and Santiago de Compostela have been included under "Lands and Buildings" with a cost and accumulated amortisation of EUR 7,099 thousand and EUR 1,365 thousand, respectively. This transfer is due to the leasing of this property.

At 31 December 2010, investment in property, plant and equipment abroad are detailed as follows:

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	Miles de Euros			
	2010		2009	
	Cost	AA	Cost	AA
Udra Argentina, S.A.	184	(58)	180	(41)
Parquesoles Portugal SGPS, S.A.	29	(25)	154	(54)
Edificio Duque de Palmela, S.A.	3	(1)	-	-
Argentimo, S.A.	155	(131)	132	(120)
Sucursal Constructora San José, S.A. Portugal,	2,061	(1,988)	2,056	(1,941)
Sucursal Constructora San José, S.A. Argentina	287	(285)	233	(229)
Ute Ruta-20	55	(53)	58	(50)
Ute San Juan	18	(18)	17	(17)
Constructora Udra Limitada	120	(110)	119	(100)
Constructora San José Cabo Verde, S.A.	774	(201)	527	(97)
Sociedad Concesionaria San José – Tecnocontrol, S.A.	34	(3)	-	-
San Jose India Infrastr. & Construction Private Limited	12	-	-	-
Constructora San José Argentina, S.A.	186	(172)	175	(151)
San José Perú, S.A.	922	(468)	826	(339)
Rexa Constructora, S.A.	324	(95)	238	(38)
Inmobiliaria 2010, S.A.	10	(10)	71	(71)
San Jose Constructiom Group, Inc	8	(6)	5	(5)
Grupo Carlos Casado	48,803	(50)	47,496	(58)
Tecnoartel, S.A.	3	(3)	3	(3)
TOTAL	**53,988**	**(3,677)**	**52,290**	**(3,314)**

The main investment in property, plant and equipment outsider Spain refers to Grupo Carlos Casado and corresponds to the value of "Lands and Buildings" for EUR 48.6 million, including EUR 36.4 as capital gains for the highest acquisition price when taken over by the Group.

As stated on Note 16.1, at year-end 2010, the Group had many leasing operation in course. Breakdown of this property is as follows:

	Thousands of Euros
Term of Contracts (years)	10
Value in cash	5,989
Pending instalments (Note 16.1)	
Non-current	4,854
Current	999

Finance lease agreements signed by the Company at 2010 and 2009 year-ends are the following:

1. Thermal Power Installation at Puerto Real Hospital. The lease term commenced on 20 December 2005 for a period of 114 months. The nominal amount of the purchase option is EUR 65,943. In addition, the rent paid in 2010 and 2009 amounted to EUR 901,389 and EUR 845,223, respectively, which included a finance charge of EUR 67,242 and EUR 261,773, respectively.

2. Thermal Power Plant for Torrecárdenas Hospital. The lease term commenced on 22 May 2008 for a period of 10 years. The nominal amount of the purchase is EUR 32,794. The rent paid in 2010 and 2009 amounted to EUR 393,564 and EUR 554,777, respectively which included a finance charge of EUR 147,159 and EUR 161,243, respectively.

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3. Other minor amounts corresponding to machinery.

At 31 December 2010 and 2009, the cost of the land upon which property for own use is located amounted to EUR 54.6 and EUR 57 million, respectively.

At 31 December 2010 and 2009 there are specific property acting as collateral for part of the loan syndicated by the Group which amounted to EUR 35.9 and EUR 52.2 million, respectively.

At 31 December 2010 and 2009, The Group's property for won use fair value amounted to EUR 25.1 and EUR 27.2 million, respectively, according to an in depend expert's assessment (Savillis España, S.A.). At 31 December 2010, net cost recorded for property for own use amounts to EUR 10.6 million.

At 31 December 2010 and 2009, specific elements which were totally depreciated amounted to EUR 17.3 and EUR 15.8 million, respectively.

It is part of the Group policy to take out insurance policies to cover the possible risks to which its property, plant and equipment are subject.

8. Investment Property and Investment Property in Progress

Investment property

The balance of investment property arose mainly from the company of the Group Parquesol Group, parent of the real estate division of the group (see Note 1). The detail of "Investment Property" and changes therein in 2010 and 2009 is as follows:

Year 2010:

	Thousands of Euros			
	Cost	Depreciation	Impairment losses	Net
Balances at 31 December 2009	**621,026**	**(45,539)**	**(22,134)**	**553,353**
Additions	2,671	(9,292)	(10,652)	(17,273)
Disposals	(92)	731	1,990	2,629
Translation differences	79	52	(59)	72
Transfers and other	28,606	(3,271)	(7,450)	17,885
Balance at 31 December 2010	**652,290**	**(57,319)**	**(38,305)**	**556,666**

Year 2009:

	Thousands of Euros			
	Cost	Depreciation	Impairment losses	Net
Balances at 31 December 2008	**510,804**	**(39,357)**	**(6,207)**	**465,240**
Additions	11,758	(9,479)	(10,428)	(19,265)
Disposals	(38)	-	1,542	1,504
Translation differences	(1,159)	514	189	(456)
Transfers and others	99,661	2,783	(7,230)	95,214
Balance at 31 December 2009	**621,026**	**(45,539)**	**(22,134)**	**553,353**

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The cost of the investment property at 31 December 2010 and 2009 includes approximately EUR 279 million and EUR 268 million, respectively, relating to the carrying amount of the land relating thereto.

Main additions, disposals and transfers

Year 2010:

Main additions incurred in year 2010 refer to the investment executed by the Group for the implementation of the premises located at the Shopping Centre Puerta de Europa in Algeciras for a total amount of EUR 1,196 thousand, as well as the investments executed at the Apolo Hotel and at the Administrative Buildings Neo-Fecsa and Blau Port (both in Barcelona) and at the Posada del Patio Hotel in Malaga (currently under a leasing regime), for EUR 598 thousand.

During 2010, costs incurred in the construction of the future Shopping Centre San Pablo Plaza (Seville) were reclassified as "Property development in progress". This items recorded under "Inventories" in the attached consolidated balance sheet (see Note 12) with a cost and depreciation amounting to EUR 23,476 thousand and EUR 7,450 thousand, respectively.

In year 2010, certain industrial premises located in Porriño (Pontevedra) as well as several office buildings in Calle Mariano de los Cobos (Valladolid), Avda.de Andalucía (Malaga) and in Santiago de Compostela were reclassified as "Property Investments" when devoted to leasing purposes and not for own use (see Note 7).

Year 2009:

In 2009, the Parent Company concluded the construction of a shopping centre in Algeciras. During the entire construction period, the Group maintained said element under "Inventories" in the consolidated balance sheet. Upon conclusion, it was reclassified as "property investment", following the Group's intention to manage it. The cost of said element, as well as its accumulated impairment, upon property's conclusion, amounted to EUR 117,846 thousand and EUR 41,118 thousand, respectively.

Use or nature of the investment property

Substantially all of the Group's investment property relates to properties earmarked for lease. The detail of the use or nature of the Group's investment property at 31 December 2010 and 2009, based on its principal use and on an approximate basis *(excluding garage space)*, is as follows:

	2010		2009	
Lease purpose	Area for lease m2	Percentage	Area for lease m2	Percentage
Offices	101,685	28%	102,305	29%
Hotels	48,163	13%	48,163	13%
Shopping Centres	160,307	45%	160,307	45%
Other	48,095	14%	47,336	13%
	358,250	**100%**	**358,111**	**100%**

Mortgaged investment property

At 31 December 2010 certain investment property with a carrying amount of approximately EUR 199,990 thousand had been mortgaged as security for mortgaged loans which amounted at year-end to EUR 102,434. In addition to

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this, certain investment property act as security of the loan syndicated by the Group for EUR 420,126 thousand (see Note 16).

Fair value of the investment property

Each year the Group commissions studies from independent valuers to determine the fair values of its investment property at the balance sheet date. At 31 December 2010 and 2009, the aforementioned studies were conducted mainly by Savills España, S.A. Such valuations were performed on the basis of the sale value and lease value of the property on the market (which consists of capitalising the net income from each property and discounting future flows), as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions. The fair value was calculated using the discount rates acceptable to a prospective investor and in line with those applied by the market for properties of similar characteristics in similar locations.

As a result of the current situation of the market, the fair values of certain of the Group's investment property items fell in 2010. Consequently, a net impairment loss of EUR 8,662 thousand was recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement for 2010, in order to adjust the carrying amount of certain properties to their estimated realisable value, determined on the basis of the aforementioned appraisals (see Note 22.9).

At 31 December 2010 and 2009, the fair value of the Group's investment property based on the aforementioned studies amounted to approximately EUR 670 million and EUR 665 million, respectively, including the "Investment Property in Progress" accounts. At 31 December 2010 and 2009, EUR 34.5 million and EUR 26 million, respectively, corresponding to value of investment property of associates, were recorded under this item for a net cost of EUR 20.4 million.

Investment property rental income and expenses

At 31 December 2010 and 2009, four hotels, one residential home for the elderly and a significant proportion of the Group's commercial premises and office buildings had been leased out to third parties under operating leases. At 31 December 2010 and 2009 the occupancy rate of the so-considered strategic buildings was approximately 95% with no significant changes during the year.

The detail, by maturity, of the lease payments payable to the Group under the operating leases and subleases contracted for by the Group with third parties at 31 December 2010 and 2009 is as follows:

Term	Thousands of Euros	
	2010	2009
Up to one year	27,790	26,168
Between one and five years	64,333	55,524
Over five years	29,877	54,480
	122,000	**136,172**

The calculation was made taking into account the drop in rental income on the first day of each year and without taking into account increases in the CPI. Also, in the case of the variable rentals, the values for 2010 were used.

Total investment property rental income of the Group for year 2010 and 2009 amounts to EUR 27,066 thousand and EUR 26,377 thousand, respectively.

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Insurance policy

The Group takes out insurance policies to cover the possible risks to which its investment property is subject. The Parent's directors consider that the insurance coverage arranged is sufficient.

Property developments in progress

At 31 December 2010 and 2009 the balance of "Property developments in progress" relates to the costs incurred in the acquisition of buildable plots and in the construction thereon of buildings for lease which at year-end were under construction. The detail of "Property developments in progress" in the consolidated balance sheet is as follows:

Project	Thousands of Euros	
	2010	2009
Industrial sections Parque Laguna (Valladolid)	-	2,435
Apartotel in Pozuelo de Alarcón (Madrid)	13,581	13,581
Hotel in Malaga	-	22,700
San Pablo Shopping Centre (Seville)	23,476	-
Other	-	407
	37,057	**39,123**

At 31 December 2010 and 2009 there are specific properties in progress acting as collateral for part of the loan syndicated by the Group for EUR 35,458 thousand and EUR 29,297 thousand, respectively.

9. Goodwill

9.1 Breakdown and significant changes

The detail of "Goodwill" in the consolidated balance sheets, based on the companies giving rise to the various items, is as follows:

	Thousands of Euros	
	2010	2009
Sanjose Tecnologías subgroup	738	738
Cartuja Inmobiliaria, S.A.U.	600	600
San José Perú, S.A.	1,601	1,601
Rexa Constructora, S.A. (formerly Esparq Constructora, S.A.)	252	252
Inmobiliaria 2010, S.A. (formerly Espinosa Arquitectos, S.A.)	1,136	1,136
Constructora San José, S.A.	7,663	7,663
San José Desarrollos Inmobiliarios Subgroup	2,987	2,987
Other	488	488
Gross total	**15,465**	**15,465**
Net total	**15,465**	**15,465**

Based on 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.

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In addition, as a result of the purchase of Parquesol Group and Carlos Casadoxcess Group in 2007 and 2008, respectively, excess amounts paid in the takeover of these companies were allocated as higher value of the acquired property assets and property plant and equipment.

Under IFRS 3 "Business Combinations", the fair values of the acquired assets may be reviewed up to one year after the purchase date. In 2008 the SANJOSE Group made another allocation of the excess amount paid in the takeover of Parquesol Inmobiliaria y Proyectos, S.A. in 2007 based on the best information of the assets and liabilities acquired in the aforementioned business combination, as follows:

	Thousands of Euros
Acquisition price	475,508
Underlying carrying amount	134,792
Net excess amount	340,716
Fair value of the assets and liabilities	
Non-current assets	80,289
Current assets	591,882
Deferred tax	(99,611)
Net asset revaluation	572,560
Portion attributable to minority interests	(231,844)
Goodwill	-

Total revaluation of assets derived from this purchase operation revealed in the Group's consolidated financial statements for EUR 672,171 thousand, is reverted through registration in the income statement, according to the sales made in each fiscal year. The same applies to revaluations of amortisable assets through the periodic effect of amortisations. The breakdown of registrations in the Group's consolidated income statement, before tax, is as follows:

	Miles de Euros
Gross revaluation of assets	**672,171**
Recognitions at 31 December 2009	
-Greater costs to sell	(56,697)
-Amortisation	(4,288)
-Impairment of inventories	(47,833)
	(108,818)
Recognitions for 2009	
-Greater Costs to Sell	(14,566)
-Amortisation	(1,267)
-Impairment of inventories	(14,418)
	(30,251)
Total carried forward at 31 December 2010	**(139,069)**
Net revaluation to be carried forward at 31 December 2010	**533,102**

10. Other intangible assets

"Other Intangible Assets" includes the Group's concessions and licences. The detail of "Other Intangible Assets" in the consolidated balance sheets at 31 December 2010 and 2009 and of the changes therein is as follows:

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Year 2010:

	Thousands of Euros
Cost:	
Balances at 31 December 2009	4,516
Additions/Disposals (net) due to change in the scope of consolidation	(2,649)
Additions	398
Disposals	(147)
Transfers and other	6
Balances at 31 December 2010	2,124
Accumulated amortisation:	
Balances at 31 December 2009	(2,579)
Additions/Disposals (net) due to change in the scope of consolidation	2,287
Provisions	(22)
Disposals	68
Transfers	(5)
Balances at 31 December 2010	(251)
Impairment losses:	
At 31 December 2010	-
Allocations (Note 22.9)	(371)
Balances at 31 December 2010	(371)
Net intangible assets	**1,502**

Year 2009:

	Miles de Euros
Cost:	
Balances at 31 December 2008	3,678
Additions/Disposals (net) due to change in the scope of consolidation	-
Additions	1,273
Disposals	(13)
Transfers and other	(422)
Balances at 31 December 2009	4,516
Accumulated amortisation:	
Balances at 31 December 2008	(1,939)
Additions/Disposals (net) due to change in the scope of consolidation	-
Charge for the year	(120)
Disposals	-
Transfers	(520)
Balances at 31 December 2009	(2,579)
Net intangible assets	**1,937**

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The main change in this item of the consolidated balance sheet for year 2010 arises from the change in the scope of consolidation due to the disinvestment in Promoción Cultural Galega 2007, S.L. which results in a net reduction of EUR 366 thousand (see Note 2).

In year 2010, the Group has registered an impairment of a total of EUR 371 thousand recorded under "Impairment and gains on disposal of property" in the attached consolidated income statement for 2010 (see Note 22.9).

At 31 December 2010, there are no intangible assets developed internally by the Group.

11. Investments accounted for using the equity method

The Group's most significant investments in associates at 31 December 2010 and 2009 were as follows:

	Thousands of Euros	
	2010	2009
Desarrollo Urbanístico Chamartín, S.A.	19,090	15,101
Panamerican Mall, S.A.	20,856	20,245
Pontegrán, S.L.	13,613	8,654
Zonagest, S.L.	-	712
Nuevo Parque de Bomberos, S.A.	54	456
Corporación San Bernat, SCR, SA (Corsabe)	4,793	6,820
Pinar de Villanueva	9,427	9,394
Companies of Parquesol Group	374	(622)
Other	**68,207**	**60,760**

Main transaction in years 2010 and 2009 under this item are as follows:

	Miles de Euros	
	2010	2009
Opening balance	**60,760**	**45,023**
Profit for the year	5,198	1,599
Change in consolidation method (Note 2)	(2,656)	-
Capital payments payable	4,132	4,132
Received dividends	(716)	(2,026)
Panamerican Mall capital increase (Note 2.4.)	-	5,618
Translation differences	(8)	(2,102)
Transfers	-	9.000
Other	1,497	(484)
Closing balance	**68,207**	**60,760**

"Long-term provisions", include the recognition of an additional impairment loss of EUR 5,948 thousand for Grupo Antigua Rehabilitalia S.A. due to the decline in value of its assets, based on the appraisals of independent valuers (see Note 12), of which EUR 2,648 thousand, recorded under "Result of companies for using the equity method". included in the consolidated income statement, correspond to year 2010 (see Note 15).

Changes in the scope of consolidation regarding the investment in associates in year 2010 refer mainly to Zonagest, S.L., Corsabe, S.C.R., S.A., Discovall, S.L. and Green Cines, S.L. (see Note 2).

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In 2010 and 2009, pending disbursements were paid totalling EUR 4,132 thousand, which comprehensively correspond to the investments in the company "Desarrollos Urbanísticos Chamartín, S.A."

The dividends relate to those recognised in 2010 by the companies of the Group Constructora San José, S.A. and San José Desarrollos Inmobiliarios, S.A. from its investment in Corsabe, S.C.R., S.A. and Pontegrán, S.L., respectively.

In 2009, the Group Company "Centro Comercial Panamericano, S.A" has increased its equity interest in its investee "Panamerican Mall" amounting to ARS 24,022 thousand by means of capitalisation of trade credits, which has caused the share capital of the latter to increase from ARS 405,721 thousand to ARS 429,743 thousand. Such operation has not entailed any changes whatsoever to the Group's percentage of ownership interest in the aforementioned company.

Appendix II lists the main investments in associates, including the name, country of incorporation and the Group's percentage of ownership. These companies had total assets of EUR 420 million and EUR 376 million and total revenue of EUR 39 million and EUR 13 million at 31 December 2010 and 2009.

12. Inventories

The breakdown of the balance of "Inventories" in the accompanying consolidated balance sheets at 31 December 2010 and 2009 is as follows:

	Miles de Euros	
	2010	2009
Purchased property	14,017	4,607
Plots	900,111	880,148
Raw materials and other supplies	4,412	867
Developments under construction		
Long-cycle developments under construction	240,022	291,066
Short-cycle developments under construction	35,310	38,585
Completed construction work	157,874	175,774
Advance payments to suppliers	29,564	29,929
Other	-	11,866
Impairment of inventories (Note 22.10)	(102,314)	(103,553)
	1,278,996	**1,329,289**

Borrowing costs for financing the development of property inventories incurred in the year are capitalised by the Company only when they are associated with those inventories whose production cycle is longer than a year. The amount capitalised in this way for 2010 and 2009 has risen to EUR 2,630 thousand and EUR 9,590 thousand, respectively.

Purchased property

Main changes recorded in 2010 under "Purchased property" correspond to deed of assignment in payment as collection of default rate. Main acquired property is as follows:

- Car park spaces and junk rooms at the urban development "La Paloma de Manilva" (Malaga) valued at EUR 1,039 thousand.
- Premises and car park spaces at San Sebastián de los Reyes (Madrid) valued at EUR 732 thousand.
- Premises and car park spaces in Pontevedra valued at EUR 111 thousand.

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- Housing units and car park spaces at the urban development Promópolis (Seville) valued at EUR 1,004 thousand.
- Housing units, car park spaces and junk rooms at Marina Village in Portugal valued at EUR 5,739 thousand.

Included under this item and derived from previous years are car park spaces, premises and housing units located in Legazpi, Madrid, and valued at EUR 2,616 thousand, as well as housing units in Torreblanca, Seville, car park spaces in Coslada, Madrid, and car park spaces in Girona. In addition to this and though the associate "Douro Atlantico, S.A", the Group owns assets in Portugal valued at 31 December 2010 at EUR 7,206 thousand.

Land and plots

This account balance corresponds to the acquisition price of several plots of land in their final phase or under urban management at 31 December 2010 basically for residential purposes (even though there are also institutional or industrial plots). The Group has planned to allocate them to direct sale or property development by Group companies.

There were several plots owned by the Group at 31 December 2010 used as collaterals of mortgage loans or developer loans granted by banks totalling EUR 77,002 thousand (see Note 16.1). In addition, several assets included under this item act as collateral for part of the loan syndicated by the Group for EUR 624,651 thousand.

At 2010 and 2009 year-end the Group owned land with a total area of 2,912,818m2 and 2,893,646 m2, respectively, of which 1,676,190m2 and 1,663,699 m2 are buildable at 31 December 2010 and 2009, respectively. The detail, by location, of the Group's land is as follows:

	Total m^2	
	2010	**2009**
Spain	1,257,786	1,243,413
United States	2,086	2,086
Portugal	99,543	99,543
Argentina	1,448,381	1,448,381
Peru	65,840	65,840
Brazil	34,383	34,383
TOTAL	**2,908,019**	**2,893,646**

At 31 December 2010, the Group acquired two plots of land located within the Plan PT-43.2 of the Urban General Plan of Granada for EUR 1,783 to offset customer debts.

During 2010, property development in progress has been reclassified as construction work slowed down.

Land purchase commitments

At 31 December 2010, the Group had entered into various memorandums of understanding or agreements with purchase options for land totalling approximately EUR 75.6 million, of which the Group had paid EUR 23.7 million. The latter amount is recognised under "Advance payments to suppliers" in the accompanying consolidated balance sheet. Said land is as follows:

- Land located in Atarfe, Granada (20,566 m^2 of land); Pozuelo de Alarcón, Madrid (20,000 m^2 of land) and Liencres, Santander (47,016 m^2 of land). The total amount for the memorandums of understanding amounts to EUR 10,191, EUR 48,411 and EUR 14,419 thousand, respectively. The total fair value of said assets, based on Savills valuation, conducted at 31 December 2010, amounts to EUR 136,149 thousand. Observance of said commitments is subject to compliance of specific urban milestones.

- Several plots of land in Sant Just Desvern (Barcelona) and the municipality of Los Barrios (Cadiz). The Group is currently assessing the possibility not to execute the purchases referred to by those advances and recover the payments made. Reasonable value at 31 December 2010 according to valuation conducted by Savallis amount to EUR 3,102 thousand.
- Two plots of land in Vitoria: the first in Sector 13 where 111 social housing units will be executed and for which EUR 515 thousand have been paid up, and the other in Sector 19 where 80 social housing units will be executed and for which EUR 400 thousand have been paid up. In both cases, final sale price will depend on residential use.

Developments under construction

The balance of this account at 31 December 2010 corresponds to costs incurred from the beginning in different property developments under construction at said date.

The main property developments included under this item are the following:

- Property development at the Old Tobacco Factory in La Coruña of Udralar, S.L.
- Property development in Plaza de Compostela in Vigo of Copaga, S.A.
- Infrastructure development Porto Douro of Douro Atlántico Inmobiliaria, S.A.
- Property development Barama and Pueblo Serena (Malaga), Parque Libertades (Seville), La Joya 106, la Joya 107, Parquesur 2nd stage and Paseo de Jalón 2nd stage (Valladolid) of San José Desarrollos Inmobiliarios, S.A.

During year 2010, additions have been recognised for costs incurred by the company in the construction of different assets for subsequent sale or leasing. Main additions refer to the following developments: Residencial Paseo de Jalon (Valladolid), Parquesur 1st and 2nd stage (Valladolid), Tabacalera (La Coruña) and Plaza Compostela (Santiago de Compostela) for EUR 8,725 thousand.

During 2010, cost incurred in the construction of the future Shopping Centre San Pablo Plaza (Seville) was reclassified as "Property development in progress" (see Note 8). The cost and accumulated amortisation at the moment of its reclassification as "Investment Property" amounted to EUR 23,476 thousand and EUR 7,450 thousand, respectively.

