2006 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

Madrid, 15 March 2007

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Business performance of the ACS Group in 2006

1.1. Main events

ACS Group **Main financial aggregates**		**January - December**	
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Revenue	**12,113.9**	**14,067.2**	**+16.1%**
International	*17.4%*	*16.2%*	
Gross Profit from Operations	**1,095.5**	**1,270.3**	**+16.0%**
Margin	*9.0%*	*9.0%*	
Net Profit from Operations	**817.4**	**971.6**	**+18.9%**
Margin	*6.7%*	*6.9%*	
Net Contribution of Listed Investees	**78.6**	**231.9**	**+194.9%**
Ordinary Net Profit*	**608.7**	**835.4**	**+37.2%**
Attributable Net Profit	**608.7**	**1,250.1**	**+105.4%**
Margin	*5.0%*	*8.9%*	
EPS	**1.74 €**	**3.58 €**	**+105.4%**
Total Net Debt	**4,264.6**	**8,746.3**	**+105.1%**
Net debt with recourse	1,909.4	1,753.4	-8.2%
Non-recourse financing	2,355.2	6,992.9	+196.9%
Equity	**2,635.5**	**3,256.4**	**+23.6%**
*Leverage***	*72.4%*	*53.8%*	
Net Investments	**4,216.5**	**5,407.1**	**+28.2%**

* Profit after taxes excluding extraordinary results
** Net debt with recourse / Equity

In 2006 the ACS Group's operating performance was excellent from the standpoint of both activities and profitability. In 2006 sales were up by over 16% and an increase in profitability was reflected by the net profits from operations which were close to 19% higher than in the previous year.

The ACS Group's investment in listed companies in the past two years gave rise to a contribution by these companies to the Group's profit, after taking into account finance costs net of the taxes relating to the investment of EUR 231.9 million made at 31 December 2006, up by 194.9% on the previous year.

Due to the sale of the Group's ownership interest in Urbis in December, with a gain before tax of EUR 510.9 million, ordinary income after taxes, without taking the extraordinary results for the year into account (mainly relating to the sale of Urbis) rose by 37.2% to EUR 835.4 million. The net income attributable to the Group doubled to EUR 1,250.1 million, with a margin of 8.9% over sales. Based on these figures, earnings per share increased by 105.4% to EUR 3.58 per share.

As a summary of the structure of the ACS Group's balance sheet, noteworthy is the balance of net recourse debt which dropped by 8.2% to EUR 1,753.4 million, equivalent to leveraging of 53.8%. Non-recourse financing amounted to EUR 6,992.9 million.

The ACS Group's investment effort in 2006 was significant, as reflected by net investments which amounted to EUR 5,407.1 million, of which EUR 3,297.3 million related to the acquisition of 10% of Iberdrola and EUR 1,728.0 million to the purchase of 16% of Unión Fenosa. This figure also takes into account the sale of the Group's ownership interest in Urbis for EUR 822.6 million.

The contracting business performed soundly, growing by 11.4% as a result of the ongoing commercial drive of all the Group companies. Consequently, the Group's total backlog reached a record breaking figure of almost EUR 30 million.

ACS continued to firmly back the electricity sector as one of the main areas of the Group's strategic development, as evidenced by the successive investments made throughout the year in the sector's top companies:

- In March 2006 the takeover bid launched by the ACS Group at the end of 2005 on 10% of Unión Fenosa was successfully completed at a price of EUR 33 per share, involving an investment of EUR 1,005.4 million.

- In the last four-month period of 2006 the ACS Group increased its ownership interest by 6%, investing EUR 722.6 million in the purchase of shares of Unión Fenosa on the market. As a result of this transaction, the Group ended the year with a 40.5% ownership interest in this company.

- In the last week of September 2006 the ACS Group acquired 90.2 million of the shares of Iberdrola, representing 10% of this company's share capital. The Group's total investment amounted to EUR 3,297.3 million, equivalent to an average price of EUR 36.6 per share of Iberdrola.

On 14 June 2006 an agreement was reached by the shareholders of Xfera and TeliaSonera whereby the Scandinavian operator acquired a 77% stake in Xfera. The ACS Group continues to be the operator's main local shareholder with an ownership interest of 17%.

Lastly, in December 2006 the ACS Group sold its ownership interest in Inmobiliaria Urbis, S.A. as part of the takeover bid by the Inmobiliario Reyal Group. The ACS Group's 24.8% stake was sold for a total EUR 822.6 million, giving rise to gains before tax of EUR 510.9 million.

1.2. Consolidated income statements of the ACS Group

ACS Group Consolidated Income Statement					January - December
Millions of Euros	2005	%	2006	%	Var. 06/05
Revenue	**12,113.9**	**100.0%**	**14,067.2**	**100.0%**	**+16.1%**
Other income	447.6	3.7%	739.4	5.3%	+65.2%
Total Production Value	**12,561.5**	**103.7%**	**14,806.6**	**105.3%**	**+17.9%**
Operating expenses	(8,583.1)	(70.9%)	(10,307.0)	(73.3%)	+20.1%
Staff costs	(2,882.9)	(23.8%)	(3,229.3)	(23.0%)	+12.0%
Gross Profit from Operations	**1,095.5**	**9.0%**	**1,270.3**	**9.0%**	**+16.0%**
Depreciation and amortisation charge	(230.1)	(1.9%)	(280.9)	(2.0%)	+22.1%
Current asset allowances	(48.0)	(0.4%)	(17.8)	(0.1%)	-62.9%
Net Profit from Operations	**817.4**	**6.7%**	**971.6**	**6.9%**	**+18.9%**
Finance income	83.2	0.7%	198.8	1.4%	+138.9%
Finance costs	(198.9)	(1.6%)	(423.4)	(3.0%)	+112.9%
Exchange differences	16.7	0.1%	(15.4)	(0.1%)	n.a.
Net impairment losses	(6.6)	(0.1%)	(12.8)	(0.1%)	n.a.
Gains on companies accounted for using the equity m	144.9	1.2%	330.2	2.3%	+128.0%
Gains on non-current assets disposals	13.8	0.1%	583.8	4.2%	n.a.
Other gains or losses	(66.2)	(0.5%)	(79.4)	(0.6%)	+19.9%
Profit Before Tax from Continuing Operations	**804.3**	**6.6%**	**1,553.5**	**11.0%**	**+93.1%**
Income tax	(171.3)	(1.4%)	(280.1)	(2.0%)	+63.5%
Profit after Tax from Continuing Operations	**633.0**	**5.2%**	**1,273.4**	**9.1%**	**+101.2%**
Profit after tax from discontinued operations		0.0%		0.0%	n.a.
Profit for the Year	**633.0**	**5.2%**	**1,273.4**	**9.1%**	**+101.2%**
Minority interests	(24.3)	(0.2%)	(23.3)	(0.2%)	-4.1%
Profit Attributable to the Parent	**608.7**	**5.0%**	**1,250.1**	**8.9%**	**+105.4%**

1.2.1. Revenue

Revenue amounted to EUR 14,067.2 million, up by 16.1% on 2005. All areas grew significantly, especially Construction whose sales rose by 17.9%, as well as the Industrial Services and Environment and Logistics areas, which also showed two-digit growth of 16.4% and 10.4%, respectively.

