Deutsche Bank

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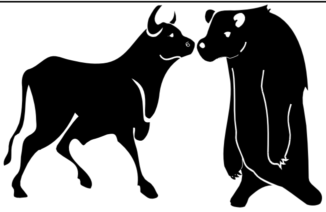

SPANISH CONSTRUCTION

All good things come to an end

Spanish Construction — All good things come to an end

Company	Rating Old	Rating New	Close	Target Price Old	Target Price New	% Upside/ Downside	Mkt Cap	Ticker
FCC	Sell	-	€ 41.43	€ 42.00	-	1%	€5.6bn	FCC.MC
Sacyr Vallehermoso	Hold	-	€ 23.18	€ 20.50	€ 23.50	1%	€6.6bn	SVO.MC

Source: Deutsche Bank

- From "Living la vida loca" to "Reality bites": 0.4% real price fall in Q1 08. The housing boom in both prices and volumes that began in 1998 came to an end in Q1 2008, with a 0.4% fall in real housing prices, a 30% fall in housing sales and a 49% decline in housing starts. With the stabilisation in 2007 of fundamentals that drove the last housing cycle and the side effects of the credit crunch impacting housing developers and households, we believe Spain is poised to face a severe adjustment to its future economic growth expectations, which is likely to further exacerbate the housing sector recession.
- Housing prices expected to decline 2-8% and housing starts 50% in 2008E. We maintain our expectation for a 2-8% decline in prices in 2008E, and now forecast a 5-10% decline in both 2009 and 2010. The housing sector is facing a recession that could be longer than that of 1992-1997, during which real housing prices fell 22%. The key difference this time is the high level of housing inventories, in excess of one million units. The significantly weak economic prospects of the Spanish economy (already underperforming the Euro zone after consistently beating it for 11 years) suggest the current challenge is a major one.
- Macroeconomic indicators send concerning signals to the housing market. The unemployment rate increased from 8.6% to 9.6% during Q1 2008; meanwhile, the Euribor is c.5.1%, leading affordability ratios to reach a level high enough for concern (98% of mortgages in Spain are at variable rates). Demand has dried up significantly as fundamentals that supported the bubble have come to an abrupt end while the credit crunch and price fall expectations are further fueling the downturn. We expect the return to equilibrium will take at least three years (although in real terms prices could continue to fall for longer).
- FCC is our Sell idea in the Spanish housing recession. With 22.5% of consolidated EBITDA (50% of cement activity, 60% of Realia, 12% of construction) linked to the Spanish housing market, FCC's future earnings within this area are at risk. The lack of both visibility in 2008 earnings and guidance provided by FCC suggests that current challenging market conditions could potentially lead to an earnings disappointment. Moreover, the future evolution of the housing market] falls outside of the control of FCC management and subsequently, FCC's business model and future earnings growth do not provide a particularly appealing opportunity for equity investors in the current market environment, in our opinion. We believe that the housing market's negative prospects are not yet priced into consensus earnings, given the expected 9% EPS growth in 2008E.

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Appendix 1

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
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Notes:
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    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
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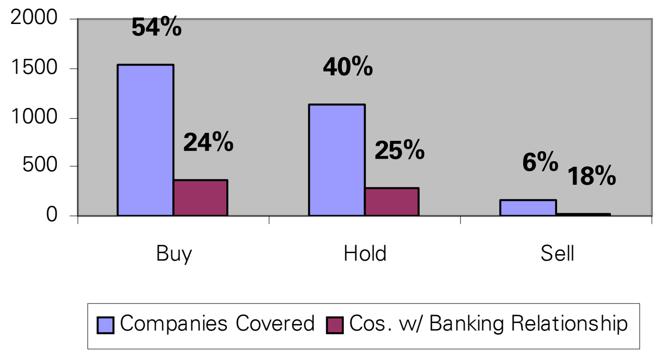
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Global Universe

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