In 2010, the following urban developments were reclassified as "Finished Property Development": Estudios Marqués de Monteagudo (Madrid), Paseo de Jalón (Valladolid) and Parquesur 1st stage (Valladolid) for EUR 28,842 thousand.

At 31 December 2010, several property development in progress are mortgaged as collaterals for developers loans jointly amounting at said date to EUR 127,773 thousand (see Note 16). In addition to this, several assets under this item are used as collateral of the syndicated credit of the group for EUR 12,932 thousand.

Finished buildings

The main property developments included under this item refer to not sold items of the following property developments:

Madrid

- Reserva de Guadarrama Development
- Parque Usera in Madrid.
- Estudios Marqués de Monteagudo
- El Pinar del Parque Development in Navalcarnero.

Malaga

- Mirabella Development in Casares
- Residencial Bábaco Development in Churriana

Valladolid

- Jardines de Zorrilla Development
- Paseo de Jalón Development 1st stage
- La Joya 108 Development
- La Joya 109 Development
- Parquesur Development 1st stage
- Jardines de Jalón
- Cuzco Building
- Corona Building
- Juan de Austria Building
- Alfonso X Building

Seville

- Alameña Residencial Development
- Avenida Libertad Development

Other

- Viñadelmar Development in La Manga del Mar Menor in Murcia.
- Galeras Development in La Coruña

Portugal

- Maia Building
- Casas Brancas Building

Recorded decreases in 2010 correspond to sale costs of handed over property and mainly refer to: Jardines de Zorrilla (Valladolid), Parquesur 1st stage (Valladolid), Bábaco (Valladolid), Parque Jalon (Valladolid), Pinar del Parque in Navalcarnero (Madrid) and Galeras in La Coruña for a total amount of EUR 30,288 thousand.

At 31 December 2010, many of these properties were mortgaged as security for the repayment of several bank loans granted to the Company by certain financial entities, jointly amounting at said date to EUR 79,879 thousand (see Note 16.1). Besides, at 2010 year-end, several property developments act as hedge for the syndicated credit of the Group for EUR 4,933 thousand.

Commitments to sell property developments in progress and completed buildings

At 31 December 2010 and 2009, the Group had entered into private agreements and reservation documents for the sale of property developments in progress and completed buildings at that date, for a total amount of EUR 49,165 thousand and EUR 61,063 thousand, for which the Group had received advances from the related customers totalling EUR 19,943 thousand and EUR 9,032 thousand, respectively (see Note 18.3).

Inventories subject to litigation

At 31 December 2010 and 2009, "Inventories" included EUR 7,936 thousand in relation to the cost of a buildable plot located in calle Jacinto Benavente, Marbella, Malaga.

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Local associations have filed legal claims in relation to this buildable plot. The effects of the construction permit granted by Marbella Municipal Council to the Group company Lardea, S.L. had been suspended and the construction work performed by the company on the above plot was halted.

Neither Lardea, S.L. nor its legal representatives have been charged with any offence, are appearing in the proceeding as an aggrieved party and have filed a claim for property damage liability against Marbella Municipal Council. At the date of these financial statements, these court proceedings were still in progress.

The Parent's management and directors consider that under no circumstances the outcome of the court proceedings in progress will result in material losses for the Group.

Impairment losses on inventories

Based on cost and income estimates at 2009 year-end, the directors of the Company expect all the property developments completed or in progress at 31 December 2009 and the land and buildable plots (through property developments or the direct sale) to give rise to a profit.

In this regard, each year the Company commissions studies from independent valuers to determine the fair values of its inventories at the balance sheet date. At 31 December 2009, these studies were conducted by Savills España, S.A. and the valuations were performed on the basis of the definition of the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions.

The comparison method (for finished products) and the static and dynamic residual method (basically for plots of land and developments under construction) were used to calculate the fair value. Under the Residual Method, the residual value of the property in question is obtained by discounting the cash flows calculated on the basis of projected expenses and income at the rate established, taking into account the period until these flows are realised. The total cash receipts deemed to have been received prior to the valuation date are added to this amount to thus obtain the total value. The discount rate used is that which represents the average annual return on the project, without taking borrowings into account, that an average developer would obtain from a development similar to that analysed.

This discount rate is calculated by adding the risk premium determined by evaluating the risk of the development, taking into account the property asset to be constructed, its location, liquidity, the construction period and the investment required) to the risk-free interest rate. When the determination of the cash flows takes into account borrowings, the aforementioned risk premium is increased in proportion to the percentage of the borrowings (degree of leverage) attributed to the project and the habi1tual interest rates in the mortgage market.

At 31 December 2010 and 2009, the fair value of the Company's inventories based on the aforementioned study amounted to EUR 1,566 million and EUR 1,651 million, respectively. At 31 December 2010, this item includes EUR 151 million corresponding to the fair value of inventories of associates, being the recorded net cost of inventories of EUR 59 million. Attributed value is higher than accounting value.

Insurance policy

The Group takes out insurance policies to cover the possible risks to which substantially all its inventories are subject. The Parent's directors consider that the insurance coverage arranged is sufficient.

13. Non-current 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 or loss from operations.

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The detail of "Trade receivables for sales and services" at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Progress billings receivable and trade receivables for sales	419,136	442,437
Amounts to be billed for work performed	90,454	113,454
Retentions	15,793	29,871
Trade receivables from real estate customers	9,363	9,734
Impairment losses (Note22.10)	(28,316)	(23,873)
Total current	**506,430**	**571,623**
Advances (Note 18.3)	(70,691)	(73,227)
Total net accounts receivable	**435,739**	**498,396**

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 (completion of the works), based on the percentage of completion method used by the Group (see Note 4.12). The current liabilities "Advances" item from the consolidated balance sheet at 31 December 2010 and 2009 include EUR 48,899 thousand and EUR 49,547 thousand corresponding to "Amounts to be billed for work performed", which is recognised as the Group's lowest period revenue in accordance with the method of recognition of revenue based on the percentage of completion method (see Note 18.3).

The balance of "Trade Receivables from Real Estate Customers" at 31 December 2010 and 2009 relates to both trade receivables for the sale of buildings (documented in notes and bills) and to lease receivables.

In some cases, the Group companies sell trade receivables to banks, without the possibility of recourse against them in the event of default. The receivables sold at year-end, which were deducted from the balance of accounts receivable, totalled EUR 9,124 thousand and EUR 8,131 thousand at 31 December 2010 and 2009, respectively. This amount is fully derived from investments from Constructora San José, S.A. in joint ventures (see Appendix III). These transactions bear interest at normal market rates. The Group companies continue to manage collection.

Substantially all the risks (bad debts and late payment) and rewards associated with the receivables, as well as control over the receivables, were transferred through the sale of the receivables, since no repurchase agreements have been entered into between the Group companies and the banks that have acquired the assets, and the banks may freely dispose of the acquired assets without the Group companies being able to limit this right in any way. Consequently, the balances receivable relating to the receivables sold under the aforementioned conditions were derecognised.

The Group does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The distribution, by public and private sector, of the accounts receivable at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Public-sector customers	277,981	348,714
Private-sector customers	228,449	222,909
	506,430	**571,623**

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A high percentage of trade receivables from customers of the Group refer to public-sector customers and, especially, to public entities dependent on the Central Government. Therefore, the Group considers small credit risk. Regarding public-sector customers, the Group has strengthen its credit risk policy which includes from contracting (valuation and rating of potential customers, payment requirements, etc.) till regular revision and analysis of the global position. From this analysis late payment and default rate provision is established.

The average collection period for the trade receivables is approximately 192 days for year 2010. No significant changes have been experimented during the same.

13.2 Cash and cash equivalents

"Cash and Cash Equivalents" includes the Group's cash and short-term 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 these balances at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Cash equivalents	62,362	99,311
Cash on hand	308	450
Cash at banks	110,107	79,159
Total cash and cash equivalents	**172,777**	**178,920**

Out of the total balance of this item, EUR 30,443 thousand and EUR 45,825 thousand correspond to joint ventures (see Appendix III) for year 2010 and 2009, respectively.

13.3 Other current financial assets

"Other current financial assets" includes deposits at banks, short-term deposits and other receivables maturing in over three months.

13.4 Non-current assets and Loans to related companies

The detail of "Loans to related companies" and "Other financial assets" in the accompanying consolidated balance sheet at 31 December 2010 were as follows

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	Thousands of Euros				
	Available for sale investments	Loans to related companies	Available for sale investments	Provisions	Available for sale investments
Balance at 1 January 2009	**5,957**	**14,875**	**8,014**	**(974)**	**27,872**
Additions or charge for the year	-	397	5,108	-	5,505
Outflows, write-offs or reductions	(1,544)	(31)	-	506	(1,069)
Balance at 31 December 2009	**4,413**	**15,241**	**13,122**	**(468)**	**32,308**
Additions or charge for the year	1,210	214	10,503	(2,323)	9,604
Changes in the scope of consolidation	-	-	(7,667)	2,288	(5,379)
Outflows, write-offs or reductions	(210)	-	-	-	(210)
Balance at 31 December 2010	**5,413**	**15,455**	**15,958**	**(503)**	**36,323**

13.4.1 Available-for-sale financial assets

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:

Company	Company	
	31/12/2010	31/12/2009
Bodegas Altanza, S.A.	1,226	1,226
Unirisco SCR, S.A.	469	469
Renfapex 2000, S.A.	5	108
Filmanova	152	152
Editorial Ecoprensa	3,395	2,168
Other	166	290
	5,413	**4,413**

13.4.2 Loans and receivables

"Loans and Receivables" includes mainly participating loans granted to the associate Antigua Rehabitalia, S.A., which do not earn interest income because, being participating loans, they are linked to the profit obtained by the associate.

13.4.3 Other investments

This item mainly includes the receivables derived from the Concession Company of Chile for EUR 9.7 million, according to the financial assets model CNIF 12 (see Note 2.1).

14. Equity

14.1 Share capital

At 31 December 2008, the Parent's share capital was represented by 218,640 fully subscribed and paid registered shares of EUR 6 par value each.

During 2009, and as a result of the merger of the company with other Group companies, including "Parquesol Inmobiliaria y Proyectos, S.A." (see Note 1), the following operations were conducted:

a. Splitting of Company shares, issuing 200 new shares for every previous share, reducing thus the par value of EUR 6.00 to EUR 0.03.

b. In order to include minority shareholders of the absorbed companies in the Company's share capital, and pursuant to the exchange established and approved by the General Meetings of the affected companies, with rectification deed dated 10 July 2009, the Company increased its share capital by 21,298,083 shares of EUR 0.03 par value each, and a share premium of EUR 6.93676 per share.

These operations were completed with the registration of the merger project in the Pontevedra Mercantile Register on 17 July 2009 (see Note 1).

As of 20 July 2009, Parent Company shares can be listed on the Continuous Market, with a market value of EUR 12.86 per share.

At 31 December 2010 and 2009, share capital of the Parent was represented by 65,026,083 shares of EUR 0.03 par value each.

The closing and mean quote for the last quarter of 2010 and 2009 has been EUR 5.190 and EUR 5.314 for year 2010 and EUR 7.70 and EUR 8.46 for 2009.

At 31 December 2010, shareholders with ownership interest of at least 10% of the Parent Company's share capital were: Mr. Jacinto Rey González, with direct and effective total ownership interest of 24.95% and 52.00%, respectively, and Ms. Julia Ávalos Pérez with direct and effective total ownership interest of 12.63%.

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 at which it is recognised 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.

In addition, and in compliance with the terms set in article 273 section forth of the Spanish Companies Act and wording of Law 16/2007 of 4 July, on the reform and adjustment of business law, the obligation to provide a restricted reserve equal to 5% of the goodwill registered at year end, with charge to the profit or loss of the year if any, and otherwise with charge to unrestricted reserves.

14.4 Restrictions on the distribution of dividends

There are no significant restrictions on the distribution of dividends, apart from those established for the Group's syndicated banking funding system (see Note 16).

14.5 Consolidated reserves

The detail of "Reserves" from the consolidated balance sheet at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Parent company reserves	93,155	167,412
Consolidation reserves		
-From consolidated companies	159,084	125,784
-From companies considered equivalent	11,524	13,225
TOTAL	**263,763**	**306,421**

The breakdown, by company, of the balance of "Consolidated reserves" in the consolidated balance sheets, after taking into account the effect of consolidation adjustments, is as follows:

Net reserves attributable to the Parent and subsidiaries:

Company	Thousands of Euros			
	2010		2009	
	Reserves	Profit/ (Loss)	Reserves	Profit/ (Loss)
Grupo Empresarial San José, S.A.	120,281	8,501	194,085	(61,735)
SJB Müllroser	(2,722)	(110)	(2,722)	-
Constructor subgroup	121,285	32,580	88,378	26,576
Comercial subgroup	5,964	1,532	5,063	901
Udra Medios subgroup	(3,373)	(1,945)	(443)	(2,928)
SanJosé Desarrollos Inmobiliarios subgroup	(18,837)	(58,389)	(23,600)	(2,193)
Desarrollos Urbanísticos subgroup	37,342	1.321	36,426	1,293
SanJosé Tecnologías subgroup	(8,891)	(6,728)	(5,626)	(3,320)
San José Concesiones y Servicios subgroup	(8)	(11)	-	(6)
San Jose Energía y Medio Ambiente subgroup	(312)	(431)	-	(309)
Cadena de Tiendas, S.A.U. subgroup	1,509	(403)	1,635	(147)
Gabinete de Selección de Personal, S.L subgroup	1	-	-	-
	252,239	**(24,083)**	**293,196**	**(41,868)**

Net reserves attributable to companies accounted for using the equity method:

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The breakdown, by company, of the balance of this account in the consolidated balance sheets, after taking into account the effect of the valuation adjustments, and of the translation differences recognised in equity as a result of the valuation process, is as follows:

	Thousands of Euros			
	2010		2009	
Company	Reserves	Profit/ (Loss)	Reserves	Profit/ (Loss)
Desarrollo Urbanístico Chamartín, S.A.	(293)	(128)	(504)	(153)
Pontegrán, S.L.	15,382	5,151	14,919	376
Nuevo Parque de Bomberos, S.A.	(415)	(68)	-	6
Antigua Rehabitalia, S.A.	(4,574)	(2,648)	51	(4,696)
Corsabe, S.A.	1,426	(338)	385	3,096
Green Cines, S.L.	-	-	(1,181)	(17)
Other	(2)	580	(445)	(313)
	11,524	**2,549**	**13,225**	**(1,701)**

14.6 Valuation adjustments

"Valuation adjustments" in the consolidated balance sheet includes the net amount of fair value adjustments of certain derivative instruments (see Notes 4.9, 4.11 and 17) due to the application of IAS 32 and 39.

14.7 Shares of the Parent

At 31 December 2010 and 2009, the Group did not hold any treasury shares.

During 2010, the Group has purchased 115,431 treasury shares. These treasury shares have been used as consideration for the purchase of shares of "San José Desarrollos Inmobiliarios, S.A." (see Note 2).

14.8 Minority interests

The detail, by consolidated company, of "Minority Interests" and "Profit (Loss) Attributable to Minority Interests" is as follows:

	Thousands of Euros	
Company	Total minority interests	Total minority interests
Constructor subgroup	31,039	(286)
San José Desarrollos Inmobiliarios subgroup	2,875	(1,241)
SanJose Tecnologías subgroup	(4,600)	11
Udra Medios subgroup	(460)	(532)
San José Energía y Medio Ambiente subgroup	2	-
	28,856	**(2,048)**

The changes in "Minority Interests" in 2010 and 2009 are summarised as follows:

	Miles de Euros	
	2010	2009
Opening balance	33,271	273,286
Changes in the scope of consolidation (Note 2.4)	(2,567)	11,800
Profit for the year	(2,048)	(743)
Translation differences	493	(2,359)
Capital Increase	-	(214,617)
Other changes	(293)	(34,096)
Closing balance	**28,856**	**33,271**

The main changes of scope affecting minority interests during 2010, have been the following (see Note 2.4.d):

- In addition to the spin-off of the real estate branch of activity of the Parent in favour of the associate "San José Desarrollos Inmobiliarios, S.A.", the Parent has increased its participation in "San José Desarrollos Inmobilliarios, S.A." in EUR 756 thousand which represent 1.524% of its share capital by the acquisition of shares to minority interest through exchange of shares. The Parent handed in a total of 115,431 treasury shares (see Note 14.7.)

- Redemption by "Udramedios S.A.U." of the shares of "Promoción Cultura Galega 2007, S.L.".

- "San José Desarrollos Inmobiliarios, S.A." subscribed an agreement of 50% of share capital of the company "Green Inmuebles, S.L."; therefore, the group hold 75% of the associate.

14.9 Capital management

The Group's capital management focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy reconciles the creation of value for the shareholder with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business.

The directors of the Parent consider that evidence of fulfilment of the capital management targets set is provided by the fact that the gearing ratio does not exceed 400%, taken to be the result of dividing net financial debt by equity (corrected based on impairment of property assets).

At 31 December 2010 and 2009, the Group was achieving this parameter, as shown below:

	Thousands of Euros	
	2010	2009
Non-current bank borrowings and other financial liabilities (Note 16)	1,396,059	1,390,006
Current bank borrowings and other financial liabilities (Note 16)	377,801	412,163
Cash and cash equivalents (Note 13.2)	(172,777)	(178,920)
Total Net Financial Debt	**1,601,083**	**1,623,249**
Adjusted Equity	**542,723**	**539,164**
Gearing (percentage)	**295%**	**301%**

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15. Long-term Provisions

The changes in 2010 and 2009 in "Long-Term Provisions" in the consolidated balance sheet were as follows:

	Thousands of Euros
Balance at 31 December 2008	**16,916**
Donations	4,879
Applications	(1,068)
Reclassifications and other	4,851
Balance at 31 December 2009	**25,578**
Donations	5,133
Applications	(3,016)
Reversals	(995)
Reclassifications and other	199
Balance at 31 December 2010	**26,899**

Under "Reclassifications and Others" from the previous breakdown, EUR 2,648 thousand correspond to the company integrated through the equity method "Antigua Rehabilitalia, S.A." (see Note 11). Said amount is included under "Result of Companies Accounted for Using the Equity Method" from the attached consolidated income statement.

Also, at 31 December 2009, "Long-Term Provisions" includes the provisions for urban development work recognised by the Group's property development companies (see Note 4.17.1) and the balance of the provisions for litigation.

The directors of the Parent consider that the probability of an outcome of litigation and claims to occur are insignificant to justify the registration of additional provisions. The directors of the diferent companies within the Group consider that present provisions are enough to deal with the current processes of litigation and claims or will not have a material effect on the consolidated financial statements.

16. Bank borrowings and debt instruments and other marketable securities

The breakdown of non-current and current bank borrowings and other financial liabilities in the consolidated balance sheets is as follows:

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Year 2010:

	Thousands of Euros		
	Debts and accounts payable	Derivatives	**Total**
Non-current financial liabilities:			
Bank borrowings and other financial liabilities (Note 16.1)	1,381,548	-	**1,381,548**
Derivatives (Note 17)	-	30,706	**30,706**
Other financial liabilities	14,511	-	**14,511**
Total non-current	**1,396,059**	**30,706**	**1,426,765**
Current financial liabilities:			
Bank borrowings and other financial liabilities (Note 16.1)	373,644	-	**373,644**
Derivative instruments (Note 17)	-	623	**623**
Other financial liabilities	4,157	-	**4,157**
Total current	**377,801**	**623**	**378,424**

Year 2009:

	Thousands of Euros		
	Debts and accounts payable	Derivatives	**Total**
Non-current financial liabilities:			
Bank borrowings and other financial liabilities (Note 16.1)	1,372,620	-	**1,372,620**
Derivatives (Note 17)	-	40,217	**40,217**
Other financial liabilities	17,386	-	**17,386**
Total non-current	**1,390,006**	**40,217**	**1,430,223**
Current financial liabilities:			
Bank borrowings and other financial liabilities (Note 16.1)	**404,143**	-	**404,143**
Other financial liabilities	**8,021**	-	**8,021**
Total current	**412,164**	-	**412,164**

"Other current financial liabilities" and "Other non-current financial liabilities" include mainly EUR 373 thousand and EUR 2,809 thousand, respectively, in relation to guarantee deposits received in relation with the property development business. , and EUR 6,626 thousand relating to the non-current account payable for the purchase of property assets. The non-current portion includes the balance of current accounts with shareholders accruing market interest rate tied to Euribor and with no defined maturity.

16.1 Bank borrowings and other financial liabilities

The breakdown of non-current and current bank borrowings and other financial liabilities in the consolidated balance sheets is as follows:

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	Thousands of Euros	
	31.12.2010	**31.12.2009**
Non-current:		
Finance Lease (Note 7)	4,854	5,871
Bank loans and credits	87,050	113,148
Syndicated credit facility	1,289,644	1,253,601
Total non-current	**1,381,548**	**1,372,620**
Current:		
Finance Lease (Note 7)	999	928
Payables in relation to discounted notes and bills	63,373	61,911
Bank loans and credits	24,618	38,486
Mortgage loans secured by inventories (Note 10)	284,654	300,685
Syndicated credit facility	-	2,047
Other	-	86
Total current	**373,644**	**404,143**
TOTAL	**1,755,192**	**1,776,763**

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

"Bank loans and credit facilities" from non-current liabilities includes a balance for EUR 11,877 thousand corresponding to Project finance, granted for the construction, commissioning and operation of the Plant and the facilities of the Group company Poligeneració Parc de L'Alba ST-4, S.A.'s Policy Project. The remaining balance corresponds mostly to Group mortgages on companies' investment property (see Note 16.2).

"Bank loans and credit facilities" from current liabilities of the attached consolidated balance sheet includes EUR 5,627 thousand and EUR 4,814 thousands, respectively, for financial expenses pending settlement at year-end close.

16.2 Mortgage loans

During 2009, the Group has renegotiated a significant portion of the bilateral borrowings secured by security interests (fundamentally land and developer loans) with the same three-year grace period envisaged in the refinancing of the syndicated financial liability. Said guarantees amount to approximately EUR 810,488 thousand.

Mortgage loans secured by investment property

The Group has been granted certain loans by banks that are secured by mortgages on certain properties owned by the Group recognised under "Investment Property" in the accompanying consolidated balance sheet at 31 December 2010 for a total amount of approximately EUR 102,434 thousand (see Note 8). These loans are repaid in instalments consisting of principal and interest, maturing between 2016 and 2025.

These mortgage loans bear annual floating interest at a market rate, which in 2010 ranged from 1.5% to 6.77%.

Mortgage loans secured by inventories

As indicated in Note 4.19, all the bank borrowings associated with "Inventories" (regardless of the maturity thereof) are presented in the consolidated balance sheet under "Current Liabilities". The detail, by effective maturity, of the mortgage loans secured by inventories at 31 December 2010 is as follows:

	Thousands of Euros		
	Maturities		Total
	Short term	Short term	
Mortgage loans secured by real estate developments in progress:			
Of the Parent	-	-	-
Of Subsidiaries	73	127,700	**127,773**
Of Joint Ventures	-	-	-
	73	**127,700**	**127,773**
Mortgage loans secured by completed buildings			
Of the Parent	-	-	-
Of Subsidiaries	162	79,717	**79,879**
Of Joint Ventures	-	-	-
	162	**79,717**	**79,879**
Mortgage loans secured by land and buildable plots (Note 12):			
Of the Parent	-	-	-
Of Subsidiaries	-	77,002	**77,002**
Of Joint Ventures	-	-	-
	-	**77,002**	**77,002**
Total mortgage loans secured by inventories (Note 12)	**235**	**284,419**	**284,654**

These mortgage loans bear annual floating interest at a market rate, which in 2010 ranged from 1.14% to 3.87%.