REVENUE					January - December
Millions of Euros	2005	%	2006	%	Var. 06/05
Construction	5,724.8	47%	6,750.3	48%	+17.9%
Industrial Services	4,077.4	33%	4,747.7	33%	+16.4%
Services	2,406.5	20%	2,657.1	19%	+10.4%
Concessions	13.8	0%	26.1	0%	n.a.
Corporate Unit / Adjustments	(108.6)		(114.0)		
TOTAL	**12,113.9**		**14,067.2**		**+16.1%**

Sales abroad rose by 8.3% to EUR 2,281.0 million and accounted for 16.2 % of total annual sales. The detail of turnover in Spain and abroad is as follows:

Sales in Spain					January - December
Millions of Euros	2005	%	2006	%	+0.0 %
Construction	5,169.8	90.3 %	6,319.1	93.6 %	+22.2%
Industrial Services	2,760.6	67.7 %	3,173.1	66.8 %	+14.9%
Environment & Logistics	2,180.7	90.6 %	2,388.3	89.9 %	+9.5%
Concessions	5.7	99.7 %	19.7	99.8 %	+244.6%
Corporate Unit/Adjustm	(108.6)	0.0 %	(114.0)	0.0 %	+0.0%
TOTAL	**10,008.4**	**82.6 %**	**11,786.2**	**+83.8%**	**0.2**

Sales Abroad			0		January - December
Millions of Euros	2005	%	2006	%	+0.0 %
Construction	555.0	9.7 %	431.2	6.4 %	-22.3%
Industrial Services	1,316.7	32.3 %	1,574.6	33.2 %	+19.6%
Environment & Logistics	225.7	9.4 %	268.8	10.1 %	+19.1%
Concessions	8.1	0.3 %	6.4	0.2 %	-21.3%
TOTAL	**2,105.5**	**17.4 %**	**2,281.0**	**16.2 %**	**+8.3%**

1.2.2. Gross profit from operations

Gross profit from operations amounted to EUR 1,270.3 million, up by 16.0% on the same period in the previous year. The sales margin was 9.0%.

GROSS PROFIT FROM OPERATIONS					January - December
Millions of Euros	2005	%	2006	%	Var. 06/05
Construction	427.5	38%	504.0	39%	+17.9%
Industrial Services	344.4	30%	419.6	32%	+21.9%
Environment & Logistics	346.2	31%	376.2	29%	+8.7%
Concessions	7.4	1%	6.9	0%	n.a.
Corporate Unit/Adjustments	(30.0)		(36.4)		
TOTAL	**1,095.5**		**1,270.3**		**+16.0%**

This growth was underpinned by the excellent performance of all activity areas. Construction rose by 17.9%, Industrial Services by 21.9% and Environment and Logistics by 8.7%.

1.2.3. Net profit from operations

Net profit from operations amounted to EUR 971.6 million, 18.9% higher than in the previous year, placing the sales margin at 6.9%, up by 20 basis points on 2005.

NET PROFIT FROM OPERATIONS					January - December
Millions of Euros	2005	%	2006	%	Var. 06/05
Construction	358.6	42%	422.7	42%	+17.9%
Industrial Services	285.9	34%	364.7	36%	+27.6%
Environment and Logistics	203.7	24%	224.6	22%	+10.2%
Concessions	2.0	0%	(2.7)	(0%)	n.a.
Corporate Unit/Adjustments	(32.8)		(37.7)		
TOTAL	**817.4**		**971.6**		**+18.9%**

Industrial Services performed soundly, with an increase of 27.6%, as was the case of Construction which was up by 17.9% and Environment and Logistics with an increase of 10.2%.

1.2.4. Profit Before Tax from Continuing Operations

Profit before tax from continuing operations rose by 93.1% to EUR 1,553.5 million, which represented 11.0% of sales, due largely to the contribution by the investees accounted for using the equity method to net profit. This contribution amounted to EUR 330.2 million. The main contributions related to Unión Fenosa, to Abertis, to the sound earnings of the other investees and to the increase in the ownership interest in these companies. Additionally, in 2006 the gains on the sale of non-current assets recorded amounted EUR 583.8 million, which relate mainly to the sale of the Group's holdings in Urbis and Sopol, and in three Latin American concessions, as well as the decrease in ownership interest in Xfera.

Finance costs rose by 112.9% to EUR 423.4 million due to the Group's investment policy, mainly as a result of the investments in Unión Fenosa and Iberdrola. Finance income amounted to EUR 198.8

million, up 138.9% on 2005, and included the EUR 40.6 million in dividends from Iberdrola accrued at the end of 2006. Net exchange differences had a negative impact of EUR 15.4 million, showing a change in trend with respect to the previous year. Lastly, Other Profit and Loss, amounting to EUR 79.4 million, relates mainly to the provisions recorded for contingencies and charges at various Group companies.

1.2.5. Net profit attributable to the Group

The net profit attributable to the Group climbed to EUR 1,250.1 million, up 105.4% on 2005, as detailed below:

NET PROFIT ATTRIBUTABLE			**January - December**		
Millions of Euros	**2005**	**%**	**2006**	**%**	**Var. 06/05**
Construction	239.1	39%	282.1	33%	+18.0%
Industrial Services	179.2	29%	222.6	26%	+24.2%
Environment & Logistics	112.7	18%	129.3	15%	+14.7%
Concessions	6.5	1%	(17.3)	(1%)	n.a.
Listed Associates	78.6	13%	231.9	27%	+194.9%
Corporate Unit/Adjustments	(7.4)		401.5		
TOTAL	**608.7**		**1,250.1**		**+105.4%**

After eliminating the non-recurring results for the year, ordinary profit after taxes amounted to EUR 835.4 million, 37.2% higher than the amount recorded at 31 December 2005.

ACS Group **Reconciliation of 2006 Ordinary Net Profit**		
Million of Euros		**Var 06/05**
Net Attributable Profit	**1,250.1**	**+105.4%**
less: Urbis Capital Gain	(510.9)	
plus: Taxes on the capital gain of Urbis	167.1	
less: other nonrecurring items	(70.9)	
Ordinary Net Profit	**835.4**	**+37.2%**

- The ACS Group recorded a capital gain of EUR 510.9 million before tax on the sale of the stake in Urbis in December 2006.

- The taxes associated to this transaction were calculated using conservative criteria and amounted to EUR 167.1 million.

- The remaining extraordinary results relate mainly to the positive effect of the change in the tax rate as from 2007 on the deferred taxes arising from the holdings in associates.

The taxes accrued amounted to EUR 280.1 million, up by 63.5% on 2005, and include the taxes relating to the sale of Urbis and the effect of the change in the tax rate on deferred taxes amounting to almost EUR 80 million. The effective tax rate without taking into account the profit from the associates accounted for by the equity method or extraordinary results was 26.9%.