The outstanding principal of these loans at 31 December 2010 matures approximately as follows:

Thousands of Euros				
Year 2011	Year 2012	Year 2013	Year 2014 and following	**TOTAL**
235	35,325	36,636	212,458	**284,654**

16.3 Syndicated credit facilities

The SAN JOSÉ Group has concluded the renegotiation of the bank borrowings in order to adapt the related obligations to the new business plan based on the global economic situation and taking into consideration cash requirements set out on Business Plan for 2009-2013, under a framework of stability.

The aforementioned syndicated credit facilities were closed with a syndicate of banks led by BARCLAYS and amount to EUR 2,210 million. The detail of these facilities is as follows:

- Loans and credit facilities for EUR 1,129 million.
- Trade and financial discount tranche for EUR 244 million.
- Confirming tranche for EUR 105 million.
- Tranche of project tender and performance bonds and of financial guarantees for EUR 510 million.
- The obtainment of an additional financing line that will provide the Company with a line of contingent liquidity totalling EUR 222 million.

Arrangement of the credit facilities gave rise to the unification of the terms and conditions of the various tranches in one document, the main terms and conditions of which are as follows:

- The repayment term is six years with a grace period for the principal for the first three years; and
- Guarantees were provided, which include security interests in the collection rights, shares and investments of certain San José Group companies, and mortgages on certain of the property assets.

In 2009-2013 the SAN JOSÉ Group is required to have minimum shareholders' equity and minimum consolidated EBITDA, and certain interest coverage ratios must be achieved for the period 2012-2014.

At the date of these financial statements, the financial requirements set out in the syndicated financing agreement are comfortably met, without any of the scenarios related to early amortisation considered in the agreement.

The outstanding principal of these loans at 31 December 2010 matures approximately is as follows:

Thousands of Euros					
Year 2011	Year 2012	Year 2013	Year 2014	Year 2015 and following	**Total**
-	-	74,670	75,539	1,136,435	**1,289,644**

17 Derivative financial instruments

The Group contracts OTC derivative financial instruments with national and international high credit rating banks.

The purpose of these contracts is to neutralise or reduce through interest rate derivative cash flow fluctuations to be disbursed for payments tied to variable interest rates (Euribor) of Group financing.

Interest rate derivatives

To determine the fair value of interest rate derivatives (Fixed Rate Swaps or structures with options), the Group uses cash flow discounts based on assumptions established by the Euro interest rate curve according to market conditions at the date of measurement. In the case of options, the Group also uses the market's implicit volatility as input to establish the option's fair value, using pricing techniques such as Black & Scholes and its variants applied to interest rate underlying.

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Interest rate derivatives contracted by the Group and effective at 31 December 2010 and 2009, together with their fair values at said date, are the following:

Year 2010:

			Thousands of Euros				
Company	Financial instruments	Expiry	Nominal Amount (EUR)	Valuation at 31.12.10 (Note 16)	Nominal outstanding amount 2011	Nominal outstanding amount 2015	Nominal outstanding amount 2020
Efficient hedges:							
SJ D.Inmob., S.A.	Swap K-O	12/02/2012	124,804	(2,919)	76,139	-	-
SJ D.Inmob., S.A.	Swap K-O	12/02/2012	236,384	(8,826)	205,349	-	-
SJ D.Inmob., S.A.	Swap	24/09/2012	135,000	(8,140)	135,000	-	-
			496,188	**(19,885)**	**416,488**	**-**	**-**
Non efficient hedges:							
SJ Tecnologías, S.A.	Swap	03/01/2012	50,000	(1,860)	50,000	-	-
Tecnocontrol Serv.,S.A.	Swap	20/11/2011	5,904	(66)	-	-	-
Poligeneraciò Parc de l'Álba	Swap	15/12/2012	15,451	(1,594)	15,451		
SJ D.Inmob., S.A.	Swap	31/10/2019	9,676	(449)	6,909	4,047	-
SJ D.Inmob., S.A.	Swap	31/07/2023	10,000	(566)	8,817	6,501	3,001
SJ D.Inmob., S.A.	Swap	31/12/2023	25,000	(1,509)	22,595	16,916	8,319
SJ D.Inmob., S.A.	Swap	02/01/2024	10,000	(816)	9,250	6,719	3,294
SJ D.Inmob., S.A.	Swap	04/10/2012	3,314	(29)	674	-	-
SJ D.Inmob., S.A.	Swap	09/10/2017	20,000	(831)	10,586	4,607	-
SJ D.Inmob., S.A.	Swap	19/01/2023	20,098	(1,002)	17,342	11,234	4,086
SJ D.Inmob., S.A.	Swap	29/03/2024	25,000	(2,139)	23,085	15,726	7,090
Construct. San José S.A	Swap K-O	11/02/2011	25,000	(537)	-	-	-
Green Inmuebles S.L	Swap	30/07/2012	2,836	(26)	746	-	-
			222,279	**(11,424)**	**165,455**	**65,750**	**25,790**
TOTAL			**718,467**	**(31,309)**	**581,943**	**65,750**	**25,790**

At 31 December 2010, the Group has two short-term exchange rate hedge instruments used by "Basket King, S.L." and "San José Perú, S.A." for ensuring purchases executed in a currency other than the Euro (main USD) for a total value of EUR 121 thousand (positive) and EUR 20 thousand (negative) recorded under "Short-term investments" and "Short-Term borrowings" on the attached consolidated balance sheet, respectively.

Hedging relationships are highly effective both prospectively and retrospectively, accumulated as from the allocation date. Consequently, the Group has accumulated in Equity the change of fair value of Derivative Financial Instruments.

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Year 2009:

Company	Financial instruments	Expiry	Thousands of Euros				
			Nominal Amount (EUR)	Valuation at 31.12.09 (Note 16)	Nominal outstanding amount 2010	Nominal outstanding amount 2015	Nominal outstanding amount 2020
G.E.San José, S.A.	Swap K-O	12/02/2012	124,804	(5,271)	95,762	-	-
G.E.San José, S.A.	Swap K-O	12/02/2012	236,384	(13,981)	218,798	-	-
Tecnocontrol Servicios S.A	Swap	20/11/2011	5,904	(137)	3,900	-	-
G.E.San José, S.A.	Swap	24/09/2012	135,000	(9,939)	135,000	-	-
Poligeneració Parc de l´Álba	Swap	15/12/2012	15,451	(1,543)	15,451	-	-
G.E.San José, S.A.	Swap	03/01/2012	50,000	(2,737)	50,000	-	-
G.E.San José, S.A.	Swap	31/10/2019	9,676	(375)	7,562	4,047	-
G.E.San José, S.A.	Swap	31/07/2023	10,000	(393)	9,339	6,501	3,001
G.E.San José, S.A.	Swap	31/12/2023	25,000	(1,054)	23,874	16,916	8,319
G.E.San José, S.A.	Swap	02/01/2024	10,000	(650)	9,756	6,719	3,294
G.E.San José, S.A.	Swap	04/10/2012	3,314	(59)	1,092	-	-
G.E.San José, S.A.	Swap	09/10/2017	20,000	(860)	11,909	4,607	-
G.E.San José, S.A.	Swap	19/01/2023	20,098	(695)	18,452	11,234	4,086
G.E.San José, S.A.	Swap	29/03/2024	25,000	(1,596)	24,407	15,726	7,090
Constructora San José S.A	Swap K-O	11/02/2011	25,000	(875)	25,000	-	-
Green Inmuebles S.L	Swap	30/07/2012	2,836	(52)	746	-	-
TOTAL			718,467	(40,217)	651,048	65,750	25,790

In the case of some derivatives, the Group has chosen hedge accounting pursuant to accounting regulations, appropriately allocating hedging relationships where these swaps are financing hedge instruments used by the Group, neutralising flow changes derived from interest payments establishing the fixed rate to be paid by it.

Hedging relationships are highly effective both prospectively and retrospectively, accumulated as from the allocation date. Consequently, the Group has accumulated in Equity the change of fair value of Derivative Financial Instruments allocated as Hedge Elements for its effective portion, which amounts to EUR 16,980 thousand before tax at 31 December 2010.

In 2010, EUR 17,070 thousand before tax have been recycled from Equity to Interests costs as financial liabilities' interests being hedged pursuant to allocated Hedging Relationships were registered.

Sensitivity analysis of interest rate

Changes in the fair value of interest rate derivatives arranged by the Group depend on the changes in the long-term Euro interest rate and Swaps curve. At 31 December 2010, these derivatives register a negative fair value of EUR 31,309 thousand before tax.

Below is a breakdown of the sensitivity analysis (changes of fair value at 31 December 2010) of the fair value of the derivatives considered as accounting hedge in the case of changes to the Euro interest rate curve:

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Sensitivity	Thousands of Euros 31.12.10
+0,5% (rate curve increase)	2,588
-0,5% (rate curve decrease)	(2,678)

The sensitivity analysis shows that the negative value of interest rate derivatives decreases when interest rates rise, since they are structures where the Group pays a capped interest rate and is, therefore, protected against interest rate rises. When interest rates drop, the negative value increases.

Since they are allocated as accounting hedge and considered to be highly effective both prospectively and retrospectively, the change in fair value would be registered for its effect on the Group's Consolidated Equity.

Below is a breakdown of the sensitivity analysis (changes of fair value at 31 December 2009) of the fair value of the derivatives not considered as accounting hedge due to changes on the Euro interest rate curve:

Sensitivity	Thousands of Euros 31.12.10
+0,5% (rate curve increase)	2,826
-0,5% (rate curve decrease)	(2,946)

As they have not been allocated as accounting hedge, the change in fair value of these derivatives will be fully registered in the Group's Consolidated Income Statement.

In addition, the Group has performed the sensitivity analysis for financial liabilities at variable interest rate, concluding that 0.5% interest rate increase would cause a fluctuation of the finance cost by approximately EUR 8.5 million. As interest rate derivatives are contracted, said sensitivity would be partially reduced in a par value corresponding to EUR 581,943 thousand of this financial liability (said amount corresponds to the outstanding notional of derivatives outstanding at 31 December 2010).

Financial instruments fair value

Financial instruments fair value at amortised cost:

There are no significant differences between "accounting value" and "fair value" measuring of financial instruments at amortised cost.

Applicable pricing techniques and hypothesis to measure fair value:

Financial assets and liabilities' fair value will be established as follows:

• The fair value of financial assets and liabilities with standard terms and conditions and traded in active and liquid markets will be established tied to market quoted prices.

• The fair value of other financial assets and liabilities (excluding derivatives) will be established according to generally accepted pricing models based on cash flow discounts using market trading prices and quotes from contributors for similar instruments.

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• To determine the fair value of interest rate derivatives, cash flow discount based on assumptions established by the interest rate curve according to market conditions is used. To determine the fair value of interest rate derivatives (swaps or IRSs), the Company uses its own IRS pricing model using Euribor and long-term swaps market curves as inputs.

Financial instruments can be grouped in levels ranging from 1 to 3 according to the level in which the fair value can be observed:

- Level 1: Those tied to quoted prices (without adjustment) in active markets for identical assets or liabilities.
- Level 2: Those tied to other inputs (excluding quoted prices included in level 1) observed for assets and liabilities, either directly (i.e., prices) or indirectly (i.e., derived from prices).
- Level 3: Those tied to pricing techniques, including inputs for assets and liabilities not based on observable market data (non-observable inputs).

All of the Group's derivative financial instruments at 31 December 2010 are classified under Level 2.

18 Trade and other payables

18.1 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 195 days.

Information on deferred payments to suppliers

Regarding the provision supplementing Act 15/2010 on 5 July for the first financial statements issued after the enforcement of this act on 31 December 2010, EUR 120.7 million pending payment to suppliers implies a deferment of payment higher than legal payment maturity date. Finance costs arising from such deferment will be assumed by the Group as stated on the agreements reached with suppliers.

According to 3/2004 Act on 29 December, maximum payment time in 2010 is 85 days in general and 120 days for public-sector customers,

Group directors consider that recorded accounting value of trade payables is similar to the reasonable value.

18.2 Other current liabilities

At 31 December 2010 and 2009, "Other current liabilities" includes mainly the accounts payable relating to joint ventures. It also includes the provisions totalling EUR 4,430 thousand and EUR 4,962 thousand, respectively, for remuneration payable.

18.3 Customer advances

Real estate advances at 31 December 2010 and 2009 amount to EUR 19,943 thousand and EUR 9,032 thousand, respectively, and relate fundamentally to the advances received from the buyers for the properties relating to the developments in progress or completed developments at year-end, the completion and/or delivery of which are scheduled for subsequent years (see Note 12). Most of the advances received from customers had been guaranteed by financial guarantees.

In addition, at 31 December 2010 and 2009 this item also includes "Amounts Billed in Advance for Construction Work" totalling EUR 48,899 and thousands EUR 49,547 thousand (see Note 13.1), which relates to progress billings issued during the year for construction 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, described in Note 4.12, and to advances received from customers relating to the property development business. EUR 1,849 thousand are also recorded under this item as other advances.

19. Risk exposure

19.1 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 consolidated balance sheet are net of allowances for doubtful debts, estimated by Group management based on past experience and its assessment of the current economic climate. The amount of financial assets recognised in the consolidated financial statements, net of possible impairment losses, represents the Group's maximum exposure to credit risk, excluding guarantees or other credit improvements provided.

The credit risk on 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.

The Group monitors credit management and has specific procedures in place in this connection, setting terms and conditions for the acceptance of orders and regularly monitoring orders.

19.2 Interest rate risk exposure

Interest rate risks arises from changes in the future cash flows from variable rate borrowings (or with current maturity) as a result of changes in market interest rates.

The objective of interest rate risk management is to mitigate the impact on borrowing costs arising from fluctuations in interest rates. Financial derivatives which guarantee fixed interest rates or rates with caps and florrs are for a substantial portion of the borrowings that may be affected by this risk. (see Notes 16 and 17).

19.3 Foreign currency risk exposure

In 2010 the Group did not hedge any relevant amount of exchange risks. Its foreign currency risk exposure relates to its investments in the companies detailed in Note 4.14, and which are financed in local currency.

19.4 Liquidity risk exposure

The Group pursues the prudent management of the liquidity risk based on the maintenance of sufficient cash and marketable securities, availability of financing through s sufficient level of committed credit facilities and sufficient capacity to settle market positions. The Group calculates its cash requirements through a 12-month cash budget. The Group considers that the financing framework is sufficiently flexible to adapt to the dynamic needs of the underlying businesses.

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The table below includes the Group's liquidity analysis for its derivative financial instruments. The table is based on non-discounted net cash flows. When this liquidation (receivable or payable) is not fixed, the amount has been established with the assumption calculated based on the interest rate curve.

	Thousands of Euros				
	Less than 1 Month	1-3 Months	Less than 1 Month	1-5 Years	Less than 1 Month
Interest rate swap	-704	-7,510	-10,698	-12,853	-214

The Group's remaining financial liabilities maturities are listed in Note 16.

The main figures in the consolidated cash budget for 2011, based on the Group's recurring business are as follows:

	Thousands of Euros
Collections from customers in relation to construction work	981,620
Other collections (joint venture distributions, tax refunds and extraordinary income)	917
Finance income	5,182
Total collections	**987,719**
Total payments to suppliers	(914,309)
Total tax payments	(14,045)
Total finance cost payments	(57,997)
Total payments	**(986,351)**
Cash generated from ordinary transactions	**1,368**
Financial transactions	
(-) Payments due to investment	(87,709)
(+/-) Variation in borrowings	76,363
(+/-) Other	(1,218)
Cash generated in/ (used for) financial transactions	**(12,564)**
Total cash generated	**(11,196)**

From the review of the cash budget for 2011 and the sensitivity analyses performed by the Group at 2010 year-end, it may reasonably be concluded that the SANJOSE Group will be able to finance its operations even if the real estate market and borrowing conditions continue to worsen.

20. Taxation

The Group companies file individual tax returns in accordance with the tax legislation in force in each country. With regard to Spain, the San José Group, composed of Grupo Empresarial San José, S.A. as the Parent and all the Spanish subsidiaries in which it holds a direct or indirect ownership interest of at least 75%, (See Note 4.16).

At 30 June 2010, spin-off of the real estate branch of activity of Grupo Empresarial San José, S.A. and its transfer en bloc y universal succession to San José Desarrollos Inmobiliarios, S.A., who increases its share capital, was made public.

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Branch of activity contribution has accounting retroactive effect from 1 January 2010.

Spin-off of branch activity has been executed pursuant to the Structural Modifications Act 3/2009 and Chapter VIII of Title VII on the Special Regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 on 5 March approving the Consolidated Spanish Corporation Tax Law and was notified to the Tax Department on 2 November 2010.

For each of the consolidated companies, income tax is calculated on the basis of the accounting profit or loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit or tax loss.

20.1 Years open for review by the tax authorities

Grupo Empresarial San José, S.A. and the subsidiaries forming the consolidated tax group have the last four years and 2006 open for review for all the taxes applicable to them and for Income Tax (except for the companies listed below and audited by Tax Authorities in 2008 and Constructora San José S.A. whose auditing review process for years 2003 – 2005 was completed by December 2010):

Tax	Company	Fiscal Year
Income tax	Parquesol Inmobiliaria y Proyectos, S.L. *(absorbed by Parquesol Inmobiliaria y Proyectos, S.A.)* Guadalmina Inversiones, S.L. Parzara, S.L.	2003 & 2004
Value Added Tax	Parquesol Inmobiliaria y Proyectos, S.L. *(absorbed by Parquesol Inmobiliaria y Proyectos, S.A.)*	June - December 2004
Personal income tax withholdings/ prepayments	Parquesol Inmobiliaria y Proyectos, S.L. *(absorbed by Parquesol Inmobiliaria y Proyectos, S.A.)*	June - December 2004

At 29 July 2010 auditing review of Constructora San Jose S.A. for years 2003-2008 was successfully completed for all taxes, apart from VAT, finding of conformity issued on 16 December 2010. Consequently, a tax liability for EUR 3,437 thousand payable in 48 months arose.

With respect to the other subsidiaries that are either not domiciled in Spain or do not form part of the consolidated tax group, the years open for review are in accordance with the maximum periods established in the legislation applicable in each country of residence.

Except for these companies and periods, the other Group companies have the last four years open for review for all the main taxes applicable to them.

The Parent's directors consider that in no case will significant additional liabilities arise as a result of the tax audits currently in progress or in the event of tax audits of the other years open for review.

20.2 Income tax.

The balance of "Income Tax" in the accompanying consolidated income statement for 2010 was determined as follows:

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	Thousands of Euros	
	2010	2009
Accounting income before tax	**(33,378)**	**(68,578)**
Increases at individual companies		3,470
Decreases at individual companies	(2,232)	-
Elimination trade consolidation	(5,330)	(12,055)
Equity method dividends	(4,432)	1,961
Profit share of associates	-	(3,024)
Offset of prior years' tax losses	(6)	(368)
Taxable profit	**(45,378)**	**(78,594)**
Less taxable profit of companies not resident in Spain	5,475	6,884
Tax loss of consolidated group resident in Spain	(50,853)	(85,480)
Gross tax payable (30%)	**(15,110)**	**(25,658)**
More – tax credits	(563)	(200)
Accrued tax expense	**(15,673)**	**(25,858)**
Other items	(564)	641
Income tax expense, companies not resident in Spain	6.441	950
Accrued tax expense	**(9,796)**	**(24,267)**

20.3 Tax loss carry forwards

Although at 2010 year-end some of the consolidated companies had declared tax losses amounting to approximately EUR 225,442 thousand, the accompanying consolidated balance sheet at 31 December 2010 only includes a tax asset of EUR 33,063 thousand in this connection.

The detail of the tax loss carry forwards of the consolidated companies at 31 December 2010 is as follows:

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Company	Year Incurred	Thousands of Euros Tax Losses	Last Year for Offset
	De 1996 a 1999	45	De 2011 a 2014
	2000	3	2015
Grupo Empresarial San Jose S.A.	2001	50	2016
	2002	371	2017
	2003	67	2018
	2004	920	2019
	2005	560	2020
	2006	370	2021
	2007	3,431	2022
	2008	74,805	2023
	2009	53,744	2024
	2010	32,415	2025
Grupo Empresarial Sanjose consolidated group		**166,781**	
	De 1996 a 1999	65	De 2011 a 2014
	2000	61	2015
	2001	85	2016
	2002	52	2017
Spanish companies not included in the consolidated tax groups	2003	91	2018
	2004	86	2019
	2005	148	2020
	2006	645	2021
	2007	1,446	2.022
	2008	12,543	2.023
	2009	7,978	2024
	2010	633	2025
TOTAL Companies not included in consolidated tax groups		**23,834**	
Foreign companies	1998	479	-
	1999	537	
	2000	422	
	2002	756	-
	2003	3,260	
	2004	3,077	
	2005	3,040	
	2006	1,817	
	2007	6,926	
	2008	7,389	
	2009	4,192	
	2010	2,932	
TOTAL companies not resident in Spain		**34,827**	

In the case of the Spanish companies and under current legislation, the tax losses of a given year can be carried forward for tax purposes for offset against the taxable profits of the following 15 years. Tax loss carry forwards of companies for offset when becoming an integral part of the group, may be forwarded for the parent with the limit of the individual company. However the final amount of the tax losses to be offset may be modified as a result of the review by the tax authorities of the years in which the losses were incurred.

20.4 Deferred tax assets and liabilities

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2010 and 2009 arose as a result of the following:

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Deferred tax assets derived from	Thousands of Euros	
	2010	**2009**
Elimination of intra-Group profits on consolidation in relation to the sales of buildable plots	14,117	16,697
Financial instruments	7,402	9,401
Backlog charge	11,840	10,153
Other items	1,110	5,818
Tax credit carry forwards	4,221	4,106
Tax assessments Parquesol 2002	3,465	3,465
Tax loss carry forwards (Note 20.3)	33,063	41,670
	75,218	**91,310**

The balance of "Deferred tax assets" at 31 December 2010 includes mainly the following items:

1. The tax effect arising from the elimination of the gains obtained by certain consolidated companies included in the consolidated tax group headed by the Parent of each tax group from the sale of certain buildable plots to other consolidated companies outside the related consolidated tax group.

2. The tax loss and tax credit carry forwards to the extent that they are recoverable.

3 According to the recognition related to hedge financial instruments.

The deferred tax liabilities recognised in the accompanying consolidated balance sheet at 31 December 2010 and 2009 arose as a result of the following:

	Thousands of Euro	
Deferred tax liabilities:	2010	2009
Revaluation of assets from merger	55,736	58,378
Deferral for reinvestment of extraordinary gains	2,270	3,048
Backlog provisions	2,608	414
Elimination of consolidated profit	3,323	3,964
Other consolidation adjustments	2,098	26,032
	66,035	91,836

The balance of "Deferred tax liabilities" at 31 December 2010 relates basically to the following items:

1. Deferred tax corresponding to the minority shareholding in registering assets and inventories by merger.

2. The deferred income arising from property, plant and equipment sales made in the period from 1997 to 2001, inclusive, was reinvested in full before 31 December 2006.

3. Derived from the Group's consolidation, the main deferred tax tied to the revaluation of property assets conducted by the former Parquesol Group upon first implementation of the international accounting policy.