1.3. *Consolidated Balance Sheet*

ACS Group Consolidated Balance Sheet					December 31
Millions of Euros	2005	%	2006	%	Var. 06/05
Property, plant and equipment	2,356.0	13.3 %	2,917.2	11.6 %	+23.8%
Goodwill	1,047.6	5.9 %	1,086.6	4.3 %	+3.7%
Intangible assets	451.9	2.6 %	397.6	1.6 %	-12.0%
Financial assets	5,317.9	30.0 %	10,227.5	40.6 %	+92.3%
Other non-current assets	362.3	2.0 %	454.9	1.8 %	+25.6%
Non-current Assets	**9,535.7**	**53.8 %**	**15,083.9**	**59.9 %**	**+58.2%**
Inventories	553.6	3.1 %	738.3	2.9 %	+33.4%
Accounts receivables	5,146.1	29.1 %	5,946.1	23.6 %	+15.5%
Current financial assets	1,277.4	7.2 %	1,880.9	7.5 %	+47.2%
Cash and cash equivalents	767.8	4.3 %	926.6	3.7 %	+20.7%
Other current assets	431.8	2.4 %	586.0	2.3 %	+35.7%
CURRENT ASSETS	**8,176.8**	**46.2 %**	**10,078.0**	**40.0 %**	**+23.3%**
Available-for-Sale Non-Current Assets			**20.8**	**0.1 %**	
TOTAL ASSETS	**17,712.5**	**100.0 %**	**25,182.7**	**100.0 %**	**+42.2%**
Shareholders' Equity	2,480.9	14.0 %	3,115.7	12.4 %	+25.6%
Minority Interests	154.6	0.9 %	140.7	0.6 %	-9.0%
Equity	**2,635.5**	**14.9 %**	**3,256.4**	**12.9 %**	**+23.6%**
Capital Subsidies	**250.6**	**1.4 %**	**81.1**	**0.3 %**	**-67.7%**
Bank borrowings	2,678.6	15.1 %	3,291.3	13.1 %	+22.9%
Non-recourse financing	2,304.8	13.0 %	6,797.6	27.0 %	+194.9%
Other financial liabilities	34.0	0.2 %	32.0	0.1 %	-5.9%
Other non-current liabilities	512.9	2.9 %	524.3	2.1 %	+2.2%
Hedging instruments	31.9	0.0 %	19.8	0.0 %	+0.0%
Other liabilities	481.0	0.0 %	504.5	0.0 %	+0.0%
Non-current Liabilities	**5,530.3**	**31.2 %**	**10,645.1**	**42.3 %**	**+92.5%**
Bank borrowings	1,236.9	7.0 %	1,228.9	4.9 %	-0.7%
Non-recourse financing	50.4	0.3 %	195.4	0.8 %	+287.8%
Trade payables	6,568.7	37.1 %	7,984.3	31.7 %	+21.6%
Other financial liabilities	5.2	0.0 %	8.8	0.0 %	+70.6%
Other current liabilities	1,434.9	8.1 %	1,782.8	7.1 %	+24.2%
Current Liabilities	**9,296.1**	**52.5 %**	**11,200.1**	**44.5 %**	**+20.5%**
TOTAL EQUITY & LIABILITIES	**17,712.5**	**100.0 %**	**25,182.7**	**100.0 %**	**+42.2%**

1.3.1. Non-current assets

Plant, property and equipment rose by 23.8% to EUR 2,917.2 million at the end of 2006. Financial assets related mainly to the Group's holdings in associates accounted for using the equity method. The increase in financial assets by EUR 4,909.6 million in the past twelve months, is mainly a result of the acquisition of shares in Iberdrola and Unión Fenosa, including the takeover bid concluded in the first quarter of this year.

The balance of "Available-for-Sale Non-Current Assets", which amounted to EUR 20.8 million, related to the value of the investment in two motorway concessions (the Dundalk bypass in Ireland and the A1 Darrington-Dishford motorway in the United Kingdom), for which there is a preliminary purchase and sale agreement. The closing of this agreement is pending the required administrative authorisations.

1.3.2. Working capital

Net working capital payable amounted to EUR 2,496.7 million, a year-on-year improvement of more than 9 sale days leading to a ratio of 65 days. This excellent performance was due to the combination of an improvement in management ratios in the Services area and the high growth in sales recorded by Construction, which maintains an efficient management of net working capital.

1.3.3. Net borrowings

The Group's net borrowings at 31 December 2006 amounted to EUR 8,746.3 million, of which EUR 6,992.9 million relates to non-recourse financing. The remaining EUR 1,753.4 million related to net debt with recourse, the balance of which represents 53.8% of equity and was 1.4 times the Group's gross profit from operations in 2006.

The Group's total gross non-current borrowings, including long-term non-recourse financing, amounted to EUR 10,121 million, of which approximately 80% bear interest at a fixed rate.

Detail of Borrowings *Millions of Euros*	**2005**	**2006**
Net Debt with Recourse	**1,909**	**1,753**
Non-current bank borrowings	*2,713*	*3,323*
Current bank borrowings	*1,242*	*1,238*
Cash and other cash equivalents	*(2,045)*	*(2,808)*
Project Financing	**2,355**	**6,993**
Total Net Borrowings	**4,265**	**8,746**

1.3.4. Other non-current liabilities

Other non-current liabilities amounted to EUR 524.3 million and related mainly to provisions for contingencies and charges and deferred tax liabilities.

1.3.5. Equity

Equity amounted to EUR 3,256.4 million, of which EUR 140.7 million related to minority interests, mainly in concession projects and international subsidiaries. At 31 December 2006 the Group acquired 7 million treasury shares during the year, representing 2% of the share capital of ACS. The related acquisition cost amounted to EUR 283 million, implying an average cost of EUR 40.5 per share.

1.4. *Cash Flows*

ACS Group **Cash Flow Statement**			**January - December**
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Gross Profit from Operations	**1,095.5**	**1,270.3**	**+16.0%**
plus: Dividends received from investees	100.7	232.4	
plus: Interest received	83.2	145.8	
less: Interests paid	(198.9)	(413.0)	
less: Income tax	(171.3)	(203.8)	
less: Other adjustments	(101.2)	(90.6)	
Funds Obtained from Operations	**808.1**	**941.1**	**+16.5%**
Dec/(Inc) Trade Receivables, Completed Work Pending Certificati	(322.2)	(474.6)	
Dec/(Inc) Inventories	(172.6)	(184.7)	
Inc/(Dec) Trade Payables	1,028.7	962.0	
Inc/(Dec) Other Current and Non-Current Assets	33.4	154.7	
Changes in Working Capital, Net	**567.4**	**457.4**	**-19.4%**
Net Cash Flows from Operating Activities	**1,375.5**	**1,398.5**	**+1.7%**
less: Investments in property, plant and equipment and intar	(354.0)	(470.9)	
less: Concession project investments	(527.7)	(654.5)	
less: Non-current financial asset investments	(1,076.2)	(285.8)	
less: Unión Fenosa acquisition	(2,422.8)	(1,728.0)	
less: Iberdrola acquisition		(3,297.3)	
Non-current Asset Investments	**(4,380.6)**	**(6,436.6)**	**+46.9%**
Non-Current Asset Disposals	**164.1**	**1,029.5**	**n.a.**
Net Cash Flows from Investing Activities	**(4,216.5)**	**(5,407.1)**	**+28.2%**
Inc/(Dec) Non-current Borrowings	1,230.4	610.7	
Inc/(Dec) Current borrowings	(92.9)	(607.9)	
Inc/(Dec) Non-recourse financing	1,892.8	4,637.8	
Changes in Borrowings	**3,030.3**	**4,640.6**	**+53.1%**
Dividends paid	(88.2)	(211.7)	
Treasury share transactions	58.3	(257.7)	
Changes in Own Financing	**(29.9)**	**(469.4)**	**n.a.**
Other Sources of Financing	**30.3**	**(3.8)**	**n.a.**
Net Cash Flows from Financing Activities	**3,030.7**	**4,167.4**	**+37.5%**
Inc/(Dec) Cash & current financial assets	189.7	158.8	
Cash Position at Beginning of Year	**578.1**	**767.8**	**+32.8%**
Cash Position at End of Year	**767.8**	**926.6**	**+20.7%**

1.4.1. Net cash flows from operating activities

The funds obtained from operations amounted to EUR 941.1 million, up by 16.5% on the previous year, backed by the excellent performance of all the area's operating activities and the positive contribution to cash flows of the investments in investee companies.