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20.5 Tax credits

The tax credits earned in the year in excess of the applicable legal limits may be deducted from the income tax payable in the coming years, subject to the limits and deadlines established in this connection by the related tax legislation. The Group availed itself of the tax benefits provided for in the aforementioned legislation and recognised EUR 594 thousand as an increase in the income tax asset accrued in 2010, as follows:

Item	Year Incurred	Thousands of Euros
Earned by the Grupo Empresarial San Jose S.A. tax group		
Double taxation tax credit	2010	287
Tax credit for training activities	2010	0.3
Tax credit for donations	2010	42
Tax credit for R&D	2010	265
		594.3

At 31 December 2010 the tax credit carry forwards, earned in 2009, 2008 and 2007, were as follows

Earned by the Grupo Empresarial San Jose S.A. tax group	Year of occurance	Thousands of Euros
Double taxation tax credit	2009	676
Tax credit for donations	2009	41
Tax credit for training activities	2009	1
Tax credit for reinvestment of extraordinary gains	2008	103
Double taxation tax credit	2008	2,494
Tax credit for R&D	2008	329
Tax credit for donations	2008	193
Tax credit for training activities	2008	4
Tax credit for trade fairs	2008	27
Tax credit for training activities	2007	0.2
Double taxation tax credit	2007	4
Tax credit for trade fairs	-	11
		3,883.2

The tax credit carry forwards in 2010 were recognised as tax assets with the exception of the double taxation tax credits, since they related to eliminations from the scope of consolidation. In 2007, 2008 and 2009 the income tax expense recognised was reduced by the total amounts of the tax credits earned in that year.

The reinvestment requirements relating to the full amount of the tax credits for the reinvestment of extraordinary gains earned by the Group in the period from 2003 to 2008, inclusive, had been met in full by 31 December 2010 within the periods established by current tax legislation.

In Spain, the Group recognised the difference between the provision for accounting purposes and the provision permitted under the new wording of Article 12.3 of the Consolidated Spanish Income Tax Law as a deferred tax asset. The detail of the tax adjustments due to differences between recognised accounting impairment and tax impairment is registered at the notes of the corresponding companies, amounting the deferred tax at 31 December 2010 to EUR 2,194 thousand.

20.6 Tax receivables and payables

The detail of the Group's tax receivables and payables at 31 December 2009 is as follows:

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	Thousands of Euros			
	2010		2009	
	Current	Non-current	Current	Non-current
Tax assets:				
Deferred tax assets				
Tax receivables (Note 12)-	2,999	75,218	9,080	82,230
VAT receivable				
Receivables from Public Authorities	19,717	-	9,006	-
	5,670	-	14,757	-
Total tax assets	25,387	-	23,763	-
	28,386	**75,218**	**32,843**	**82,230**
Tax liabilities:				
Deferred tax liabilities	3,433	66,035	978	90,858
Current income tax liabilities	3,433	66,035	978	90,858
Tax payables (Note 20)-				
Tax payable as a result of tax assessments	1,991	-	3,073	-
VAT payable	38,979	-	34,426	-
Personal income tax payable	2,288	-	3,462	-
Other tax payables	4,426	-	6,494	-
Accrued social security taxes payable	2,404	-	3,134	-
	50,088	-	50,589	-
Total tax liabilities	**53,521**	**66,035**	**51,567**	**90,858**

20.7 Restructuring transactions

Segregation of the real estate branch of activity

Pursuant to Article 93 of the Consolidated Spanish Corporation Tax Law, for information purposes only, information on the segregation of the real estate branch of activity of Grupo Empresarial Sanjose S.A. in favour of San Jose Desarrollos Inmobiliarios S.A. is provided in the notes to the financial statements for year 2010 of the involved companies, for having qualified for taxation under the tax neutrality regime provided for the Consolidated Spanish Corporation Tax Law.

Property has been transferred at the accounting valued recorded at eh balance sheet of Grupo Empresarial San Jose S.A

Segregation was notified to the Tax Department on 2 November 2010.

Spin-off of San José Tecnologías S.A. in favour of Constructora San José S.A., San José Energía y Medio Ambiente S.A. and San José Concesiones y Servicios S.A.

Pursuant to Article 93 of the Consolidated Spanish Corporation Tax Law, for information purposes, information on the segregation of the three business lines of activity of San Jose Tecnologias S.A. in favour of Constructora San Jose S.A., the engineering and industrial construction branch of activity, of San Jose Concesiones y Servicios SA, the maintenance branch of activity, and in favour of San Jose Energia y Medio Ambiente, development and production of energy, has been included in year 2010 is provided in the notes to the financial statements for year 2010 of the involved companies having qualified for taxation under the tax neutrality regime provided for the Consolidated Spanish Corporation Tax Law.

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Transaction is pending inscription at the Mercantile Register.

21. Guarantee commitments to third parties

At 31 December 2010 and 2009, the Group had received from banks and insurance companies guarantees provided to third parties amounting to EUR 369 million and EUR 417 million (mainly project and definite tender and performance bonds to public and private bodies). EUR 3.7 million and EUR 9.8 million of which correspond to the parent company and the rest to the subsidiaries.

In addition, some associates have guarantee commitments to third parties, related to the corresponding business for EUR 9,516 thousand, which correspond to a guarantee registered by "Desarrollo Urbanístico Chamartín, S.A." before the Community of Madrid Tax Department to guarantee the suspension of the collection proceeding in order to file a claim before the Regional Tax Appeal Board in Madrid against the liquidation derived from the payment record and receipt received on 23 December 1998 for Estate and Property Transfer Tax for the tender agreement for the urban development of the RENFE rights at the Chamartín railroad building.

Parent Company and subsidiaries Directors do not consider there will be any liability in connection to the committed guarantees.

22. Income and expenses

22.1 Revenue

The detail of "Revenue" in the accompanying consolidated income statements for 2010 and 2009 is as follows (in thousands of Euros):

	Thousands of Euros	
	2010	2009
Construction:		
Civil Works	117,237	190,140
Residential	110,723	159,710
Non residential	423,354	493,930
Industrial	59,413	36,924
	710,727	**880,704**
Real Estate	86,677	142,560
Concessions and Services	30,055	34,685
Energy	6,558	4,800
Other	18,234	20,850
Net revenue	**852,251**	**1,083,599**

64.4% of the construction revenues refer to sales to the public sector.

EUR 141 million of the more than EUR 852 million of net revenues relate to joint ventures (see Annex III).

Virtually all the work was performed as prime contractor.

The project backlog still to be performed at 31 December 2010 and 2009 amounted to EUR 1,928 million and EUR 2,070 million, broke down as follows:

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	Millions of Euros	
	2010	2009
Construction:		
Civil Works	249.9	339.1
Residential	132.9	191.8
Non residential	621.9	634.9
Industrial	20.0	46.7
Subtotal construction	**1,024.7**	**1,212.5**
Concessions and Services	410.8	353.8
Energy (*)	493.0	504.1
Total Portfolio	**1,928.5**	**2,070.4**
Details by type of customer:		
-Public	80.2%	81.5%
-Private	19.8%	18.5%
Detail by geographical area:		
-National	59.2%	69.2%
-International	40.8%	30.8%

(*) It does not include portfolio resulting from wind farm tenders in Galicia and awarded to the Group, neither the awarding of 50 MW in Uruguay. This amount includes mainly income corresponding to the district heating&cooling power plant Cerdanyola del Vallés (see Note 7).

22.2 Procurements and other external expenses

The breakdown of "Procurements" in the consolidated income statements for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Purchases of raw materials and other supplies	152,298	232,201
Impairment losses on inventories in 2008 (Note 22.10)	12,214	7,910
Reversal of impairments	(1,851)	(185)
Purchase volume - rebates	(51)	-
Works performed by other companies	367,248	451,420
Total supplies	**529,858**	**691,346**

"Work Carried out by Other Companies" includes work that forms part of the Group's own production process but is commissioned from subcontractors or other companies.

The breakdown of "Other current operating expenses" in the consolidated income statements for 2010 and 2009 is as follows:

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	Thousands of Euros	
	2010	2009
R+D expenses	20	302
Utilities	8,056	11,398
Repairs and maintenance	5,972	5,144
Transport and freight costs	1,959	2,251
Insurance premiums and banking services	7,268	7,037
Services from independent professionals	21,135	21,446
Leases	17,540	23,934
Advertising and publicity	2,936	3,126
Other services	26,904	31,547
Taxes	14,643	18,218
Other operating expenses	16,530	5,635
Total	**122,963**	**130,038**

22.3 Staff costs

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2010	2009
Wages and salaries	96,979	113,386
Termination benefits	3,368	3,390
Employer social security costs	19,976	28,656
Other social costs	6,232	2,471
Total	**126,555**	**147,903**

The average workforce by professional categories is as follows:

	2010		2009	
Category	Men	Women	Men	Women
University graduates	337	161	355	172
University graduates, three-year degree courses	388	136	420	145
Clerical staff	120	141	157	164
Manual workers and technical personnel	1,878	103	2,227	141
	2,723	**541**	**3,159**	**622**

The average workforce at 31 December 2010 amounted to 2,958 and comprised 2,459 men and 499 women.

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22.4 Compensation in kind

At 31 December 2010 there was no significant compensation in kind.

22.5 Share-based payment

There are no share-based payments.

22.6 Leases

Operating leases

At the reporting date the Group did not have any operating leases of a material amount and had not assumed any future minimum lease payment obligations.

Finance lease

At 31 December 2010, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 5,853 thousand, most of which will be amortised in the next six years. Said balance is included under "Bank borrowings" (see Note 16.1).

22.7 Financial income

The detail of "Finance income" in the consolidated income statements is as follows:

	Thousands of Euros	
	2010	2009
Interest on receivables	6,893	8,427
Income from equity investments	35	152
Other finance income	1	57
	6,929	**8,636**

"Interests on receivables" from 2010 includes approximately EUR 3.2 million corresponding to interests on short-term deposits. The reminder corresponds mainly to late interest for deferral of collection to customers and settlement of exchange rate hedge instruments.

22.8 Finance costs

The detail is as follows:

	Thousands of Euros	
	2010	2009
Interest on debts	25,400	64,532
Other finance costs	35,418	15,312
Changes in fair value	3,402	4,693
	64,220	**84,537**

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"Other finance costs" from 2010 includes EUR 6,883 thousand corresponding to the costs from the previous syndicated financing as well as EUR 28,535 thousand corresponding to the settlement of hedge instruments.

22.9 Impairment and gains or losses on disposals of non-current assets

The detail is as follows:

	Thousands of Euros	
	2010	2009
Gains/Losses on write-offs of fixed assets (Note 7)	508	(1,209)
Impairment of property, plant and equipment (Note 10)	(371)	-
Impairment of investment property (Note 8)	(8,662)	(10,428)
Other	53	72
	(8,472)	**(11,565)**

22.10 Changes in operating provisions and allowances

The changes in operating provisions and allowances in the consolidated balance sheet in 2010 and 2009 were as follows:

Year 2010

	Thousands of Euros			
	Inventories (Note 13)	Operating insolvencies	Other operating provisions (Note 15)	Provisions risks and expenses
Balance at 1 January 2010	**23,873**	**25,390**	**25,578**	**74,841**
Provisions	14,785	3,106	5,133	23,024
Applications	(271)	(1,368)	(3,016)	(4,655)
Reversals	(10,088)	(3,514)	(995)	(14,597)
Changes in the scope and other	17	(10)	199	206
Balance at 31 December 2010	**28,316**	**23,604**	**26,899**	**78,819**

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Year 2009

	Thousands of Euros			
	Inventories (Note 13)	Operating insolvencies	Other operating provisions (Note 15)	Provisions risks and expenses
Balance at 1 January 2009	**22,069**	**37,538**	**16,916**	**142,900**
Provisions	8,087	9,488	4,879	58,520
Applications	(1,716)	(3,081)	(1,068)	(7,719)
Reversals	(1,632)	(16,774)	-	(18,591)
Changes in the scope and other	(2,934)	(1,781)	4,851	3,284
Balance at 31 December 2009	**23,873**	**25,390**	**25,578**	**178,394**

Current provisions classified under "Short-term provisions" include estimated amounts to face possible business contingencies. During 2010, EUR 3,617 thousand, linked to provisions for conclusion of property developments, was reversed as they no longer apply.

22.11 Change in inventories of finished goods and work

Breakdown of "Changes in inventories" is as follows:

	Thousands of Euros	
	31.12.10	**31.12.09**
Change in inventories for recorded expenses/sales	(29,422)	(69,028)
Change in inventories for impairment (see Note	(296)	(26,304)
In-house work on non-current assets	712	9.256
Total	**(29,006)**	**(86,076)**

22.12 Audit fees

In 2010 and 2009, audit fees for auditing services regarding consolidated financial statements provided to the Group by Deloitte, S.L., and associates of Deloitte, as well as auditing services regarding individual financial statements of subsidiaries and associates are as follows (in thousands of Euros):

Year 2010:

Item	Thousands of Euros	
	Services provided by main audit	Services provided by other audit Companies
Auditing services	404	20
Other audit services	75	-
Total Audit services	**479**	**20**
Tax and fiscal advice	42	-
Other services	19	-
Total	**540**	**20**

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Year 2009:

Description	Thousands of Euros	
	Services provided by main audit	Services provided by other audit. companies
Auditing services	487	63
Other audit services	78	-
Total Audit services	**565**	**63**
Tax and fiscal advice	-	-
Other services	33	-
Total	**598**	**63**

23. 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 with them on the consolidated income statements are as follows:

	Thousands Euros	
	2010	2009
Assets:		
Antigua Rehabitalia, S.A.(Note 13.4.2)	15,455	15,200
Other	473	2,047
Liabilities:		
Pontegrán, S.A.	15,555	14,349
Other	446	1,502
Transactions:		
Expenses	166	312

24. Remuneration

24.1 Remuneration of directors

The detail of the remuneration of all kinds earned in 2010 and 2009 by the directors of Grupo Empresarial San José, S.A. and of the Group company, jointly controlled entity or associated oblied to pay such remuneration are as follows:

	Thousands of Euros	
	2010	2009
Salaries and wages	2,500	2,450
Allowances	156	118
Total	**2,656**	**2,568**

The amount for 2010 and 2009 also includes Directors remunerations for the furtherance of their duties as Senior Management for EUR 2,500 thousand and EUR 2,450 thousand.

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At 31 December 2010 and 2009, no advances, loans or other types of guarantees had been granted to the former or current directors and there were no additional pension or life insurance obligations to them. In addition, the Group does not have any other kind of transactions with related parties.

Pursuant to Articles 229 to 231 of the Spanish Companies Law in order to reinforce the transparency of corporations, nest a list of companies with the same, similar or supplementary business activities of Grupo Empresarial San Jose, S. A. with Parent's Directors (according to article 231 of the Spanish Companies Law), and functions:

Owner	Investee	Activity	Functions	Interest
Mr. Jacinto Rey González	Desarrollo Urbanístico Chamartín, S.A.	Real estate	Director	-
Mr. Jacinto Rey González	Desarrollos Urbanísticos Udra S.A.U	Real estate	Sole Director	-
Mr. Jacinto Rey González	Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.	Real estate	Sole Director	-
Mr. Jacinto Rey González	Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.	Real estate	Sole Director	-
Mr. Jacinto Rey González	Sanjose Concesiones y Servicios, S.A.U.	Real estate	Sole Director	-
Mr. Jacinto Rey González	Udra Argentina, S.A.	Real estate	Sole Director	10%
Mr. Jacinto Rey González	Carlos Casado, S.A.	Construction company	Director	-
Mr. Jacinto Rey González	Udra México S.A. de CV.	Construction company	Director	-
Mr. Jacinto Rey González	Udra Valor S.A.	Securities holdings	Sole Director	-
Mr. Jacinto Rey González	Pinos Altos Inversiones, S.L.	Subscription and purchase of shares	Sole Director	-
Mr. Jacinto Rey González	San José Bau GMBH	Construction company	-	12%
Mr. Jacinto Rey González	Constructora San José Argentina, S.A.	Construction company	-	3.9%
Mr. Jacinto Rey González	Pinos Altos XR, S.L.	Securities holdings	Sole Director	55%
Mr. Jacinto Rey Laredo	Constructora San José, S.A	Construction company	Chairman and Chief Executive Officer	-
Mr. Jacinto Rey Laredo	CSJ Cabo Verde	Construction company	Director	-
Mr. Jacinto Rey Laredo	San Jose Construction Group	Construction company	Director	-
Mr. Jacinto Rey Laredo	San José France	Construction company	Director	-
Mr. Jacinto Rey Laredo	SJ Bau MBH	Construction company	Joint Director	-
Mr. Jacinto Rey Laredo	SJB Mullroser GMBH	Construction company	Sole Director	-
Mr. Jacinto Rey Laredo	Udra Limitada	Construction company Securities holdings	Sole Director	-
Mr. Jacinto Rey Laredo	Pinos Altos XR, S.L.	Securities holdings	-	20%
Mr. Jacinto Rey Laredo	Udra Valor S.A.		-	4.64%
Mr. Santiago Martínez Carballal	Comercial Udra, S.A.U.	Commercial services	Director	-

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Mr. Santiago Martínez Carballal	Constructora San José, S.A	Construction company	Director	-
Mr. Santiago Martínez Carballal	San José Energía y Medio Ambiente, S.A.U.	Facilities	Director	-
Mr. Santiago Martínez Carballal	San José Desarrollos Inmobiliarios S.A.	Real Estate	Director	-
Mr. Santiago Martínez Carballal	Cadena de Tiendas, S.A.U.	Furnishing of Stores, premises and offices.	Sole Director	-
Mr. Santiago Martínez Carballal	Sanjose Tecnologías S.A.	Industrial and Technological facilities	Director	-
Mr. Ramón Barral Andrade	Promocions Culturais Galegas, S.A.	Publishing company	Deputy Chairman	-
Ms.Altina de Fátima Sebastián González	Ferrovial, S.A.	-	-	100 shares
Mr. Francisco Hernanz Manzano	CCM Corporación, S.A.	Business Management services	Joint Director	-
Mr. Francisco Hernanz Manzano	El Reino de D. Quijote, S.A.	Real Estate	Chairman	
Mr. Francisco Hernanz Manzano	Lico Inmuebles, S.A.	Real Estate	Director	-
Mr. Francisco Hernanz Manzano	Obenque, S.A.	Real Estate	Director	-

According to Article 229 of the Spanish Companies Law there is no conflict of interest.

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 electro medical 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.

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

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 Grupo Empresarial San José, S.A as defined above.

The information relating to the Group companies, jointly controlled entities and associates of the SANJOSE Group is disclosed in the separate financial statements of the Parent.

24.2 Remuneration and other benefits of senior executives

The total remuneration of all kinds of the Parent's General Managers and persons discharging similar duties excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above) - in 2010 and 2009 is summarised as follows:

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Number of People	Thousands of Euros
Year 2010:	
14 Executives	1,913
Year 2009:	
12 Executives	1,586

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

25. 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 its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

26. Events after the balance sheet date

- *Concessional Funding Agreement for two hospitals in Chile:*

At 10 February 2011, the financing agreement for the Project "Concessional Funding Programme on Hospital Infrastructure, Maipú Hospital, La Florida Hospital" for a long-term loan of USD 250 million with several local credit entities.

This programme is the first concessional funding programme implemented by the Government of Chile and implies a portfolio of more than EUR 500 million for the Group.

- *Urban Development Chamartín (DUCH):*

In January 2010, the project received the environmental approval of the Community of Madrid, prior to its approval by the Committee of City Planning of the City council of Madrid and its approval on the Council session on 25 February.

Urban development is planned to be started on the first half of the year 2012.

Both, BBVA and Grupo SANJOSE have shares in DUCH, responsible for managing an investment volume of EUR 11,000 million in an avant-garde project which will change the image of the city.

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Appendix I

Consolidated subsidiaries:

Company	Auditing Company	Location	Activity	% of voting rights controlled by Parent companies			Cost of share (Thousands of Euros)
				Direct	Indirect	Other	
1681 West Avenue, LLC	Not Audited	Delaware (USA)	Property Development	-	100	-	5,225
Altiplano Desarrollos Inmobiliarios, S.L.	Not Audited	Valladolid	Property Development	-	55	45	1,375
Argentimo, S.A.	Deloitte, S.L.	Buenos Aires (Argentina)	Property Development	-	100	-	20,932
Arserex, S.A.U.	Deloitte, S.L.	Madrid	Commercialisation and distribution of sportswear in Spain	-	100	-	2,844
Asesoramiento y Gestión Integral de Edificios, S.A.U. (AGEINSA)	Not Audited	Barcelona	No operations	-	100	-	74
Azac, S.A.U.	Not Audited	Barcelona	No operations	-	100	-	13,339
Basket King, S.A.U.	Not Audited	Madrid	Commercialisation and distribution of sportswear in Spain	-	100	-	977
Burgo Fundiarios, S.A.	Deloitte Portugal	Oporto (Portugal)	Real estate	-	100	-	5,510
Cadena de Tiendas, S.A.U.	Not Audited	Pontevedra	Commercialisation, manufacturing, distribution, exportation and importation of clothing.	100	-	-	60
Carlos Casado, S.A.	Auren	Buenos Aires (Argentina)	Property Development	-	50.4	49.6	25,393
Cartuja Inmobiliaria, S.A.U.	Deloitte, S.L.	Seville	Construction	-	100	-	3,984
Centro Comercial Panamericano, S.A	Deloitte Argentina	Buenos Aires (Argentina)	Property Development	-	100	-	10,202
CIMSA Argentina, S.A.	Deloitte Argentina	San Luis (Argentina)	Civil works	-	94	6	(760)
Comercial Udra, S.A.U.	Deloitte, S.L.	Pontevedra	Commercial Services	100	-	-	1,748
Constructora Panameña de Aeropuertos, S.A.	Bustamante y Bustamante	Panama (Panama)	Construction	-	94.8	5.2	121
Constructora San José Argentina, S.A.	Deloitte Argentina	Buenos Aires (Argentina)	Construction	-	100	-	7,319
Constructora San José Cabo Verde, S.A.	Not Audited	Cape Verde	Construction	-	100	-	453
Constructora San José, S.A.	Deloitte, S.L.	Pontevedra	Construction	-	99.79	0.21	88,106
Constructora Udra Limitada	Deloitte, S.L.	Monaco (Portugal)	Complete construction, preservation and repair.	7	52.59	40.41	245
Copaga, S.L.U.	-	Vigo (Pontevedra)	Real estate	-	100	-	2,755
Desarrollos Urbanisticos Udra, S.A.	Not Audited	Pontevedra	Property Development	-	100	-	20,200
Desarrollos Inmobiliarios Makalu	Not Audited	-	Property Development	-	50	-	4,[illegible]23
Discoval, S.L.	Not Audited	Valladolid	Property Commercial Managemet	-	75	25	271
Douro Atlantico Sociedade Inmobiliaria, S.A.	Deloitte, S.L.	Oporto (Portugal)	Real estate	-	100	-	16,619
Douro Atlantico, S.L.U.	Deloitte, S.L.	Pontevedra	Real estate	-	100	-	3,579
Edificio Avenida da Liberdade,	Deloitte Portugal	Lisbon (Portugal)	Rent	-	100	-	50
Edificio Duque de Palmela	Deloitte Portugal	Lisbon (Portugal)	Rent		100	-	50
Edificio Duque de Loule	Deloitte Portugal	Lisbon (Portugal)	Rent		100	-	50
Enerxias Renovables de Galicia, S.A.	Not Audited	Pontevedra	Production and commercialisation of electricity through renewable energy.	-	100	-	563
Eraikuntza, Birgaikuntza Artapena, S.L.U.	Deloitte, S.L.	Vitoria Gasteiz	Construction	-	100	-	435
Rexa Constructora S.A.	Deloitte Perú.	Lima (Peru)	Construction	-	75	25	348
Inmobiliaria 2010, S.L.	Deloitte Perú	Lima (Peru)	Construction and Development	-	75	25	1,297

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Company	Auditing Company	Location	Activity	% of voting rights controlled by Parent companies			Cost of share
				Direct	Indirect	Company	(Thousands of Euros)
Fashion King, S.A.U.	Not Audited	Madrid	Commercialisation, manufacturing, distribution, exportation and importation of clothing.	-	100	-	60
Gabinete de Selección, S.L.	Not Audited	Vigo (Pontevedra)	Manpower Selection	99.9	0.1	-	38
Gestión de servicios de la Salud S.L.	Not Audited	-	Hospital Services	-	60	-	90
Green Inmuebles, S.L.	Deloitte, S.L.	Valladolid	Rent	-	50	50	2,512
Green Cines, S.L.	Not Audited	Valladolid	Operation of theatre screens	-	75	25	604
Hood Sports, S.A.U.	Not Audited	Madrid	Manufacturing, storage and distribution of manufactured goods	-	100	-	60
Hotel Rey Pelayo, S.L.	Not Audited	Gijon (Asturias)	Rent	-	100	-	7,508
Iniciativas Galebal, S,L.	Not Audited	Palma de Mallorca	Property Development	-	56	44	3
Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.	Not Audited	Pontevedra	Property Development	-	100	-	60
Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.	Not Audited	Pontevedra	Property Development	-	100	-	9,184
Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.	Deloitte, S.L.	Buenos Aires (Argentina)	Property Development	-	100	-	680
Inmoprado Laguna, S.L.	Not Audited	Valladolid	Property Development	-	50	50	4,950
Inversiones Patrimoniales Guadaiza, S.L.U.	Not Audited	Pontevedra	Property Development	-	100	-	8,905
Kantega Desarrollos Inmobiliarios	Not Audited		Property Development	-	50	-	5,601
Lardea, S.L.	Not Audited	Madrid	Property Development	-	100	-	26,328
Outdoor King, S.A.U.	Not Audited	Madrid	Manufacturing, storage and distribution of manufactured goods	-	100	-	60
Parquesol Construcciones, Obras y Mantenimientos, S.L.	Not Audited	Valladolid	No operations	-	97	3	96
Parquesoles Portugal SGPS, S.A.	Deloitte Potugal	Lisbon (Portugal)	Holding company	-	100	-	14,515
Parquesoles Inmobiliaria y Proyectos, S.A. *(denominada con anterioridad, Almarjurbe-Investimentos Imobiliarios, S.A.)*	Deloitte Portugal	Lisbon (Portugal)	Property Development	-	100	-	50
Poligeneraciones parc de L´Alba	Deloitte, S.L.	Barcelona	Construction, start-up and maintenance of polygeneration energy systems	-	76	14	3,644
Pontus Euxinus Tehnologii Renovabile, S.R.L.	Not Audited	Bucarest (Romania)	Production and commercialisation of electric energy.	-	75	-	8
Xornal de Galicia, S.A.	Not Audited	Galicia	Press	79.15	-	-	2,593
Xornal Galinet, S.A.	Not Audited	La Coruña	Press	100	-	-	1,100
Running King, S.A.U.	Not Audited	Pontevedra	Commercialisation, manufacturing, distribution, exportation and importation of clothing.	-	100	-	1
San José BAU GmBH	Wisbert & Partner	Berlin (Germany)	Construction	-	84	16	435

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Company	Auditing Company	Location	Activity	% of voting rights controlled by Parent companies			Cost of share
				Direct	Indirect	Company	(Thousands of Euros)
San José Concesiones y Servicios, S.A.U.	Not Audited	Pontevedra	Sanitary and social services	-	100	-	60
San José Construction Group, Inc	Not Audited	Washington (USA)	Construction	70	30	-	13,998
San Jose Desarrollos Inmobiliarios, S.A.	Deloitte, S.L.	Pontevedra	Property Development	98.69	-		123,675
San José France, S.A.S.	Not Audited	Le Haillan (France)	Holding company	-	100	-	982
San José Perú, S.A.C.	Deloitte, S.L.	Lima (Pere)	Construction	-	100	-	9,257
San Jose India Infrastructure & Construction Private Limited	Not Audited	Nueva Delhi (India)	Development and operation of infrastructure	-	99.99	-	11
San José Real Estate Development, LLC	Not Audited	Delaware (USA)	Property Development	-	100	-	5,207
San José Uruguay, S.A.	Not Audited	Colonia Sacramento (Uruguay)	Industrialisation and marketing	-	100	-	10
San Pablo Plaza, S.L.U.	Not Audited	Seville	Property Development	-	100	-	9,124
SCPI Parquesol Rue de la Bienfaisance	Not Audited	Paris (France)	Rent	-	100	-	3,962
Sefri Ingenieros Maroc, S.A.R.L	Not Audited	Morocco	Engineering and installation services	-	75	25	258
Sociedad Concesionaria Chile Tecnocontrol	Not Audited	Santiago de Chile (Chile)	Infrastructure concessions	100	-	-	10,480
Inversión SanJose Chile Limitada	Not Audited	Santiago de Chile (Chile)	Investments and real property	70	-	-	1
SJB Mullroser	Wisbert & Partner	Mullroser (Germany)	Construction	100	-	-	730
Sofía Hoteles, S.L.U.	Not Audited	Valladolid	Management of "Tryp Sofía" Hotel, located in Valladolid	-	100	-	19,130
SUPRA Desarrollos Inmobiliarios, S.L.	Not Audited	Seville	Property Development	-	55	45	6
Tecnologías Renovables de Aragón, S.A	Not Audited	Zaragoza	Production and commercilisation of electrical energy	-	100	-	61
Tecnologíes Renovables de Catalunya, S.A.	Not Audited	Barcelona	Production and commercilisation of electrical energy	-	100	-	61
Tecnoartel Argentina, S.A.	Deloitte Argentina	Buenos Aires (Argentina)	Maintenance and installation work	-	100	-	23,364
Tecnocontrol Servicios, S.A.U.	Deloitte, S.L.	Tres Cantos (Madrid)	Maintenance services	-	100	-	1,668
Tecnocontrol Sistemas de Seguridad, S.A.U.	Not Audited	Tres Cantos (Madrid)	Maintenance of security systems	-	100	-	120
Trendy King, S.A.U.	Not Audited	Madrid	Commercialisation and distribution of sportswear in Spain	-	100	-	1,515
Udra Argentina, S.A.	Deloitte Argentina	Buenos Aires (Argentina)	Real estate	-	90	10	2,265
San José Tecnologías S.A.	Deloitte, S.L.	Pontevedra	Installations	-	100	-	19,902
Udra Mantenimiento, S.L.U.	Not Audited	Tres Cantos (Madrid)	Public Telephone Networks maintenance and collection	-	100	-	3
Udra Medios, S.A.U.	Not Audited	Pontevedra	Publishing, making, re-making and advertising of books, newspapers, mazines and any sound and image media.	100	-	-	1,500
Udra Medios Editora de Galicia	Not Audited	Galicia	Press				4
Udra México S.A. de C.V.	Not Audited	Mexico	Construction company		97.18	-	850
Udralar, S.L.	Not Audited	Tres Cantos (Madrid)	Real estate	-	100	-	3
Udramar Inmobiliaria, S.L.U.	Not Audited	Tres Cantos (Madrid)	Real estate	-	100	-	3
Udrasol Inmobiliaria, S.L.U.	Not Audited	Tres Cantos (Madrid)	Real estate	-	100	-	3
Udrasur Inmobiliaria, S.L.U.	Not Audited	Tres Cantos (Madrid)	Real estate	-	100	-	3
Zivar, investimentos inmobiliarios C.	Not Audited	Portual	Real estate		52.5	-	2,597
San Jose Energia y Medio Ambiente	Not Audited		Energy production		1	-	61
Urbemasa, S.A.U.	Not Audited	Valladolid	No operations	-	100	-	329

Appendix II
Associates accounted for using the equity method

Company	Auditing Company	Location	Activity	% of voting rights controlled by the Parent			Cost of share
				Direct	Indirect	Other	(Thousands of Euros)
Pontegran, S.L.	Deloitte, S.L.	Madrid	Property development	-	45	55	11,509
Corporación San Bernat SCR,SA	Audihispana	Barcelona	Securities Holdings	-	28	-	4,205
Antigua Rehabilitalia, S.A.	Deloitte, S.L.	Madrid	Property development	-	40	60	300
Desarrollo Urbanistico Chamartín, S.A.	Deloitte, S.L.	Madrid	Property development	-	27,5	72,5	20,247
Panamerican Mall, S.A.	KPMG	Buenos Aires (Argentina)	Property development	-	20	80	17,914
Nuevo Parque de Bomberos, S.A.	Not audited	Palma de Mallorca	Construction and operation of a new fire station	-	28	72	624
Otoño, S.L.	-	Valladolid	No operations	-	67	33	42
Pinar de Villanueva, S.L.	-	Valladolid	Running of small farms and buildings, urbanisation and real state developments	-	50	50	9,427
Villa del Prado Patrimonio, S.L.	-	Valladolid	No operations	-	50	50	27
Villa del Prado Gestión, S.L.	-	Valladolid	No operations	-	50	50	3

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Appendix III

1. Consolidated Joint ventures:

Company	Registered Office	Activity	Effective ownership of interest of Parent company	Thousands of Euros Cost of share
Desarrollos Inmobiliarios Makalu, S.L. (1)	Madrid	Property development	50.00	4,623
Kantega Desarrollos Inmobiliarios, S.A.	Seville	Property development	50.00	5,601
				10,224

(1) Companies audited by Deloitte, S.L.

2. Joint ventures:

Joint Ventures	Participation %	Thousand of Euros Certificates Issued/Income (100% JV)	Status
Landing Strip 18	25%	-	In progress
Torrelaguna	50%	-	In progress
Bridge over the Genil river	100%	-	Settlement pending
Xeral De Lugo Hospital	50%	14,253	In progress
Ringroad of Vigo	50%	-	In progress
Daimiel	100%	-	Settlement pending
Hospital of Almansa	70%	-	In progress
Regional Government of Malaga	50%	(647)	In progress
Ring road of Toledo	100%	-	Settlement pending
Cañada Ancha	100%	-	In progress
Almanjayar	75%	188	In progress
Plaza El Arbol	20%	-	Settlement pending
Variante Iscar	100%	-	Settlement pending
A.I. La Nava	100%	-	In progress
Chiclana	100%	-	In progress
Access to Toledo	100%	-	In progress
San Lucar	100%	-	In progress
Rivas Oeste	100%	-	In progress
Menorca airport	50%	4,803	In progress
Museo Del Prado	50%	-	In progress
Ciudad De La Cultura	50%	1,686	In progress
Jabalon (Manserja)	40%	-	In progress
Extension of Avenida Alvaro Domecq	100%	-	In progress
New metro station at Pinar Del Rey	100%	-	In progress
Becerril	100%	-	Settlement pending
Avenida De Europa Jerez	100%	-	In progress

La Granja-Jerez	100%	-	In progress
C.P L.Eliana	70%	-	In progress
Swimming pool at Parla	60%	-	In progress
Ac-301 Padron	100%	-	In progress
Housing units at Alcosa	80%	-	In progress
Ciudad Cultura Building	50%	-	In progress
Metro Boadilla	30%	-	In progress
Sport Centre at Umbrete in Seville	100%	(31)	In progress
Ccb Mallorca	55%	-	In progress
Alcorcon	100%	-	In progress
Jarosa El Escorial	100%	-	Settlement pending
El Puerto	100%	73	In progress
Highway A-50 Salamanca	100%	-	In progress
Hospital of Asturias	43%	57,760	In progress
M-40 Pau Las Tablas	50%	-	In progress
Puerto De La Atunara	80%	-	Settlement pending
Water treatment plant at Cutar	20%	-	In progress
O/Ceip Beethoven	20%	(1)	Settlement pending
O/ Urbaniz. Barrio San Isidro	100%	-	In progress
O/ Parque Lineal Rivas	75%	-	In progress
Escola Bressol	20%	-	In progress
Csj-El Ejidillo	60%	15,993	In progress
Highway Encinas Reales Cordoba	70%	309	In progress
Estadi Municipal Montcada	20%	-	Settlement pending
Nursery and Primary School Centre San Jordi	20%	-	In progress
Contreras Reservoir	50%	1,703	In progress
High Speed Railway Station at Zaragoza	55%	-	In progress
Nursery and Primary School Centre San Jose Calasanz - Bigastro	60%	-	In progress
Restoration of the Building of the Chamber of Commerce	60%	-	In progress
Lucero Health Care Centre in Madrid	70%	(73)	In progress
Uv-B	60%	-	In progress
Indistrial engineeringl	50%	1,889	In progress
Hospital of Guadix	50%	-	In progress
Ocaña	70%	228	In progress
Shopping area at the Menorca airport	50%	-	In progress
Alameda De Osuna school	65%	(6)	In progress
Highway Verín-Frontera Portuguesa	50%	11,686	In progress
Irrigation system of Canal Del Páramo Bajo	50%	-	In progress
Valdebebas Lote 6	50%	-	In progress
Under-crossing Ifema	50%	-	In progress
Ring road Delicias Station	63%	830	In progress
Hospital of Plasencia	45%	2,653	In progress
Ring road Toledo	50%	38,932	In progress
Arroyo De La Vega extension Edar	50%	297	In progress
La Edar at Aranjuez	50%	421	In progress
El Tejar	70%	14	In progress
Csj-Obremo	67%	-	In progress
Fire station	51%	90	In progress
University Teacher training College	80%	5,124	In progress

Mieres	60%	887	In progress
Enlargement project of Barajas	50%	24	In progress
Vall Nuria	20%	-	In progress
Vilanova	20%	-	In progress
Etsi Universidad Valencia	80%	16,654	In progress
Hotel Colon at Seville	70%	-	In progress
San Jose El Ejidillo E	60%	77	In progress
San Jose El Ejidillo F	60%	101	In progress
Indistrial plant Vicalvaro	60%	-	In progress
Hospital of Gandia	70%	-	In progress
Juan Canalejo Hospital in La Coruña	50%	369	In progress
Palacio Justicia Paterna	60%	3,250	In progress
Gardening works at Ifema	60%	234	In progress
Parque Fuensanta	60%	-	In progress
Green areas at Ferrol	60%	1,074	In progress
Gardening works at Elup De Calles Juan Vera	60%	-	In progress
Social housing units La Torre Valencia	50%	-	Settlement pending
Castell De Castells	70%	451	In progress
Csj-Guamar Malaga	70%	2,153	In progress
Restoration of the Poblao Mineiro Fontao	80%	190	In progress
Old city of Cartagena	60%	119	In progress
San Jose El Ejidillo Paseo De Europa	70%	-	In progress
Water treatment system Cutar	20%	-	In progress
Verge Cinta Hospital	20%	1	In progress
Drinkable water Villanubla	20%	-	In progress
Vall Nuria	20%	-	In progress
Vilanova	20%	-	In progress
Ciudad Jardin Football pitch (Malaga)	75%	448	In progress
Airport lighting system	20%	-	In progress
Santa Maria De La Isla	20%	-	In progress
Restoration of the wáter network of Teruel	20%	-	In progress
Drinkable water treatmentVillanubla	20%	-	In progress
Coveta Fuma	20%	-	In progress
Captacion Bombeo Cubillo De Butron	20%	-	In progress
Water supply systemo Fuensaldaña	20%	-	In progress
Drinkable water Legionelosis Protection	20%	-	In progress
Almuradiel	20%	-	In progress
Sanitasion system of Kareaga Goikoa	20%	-	In progress
Rain water drainage system of Ronda Parque	20%	-	In progress
Ciudad De La Luz - Alicante	20%	-	In progress
Ciudad De La Luz - Alicante	20%	-	In progress
Lagunilla	70%	-	In progress
Tecno-Cimsa Alumbrado Camino Carmen	20%	-	In progress
Constructon of a wáter recreational center in Montecerrao	50%	-	In progress
Arcade Pontecaldelas Cimsa	50%	-	In progress
Son Tous - Tecnocontrol Cimsa	20%	-	In progress
Faculty of Science (Puerto Real)	50%	4,086	Settled
Restoration Radiotherapy Area Virgen Del Rocio Hospital	50%	270	In progress
Multipurpose building Telde	60%	-	In progress

S.Jose-Cimsa-Rodio O/Montijo	90%	-	In progress
San Jose-Abengoa O/La Lama	75%	-	In progress
Novo Hospital	95%	-	In progress
Andujar	80%	-	In progress
Santa Marta Magasca	60%	-	In progress
Aljarafe	75%	-	In progress
Tercia Baena	20%	-	Settlement pending
Barrio Bajo	80%	-	In progress
Tarongers	80%	-	Settlement pending
Cimsa-Ploder "Velilla"	50%	-	In progress
Hospital Cruz Roja	20%	-	Settlement pending
Cejoysa	60%	-	In progress
Pasarela Puente de los Franceses	50%	2,571	In progress
Dehesa Vieja Development	50%	732	In progress
Algeciras Espalanda	70%	1,991	In progress
IMQ Clinic Bilbao	40%	14,796	In progress
Ejidillo Plaza Castilla	60%	77	In progress
Miamán Ponte Ambia	70%	68	In progress
Ejidillo Las Rozas	60%	111	In progress
Extension Airport of Vigo	50%	262	In progress
Ejidillo Valladolid	60%	387	In progress
Aeronautic Suppliers Village	80%	12	In progress
Nursery Sport Centre		-	In progress
Hospital ofAlbacete		-	In progress
Earthworks Ikea		-	In progress
Etap Monforte de Lemos		-	In progress
Villanueva de la Jara		-	In progress
Museo del Prado Elec Ins	50%	-	
Talavera	20%	-	
Airport of Barcelona	33%	630	
Cutar Málaga	80%	-	
El Empecinado	20% + 80%	-	Pending deregistration
Students' Residence O Burgo	20%	-	Pending deregistration
Trauma V. Hebron	20%	-	
M50	33%	-	Pending deregistration
Subst.Rio Adaja	50%	-	
Museo del Prado Conditining facilities	50%	-	
Cubillo Butron	80%	-	Pending deregistration
Elec Ins Novo Hosp.Lugo	34%	1,182	
PA Novo Hosp.Lugo	50%	189	
Set Cortadura Subest. 66kven L.A.V. Tramo Aerop.	50%	-	
Hosp.Verge Cinta	80%	3	
Trauma V.Hebron	80%	-	
Plant A-400m Airbus Sevilla	40%	-	
University of Santiago	80% + 20%	92	Pending deregistration
Data and telehone networl, Interior Ministry	80% + 20%	-	Pending deregistration
HSR station Zaragoza	45%	-	

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Students Residence O Burgo	80%	-	Pending deregistration
Communication system Vallecas	80% + 20%	-	
Cymitec Central Serv. Ciudad De La Cultura Santiago	50%	78	
Vall De Nuria	80%	-	
Centro De Salud Lucero	30%	-	
Cap Rubí 3 - Csterrassa	80%	-	Pending deregistration
Line 3 Metro Madrid	80%	-	
Gespa Mas Oliva-Ajuntament Roses	50%	-	
Fire extintion system Residencia Militar Alcazar	80%	-	
Tecosa-Teco Sist.Seguridad Arroyos	50%	-	
Copisa-Tecno S.Ferroviari L'anoia I El Bages	40%	22	
Tecno-Telvent By-Pass Sur Tunel Norte	50%	-	
Tecnoditec Comunicaciones	60%	-	
Desalination plant El Mojon	25%	31	
Enlargement Pozoblanco Hospital	40%	107	
Har Peñarroya Valle Del Guadiato	40%	357	
Polygeneration power plant Cerdanyola Del Valles	95%	1,086	
Tecno-Elecnor Cabildo Insular	50%	1,167	
Tecno-Moelca Ae.Fuerteventura	55%	378	
Imhuca Hospital of Oviedo	35%	15,702	
Parking area P-2 Airport of Malaga	80%	1,414	
Arnau Vilanova	80%	-	
Museo del Prado	50%	-	
Sum.Equip.Inform. Canarias	50%	-	
Sum. Proyectores prog. Fomento	50%	-	
Bajondillo	25%	-	Pending deregistration
Torre Iberdrola	30%	7,455	
Kultur Etxea Hondarrubia	20%	1,098	
Central Eléctrica Santiago	60%	4,643	
Total		**245,203**	

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GRUPO EMPRESARIAL SAN JOSE, S.A. AND SUBSIDIARIES

2010 Directors Report

1 Business performance and situation of the Group:

1.1 Market performance

At 2010 year-end, Spain continues to be the main Business market of companies belonging to Grupo SANJOSE, who has undergone a d difficult year from an economic point of view.

Spain's GDP has suffered a positive growth on the second quarter of 2010. Yet 2010 year-end reached a -0.1%contraction regarding the previous year.

In addition to this variable, macroeconomic imbalances must be taken into consideration. Probably, the most significant one is the unemployment rate which reached last December 20.3% of the labour force. Spanish unemployment rate has suffered increasing, yet a slight recovery is expected in the second half of the year 2011.

On the other hand, during the last months of the year an upturn in the inflation, as a consequence of the Sharp rise of petroleum prices and VAT and special taxes, so that year-end closed with a CPI which reflects an increase of prices of 3%.

In any case, perhaps the most notable has been found in 2010 at the hard turbulence supported in financial markets, especially affected by the negotiations in such of the sovereign debt. Mistrust of international investors in the ability of certain States to meet its obligations for payment of debt, as well as coverage of commitments of deficit, marked increases in the prices of CDS, downward reclassifications of sovereign debt quality by the major agencies of "rating" and, in some cases, as they were those of Ireland and Greece, the implementation of rescue measures for part of the EU and the IMF, enabling the access of these countries to a reasonable financing in international markets.

Spain was not alien to this complex financial environment and suffered the consequences of movements in the markets that marked upward trends highlighted in our debt to the German bond spreads and the price of CDS. Even in the last months of the year was discussed by some analysts of possible plans of rescue on Spain, which officially were always denied.

All this has implied the need to undertake major national reforms in the labour market, the restructuring of the financial sector, especially regarding savings, and the modification of the pension system. At the same time, there have been tax changes, such as the increase in the applicable rate of VAT from the 1st of July. These measures, initiated in 2010 should be formalised and implemented in 2011.

Regarding Portugal, second market in volume for Grupo SANJOSE, the situation has been similar. This country has suffered the pressure of international debt markets in 2010, what has made the macroeconomic environment to be far from simple.

Interest rates in the euro zone, in any case, have been 1% stable throughout 2010, although some analysts are starting to assess possible increases in this variable in 2011, for what euro zone GDP and CPI trends are of great importance.

Evolution of the construction sector in year 2010

In year 2010, real estate sector did not experiment significant improvements and, therefore, neither did the residential construction sector. In addition to this, the volume of Public Works has been reduced and calls to tenders have been reduced in 32.2% according to the corresponding report issued by SEOPAN at year-end close. Besides, the Ministry of Public Works, implemented an extraordinary adjustment path which implied the loss of already awarded projects of uncertain execution. To this reduction of call to tenders, difficulty in obtaining credit facilities persist.

Before this situation, all companies of Grupo SANJOSE focus on controlling profitability and efficiency of executed projects what has led to an improvement of the EBITDA ratio offsetting the turnover reduction.

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On the other hand, the diversification trend of Grupo SANJOSE at both new markets and new business activities, especially concessions and energy, is a must.

1.2 Risks associated with 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 them.

1.3 Main indicators of consolidated profits or losses

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.

Therefore, the San José Group discloses its financial/accounting information under the same accounting standards and principles as the main construction groups and companies. This entails the following advantages:

- **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 at year-end totalled just over EUR 400 million

Profit: Revenue amounted to EUR 852 million, a decrease of 21.4%. The current situation of the Spanish economy, and in particular the construction and real estate markets, led the Group to give maximum priority to solvency and new contract profitability. The good performance of profit margins should be noted, highlighting 8.0% positive EBITDA margin, slightly above the 6.6% recorded in the previous year.

1.4 Main actions of the Group's business units

The Group is a diversified group as regards its activities and the geographical areas in which it carries them on. The following divisions are present in the Group: construction, concessions y maintenance, energy, and real estate and urban development.