The increase in net working capital also gave rise to a significant generation of cash (EUR 457.4 million) evidencing the Group's excellent management of working capital once again this year. This is even more noteworthy taking into account the figures reached in the previous year.

Net cash from operating activities amounted to EUR 1,398.5 million, up by 1.7% on 2005.

1.4.2. Consolidated net investments

The Group's total investments in 2006 amounted to EUR 6,436.6 million, and the detail, by line of business, is as follows:

ACS Group Net Investments			**January - December**
Millions of Euros	**Gross Investment**	**Divestments**	**Net Investment**
Construction	167.5	(38.6)	128.9
Industrial Services	551.9	(63.7)	488.2
Environment & Logistic	326.3	(30.3)	296.0
Concessions	328.4	(52.3)	276.1
Subtotal	**1,374.1**	**(184.9)**	**1,189.2**
Iberdrola	3,297.3		3,297.3
Unión Fenosa	1,728.0		1,728.0
Others	37.2	(844.6)	(807.4)
TOTAL	**6,436.6**	**(1,029.5)**	**5,407.1**

Investments in financial assets included the acquisition of 10% of Iberdrola for EUR 3,297.3 million, and the increase in the ownership interest in Unión Fenosa by 16% of EUR 1,728 million. This figure also takes into account the sale of the Group's ownership interest in Urbis for EUR 822.6 million.

Investments in the Construction area, amounting to EUR 167 million, related mainly to the purchase of machinery and to the construction of a new head office for Dragados. The greatest divestment was the sale of Sopol to the local shareholder in Portugal.

EUR 552 million were invested in Industrial Services, mainly in energy and renewable energy projects:

- In 2006 the Group initiated the Andasol I and Andasol II projects, two thermal solar power plants of 50 MW each. This year EUR 87 million was invested in the first plant. These power plants are the first of their category in Spain and are located in the province of Granada. Furthermore, the Group is taking part in the development of a third thermal solar power plant in Extremadura, which also has an installed power of 50 MW.

- In 2006 the ACS Group invested EUR 229 million in wind-powered facility projects in order to increase its order book, which includes 18 wind-powered facilities in Spain with installed power of 572 MW and attributable power of 368 MW. Of these, 13 are directly managed by the Group with installed power of 438 MW, which generated sales of EUR 64 million in 2006. Furthermore, the Group has ownership interests in 11 wind farms currently under construction with an installed power of 299 MW and in an additional 21 wind farms in the financing or development phase with installed power of 692 MW.

- At 31 December 2006 the Group had an ownership interest in 12 concession projects for the management and maintenance of high-voltage lines in South American countries, mainly Brazil, with secured financing from the World Bank. The total cumulative investment in the share capital of this type of projects amounts to EUR 160 million. In 2006 the ACS Group invested EUR 68 million in Brazil in this type of lines.

- Additionally, investments were made in other concession projects, such as the desalination plant in Murcia (EUR 22 million) and the air-conditioning company Humiclima was acquired. On the other hand, several assets were sold, including an energy transmission concession in Brazil for EUR 39 million.

EUR 326 million were allocated to the Environment and Logistics area. Over EUR 165 million was invested in Environment, and was allocated to a large extent to the recent renewal and award of new contracts, in addition to the USW treatment plant in Zaragoza (EUR 30 million). EUR 114 million were invested in port and logistics services, and noteworthy in this respect were the bulk terminal in Santander and the container terminal in Sao Francisco do Sul ,Brazil.

EUR 328 million were invested in concession projects, including the Majadahonda hospital in Madrid (EUR 87 million), Brians penitentiary centre in Barcelona (EUR 65 million), the highway between Santiago and Brión in Galicia (EUR 44 million) and the Príncipe Pío interchange in Madrid (EUR 41 million). The main divestment related to Fenoco, and gave rise to income amounting to EUR 41 million.

1.5. Profit/loss by business areas

1.5.1. Construction

Construction Main Financial Aggregates		**January - December**	
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Sales	**5,724.8**	**6,750.3**	**+17.9%**
EBITDA	**427.5**	**504.0**	**+17.9%**
Margin	7.5%	7.5%	
EBIT	**358.6**	**422.7**	**+17.9%**
Margin	6.3%	6.3%	
Profit before tax from co	**369.9**	**443.2**	**+19.8%**
Margin	6.5%	6.6%	
Net Profit	**239.1**	**282.1**	**+18.0%**
Margin	4.2%	4.2%	
Backlog	**9,369**	**10,661**	**+13.8%**
Months	20	19	

Sales in 2006 amounted to EUR 6,750.3 million, up 17.9% on the previous year, given the Construction area's excellent performance in the year.

Construction Breakdown by Activity		**January - December**	
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Civil Engineering Works	3,363.9	3,888.5	+15.6%
Non Residential Building	1,360.8	1,739.6	+27.8%
Residential Building	1,000.1	1,122.2	+12.2%
TOTAL	**5,724.8**	**6,750.3**	**+17.9%**
International	*555.0* *10%*	*431.2* *6%*	*-22.3%*

Production in Spain achieved a growth rate of 22.2%, due to the heavy increase in production relating to contracts entered into with public-sector customers, both within local and regional administrations, and the central government. However, activity abroad dropped by 22.3% as a result of the sale of the Portuguese subsidiary Sopol at the beginning of the year, and account for 6% of the Construction area's total sales. If the effect of this sale is not taken into account, sales abroad were at a similar level as in the previous year.

With respect to the performance of profit from operations, EBITDA was up by 17.9% maintaining a sales margin of 7.5% and EBIT rose by 17.9%, with a sales margin of 6.3%, which was the same as 12 months ago. Lastly, net profit was EUR 282.1 million, up by 18% on 2005.

The construction backlog continued to increase, reaching EUR 10,661 million at 2006 year-end, 13.8% higher than 2005, and slightly lower than the increase in activity. Accordingly, backlog was equivalent to approximately 19 months of production. The order book in Spain grew by 12,8%; and increases of over 10% were recorded in all the main areas with respect to the figures for 2005. The order book abroad grew by 27.9% with respect to the order book for 2005, which included Sopol's backlog. This large increase is mainly a result of the contracts recently awarded in the United States (4 East Side Access tunnels in New York as well as the roads I-287 and Croton Falls in the same state) amounting to nearly US$ 480 million.

1.5.2. Industrial Services

Industrial Services Main Financial Aggregates		**January - December**	
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Sales	**4,077.4**	**4,747.7**	**+16.4%**
EBITDA	**344.4**	**419.6**	**+21.9%**
Margin	8.4%	8.8%	
EBIT	**285.9**	**364.7**	**+27.6%**
Margin	7.0%	7.7%	
Profit before tax from continu	**263.3**	**322.0**	**+22.3%**
Margin	6.5%	6.8%	
Net Profit	**179.2**	**222.6**	**+24.2%**
Margin	4.4%	4.7%	
Backlog	**4,269**	**5,087**	**+19.2%**
Months	13	13	

Industrial Services sales showed solid growth of 16.4% in 2006, driven by the Specialised Facilities, Integrated Projects and Control System activities, as well as the substantial recovery of the Networks area in the last quarter of the year, especially with respect to activity abroad.

Industrial Services Breakdown by Activity		**January - December**	
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Networks	743.9	806.4	+8.4%
Specialized Facilities	1,314.3	1,541.1	+17.3%
Integrated Projects	1,270.1	1,489.5	+17.3%
Control Systems	749.1	910.7	+21.6%
TOTAL	**4,077.4**	**4,747.7**	**+16.4%**
International	*1,316.7* *32%*	*1,574.6* *33%*	*+19.6%*

The performance of activity abroad continued to be positive, mainly in the areas of Specialised Facilities, which rose 18% this year. Integrated Projects were up by 19.8% and Control Systems increased by 46.2% in terms of international production.

All areas showed sustained growth, and the production in the Networks areas rose by 8.4%, with a 14.7% increase in activity abroad. The growth in Specialised Facilities was particularly high, driven mainly by electrical installation and railroad activity in Spain, as well as the aforementioned heavy increase in activity abroad, accounting for almost half its sales. The production of Integrated Projects increased by 17.3% and continued to show strong growth as a result of the increased investments of energy groups, and particularly the oil and electricity industries, both in the Spain and abroad.

Lastly, Control Systems grew by 21.6% mainly through activities relating to the maintenance of road safety systems and street lighting in the Spanish market, as well as the execution of several contracts abroad.

With respect to the profit from operations of the Industrial Services area, EBITDA rose by 21.9% with a sales margin of 8.8%, 40 basis points higher than in 2005, while EBIT performed exceptionally well, growing by 27.6%,with a margin of 7.7%, 70 basis points higher than in 2005.

The backlog of EUR 5,087 million (+19.2% in twelve months) was equivalent to 13 months of production, assuring the sound performance of this area in the coming months. Especially noteworthy was the 21% increase in the order books of Specialised Facilities and Integrated Projects.

1.5.3. Environment and Logistics

Environment and Logistics Main Financial Aggregates			**January - December**
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Sales	**2,406.5**	**2,657.1**	**+10.4%**
EBITDA	**346.2**	**376.2**	**+8.7%**
Margin	14.4%	14.2%	
EBIT	**203.7**	**224.6**	**+10.2%**
Margin	8.5%	8.5%	
Profit before tax from contin	**164.9**	**180.5**	**+9.5%**
Margin	6.9%	6.8%	
Net Profit	**112.7**	**129.3**	**+14.7%**
Margin	4.7%	4.9%	
Backlog	**13,230**	**14,171**	**+7.1%**
Months	67	65	

All areas performed excellently with solid growth, particularly Environment, which was 10.1% higher, and above all, Integral Maintenance, which grew by 17.3%. The lower increase in Ports and Logistics is mainly due to the slowdown in logistics activities, whereas port activities were up by 10%.

Environment and Logistics			
Breakdown by Activity			**January - December**
Sales	**2005**	**2006**	**Var. 06/05**
Environmental Services	1,081.8	1,191.1	+10.1%
Ports & Logistics Services	532.2	560.4	+5.3%
Transportation Services	189.9	198.5	+4.6%
Integral Maintenance	602.6	707.1	+17.3%
TOTAL	**2,406.5**	**2,657.1**	**+10.4%**
International	*225.7* *9%*	*268.8* *10%*	*+19.1%*

EBITDA grew by 8.7% with a margin of 14.2%. The 20 basis point drop with respect to the same period in the previous year was mainly a result of the increase in the price of oil, which especially affected transportation and logistics activities. This effect is expected to be progressively offset with an increase in rates. EBIT rose by 10.2%, with a margin of 8.5%, similar to the margin in 2005. Net profit grew by 14.7% with a margin of 4.9%, 20 basis points higher than in the previous year.

The backlog of this area reached EUR 14.171 million, equivalent to over 5 years of production. The ongoing increase in these figures confirms the growth expectations for this activity in the coming years.

1.5.4. Transport Infrastructure Concessions

Concessions			
Main Financial Aggregates			**January - December**
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Sales	**13.8**	**26.1**	**n.a.**
EBITDA	**7.4**	**6.9**	**n.a.**
EBIT	**2.0**	**(2.7)**	**n.a.**
Equity method	**(3.4)**	**(28.3)**	**n.a.**
Net Profit	**6.5**	**(17.3)**	**n.a.**

Revenue relates mainly to the turnover from the Mancha motorway, the only concession in operation in which the Group has a majority ownership interest, as well as from the turnover from technical assistance, mainly to TP Ferro.

The loss contributed by companies accounted for using the equity method is a result of the loss recorded by various concessions in their first years of operation, with the concomitant effect on finance costs.

At 2006 year-end the ACS Group took part in 38 projects with a capital commitment of EUR 1,002 million, through its concession development subsidiary Iridium, with a total managed investment of over 11,300 million.

1.5.5. Listed Associates

Associates Main Financial Aggregates			January - December
Millions of Euros	**2005**	**2006**	**Var. 06/05**
Abertis	92.8	106.9	+15.2%
Unión Fenosa	11.4	191.4	n.a.
Urbis	30.5	36.4	+19.3%
Iberdrola		40.6	n.a.
Gross contribution to profit	**134.7**	**375.3**	**+178.6%**
Associated finance costs	(86.3)	(220.6)	
Taxes	30.2	77.2	
Net Profit	**78.6**	**231.9**	**+194.9%**

The contribution of listed companies to the Group's profit, prior to deducting finance costs and associated taxes, amounted to EUR 375.3 million.

- The contribution of Abertis grew by 15.2% to EUR 106.9 million.
- Unión Fenosa contributed EUR 191.4 million to the Group's profit, as a result of its net profit in 2006.
- Prior to its sale at the end of 2006, Inmobiliaria Urbis contributed EUR 36.4 million, up 19.3% on 2005.
- The dividends from Iberdrola in 2006 contributed EUR 40.6 million to the Group's profit, and were recorded under the ACS Group's financial profit.