The growth of the Company fundamentally follows criteria of profitability and diversification and/or expansion of the activities related to 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 strategies which characterise the Group can be summarised as follows:

1. Industry diversification and internationalisation as the cornerstones of stability and growth.

2. Integrated project management, offering a global service.

3. Maintenance of the level of shareholder independence.

4. Investment in human capital formation and cutting-edge technology to drive development.

5. Focus on companies with significant strategic importance, substantial returns on investment and a marked social component.

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6. Priority to solvency and profitability over growth policies.

Objectives for 2011

Construction: to maintain the process of geographical diversification at national and international level and continuing seeking cost structure efficiency. The Company's clear objective is to consolidate its position as one of Spain's leading construction groups, while continuing to meet quality requirements and deadlines.

In this regard, the construction division maintains a backlog still to be executed of EUR 1,025 million, consisting mainly of non-residential building construction and civil engineering projects (61% and 24%, respectively). 63% of this total figure is for public-sector customers.

Energy: 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.

The project backlog still to be executed at 31 December 2010 amounted to EUR 493 million.

Maintenance and concessions: This Division has been clearly relaunched after the awarding of the construction and operation of two hospitals in Chile. The purpose is to strengthen this division, both at domestic and international level, through projects with own financing vehicles, with appealing profit rates, return on investment rates that are not excessively long and which guarantee recurring income in the future.

Real estate: after reaching the objective for 2010 of the entire real estate business internal reorganisation, efforts focus on concluding property developments under construction to speed up their sale and will forward to maintaining the cost reduction policy to suit a bearing market. As to rent, a higher level of occupation will be promoted, improving commercial policies.

Markets: 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.

1.5 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 strengthened in order to improve the Group's processes and safety levels.

2. Events after the balance sheet date

At 10 February 2011, the financing agreement for the Project "Concessional Funding Programme on Hospital Infrastructure, Maipú Hospital, La Florida Hospital" for a long-term loan of USD 250 million with several local credit entities.

Funding agreement was signed with Banco Bilbao Vizcaya Argentaria Chile, Banco BICE, Corpbanca, Banco Itaú Chile, Banco del Estado de Chile, Scotiabank Chile, Banco Security and Banco Consorcioand it ensures the executing of this pioneering Project in the Chilean Hospital Infrastructure area with a committed investment of USD 300 million by Grupo San José.

The "Concessional Funding Programme on Hospital Infrastructure" the first concessional funding programme implemented by the Government of Chile and implies the design, construction, provision and assembly of industrial equipment and its subsequent maintenance as well as the provision of non medical services in two hospital centres in Maipú and La Florida. Surface of each hospital centre amounts to nearly 70,000m2 and provide the Chilean health care system with 766 beds.

At 17 February 2011, the Committee of City Planning of the City Council of Madrid approved the so-called "Operación Chamartín", prior to its approval on the Council Session. Approval of the Community of Madrid is expected to be obtained in the short-tem.

3. Future outlook

2010 supposed the maintenance of the difficulties already pointed in 2009, with a few macroeconomic variables that suggest an apparent tendency to stabilisation, but which are far from showing an environment involving a perspective of restorative growth in the near future. Grupo SANJOSE has completed its process of internal restructuring and has consolidated two major lines of action: a growing diversification and a satisfactory emphasis on profitability and solvency in all its lines of business.

The slowdown in the residential market and the contraction in the levels of investment in public works are resulting in minor managed volumes and slightly tighter profit margins, which is to insist on the need to deepen the policy of diversification and cost control referred to previously.

In the next financial year society will continue conducting the set of activities that develop various societies of the group in a meaningful way and in the study and execution of operations of participation in other complementary or strategic sectors for the group. The consolidation of the various subsidiaries in each of the sectors of activity, together with the current figures of portfolio, predicts that the volume of turnover of the group in the year 2011 will be maintained in the surroundings of the figures achieved in 2010.

4. Research and development:

Given the characteristics of the activity developed by Group companies, R+D+I are not particularly relevant, yet senior management has committed to enhance the generation of ideas and innovative practices thus laying the groundwork for the competitive improvement and technology watch.

In order to facilitate the detection of opportunities, generating innovative ideas and the development of R&D activities, a R&D Management System following the guidelines set out in the standard UNE 166002 and having obtained the AENOR recognition through certification in the following companies has been implemented:

Company	Type of certificate	Certificate
CONSTRUCTORA SAN JOSÉ S.A.	R&D&i Management	IDI-0056/2010
SANJOSE ENERGIA Y MEDIO AMBIENTE, S.A.	R&D&i Management	IDI-0055/2010
SANJOSE TECNOLOGÍAS, S.A.	R&D&i Management	IDI-0061/2009

R&D activity currently focuses on enhancing the generation of ideas and the development of projects in the technology areas of interest for the group, highlighting technology applicable to building and civil works, renewable energy and energy efficiency, new materials and construction processes, development of tools for the improvement in the provision of maintenance and services.

Within the portfolio of projects of R&D in progress, we highlight those who have recently obtained the recognition of the Centre for Industrial technological development (CDTI) through its participation in the financing of the same.

"Investigation of structural behaviour of granular layers which compose pavement according to humidity conditions". Project aimed to determine the influence of atmospheric factors on pavement granular layers by attempting to optimize the planning of road pavement restoration and maintenance. This project has duration of 31 months and was started in the first half of 2010.

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"Design and development of new systems of sound insulation through tubular screens based on the Kundt effect". This project aims to reduce the risk of acoustic damages for people working at working sites. This project has duration of 22 months and was started in the first half of 2010.

"Use of recycled products in civil engineering". This project has its objectives focused on two innovative lines, which will provide a valuable knowledge about new technologies for the use of recycled materials and surplus of other production processes. This is a project initiated in the second half of 2010 with an expected duration of 18 months.

Cooperative project "Selection and evaluation of the potential for introduction of native xerophile species in gardens of continental Mediterranean climate". This project started in the year 2009, has a planned duration of 24 months.

The main objective of this project is to change the concept of garden in Spain through the introduction of new species, diminishing water needs and fertilizers, as well as increases the debugger and an ornamental nature of air of urban gardens and improves the preservation of Spanish native species.

5. Treasury shares transactions:

Grupo SANJOSE did not have treasury shares in 2010 and 2009.

In 2010, the parent acquired 115,431 shares as consideration for the shares of its associate "San José Desarrollos Inmobiliarios, S.A." (see Note 2).

6. 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 borrowings described in the notes to the consolidated 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 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 maintains sufficient liquidity levels to hedge short and medium-term obligations, through tranches envisaged in the period's refinancing process.

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.

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Appendix I to the Directors' Report

Explanatory report prepared by Grupo Empresarial San José, S.A.'s Board of Directors about the Additional information to be included in the Management Report pursuant to Article 116 Bis of the Securities Exchange Act:

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Explanatory report pursuant to Article 116 Bis of the Securities Exchange Act

Pursuant to article 116 bis of the Securities Exchange Act, the Board of Directors of Grupo Empresarial SANJOSE must provide the Annual Shareholders's Meeting with a report on the following information:

1. The capital structure, including securities not on the official market, with detail of type of shares, rights and obligations granted and the percentage of each type of share regarding the total share capital.

Pursuant to article 5 of Bylaws, share capital amounts to one million nine hundred and fifty thousand seven hundred and eighty-two with fourty-nine Euros (€1,950,782.49), represented by sisty-five million twenty-six thousand and eighty-three (65,026,083) shares of three cents (€0.03) par value each, fully subscribed and paid up and sequentially numbered from one (1) to sisty-five million twenty-six thousand and eighty-three shares (65,026,083) – both inclusive.

2. Restrictions to transferability of shares

Pursuant to article 7 of Bylaws, there are restrictions to transferability of shares representing the share capital.

3. Direct and indirect significant shareholding

Non-executive proprietary directors:

Shareholder's name or company name	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
Ms Julia Avalos Pérez	8,210,673	0	12.627
Ms Mª José Sánchez Ávalos	0	3,816,530	5.869
Banco Caja Castilla la Mancha	926,900	2,678,930	5.545

Name or company name of the holder of indirect rights	Name or company name of the holder of indirect rights	Number of direct voting rights	% over total voting rights
Ms Mª José Sánchez Ávalos	Valjoyval Holding España, S.L	3,816,530	5.869
Banco Caja Castilla la Mancha		2,678,930	4.120

Chief Executive officers with voting rights:

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Shareholder's name or company name	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
Mr. Jacinto Rey González	16,224,994	18,178,183	52.907
Mr. Jacinto Rey Laredo	41,462	0	0.064
Mr. Miguel Zorita Lees	30,205	0	0.046
Mr. Ramón Barral Andrade	347,200	0	0.534
Mr. Roberto Álvarez Álvarez	7,583	0	0.012
Mr. Santiago Martínez Carballal	21,875	0	0.034

Name or company name of the holder of indirect rights	Name or company name of the holder of indirect rights	Number of direct voting rights	% over total voting rights
Mr. Jacinto Rey González	Pinos Altos XR, S.L	3,816,530	5.869
Mr. Jacinto Rey González	Udra Valor, S.A	4,669,367	7.181
Mr. Jacinto Rey González	Pinos Altos Inversiones, S.L.U	2,229,303	3.428

Total percentage of voting rights of the Board of Directors: 53.503%

4. Restrictions to voting rights

According to bylaws, there are no voting right restrictions.

According to article 161, individual shareholders with at least one hundred shares (100), o those which may have grouped with other sharedolders in the same situation to reach the minimum required, can attend and vote at a General Meeting.

5. Shareholders agreements

There are no shareholders agreements of any kind.

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6. Rules applicable to appointment and replacement of Board Members and mendment of bylaws.

Directors will be appointed by the General Meeting or the Board of Directors pursuant to the regulations included in the Spanish Companies Act. Directors' appointment is firts analysed by the Appointments, Remuneration and Good Governance Commission whio studies its profile adequacy and reports on its failure or otherwise submits the proposal to the General Meeting for its approval.

Article 25 of the Board Regulations establishes that Directors will resign when their elected terms expire or when asked to do so by shareholders at a General Meeting or when involved with any of the causes stated in this respect by Law.

Directors must offer their resignation to the Board and execute that resignation when they fall under any of the prohibitions established by Article 213 of the Spanish Companies Act and other legislation in force at any given time.

Amendments to the Bylaws are subject to the Legislative Royal Decree 1/2010, on 2 July on Corporation Act, and Legislative Royal Decree 3/2009, on 3 Abril on Structural Modifications to Corporations

7. Board Member powers and powers for issuing and acquiring shares.

According to the bylaws, the power of representation of the company, at trial and beyond, corresponds to the Board of Directors and by majority decision, as set out in the bylaws, and, where appropriatel if so agreed, the Executive Committee or the Chief Executive officers, having powers, the most widely understood, to recruit in general, perform all kinds of acts and business, compulsory or devices, ordinary or extraordinary administration and rigorous domainin relation to all kinds of goods, property, money, securities, and trade, with the exception of issues falling within the competence of the General meeting or not included within the social object.

The Board of Directors may designate an Executive Committee and one or several directors, appointing people to this responsibilities and delegating to them, wholly or partially, temporary or in a permanent manner, all the powers which are not delegated in accordance with the law or the bylaws.

The Board of Directors may also delegate on a permanent basis, their representative powers in one or more trustees, determining if there are several, whether they act together or separately.

Likewise, the Board of Directors may create those committees or commissions which considers advisable for the better development of their functions, with whatever duties and responsibilities they determine, by appointing directors who should be part of the same.

The Board of Directors may also appoint and revoke representatives or guardians.

At the Geenral Meeting held on 25 June, 2010, it was agreed to authorize and empower the Board of Directors for the derivative acquisition of treasury shares, directly or through any of the companies in the group, by sale or any other form of business provided that the addition of the old and new shares does not exceed 10% pf the saher capital and the acquisition price is not higher nor lower than the result of applying 50% of the average official price of the seven previous days. This is for a maximum period of five years from the adoption agreement.

The acquisition would enable the group to provide reserves established in article 148 Spanish Corporation Act, without reducing the capital nor the underlying reserves. Acquire shares must be fully paid up and may be available for their transfer, in whole or in part, to employees, directors or executives of the group or the companies of the group, as required by article 146 of the Spanish Corporation Act.

8. Significant agreements entered into by the Group and that could be amended or terminated in case of change of control due to a take over bid, apart from those that detrimental to the group.

There are no significant agreements that could be attended or terminated in case of change of control.

9. Agreements between the group, executives, directors or employees providing for termination benefits on concluding the relation with the group following a teke over bid.

There are no agreements between the Group and its Executives, Directors or employees providing for termination benefits upon concluding the relation with the Group.

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Appendix II to the Directors' Report

ANNUAL CORPORATE GOVERNANCE REPORT

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED COMPANIES

ISSUER'S PARTICULARS

YEAR-END CLOSE DATE: 31/12/2010

EMPLOYER'S IDENTIFICATION NUMBER: A-36046993

Company name: GRUPO EMPRESARIAL SAN JOSE, S.A.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED LIMITED COMPANIES

For a better understanding of the model and subsequent preparation of the report, please read the instructions at the end before filling it out.

A. OWNERSHIP STRUCTURE

A.1 Fill out the following table on the Company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
27/06/2008	1,950,782.49	65,026,083	65,026,083

Indicate if there are different classes of shares that carry different rights:

NO

A.2 List the direct and indirect holders of significant ownership interests in the Company at year-end, excluding directors:

Shareholder's name or company name	Number of direct voting rights	Number of indirect voting rights	% over total voting rights
Ms Julia Avalos Pérez	8,210,673	0	12.627
Ms Mª José Sánchez Ávalos	0	3,816,530	5.869
Banco Caja Castilla la Mancha	926,900	2,678,930	5.545

Name or company name of the holder of indirect rights	**Name or company name of the holder of indirect rights**	**Number of direct voting rights**	**% over total voting rights**
Ms Mª José Sánchez Ávalos	Valjoyval Holding España, S.L	3,816,530	5.869
Banco Caja Castilla la Mancha	Banco Caja Castilla la Mancha	2,678,930	4.120

Specify the most significant variations in shareholder structure during the year:

A.3 Fill out the following tables on the members of the company's Board of Directors who hold voting rights over shares in the company:

Shareholder's name or company name	**Number of direct voting rights**	**Number of indirect voting rights**	**% over total voting rights**
Mr. Jacinto Rey González	16,224,994	18,178,183	52.907
Mr. Jacinto Rey Laredo	41,462	0	0.064
Mr. Miguel Zorita Lees	30,205	0	0.046
Mr. Ramón Barral Andrade	347,200	0	0.534
Mr. Roberto Álvarez Álvarez	7,583	0	0.012
Mr. Santiago Martínez Carballal	21,875	0	0.034

Name or company name of the holder of indirect rights	Name or company name of the holder of indirect rights	Number of direct voting rights	% over total voting rights
Mr. Jacinto Rey González	Pinos Altos XR, S.L	11,179,513	17.346
Mr. Jacinto Rey González	Udra Valor, S.A	4,669,367	7.181
Mr. Jacinto Rey González	Pinos Altos Inversiones, S.L.U	2,229,303	3.428

Total % of voting rights held by the Board of Directors	53.596 %

Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company:

A.4 Indicate, as appropriate, any relationships of a family, commercial, contractual or corporate nature existing between the holders of significant ownership interests, insofar as they are known to the company, unless they have scant relevance or arise from the ordinary course of business:

Type of relationship:

Family

Brief description:

First degree family relationship with María José Sánchez Ávalos (mother/daughter)

Name or company name
Ms. JULIA AVALOS PÉREZ

Type of relationship:

Corporate

Brief description:

Parent of Caja de Ahorros Castilla La Mancha

Name or company name
BANCO CAJA CASTILLA LA MANCHA

A.5 Indicate, as appropriate, any relationships of a commercial, contractual or corporate nature existing between the holders of significant ownership interests and the company and/or its Group, unless they have scant relevance or arise from the ordinary course of business:

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A.6 Indicate whether the company has been notified of any shareholders agreements that may affect it pursuant to Article 112 of Spanish Securities Market Law. If so, briefly describe them and specify the shareholders party to those agreements:

NO

Indicate whether the company is cognizant of the existence of concerted actions between the shareholders. If so, briefly describe them:

NO

Expressly indicate any amendment to or termination of such agreements or concerted action during the fiscal term:

Not appllicable

A.7 Indicate whether there is any individual or legal entity that exercises, or can exercise, control over the Company, in accordance with Article 4 of the Securities Market Law. If so, describe them briefly:

YES

Name or company name
Mr. Jacinto Rey González

Comments
52.907 % of share capital

A.8 Fill out the following tables on the company's treasury shares:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % on share capital
0	0	0.000

(*) Through:

Total	0

Give details of any significant variations during the year, in accordance with Royal Decree 1362/2007:

Gains / (Losses) from treasury shares sold during the period.	0

A.9 State the conditions and the term of the authorisation currently in force granted by the General Meeting to the Board of Directors to carry out acquisitions or transfers of treasury shares.

Shareholders at a General Meeting held on 28 June 2010 approved the Board of Directors' proposal to:

Authorise the acquisition of Company shares at any time during the time this resolution is in force and as many times as is deemed necessary by the company, whether through acquisition, swap or any other means permitted by law at any given moment, directly or through investee companies, and the acceptance of pledges of treasury shares up to a maximum number of shares which, added together to those already held by the Company and any of its subsidiaries, does not exceed 10% of Capital Share and for a price or compensation that cannot be less than the par value of the shares or be higher in more than 50% of the average listed price on the stock market on the previous seven days. The authorisation includes the power to carry out any futures, options or other transactions involving company shares.

This authorisation will initially be in force for 5 years from the date of the present Ordinary and Extraordinary General Meeting counting from the date of this General Meeting and subject to compliance with all other applicable legal requirements.

For the purposes of the provisions of Article 75.1 of the Spanish Companies Act, it is specifically noted that the shares acquired may be sold or written-off, or subsequently delivered to employees, executives and Directors of the Company or the Group or, if appropriate, to satisfy option rights exercise held or to develop programs that encourage the taking of shareholdings in the company, such as dividend reinvestment or similar plans.

Authorise the Board of Directors, in the broadest terms, to exercise the authority granted in this Resolution and to carry out the intended actions described herein and this authority may be delegated by the Board of Directors to any other Board member or person expressly designated by the Board.

This Resolution revokes and cancels, to the extent it was not utilized, the authorisation granted to the Board of Directors by shareholders at a General Meeting held on 30 June 2009.

A.10. Indicate any legal or bylaw restrictions on the exercise of voting rights and any legal restrictions on the acquisition or transfer of ownership interests in the share capital. State if there are any legal restrictions on the exercise of voting rights:

NO

Maximum percentage of voting rights that can be exercised by a shareholder due to legal restriction	0

State if there are any bylaws restrictions on the exercise of voting rights:

NO

Maximum percentage of voting rights that can be exercised by a shareholder due restriction in the bylaws	0

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State if there are any legal restrictions on the acquisition or transfer of equity interests:

NO

A.11 State if the General Meeting has resolved to adopt measures to neutralise a take-over bid pursuant to the provisions of Law 6/2007.

NO

If applicable, describe the measures approved and the terms under which the restrictions shall become void:

B. MANAGEMENT STRUCTURE OF THE COMPANY

B.1 Board of Directors

B.1.1 Detail the maximum and minimum number of directors as per the bylaws:

Maximum number of directors	15
Minimum number of directors	5

B.1.2 Fill out the following table with the Board members:

Name of the Director	Representative	Board office	Date of first appointment	Date of last appointment	Procedure for election
MR. JACINTO REY GONZÁLEZ		CHAIRMAN AND CEO	18 August 1987	30 June 2009	General Shareholders Meeting
MR .JACINTO REY LAREDO		VICE-CHAIRMAN	30 October 2006	06 July 2009	General Shareholders Meeting
MR. MIGUEL ZORITA LEES		CHIEF EXECUTIVE OFFICER	27 June 2008	30 June 2009	Cooption
MS. ALTINA DE FÁTIMA SEBASTIÁN GONZÁLEZ		DIRECTOR	27 June 2008	30 June 2009	General Shareholders Meeting
MR. FRANCIS LEPOUTRE		DIRECTOR	27 June 2008	30 June 2009	General Shareholders Meeting
MR. FRANCISCO HERNANZ		DIRECTOR	27 June 2008	30 June 2009	General Shareholders Meeting
MR. JUAN EMILIO IRANZO MARTÍN		DIRECTOR	11 November 2010	11 November 2010	Cooption
MR. RAMÓN BARRAL ANDRADE		DIRECTOR	30 June 2009	30 June 2009	General Shareholders Meeting
MR. ROBERTO ÁLVAREZ ÁLVAREZ		DIRECTOR	27 June 2008	30 June 2009	General Shareholders Meeting
MR. SANTIAGO MARTÍNEZ CARBALLAL		DIRECTOR	30 June 2009	30 June 2009	General Shareholders Meeting

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Total number of directors	

Indicate any removals of directors during the year:

Name of the Director	Director's condition upon termination	Date of termination
MR. ROBERTO REY PERALES	EXTERNAL COUNSELLOR	11 November 2010

B.1.3 Fill out the following tables on the members of the Board and their status:

EXECUTIVE DIRECTORS

Name or company name of director	Committee proposing appointment	Office per Company organisation chart
MR. JACINTO REY GONZÁLEZ	APPOINTMENTS AND REMUNERARTION COMMITTEE	CHAIRMAN AND CEO
MR. JACINTO REY LAREDO	APPOINTMENTS AND REMUNERARTION COMMITTEE	VICE-CHAIRMAN
MR. MIGUEL ZORITA LEES	APPOINTMENTS AND REMUNERARTION COMMITTEE	CHIEF EXECUTIVE OFFICER
MR. SANTIAGO MARTÍNEZ CARBALLAL	APPOINTMENTS AND REMUNERARTION COMMITTEE	CHIEF FINANCIAL OFFICER

Total number of executive directors	4
Total % of the Board	40.000

NON-EXECUTIVE PROPRIETARY DIRECTORS

Name or company name of director	Committee proposing appointment	Name or company name of significant shareholder represented or proposing appointment
MR. JACINTO REY GONZÁLEZ	APPOINTMENTS AND REMUNERARTION COMMITTEE	JACINTO REY GONZÁLEZ
MR. JACINTO REY LAREDO	APPOINTMENTS AND REMUNERARTION COMMITTEE	JACINTO REY GONZÁLEZ

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Total number of proprietary directors	2
Total % of the Board	20.000

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name or company name of director

MR. JUAN EMILIO IRANZO MARTÍN

Profile

ECONOMIST

Name or company name of director

MR. RAMÓN BARRAL ANDRADE

Profile

ECONOMIST

Name or company name of director

MR. ROBERTO ÁLVAREZ ÁLVAREZ

Profile

ECONOMIST

Total number of proprietary directors	3
Total % of the Board	30.000

OTHER NON-EXECUTIVE DIRECTORS

Name or company name of director	Committee proposing appointment
MS. ALTINA DE FÁTIMA SEBASTIÁN GONZÁLEZ	APPOINTMENTS AND REMUNERARTION COMMITTEE
MR. FRANCIS LEPOUTRE	APPOINTMENTS AND REMUNERARTION COMMITTEE
MR. FRANCISCO HERNANZ	APPOINTMENTS AND REMUNERARTION COMMITTEE

Total number of other non-executive directors	3

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Total % of the Board	30.000

Give reasons why these other non-executive directors cannot be considered either proprietary or independent members and their relations, whether with the company or its officers, or with its shareholders:

Name of the Director	Reason	Associated company, executive or shareholder
MR. FRANCISCO HERNANZ MANZANO	Director of Caja Castilla la Mancha Corporación S.A., which has a significant shareholding in the Company.	CAJA CASTILLA LA MANCHA CORPORACIÓN,S.A
MR. FRANCIS LEPOUTRE	Has been a representative of Grupo Empresarial San José, S.A., a Director of Parquesol Inmobiliaria y Proyectos, S.A.	Grupo Empresarial San José , S.A
MS. ALTINA DE FÁTIMA SEBASTIÁN GONZÁLEZ	Has been a representative of Constructora San José, S.A., a Proprietary Director of Parquesol Inmobiliaria y Proyectos, S.A.	Constructora San José, S.A.