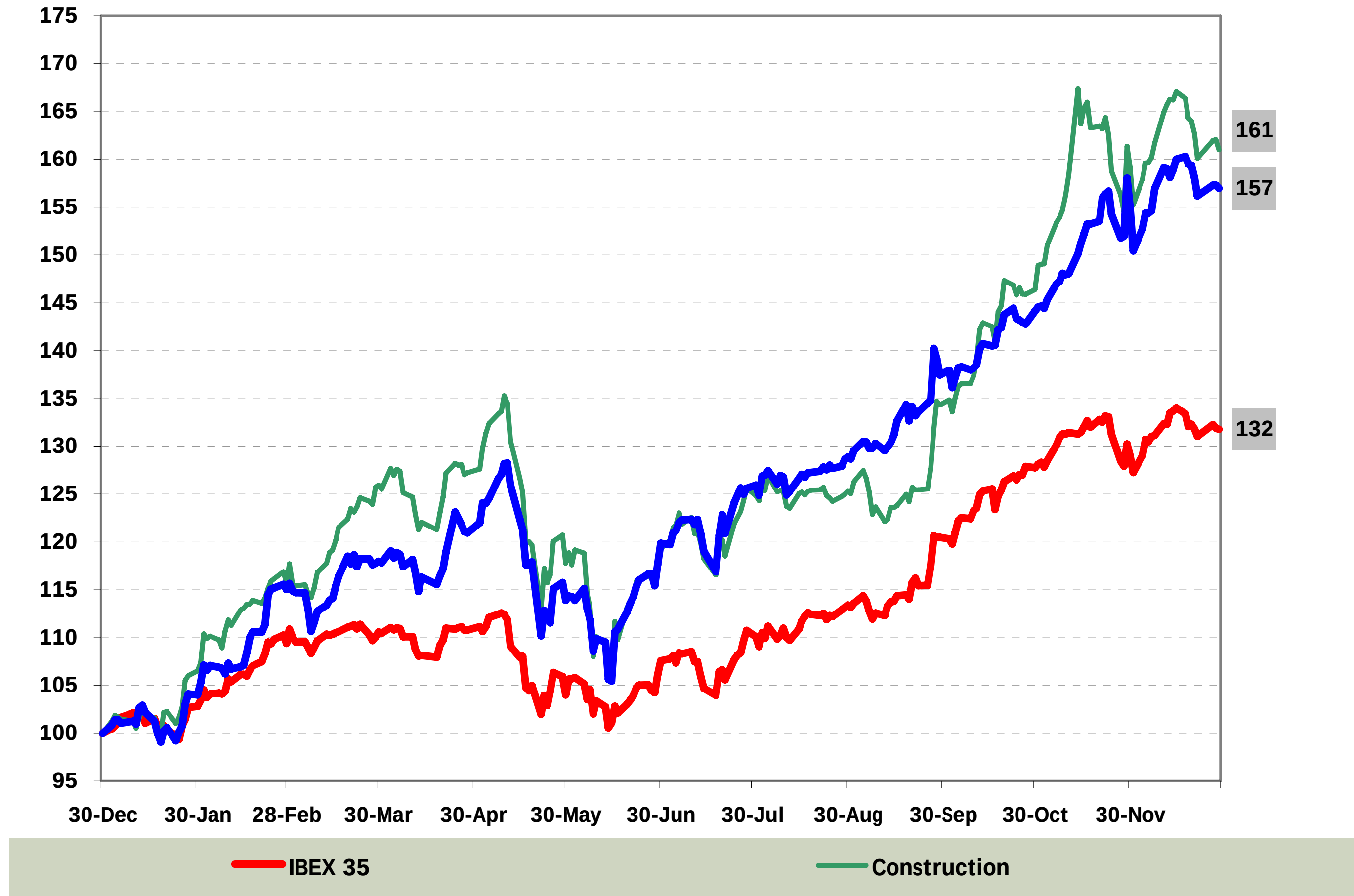
The finance costs arising from the Group's investments in these companies amounted to EUR 220.6 million, together with an additional positive tax effect of EUR 77.2 million.

Accordingly, the net contribution of the listed companies to the Group's profit in the past twelve months was EUR 231.9 million.

2. **Stock market performance and treasury shares**

2.1. Stock market information for 2006

In terms of the stock market, 2006 was characterised by a notable revaluation of all international securities markets, led by the Dow Jones index, which ended the year with record-breaking highs and a revaluation of an annual 16.3%. El EUROSTOXX 50 also grew by 14.3% as a result of this upward trend of the last two years. The Tokyo stock exchange's NIKKEI index moderated its growth (in 2005 growth exceeded 40%), up 6.9% in 2006.

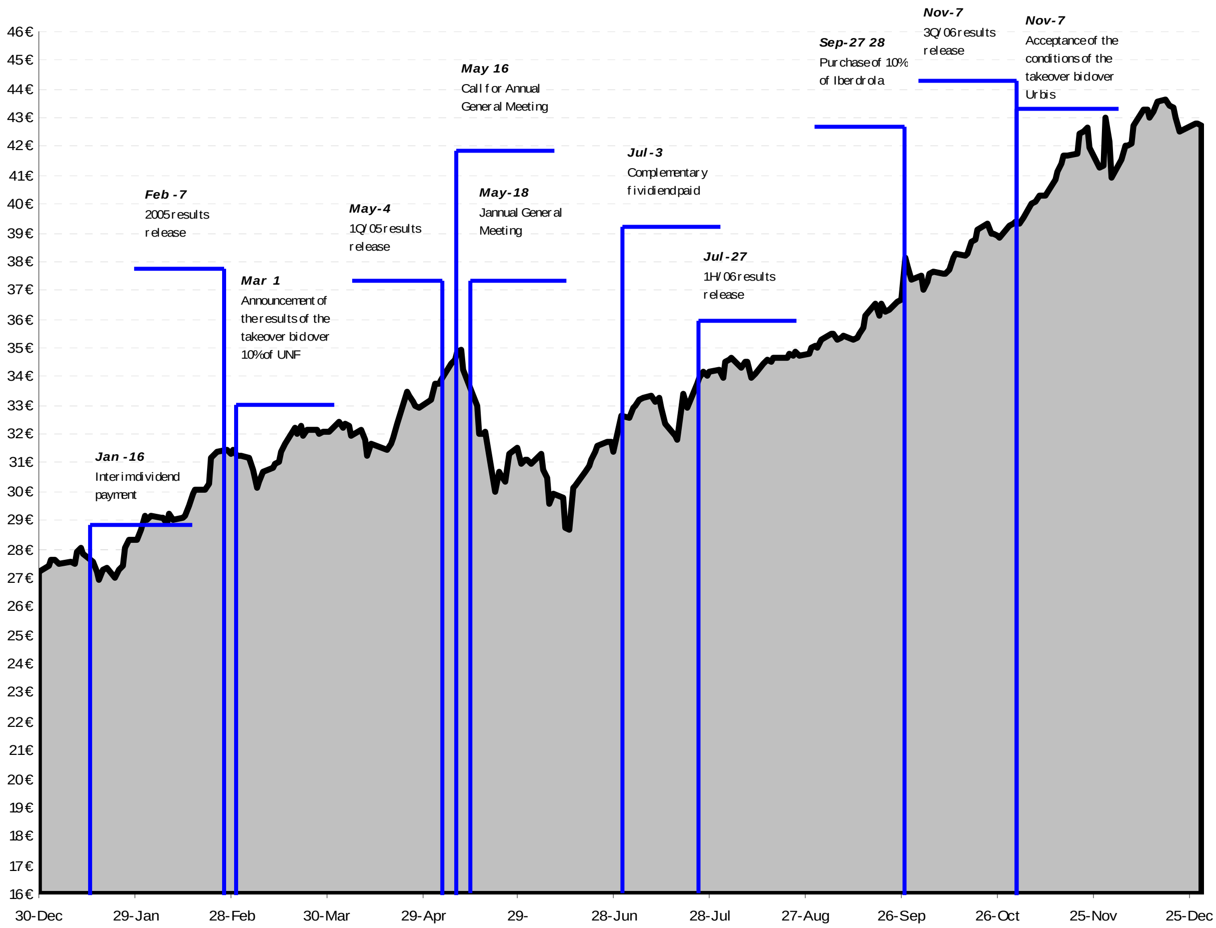


Against this backdrop, the Spanish market performed higher than average as reflected by the IBEX35, which rose by 31.8% to 14.146 points, reaching record-breaking highs in the year of its 25th anniversary. Construction was among the most dynamic sectors with the highest revaluation, improving the aforementioned figures with an annual cumulative gain of 61%. In this connection, notable was the revaluation of the ACS Group's shares by 56.96%, therefore converting it into one of the top-performing share portfolios, both in the Spanish and European markets in general.

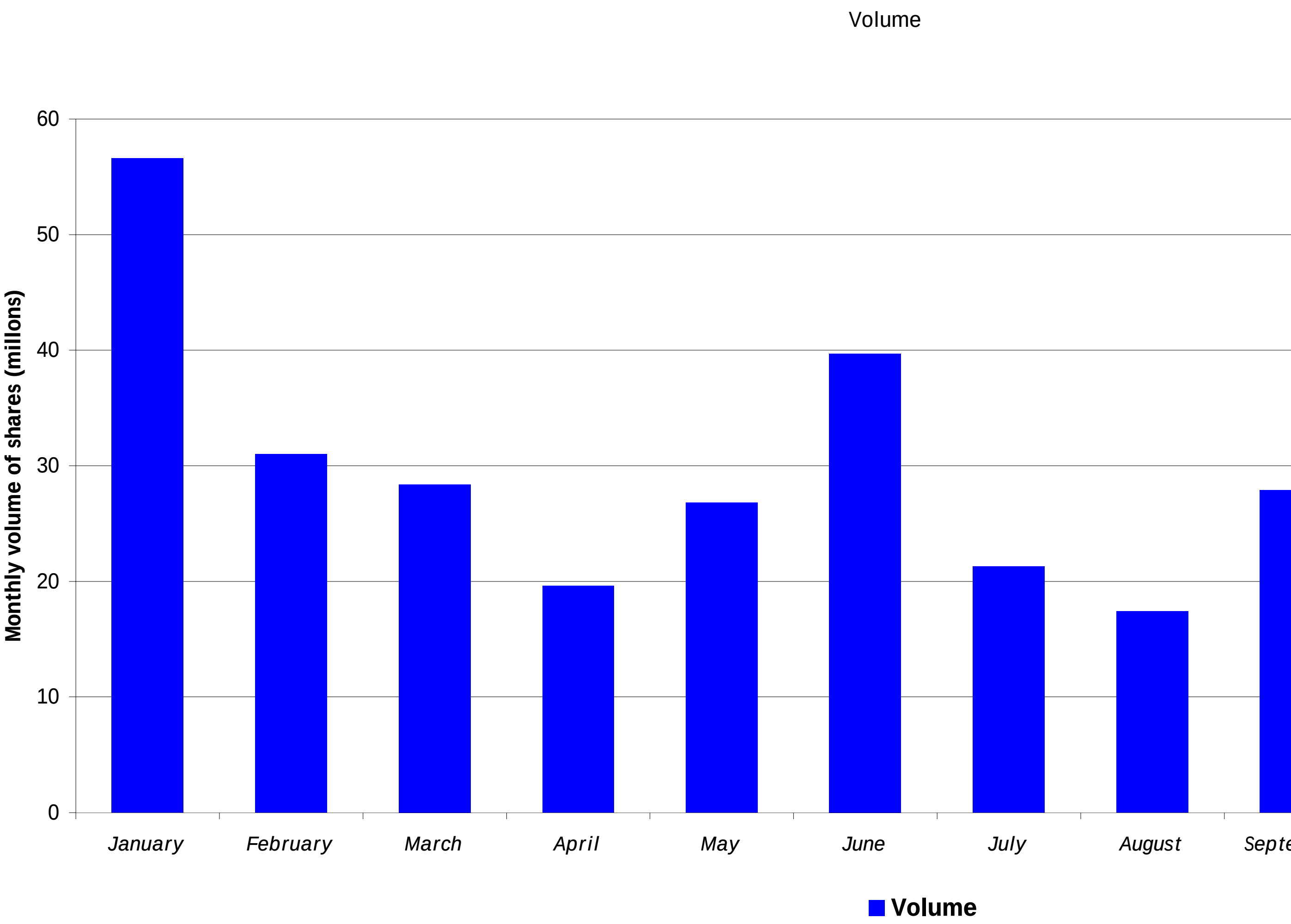
The detail of the ACS Group's main stock market data in 2006 is as follows:

Closing Price	**27.21 €**	**42.71 €**
Revaluation in the period	**61.96%**	**56.96%**
Cumulative revaluation since 31.12.2000	225.09%	410.27%
Period high	27.30 €	43.70 €
Date reached	29-Dec	15-Dec
Period low	16.80 €	26.62 €
Date reached	3-Jan	18-Jan
Average in the Period	22.39 €	33.46 €
Total volume (thousands of euros)	401,440	279,966
Daily average volume (thousands of euros)	1,568.12	1,097.91
Total traded effective (millions of euros)	8,989	9,386
Daily average effective (millions of euros)	35.11	36.81
Number of shares (millions of euros)	352.87	352.87
Market cap at end of period (€ millions of euros)	**9,602**	**15,071**

The ACS listed share price performance in 2006 and its main milestones are as follows:



The trading volume grew moderately with respect to 2005, reaching a monthly average of a little over 24.8 million of shares.



If the proposal to be made at the Annual General Meeting is accepted, direct shareholder return in the form of 2006 dividends will amount to EUR 1.25 per share, in two payments: an initial interim divided of a gross EUR 0.40 per share, paid on January 15, 2007, and a final dividend of EUR 0.85 per share representing 35.29% of the earnings per share. The dividend yield for shareholders at the 2006 year-end closing price stood at 2.9%.

2.2. Treasury shares

At 31 December 2006 the ACS Group had 6,985,055 treasury shares on its balance sheet. The detail of the transactions performed in the year is as follows:

Treasury Shares	Number of Shares	Millions of Euros
Beginning balance at 31 December 2005	-	-
Purchases	22,537,670	778.3
Sales	-15,552,615	-495.3
End balance at 31 December 2006	**6,985,055**	**283.0**

The gain on the sale of treasury shares amounted to EUR 25.28 million and was recorded as an increase in the ACS Group's equity.

3. Risk management policy

3.1. Risks intrinsic to the ACS Group's activity

The ACS Group operates in sectors, countries and social, economic and legal environments which involve the assumption of different levels of risk caused by these determining factors.

The ACS Group monitors and controls the aforementioned risks in order to prevent an impairment of profitability for its shareholders, a danger to its employees or its corporate reputation, a problem for its customers or a negative impact on the company as a whole. For this purpose, the ACS Group has instruments enabling it to identify such risks sufficiently in advance or to avoid them, and to minimise the risk, prioritizing their significance as necessary.

The ACS Group's 2006 Corporate Governance Report details these risk control instruments, providing in-depth information in this connection.

3.2. Financial risk management

As in the previous case, the ACS Group is exposed to various financial risks, including the risks of changes in interest rates and exchange rates, as well as liquidity and credit risk.