Indicate any variations in the status of each director that may have occurred during the year:

B.1.4 Describe, if applicable, the reasons why proprietary directors have been appointed at the initiative of shareholders whose shareholding is less than 5%:

State if formal requests for a presence of the Board have been rejected from shareholders with a shareholding equal to or greater than that of others who have been successfully appointed proprietary directors. If applicable, state the reasons for such rejection:

NO

B.1.5 State if a director has resigned from his or her directorship before completing the term of office, if such director has given his or her reasons to the Board and by what means; and, if the reasons have been notified in writing to the entire Board, describe below at least the reason argued by the director:

Name of the Director:

Mr. ROBERTO REY PERALES

Reason for exit:

PROFESSIONAL REASONS

B.1.6 Indicate what powers, if any, have been delegated to the Chief Executive Officer/s:

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Name of the Director:

Mr. JACINTO REY GONZALEZ

Brief description:

ALL OF THE POWERS FALLING TO THE BOARD OF DIRECTORS, EXCEPT THOSE THAT CANNOT BE DELEGATED IN ACCORDANCE WITH THE LAW.

Name of the Director:

Mr. MIGUEL ZORITA LEES

Brief description:

ALL OF THE POWERS FALLING TO THE BOARD OF DIRECTORS, EXCEPT THOSE THAT CANNOT BE DELEGATED IN ACCORDANCE WITH THE LAW.

B.1.7 Identify, as appropriate, the Board members who hold office as directors or executives at other companies forming part of the listed company's group:

Name of the Director	Company name of Group company	Position
Mr. Jacinto Rey González	Carlos Casado, S.A.	Director
Mr. Jacinto Rey González	Desarrollos Urbanístico Chamartín, S.A	Director
Mr. Jacinto Rey González	Desarrollos Urbanísticos Udra, S.A.	Sole Administrator
Mr. Jacinto Rey González	Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.	Sole Administrator
Mr. Jacinto Rey González	Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.	Sole Administrator
Mr. Jacinto Rey González	San José Concesiones y Servicios, S.A.U.	Sole Administrator
Mr. Jacinto Rey González	Udra México, S.A. de C.V.	Sole Administrator
Mr. Jacinto Rey Laredo	Constructora San José Cabo Verde S.A	Director
Mr. Jacinto Rey Laredo	Constructora San José, S.A.	Chairman and CEO
Mr. Jacinto Rey Laredo	Constructora UDRA LTDA.	Sole Administrator
Mr. Jacinto Rey Laredo	SAN JOSÉ BAU GMBH	Director
Mr. Jacinto Rey Laredo	SAN JOSE CONSTERUCTION GROUP INC	Chairman of the board

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Mr. Jacinto Rey Laredo	SAN JOSÉ FRANCE S.A.	Director
Mr. Jacinto Rey Laredo	SJB MÜLLROSER BAUGESELLSCHAFT MBH	Director
Mr. Santiago Martínez Carballal	Cadena de Tiendas, S.A.U.	Sole Administrator
Mr. Santiago Martínez Carballal	Comercial Udra, S.A.U.	Director
Mr. Santiago Martínez Carballal	Constructora San José, S.A.	Director
Mr. Santiago Martínez Carballal	San José Desarollos Inmobiliarios, S.A.	Chairman
Mr. Santiago Martínez Carballal	San José Energía y Medio Ambiente, S.A.	Director
Mr. Santiago Martínez Carballal	San José Tecnologías,S.A.U.	Director

B.1.8 Give details, as appropriate, of any directors of the company who are members of the Boards of Directors of other non-Group companies that are listed on official securities markets in Spain, as disclosed to the Company:

B.1.9 State and, if applicable, explain if the company has set forth rules on the number of boards on which its directors may hold seats:

NO

B.1.10 In relation to recommendation 8 of the Unified Code, state the company general policies and strategies whose approval is reserved for the full Board:

Investment and financing policy	YES
Definition of the structure of the corporate group	YES
Corporate governance policy	YES
Corporate social responsibility policy	YES
Strategic or business plan and the annual management objectives and budgets	YES
Remuneration and performance evaluation policy for senior executives	YES
Risk control and management policy and periodic monitoring of internal reporting and control systems	YES
Dividend policy, as well as treasury shares policy and, in particular, limits thereon.	YES

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B.1.11 Fill out the following tables on the aggregate remuneration of directors accrued during the year:

a) At the reporting company:

Remuneration item	Data in thousands of Euros
Fixed remuneration	1,375
Variable remuneration	1,125
Attendance fees	72
Bylaw-stipulated directors' emoluments	84
Share options and/or other financial instruments	0
Other	0

TOTAL:	2,656

Other benefits	Data in thousands of Euros
Advances	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: obligations	0
Life insurance premiums	0
Guarantees provided by the Company for directors	0

b) Due to membership of the Company's directors of other boards of directors and/or of the senior management of Group companies:

Remuneration item	Data in thousands of Euros
Fixed remuneration	0
Variable remuneration	0
Attendance fees	2
Bylaw-stipulated directors' emoluments	0
Share options and/or other financial instruments	0

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Other	0

TOTAL:	2

Other benefits	**Data in thousands of Euros**
Advances	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: obligations	0
Life insurance premiums	0
Guarantees provided by the Company for directors	0

c) Total remuneration by type of director:

Type of director	**By Company**	**By Group**
Executive directors	2,526	0
Non-executive proprietary directors	0	0
Independent non-executive directors	96	0
Other non-executive directors	34	2

Total	2,656	2

d) With respect to profit attributable to the Parent:

Total directors' remuneration (thousands of Euros)	2,658
Total directors' remuneration/ profit attributable to the Parent (expressed as %)	0.6

B.1.12 Identify the senior executives who are not executive directors, and indicate the total remuneration accrued for them during the year:

Name	**Position**
Ms. Cristina González López	Director of Tax Services

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MR. Ignacio Alonso López	Director of Comercial Udra
MR. Valeriano García García	CEO of SJ Constructora
MR. Antonio Moure Figueiras	Director of Legal Services
MR. Juan Areses Vidal	Director of Civil Works at SJ Constructora
Ms. Estela Amador Barciela	Director of Human Resources, Quality, Environment and Communications
MR. José María Rebollo Olleta	Director of Buidling at SJ Constructora
MR. Jean Claude Curell Costanzo	Deputy Director of International Area
Ms. Lourdes Freiría Barreiro	Director of Insurance and Risks
MR. Pedro Aller Román	CEO of SJ Tecnologias
MR. Javier Alonso López	CEO SJ Desarrollos Inmobiliarios, S.A.
MR. Francisco Fernández Fernández	Director of associates
MR. José Manuel Prieto Iglesias	Chaiman SJ Energia y Medio Ambiente
MR. David Rodriguez Barcala	Chaiman SJ Desarrollos Inmobiliarios, S.A.

Total remuneration of senior executives (thousand Euros)	1,913

B.1.13 Identify in aggregate terms whether there are any guarantee or golden parachute clauses for senior executives, including executive directors of the Company or of its group, in the event of termination or changes in control. State if such agreements should be reported and/or approved by the bodies of the Company or its group:

Number of beneficiaries	0

	Board of Directors	**Annual General Meeting**
Body approving clauses	NO	NO

Is the Annual General Meeting informed of the clauses?	NO

B.1.14 Describe the process for setting Board members' remuneration and the relevant provisions in the company bylaws:

Process for setting Board members' remuneration and the relevant provisions in the company bylaws.
Shareholders at the General Meeting will adopt a resolution determining fixed remuneration for each year and the Board will establish the individual remuneration levels for each Director. Article 25 of the Bylaws Directors Remuneration 1. Members of the board of Directors will receive remuneration, determined by the General Meeting according to the established remuneration levels and consisted of: (I) a fixed remuneration; and (II) attendance fees. 2. The Annual General Meeting will establish annual remuneration for Directors. The Board will establish the individual remuneration levels for the various Directors. 3. Remuneration for the one of several Directors may consist of delivery of shares or share options established by the company by prior approval at the Shareholders General Meeting. 4. Independently from the previous: variable remuneration (according to business goals and personal performance); compensations; social benefits,; insurance; and accrued remuneration. 5. In any event, Board Member remuneration will always fall within the limits established by legislation in force at any given moment.

State whether any of the following decisions are reserved for approval by the full Board:

At the proposal of the Company's chief executive, the appointment and possible removal of senior executives, as well as their indemnity clauses.	YES
The remuneration of directors and, in the case of executive directors, the additional remuneration for their executive functions and other conditions to be fulfilled by their contracts.	YES

B.1.15 State whether the Board of Directors approves a detailed remuneration policy and specify the issues on which it makes a pronouncement:

YES

Amount of fixed components, with an itemisation, where applicable, of fees for participation at the meetings of the Board and its Committees and an estimate of the annual fixed remuneration derived therefrom.	YES
Variable remuneration components.	YES

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Main characteristics of social security systems, with an estimate of their amount or equivalent annual cost.	NO
The conditions to apply to the contracts of executive directors exercising senior management functions. Among them	NO

B.1.16 State whether the Board brings before the General Meeting for a vote, as a separate point on the agenda, and on a consultative basis, a report on the directors remuneration policy. If so, explain the aspects of the report in relation to the remuneration policy approved by the Board for the coming years, the most significant changes therein with respect to the one applied during the year and an overall summary of how the remuneration policy was applied during the fiscal year. Describe the role played by the Remuneration Committee and state whether outside advisory service has been used. If so, identify the external consultants providing such advice:

NO

Have external advisory services been requested?	

List external consultants

B.1.17 Indicate, as appropriate, which Board members are, in turn, members of the Boards of Directors or executives or employees of companies that hold significant ownership interests in the listed Company and/or group companies:

Name of the Director	**Name or company name of shareholder**	**Position**
MR. JACINTO REY GONZÁLEZ	Pinos Altos XR, S.L.	SOLE ADMINISTRATOR
MR. JACINTO REY LAREDO	Pinos Altos XR, S.L.	NONE
MR. JACINTO REY LAREDO	Udra Valor, S.A.	NONE

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Give details, as appropriate, of any material relationships, other than those envisaged under the preceding heading, of the members of the Board of Directors with significant shareholders and/or at Group companies:

Name of the Director

MR. JACINTO REY LAREDO

Name or company name of shareholder

MR. JACINTO REY GONZÁLEZ

Relationship

First degree relationship (father and son)

B.1.18 Indicate the amendments, if any, to the Board Regulations during the year:

NO

B.1.19 Indicate the procedures for the appointment, re-election, evaluation and removal of directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

In all of the indicated circumstances, the Appointments, Remunerations and Good Governance Committee will perform a preliminary evaluation, and issue the report it deems appropriate. This report will be sent to the Board of Directors, which will adopt all resolutions deemed appropriate or make a proposal to shareholders General Meeting.

B.1.20 Indicate the cases in which the directors must resign.

Article 25 of the Board's Regulations lays down the following: Directors will resign when their elected terms expire or when asked to do so by shareholders at a General Meeting or when involved with any of the causes stated in this respect by Law.

Directors must offer their resignation to the Board and execute that resignation when they fall under any of the prohibitions established by Article 124 of the Spanish Companies Act and other legislation in force at any given time.

B.1.21 State whether the chairman of the Board of Directors also performs the functions of the company's Chief Executive. If so, describe the measures taken to limit the risks of power being concentrated in the hands of one person:

YES

Measures to limit risks
The CEO and an Executive Committee made up of four members.

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Indicate, and if applicable describe, any rules that have been established that authorise an independent director to request that a Board meeting be called or that new topics be included on the agenda, to coordinate and voice the concerns of non-executive directors and to manage the evaluation by the Board of Directors.

NO

B.1.22 Are qualified majorities, other than statutory majorities, required for any type of decision?

NO

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Adoption of resolutions:

Resolutions adopted with respect to issues included in the Agenda.

Quorum	%
Half of the members plus one, in person or by proxy.	51.00

Type of majority	%
Absolute unless a higher majority is required by current law or the Bylaws.	51.00

B.1.23 Explain whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

NO

B.1.24 State whether the Chairman has a casting vote:

YES

Matters to which casting vote applies
The Chairman holds a casting vote in the event of a tie.

B.1.25 Indicate whether the bylaws or the board regulations set any age limit for directors:

NO

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Age limit for Chairman	Age limit for Chief Executive	Age limit for Directors
0	0	0

B.1.26 Indicate whether the Bylaws or the Board Regulations set a limited term of office for independent directors:

NO

Maximum term of office (years)	0

B.1.27 If the number of female Board members is nil or small, explain the reasons why and describe the initiatives adopted to correct this situation.

Description of the reasons and initiatives
There is a female Director.

In particular, state whether the Appointments and Remuneration Committee has laid down any procedures so that the selection processes are not affected by implicit biases that may hinder the selection of female directors, and instead deliberately seek out female candidates with the required profile:

YES

Describe the main procedures
The Appointments and Remuneration Committee, after the analysis together with the Human Resources Department, has not laid down any procedures so that the selection processes are not affected by implicit biases that may hinder the selection of female directors, and instead deliberately seek out female candidates with the required profile

B.1.28 Indicate whether there are any formal procedures for granting proxies to vote at Board meetings. If so, give brief details.

Representation authority must be delegated to another member of the Board of Directors in writing specifically for each Board Meeting.

B.1.29 Indicate the number of Board meetings held during the year and how often the Board has met without the Chairman's attendance:

Number of Board meetings	6
Number of Board meetings without Chairman's attendance	0

Indicate how many meetings of the various Board Committees were held during the year.

Number of Executive or Delegated Committee meetings	6
Number of Audit Committee meetings	5
Number of Appointment, Remuneration and Good Governance Committee meetings	3
Number of Appointment Committee meetings	0
Number of Remuneration Committee meetings	0

B.1.30 State the number of meetings held by the Board of Directors during the financial year, which were not attended by all members. For this purpose, appointments of representatives without specific instructions will be considered non-attendance:

Number of non-attendance by directors during the period	5
% non-attendance of total votes during the period	8.330

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the Board are duly certified:

NO

Indicate, as appropriate, the person(s) who certified the Company's individual and consolidated financial statements for formal preparation by the Board:

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted at the Annual General Meeting with a qualified auditors' report.

There are no specific mechanisms

B.1.33 Is the Board Secretary a director?

NO

B.1.34 Describe the procedures for appointment and removal of the Board Secretary, stating whether the appointment and removal are reported on by the Appointments Committee and approved by the full Board.

Procedure for appointment and removal
The Appointment Committee makes a proposal and approval is obtained from the full Board in the case of appointments and removals.

¿Does the Appointment Committee report on the appointment?	YES
¿Does the Appointment Committee report on the removal?	YES
Is the appointment approved by the full Board?	YES
Is the removal approved by the full Board?	YES

Is the Board Secretary charged with the function of procuring, most especially, compliance with the good governance recommendations?

YES

Comments
The final section of Article 12 of the Board Regulations stipulates that the Secretary is also responsible for verifying the Company's compliance with Corporate Governance legislation and the interpretation of this legislation as stated in these Regulations. In addition, it will analyse the recommendations regarding corporate governance that may be made at any given moment for possible inclusion in the Company's internal regulations.

B.1.35 Indicate the mechanisms, if any, established by the Company to preserve the independence of the auditors, of financial analysts, of investment banks, and of rating agencies.

One of the Audit Committee's responsibilities is to supervise and maintain a relationship with external auditors to receive information on matters that may call the auditor's independence into question.

In addition, the Auditor is always one of the leading firms in the market.

B.1.36 State whether the Company has changed its external auditor during the period. If so, identify the incoming and outgoing auditors:

NO

Outgoing auditor	**Incoming auditor**

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If there were disagreements with the outgoing auditor, describe the content of such differences:

NO

B.1.37 Indicate whether the audit firm performs other non-audit work for the Company and/or its group and, if so, state the amount of fees received for such work and the percentage over the fees billed to the Company and/or its Group:

NO

	Company	Group	Total
Amount of other non-audit work (thousands of Euros)	69	67	136
Amount of other non-audit work/total amount billed by audit firm (as a %)	55.640	16.100	25.180

B.1.38 State whether the audit report on the financial statements for the previous year contained reservations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

NO

B.1.39. Indicate the number of years that the current audit firm has been uninterruptedly auditing the financial statements of the Company and/or the Group. Also indicate the number of years audited by the current audit firm as a percentage of the total number of years during which the financial statements have been audited:

	Company	Group
Number of uninterrupted years	16	16

	Company	Group
Number of years audited by current firm/number of years the company has been audited (as a %)	100.0	100.0

B.1.40 Indicate any ownership interests, disclosed to the Company, held by the members of the Company's Board of Directors in the capital of entities engaging in an activity that is identical, similar or complementary to the activity that constitutes the object of the Company or of its Group. Also indicate the positions they hold or the functions they discharge at these companies:

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Name or company name of director	Name of investee	% ownership interest	Position / functions
MR. Jacinto Rey González	Udra Valor S.A.	0.000	Sole Administrator
MR. Jacinto Rey González	Pinos Altos XR S.L.	55.000	Sole Administrator
MR. Jacinto Rey González	Pinos Altos Inversiones S.L.	0.000	Sole Administrator
MR. Jacinto Rey Laredo	Udra Valor S.A.	4.640	NO FUNCTION
MR. Jacinto Rey Laredo	Pinos Altos XR S.L.	22.500	NO FUNCTION
Ms. Altina de Fátima Sebastián González	Ferrovial	0.000	NONE
MR. Francisco Hernanz Manzano	El Reino de D. Quijote, S.A.	0.000	NONE
MR. Francisco Hernanz Manzano	Lico Inmuebles, S.A.	0.000	Director
MR. Francisco Hernanz Manzano	CCM Corporación, S.A.	0.000	Director

B.1.41 Indicate whether there is a procedure for directors to be able to receive outside advisory services:

YES

Details of the procedure
Article 27 of the Board Regulations External advisory services. In order to obtain assistance when exercising its duties, the Directors and the Board Committees and Commissions may ask the Chairman of the Board of Directors to hire legal, accounting, financial or other experts. Such aid shall necessarily respond to specific problems of certain relevance and complexity in the furtherance of their duties.

B.1.42 Indicate whether there is a procedure for the directors to be able to receive the necessary information to prepare for meetings of the managing bodies sufficiently in advance, and if so, give details:

YES

Details of the procedure
Apart from forwarding the Agenda, documents that should be taken into account by the Board are sent. Documents that are relevant to the reports are also sent to members of Committees prior to Board meetings.

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B.1.43 Indicate whether the Company has put forward rules that compel directors to disclose and, if applicable, resign in situations that may harm the Company's credit and reputation. If so, give details.

YES

Describe the rules
There are no special rules. The provisions of Article 25 of the Board Regulations are followed.

B.1.44 State whether any Board member has advised the Company that he or she has been prosecuted or ordered to stand trial for any of the offences referred to in Article 124 of the Companies Law:

NO

State whether the Board of Directors has analysed the case. If so, provide the rationale of such a decision as to whether or not the director should remain on the Board.

NO

Adopted decision	**Reasoned explanation**

B.2. Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

EXECUTIVE OR DELEGATE COMMITTEE

Name	**Position**	**Type**
MR. JACINTO REY GONZALEZ	CHAIRMAN	PROPRIETARY
MR. MIGUEL ZORITA LEES	MEMBER	EXECUTIVE DIRECTOR
MR. JACINTO REY LAREDO	MEMBER	PROPRIETARY
Ms. ALTINA DE FÁTIMA SEBASTIAN GONZÁLEZ	MEMBER	OTHER NON-EXECUTIVE

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AUDIT COMMITTEE

Name	Position	Type
MR. RAMON BARRAL ANDRADE	CHAIRMAN	INDEPENDENT
Ms. ALTINA DE FÁTIMA SEBASTIAN GONZÁLEZ	MEMBER	OTHER NON-EXECUTIVE DIRECTORS
MR. ROBERTO REY PERALES	MEMBER	

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Type
MR. RAMON BARRAL ANDRADE	CHAIRMAN	INDEPENDENT
MR. FRANCIS LEPOUTRE	MEMBER	OTHER NON-EXECUTIVE DIRECTORS
MR. FRANCISCO HERNANZ	MEMBER	OTHER NON-EXECUTIVE DIRECTORS

B.2.2 State whether the Audit Committee is responsible for the following functions:

Supervise the preparation and the integrity of the financial information on the Company and, if applicable, the Group, reviewing compliance with the regulatory requirements, proper delimitation of the scope of consolidation and correct application of accounting policies.	YES
Conduct periodic reviews of risk management and internal control systems, so that the principal risks are adequately identified, managed and disclosed properly.	YES
Safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose that service's budget; receive periodic information on its activities; and verify that the conclusions and recommendations of its reports are taken into account by the top management.	YES
Establish and supervise a mechanism that allows employees to report the irregularities of potential importance, especially financial and accounting ones, that they detect inside the Company, confidentially and, if considered appropriate, anonymously.	YES
Bring before the Board proposals for selection, appointment, re-election and replacement of the external auditor, as well as the terms of the auditor's engagement.	YES
Regularly receive information on the audit plan and the results of its execution from the external auditor, and verify that the senior management takes into account its	YES

recommendations.	
Ensure the independence of the external auditor.	YES
In the case of groups, promote the Group auditor's assumption of responsibility for audits in the group companies.	YES

B.2.3 Describe the rules of organisation and functioning, and the responsibilities attributed to each of the Board committees.

Name of the Committee

APPOINTMENT AND REMUNERATION COMMITTEE

Brief description

Article 18 of the Board Regulations sets forth the duties of the Appointment, Remuneration and Good Governance Committee.

Without prejudice to other duties that may be assigned by the Board, the Appointment, Remuneration and Good Governance Committee has the following duties:

1. Inform and make proposals to the members of the Board of Directors, whether the Board itself to make an appointment to cover a vacancy on that body, or to propose a nomination to shareholders.

2. Establish and propose, for the approval of the Board of Directors, any conditions of the contracts or agreements concluded with the CEO.

3. Inform and propose to shareholders any matters regarding the remuneration to be received by the members of the Board of Directors and for the Board to approve all pertinent matters concerning the attendance fees to be paid for attending meetings and the meetings of any Board Committees.

4. Inform and make proposals for the approval of the Board of Directors with respect to the selection and appointment of Senior Executives at the Company and its subsidiaries, as well as remuneration policy and contractual conditions.

5. Supervise and monitor the transparency of the business, compliance with the Company's corporate governance regulations and the Company's Internal Code of Conduct by the members of the Board and the Company's executives, reporting to the Board any conduct or failure to comply that arise so that they can be corrected, or taken into account, or reported to shareholders if not corrected.

6. Propose amendments to these Regulations after the relevant supporting report has been prepared.

7. Within the scope of their duties bring to the Board all proposals deemed appropriate for analysis and approval.

Name of the Committee

EXECUTIVE COMMITTEE

Brief description

All powers that may be delegated by the Board have been delegated, except for the ones that cannot be delegated by Law or the Board Regulation,

Name of the Committee

AUDIT COMMITTEE

Brief description

Article 16 of the Board Regulations sets forth the duties of the Audit Committee.

Notwithstanding other duties assigned by the Board of Directors, the Audit Committee will have the following competencies:

1. Inform shareholders regarding any questions that shareholders may have within its area of authority.

2. Make recommendations to the Board of Directors for submission to the shareholders for their approval at the General Meeting, with regard to the appointment, of the external auditors, as well as the terms of engagement and, if applicable, their revocation or non-renewal.