Risks arising from changes in interest rates affecting cash flows are mitigated by hedging the rates through the use of financial instruments which cushion their fluctuation.

The risk of changes in exchange rates is managed by borrowing in the same operating currency as that of the assets being financed by the Group abroad. In order to hedge net positions in currencies other than the euro, the Group arranges different financial instruments to reduce the exposure to the risk of changes in exchange rates.

To manage the liquidity risk resulting from the temporary mismatches between funds required and funds generated, a balance is maintained between the term and the flexibility of the borrowings through the use of staggered financing matching the Group's fund requirements.

Finally, credit risk caused by the non-payment of commercial loans is dealt with through the preventive assessment of the solvency rating of potential Group customers, both at the commencement of the relationship with these customers and during the term of the contract, through the evaluation of the credit quality of the outstanding amounts and the revision of the estimated recoverable amounts in the case of balances considered to be doubtfully collectible.

A full detail of the mechanisms used to manage finance risks is included in the notes to the Group's financial statements for 2006.

4. Human Resources

At 31 December 2006 the ACS Group employed a total of 123,652 individuals, representing 0.6% of the active Spanish population. In 2006, the Group created over 10,000 net job positions.

The ACS Group's human resource policy consists mainly in maintaining and hiring committed teams of individuals, with a high level of knowledge and specialisation, capable of offering the best service to the customer and generating business opportunities with rigour and efficiency.

These objectives are achieved by means of active personnel selection policies, the fostering of teamwork, excellence in decision-making and cutting down on bureaucracy. Additionally, specialised training is promoted in each activity, aimed at fostering innovation and professional expertise in order to improve ACS Group processes, products, services and safety levels.

All details relating to the ACS Group's efforts in the area of Human Resources are included in the section on the Commitment to People and the Social Environment included in the Corporate Social Responsibility Report for 2006.

5. Technological Innovation and Environmental Protection

5.1. Research and development activities

The ACS Group is committed to a policy providing for the ongoing improvement of its processes and of applied technology in all activities. For this purpose, the ACS Group has an in-house research programme aimed at developing new technological know-how in the design of processes, systems, new materials, etc. in each activity.

To apply and promote this commitment, the Company has established a number of committees at the various Group companies, which handle numerous initiatives undertaken in 2006.

In the Construction area, effort is made mainly to increase quality, the safety of employees, and the improvement of processes and techniques whose final objective is to respect the environment.

The work performed in the Industrial Services area related to technological improvements in the area of renewable energies, urban control systems and systems relating to high speed trains.

With respect to the ACS Group's Environment and Logistics area, efforts concentrated on two main activities: the improvement of solid urban waste management and the reduction of CO_2 emissions, as well as intermodal logistics systems improving the efficiency of the transport of goods.

The details of all these activities as well as specific cases of technological innovation can be consulted in the ACS Group's 2006 Corporate Social Responsibility Report.

5.2. Environmental Protection

The ACS Group's main activity, namely the development and maintenance of infrastructures, gives rise to environmental impacts including the use of materials deriving from natural resources, the use of energy (both during construction and during the life of the various infrastructures), waste management, visual impact and that of landscape.

In line with its vocation to protect the environment, which has prevailed since the Group's creation, in 2006 the ACS Group promoted two main action areas: an environmental policy with strict criteria and an Environmental Management System relating to the specific actions taken by each Group, both of which aim to minimise the environmental impact of its activity. The result of this effort is an increase in environmentally certified production and in the number of companies certified in accordance with the ISO 14.001 standard.

The detail of the activities carried on in 2006 and of the data on production and certifications can be consulted in the Group's 2006 Corporate Social Responsibility Report.

6. Significant events subsequent to year-end

6.1. Payment of dividends of the ACS Group

In accordance with the resolution adopted by the Company's Board of Directors at its ordinary meeting held on 14 December 2006, the Group distributed a gross interim dividend relating to profits for 2006 on 15 January 2007. This dividend amounted to EUR 0.40 per share.

6.2. Integration of Union Fenosa as an ACS Group activity area

The Group's strategic commitment to Unión Fenosa, strengthened by the previously mentioned investments made in 2006 and the recent appointment of two board members by ACS, will be made a reality with the integration of the electricity utility as a new branch of activity within the organisation in 2007.

This integration involves a change in the scope of consolidation in the ACS Group financial statements, since starting on 1 January 2007 Unión Fenosa will be fully consolidated.

Accordingly, in 2006 the Group's pro forma profit would show sales of over EUR 20,000 million, Gross Profit from Operations exceeding EUR 3,170 million and EBIT nearing EUR 2,190 million. In terms of the Balance Sheet, Equity would exceed EUR 8,500 million and Net Debt would amount to approximately EUR 14,300 million.

6.3. Arrangement of an Equity Swap on the shares of Iberdrola.

In recent weeks the Group entered into a derivatives agreement and specifically an equity swap on shares of Iberdrola, S.A. which currently affects 2.44% of its share capital. This swap may be settled in cash or shares at the option of the ACS Group.

7. Outlook for 2007

The prospects for 2007 for the ACS Group are favourable, given the positive macroeconomic backdrop expected for infrastructure development and services activities and underpinned by the ongoing growth of the Spanish economy. This growth is significantly above the European average, and infrastructures are required:

- On the one hand, to meet the needs of the growing population, which has increased by more than 10% in only ten years, when similar increases in growth in other European countries are projected for periods of over 30 years. The arrival in Spain of over four million immigrants has given rise to increased labour, consumption and demand for infrastructures and services which are beneficial to the growth of the Spanish economy.

- And on the other hand, to foster tourism in Spain and to adapt to its new needs. In the past 10 years the number of tourists has risen by almost 60%, reaching over 55 million visitors to Spain in 2006. This growth has been accompanied by a structural change in the type of tourism in Spain, characterised by a rise in the number of visitors who own property and spend long periods of time in this country, which in turn has led to an increase in the demand for infrastructures, facilities, goods and services.

As a consequence of this macroeconomic backdrop, the upward trend evidenced by the Construction area in previous years is expected to continue, backed by the positive evolution of Government calls for tender, robust demand for commercial buildings and the maintenance of the residential cycle.

The Industrial Services area has a high growth potential given the increase in demand for energy which affects investments in production and distribution assets as well as maintenance tasks. The price of oil, at nearly $US 60 per barrel, makes investments in prospecting, extraction, refining and distribution profitable, unlike the past, and consequently the demand for related services will continue to increase at two digit rates.

In the case of Environment and Logistics, due to the increasing outsourcing of integral maintenance services by companies and public-sector entities enabling these services to reduce in-house resources and increase specialisation in order to respond to the increased complexity of equipment and methodologies, as well as the growing concern for the environment by the general public and the public authorities in particular, the performance of this sector is projected to be positive in the coming years.

In 2007 the ACS Group will continue with its investment policy, focusing on those activities with the highest projections for profitable growth and will remain faithful to its corporate culture of responding to the confidence placed in the Group by its shareholders by ensuring profitable returns.

In accordance with the scenario detailed above, the summarized objectives for 2007 will be to increase sales by nearly 10% and to increase net profit by up to 20%, taking into account that the revenues recorded by the Consolidated group, including Unión Fenosa, will increase by over 50%.

Madrid, 15 March 2007