3. Supervise the internal audit service established by the Board of Directors, before the issue of the relevant report by the Appointment, Remuneration and Good Governance Committee, and propose the selection, appointment, re-election or removal of the Director of these services, propose a budget, receive regular information regarding its activities and verify that senior management takes into account the conclusions and recommendations made in its reports.

4. Oversee the financial information process and the Company's internal control systems.

5. Maintain relations with external auditors to receive information regarding issues that may put their independence into question in any other issues relating to the audit of the accounts, as well as any other communications established under audit legislation and technical regulations.

6. Any others assigned by the Bylaws, these regulations, the internal Code of Conduct and other regulations in force at the Company.

When performing its duties, the Audit Committee may obtain assistance from experts when it is deemed that the Company's technical resources are not sufficient, due to reasons of independence or specialisation. The Audit Committee is able to call any employee or executive at the Company, even without the presence of any other executive.

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B.2.4 Indicate, where appropriate, the advisory and consultative powers and any delegated authority held by each of the committees:

Name of the Committee

APPOINTMENTS AND REMUNERATION COMMITTEE

Brief description

They only have the duty to provide advisory services, analysis and recommendations.

Name of the Committee

EXECUTIVE COMMITTEE

Brief description

All powers that may be delegated by the Board have been delegated.

Name of the Committee

AUDIT COMMITTEE

Brief description

They only have the duty to provide advisory services, analysis and recommendations.

B.2.5 Indicate, as appropriate, whether there are any regulations for the Board Committees; if so, indicate where they can be inquired and whether any amendments have been made during the year. Also indicate whether any annual report on the activities of each committee has been prepared voluntarily.

Name of the Committee

APPOINTMENTS AND REMUNERATION COMMITTEE

Brief description

The Board Committee Regulations are included in the Board Regulations and may be obtained from the Company's website.

Name of the Committee

EXECUTIVE COMMITTEE

Brief description

The Board Committee Regulations are included in the Board Regulations and may be obtained from the Company's website.

Name of the Committee

AUDIT COMMITTEE

Brief description

The Board Committee Regulations are included in the Board Regulations and may be obtained from the Company's website.

B.2.6 Indicate whether the composition of the executive committee reflects the participation of the various directors on the Board according to their status:

YES

C. RELATED-PARTY TRANSACTIONS

C.1 State whether only the full Board can approve, upon a prior favourable report from the Audit Committee or some other committee charged with this function, the transactions carried out by the Company with directors, or with shareholders with significant holdings or represented on the Board, or with persons related thereto:

YES

C.2 Give details of material transactions entailing a transfer of funds or obligations between the Company or group companies and the significant shareholders of the Company:

C.3 Give details of material transactions entailing a transfer of funds or obligations between the Company or entities of its group and the Company's directors or executives:

C.4 Give details of material transactions by the Company with other companies of the same group, where such transactions are not eliminated in the process of preparing the consolidated financial statements and are not conducted within the course of the Company's ordinary business, as regards their subject-matter or terms and conditions:

Name of the group company

Antigua Rehabilitalia, S.A.

Amount (thousand euro)

15,454

Brief description of the transaction

Participating loan

Name of the group company

Pontegrán S.A.

Amount (thousand euro)

15,388

Brief description of the transaction

Loan

C.5 State whether the members of the Board of Directors have at any time during the year found themselves in a conflict of interest pursuant to Article 127 under the Companies Law.

NO

C.6 Give details of the mechanisms in place for detecting, identifying and resolving any potential conflicts of interest between the Company and/or its Group and its directors, executives or significant shareholders.

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The appropriate reports are requested regularly with respect to this issue.

C.7 Is more than one company in the group publicly traded in Spain?

NO

Identify the subsidiary companies that are listed in Spain:

D. RISK CONTROL SYSTEMS

D.1 General description of the risk policy of the Company and/or its Group, giving details of and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

Credit risk

The Group does not have any significant credit risk since its customers and the institutions at which cash is placed or from which derivatives are contracted are highly solvent and the counterparty risk is not significant.

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

The Group's credit risk is mainly attributable to its trade payables. The amounts involved are recorded in the balance sheet, net of bad debt provisions, which are estimated by Group management on the basis of prior year experience and an assessment of the current economic environment. The amount of financial assets recognised in the consolidated financial statements, net of possible impairment losses, represents the Group's maximum exposure to credit risk, excluding guarantees or other credit improvements provided.

The credit risk affecting liquid funds and derivative financial instruments is limited because the counterparties are banks that international rating agencies have assigned high ratings.

The Group's credit risk concentration is not significant and exposure is distributed among a large number of customers.

The Group has obtained credit insurance that allows it to reduce the commercial risks affecting transactions carried out with customers.

The Group monitors and has laid down specific procedures for managing receivables and has established conditions for accepting orders, which are regularly monitored.

Interest rate risk

This risk derives from changes in the future cash flows from variable rate borrowings (or maturing in the short-term) as a result of changes in market interest rates.

The objective of the management of this risk is to mitigate the impact on the cost of borrowings deriving from fluctuations in interest rates. Financial derivatives are contracted to ensure fixed interest rates or tight fluctuation bands affecting those rates for a substantial port of the borrowings that may be affected by this risk.

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Exchange rate risk exposure

In 2009 the Group did not hedge any relevant amount of exchange risks. Its exposure to currency risk relates to shareholdings in foreign companies, which are funded in local currency.

Liquidity risk exposure

The Group carries out the prudent management of the liquidity risk based on holding sufficient cash and negotiable securities, as well as available financing through sufficient credit facilities and the capacity to settle market positions. The Group determines its cash needs by preparing a cash budget covering 12 months. Group financial management considers that the financing framework is sufficiently flexible to adapt to the dynamic needs of the underlying businesses.

D.2 State if any of the different types of risk that affect the Company and/or its Group (operational, technology, financial, legal, reputational, tax, etc):

NO

If so, describe the circumstances that gave rise to them and state whether the control systems in place functioned properly.

D.3 Indicate whether any committee or other governing body is responsible for establishing and overseeing these control mechanisms:

NO

If so, give details of its functions

D.4 Identification and description of the procedures for compliance with the various regulations affecting the Company and/or its Group.

E. GENERAL MEETING

E.1 State if there are differences with the quorum provisions of the Spanish Companies Law in respect of General Meetings. If so, give details.

NO

	% quorum different than that established under Article 102 SCA for general cases	% quorum different than that established under Article 103 of the Companies Law for special cases under Article. 103
Quorum required at 1st call	0	0
Quorum required at 2nd call	0	0

E.2 State if there are differences with the rules laid down in the Companies Law regarding the adoption of resolutions. If so, give details:

NO

Describe how they differ from the rules established in the Companies Law:

E.3 List any rights of the shareholders in connection with General Meetings that differ from those contained in the Companies Law.

There are no such rights.

E.4 Indicate the measures, if any, adopted to encourage participation by shareholders at General Meetings.

The legal announcements are made.

All documentation is made available to shareholders or it is sent to them free-of-charge if requested.

The shareholder office responds to all questions raised.

All documents are published on the Company's website.

Explanations are provided at a General Meeting by the Chairman and members of the Presiding Table.

Responses are given to requests for information received at various times.

E.5 Indicate whether the Chairman of the Board of Directors chairs General Meetings. Give details of what measures, if any, are adopted to ensure the independence and correct functioning of the General Meeting:

YES

Details of measures
The Secretary is the Secretary to the Board of Directors. The involvement of a Notary is normally requested. The floor is ceded for requests of reports and to state positions.

E.6 Indicate, as appropriate, any amendments introduced to the General Meeting Regulations during the year.

E.7 Indicate the data on attendance at the General Meetings held in the year to which this report refers:

Attendance data					
Date the General Meeting	% attendance in person	% attendance by proxy	% by remote voting		Total
			Electronic vote	Other	
28/06/2010	8.680	78.820	0.000	0.000	87.500

E.8 Briefly indicate the resolutions adopted at the General Meetings held in the year to which this report refers and the percentage of votes with which each resolution was adopted.

Approval of the Annual Accounts and Directors' Report for the Company and the Annual Accounts and Directors' Report for the consolidated group for the year ended 31 December 20010 and the application of the results obtained. Approval of Consolidated financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Statement of Changes in Equity, Statement of Cash Flows, and Notes) of the consolidated group for year ended 31 December 2010.

Amendment of article 25 of the bylaws for its adequacy to market remuneration trends and transparency policy. Approval of the Report on Remuneration policy of the Board of Directors.

Approval of an incentive programme for executives and directors of GRUPO EMPRESARIAL SANJOSE, S.A.

Approval of the segregation balance sheet for the year ended 31 December 2009. Approval of the balance sheet of the segregated branch of activity. Approval of the segregation of the real estate branch og activity in favour of SANJOSE DESARROLLOS INMOBILIARIOS, S.A. under the tax neutrality regime established by Chapter VIII, Title VII of the Companies Tax Act.

Establishment of the number of members of the Board of Directors. Resignation, re-election, appointment and ratification, if necessary, of Directors. Re-election of the Company and consolidated Group auditors for the financial year between 1 January 2010 and 31 December 2010.

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Authorisation for the Company to acquire, either directly or through group companies, or accept as pledges, treasury shares in accordance with the provisions of Article 75 of the Spanish Companies Act, establishing limits or requirements for such acquisitions. Authorisation of the Board of Directors to exercise the authority necessary to execute the resolutions adopted by shareholders in this respect.

A list of these resolutions is published on the Company's website.

E.9 Indicate whether the bylaws contain any restriction establishing a minimum number of shares required to attend the General Meeting:

YES

Number of shares required to attend a General Meeting	100

E.10 Indicate and provide support for the policies followed by the Company with respect to proxy voting at General Meetings.

Share custodians will provide shareholders with possible texts for proxy votings.

E.11 Indicate whether the company is aware of the policy of institutional investors on participating or not participating in the company's decisions:

NO

E.12 Indicate the URL and means of accessing corporate governance content on your website.

All information regarding corporate governance is accessible on the Company's website (www.grupo-sanjose.biz), under the main menu item "Shareholders and investors", under Corporate Governance.

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

State the extent to which the Company complies or fails to comply with Unified Code recommendations. In the event of non-compliance with any of the recommendations, explain the recommendations, rules, practices or criteria applied by the Company.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Complies

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification, and particularly:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Any acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;

c) Operations that effectively add up to the Company's liquidation.

Complies

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies

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5. Separate votes should be taken at the General Shareholders' Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.

See sections: E.8

Partly complies

Some proposals are voted on separately, others jointly and in some there are unique votes through proxies.

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.
See sections: E.4

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its economic value over time.

It should likewise ensure that the Company abides by the laws and regulations in its dealings with stakeholders; It should as well fulfil its obligations and contracts in good faith; respect the customs and good practices of the sectors and territories where it does business and uphold any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. The Board should see the core components of its mission as to approve the Company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the Company's interests and corporate purpose. And as such, the Board in full should reserve the right to approve:

a) The Company's general policies and strategies, and in particular:

i) The strategic or business plan, as well as the annual management objectives and budgets;

ii) Investment and financing policy.

iii) Definition of the structure of the corporate group;

iv) Corporate governance policy;

v) Corporate social responsibility policy;

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vi) Remuneration and performance evaluation policy for senior executives;

vii) Risk control and management policy and periodic monitoring of internal reporting and control systems..

viii) Dividend policy and treasury shares policy and, in particular, limits thereon.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions :

i) At the proposal of the Company's chief executive, the appointment and possible removal of senior executives, as well as their indemnity clauses.

ii) The remuneration of directors, as well as in the case of executive directors, the additional remuneration for their executive functions and other conditions to be fulfilled by their contracts.

iii) The financial information listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting ;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the Company conducts with directors, significant shareholders, shareholders with Board representation or other persons related thereto ("related-party transactions").

However, Board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the board basis to a large number of clients.

2. They go through at market rates generally set by the person supplying the goods or services;

3. Their amount is no more than 1% of the Company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full Board.

See sections: C.1 and C.6

Complies

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9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer then five and no more than fifteen members.
See sections: B.1.1

Complies

10. External, proprietary and independent directors should occupy a broad majority of Board places, while the number of executive directors should be the minimum practical, bearing in mind the complexity of the corporate group and the ownership interests they control.
See sections: A.2, A.3, B.1.3 and B.1.14

Partly Complies

11. In the event that some non-executive director can be deemed neither proprietary nor independent, the Company should disclose this circumstance and the links that person maintains with the Company or its senior officers, or its shareholders.
See sections: B.1.3

Complies

12. That among non-executive directors, the relation between proprietary members and independents should match the proportion between the capital represented on the Board by proprietary directors and the remainder of the Company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the Board but not otherwise related.

See sections: B.1.3, A.2 and A.3

Complies

13. The number of independent directors should represent at least one third of all Board members.
See sections: B.1.3

Explain

Non-compliance is due to the nature of directors from Parquesol as independent directors before its absorption by GESJ and to the small number of board members.

14. The nature of each director should be explained to the Shareholders' General Meeting, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Appointments Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1 4

Complies

15. When women directors are few or non-existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Appointments Committee should take steps to ensure that when proposing vacancies:

a) The process of filling Board vacancies has no implicit bias against female candidates;

b) The Company makes a conscious effort to include women with the target profile among the candidates for Board places.

Complies

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of Board meetings; and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the Company's Chief Executive, along with the chairmen of the relevant board committees.

See sections: B.1.42

Complies

17. When a Company's Chairman is also its chief executive, an independent director should be empowered to request the calling of Board meetings or the inclusion of new issues on the agenda; to coordinate and give voice to the concerns of non-executive directors; and to lead the Board's evaluation of the Chairman.

See sections: B.1.21

Partially complies

Current regulation allows three members establishing the Board of Directors's session and agenda.

18. The Secretary should take care to ensure that the Board's actions:

a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies.

b) Comply with the Company Bylaws and the Regulations of the General Shareholders' Meeting, the Board of Directors and others;

c) Are informed by those good governance recommendations of the Unified Code that the Company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Appointments Committee and approved by a full Board meeting; and the relevant appointment and removal procedures being spelled out in the Board's regulations.

See sections B.1.34

Complies

19. The Board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items.
See sections: B.1.29

Complies

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.
See sections: B.1.28 and B.1.30

Complies

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the Company's performance, and such concerns are not resolved at the Board, the person expressing them can request that they be recorded in the minutes' book.

Complies

22. The board in full should evaluate the following points on a yearly basis:

a) The quality and efficiency of the Board's operation.

b) b) Starting from a report submitted by the Appointments Committee, how well the Chairman and Chief Executive have carried out their duties;

c) The performance of its Committees on the basis of the reports furnished by the same.
See sections: B.1.19

Complies

23. All directors should be able to exercise their right to receive any additional information they require on matters within the Board's competence. Unless the Bylaws or Board Regulations indicate otherwise, such requests should be addressed to the Board's Chairman or Secretary.
See sections: B.1.42

Complies

24. All directors should be entitled to call on the Company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.
See sections: B.1.41

Complies

25. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Explain

No Director has raised the need for personal advisory services outside those provided by the Company and those established by the Board or by the shareholders General Meeting.

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

a) Directors should apprise the Appointments Committee of any other professional obligations, in case they might detract from the necessary dedication;

b) Companies should lay down rules about the number of Boards on which their Board members can take part.

See sections: B.1.8, B.1.9 and B.1.17

Explain

The Company requires sufficient dedication from Directors but there are no formal mechanisms or rules in this respect.

27. The proposal for the appointment or renewal of directors which the Board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:

a) On the proposal of the Appointments Committee, in the case of independent directors.

b) Subject to a report from the Appointments Committee in all other cases.

See sections: B.1.2

Complies

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background.

b) Directorships held in other companies, listed or otherwise;

c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a Company director, and;

e) Shares held in the Company and any options on the same.

Complies

29. Independent directors should not stay on as such for a continuous period of more than 12 years.

Explain

There is no such rule, but there is no person under such circumstances.

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Appointments Committee In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III.5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

Complies

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There has been no occasion in which to apply this recommendation.

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in Article 124 of the Companies Law, the Board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.
See sections B.1.43 and B.1.44

Complies

33. All directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking Board representation.

When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the Board, Director or otherwise.

Complies

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.
See sections: B.1.5

Complies

35. The Company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

a) Amount of fixed components, with an itemisation, where applicable, of fees for participation at the meetings of the Board and its Committees and an estimate of the annual fixed remuneration derived therefrom;

b) Variable remuneration components, including:

i. The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.

ii. Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;

iii. The main parameters and grounds for any system of annual *bonuses* or other non cash benefits; and

iv. An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or assumptions.

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:

i. Duration;

ii. Notice period; and

iii. Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.

See sections: B.1.5

Complies

Remuneration and its application to Directors are described in other sections.

36. Remuneration comprising the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See sections: A.3 and B.1.3

Explain

No plan in this respect has yet been applied.

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

38. In the case of remuneration linked to Company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies

39. In the case of variable remunerations, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector or circumstances of this kind.

Complies

40. The board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner the company sees fit.

The report will focus on the remuneration policy the Board has approved for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the remuneration policy should be reported to the Meeting, along with the identity of any external advisors engaged.
See sections: B.1.16

Explain

The remuneration system is reported by the relevant Board Committee and submitted for the approval of the Board, before being presented to shareholders for approval.

A report that is formally separate from this proposal is not submitted.

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

a) A breakdown of the remuneration obtained by each company director, to include where appropriate:

i. Participation and attendance fees and other fixed director payments;

ii. Additional remuneration for acting as chairman or member of a Board committee;

iii. Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;

iv. Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;

v. Any severance packages agreed or paid;

vi. Any remuneration they receive as directors of other companies in the Group;

vii. The remuneration executive directors receive in respect of their senior management posts;

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viii. Any kind of remuneration other than those listed above, of whatever nature and provenance within the Group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:

i. Number of shares or options awarded in the year, and the terms set for their execution;

ii. Number of options exercised in the year, specifying the number of shares involved and the exercise price;

iii. Number of options outstanding at the annual year end, specifying their price, date and other exercise conditions;

iv. Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive directors and the Company's profits, or some other measure of enterprise results.

Complies

42. When the Company has an Executive Committee, the breakdown of its members by director category should be similar to that of the Board itself. The Secretary of the Board should also act as secretary to the Executive Committee.

See sections: B.2.1 and B.2.6

Complies

43. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Complies

44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Appointment and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the Appointment and Remuneration committee or committees should be set forth in the Board Regulations, and include the following:

a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each Committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first full Board following each meeting;

b) These committees should be formed exclusively of non-executive directors and have a minimum of three members. The foregoing is understood notwithstanding the attendance of executive directors or senior officers when expressly agreed by the Committee's members.

c) Committees should be chaired by an independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Minutes of meeting proceedings should be drawn up and a copy sent to all Board members.

See sections: B.2.1 and B.2.3

Complies

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Appointments Committee or, as the case may be, separate Compliance or Corporate Governance Committees.

Complies

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

49. Control and risk management policy should specify at least:

a) The different types of risk that affect the Company (operational, technology, financial, legal, reputational, tax, etc) with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;

b) The determination of the risk level the Company sees as acceptable;

c) Measures in place to mitigate the impact of risk events should they occur;

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See sections: D

Complies

50. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) Supervise the preparation and the integrity of the financial information on the company and, if applicable, the group, reviewing compliance with the regulatory requirements, proper delimitation of the scope of consolidation and correct application of accounting policies.

b) Conduct periodic reviews of risk management and internal control systems, so that the principal risks are adequately identified, managed and disclosed properly.

c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose that service's budget; receive periodic information on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

a) Bring before the Board proposals for selection, appointment, re-election and replacement of the external auditor, as well as the terms of the auditor's engagement.

b) Receive regular information from the external auditor on the progress *and* findings of the audit programme, and check that senior management are acting on its recommendations.

c) Monitor the independence of the external auditor, to which end:

i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

ii) The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;

iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, promote the Group auditor's assumption of responsibility for audits in the group companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee should be empowered to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

52. The Audit Committee should prepare information on the following points from the Recommendation or input to board decision-making 8:

a) The financial information listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.

b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See sections: B.1.38

Complies

54. The majority of Appointment Committee members –or Appointment and Remuneration Committee members, as the case may be– should be independent directors.

See section: B.2.1

Explain

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Not met. Due to the shareholdings structure and the representation on the Board of all significant shareholders, there are few independent Directors (two). The majority are external.

55. The Appointment Committee should have the following functions in addition to those stated in earlier recommendations:

    a) Evaluate the balance of skills, knowledge and experience of the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

    b) Examine or organise, in appropriate form, the succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.

    c) Report on the senior officer appointments and removals which the Chief Executive proposes to the Board.

    d) Report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See sections: B.2.3

Complies

56. The Appointment Committee should consult with the Company's Chairman and Chief Executive, especially on matters relating to executive directors.

Any Board member may suggest directorship candidates to the Appointment Committee for its consideration.

Complies

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Propose to the Board of Directors:

   i. The remuneration policy for directors and senior officers;

   ii. The individual remuneration and other contractual conditions of executive directors.

   iii. The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the Company.

See sections: B.1.14 and B.2.3

Complies

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58. The Remuneration Committee should consult with the Chairman and Chief Executive, especially on matters relating to executive directors and senior officers.

Complies

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G. OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

This section can include any other information, clarification or qualification relating to the previous sections of the report.

In particular, indicate whether the Company is subject to any legislation other than the Spanish law on corporate governance and, if so, include any mandatory information different from the one required for the purposes of this Report.

Binding definition of Independent Director:

State whether any Independent Director has or has had a relation with the Company, its significant shareholders or its executives that, had it been sufficiently significant or important, would have prevented the Director from being considered independent according to section 5 of the Unified Code on good governance:

NO

Date and signature:

This Annual Corporate Governance Report was approved by the Board of Directors at the session held on

24/02/2011

State whether any Directors have voted against or have abstained from voting on this report.

NO

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Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union. In the event of discrepancy, the Spanish-language version prevails.

DIRECTORS' SIGNATURES

For the purposes of R.D. 1362/2007 (19 October) (Article 8.1.b) and Article 10), the undersigned Directors of Grupo Empresarial San José, S.A. hereby make the following statement of liability:

That, to the best of their knowledge, the consolidated annual accounts prepared in accordance with applicable accounting standards present a true and fair view of consolidated equity, the consolidated financial position and the consolidated results obtained by the issuer and its consolidated companies taken as a whole and that the consolidated Directors' Report includes an accurate analysis of business development and results, the position of the issuer and the companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Directors stamp their signatures below:

These Consolidated Financial Statements consisting of the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement Notes to the Consolidated Financial Statements and the accompanying Consolidated Directors' Report and the Corporate Governance Report, presented on 167 sheets of officially stamped single-sheet paper were prepared by the Company's Board of Directors on 24 February 2011.

Mr. Jacinto Rey González	Mr. Jacinto Rey Laredo
Mr. Miguel Zorita Lees	Mr. Ramón Barral Andrade
Ms. Altina de Fátima Sebastián González	Mr. Francis Lepoutre
Mr. Francisco Hernanz Manzano	Mr. Juan Emilio Iranzo Martín
Mr. Roberto Álvarez Álvarez	Mr. Santiago Martínez Carballal

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CERTIFICATION

I, Estefanía Calvo Iglesias, English Sworn Translator, certified by the Spanish Ministry of Affairs,

do hereby certify

that the preceding is a true and faithful English translation, on the essentials, of a document issued in Spanish. In the event of discrepancy the Spanish-language version prevails.

Madrid, thirteenth of April of two thousand and eleven

CERTIFICACIÓN

Yo, Estefanía Calvo Iglesias, Traductora Jurada de inglés por el Ministerio de Asuntos Exteriores del Gobierno de España,

certifico que

la que precede es traducción fiel y completa al inglés de un documento redactado en español En caso de discrepancia, el documento original redactado en español prevalece.

Madrid, a trece de abril de dos mil once

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