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Annual Report
ACS Group

ACS
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS

Letter from the Chairman

Once again this year the ACS Group has surpassed the operative, financial and strategic objectives that we established for 2006. The outstanding results obtained, the growing international presence of our activities and the confirmation of our commitment to the energy sector, through our position as reference shareholders in two of the leading electric companies in Spain, are the basis for the important step forward that our Group took during this past financial year.

In the economic section, net profit grew notably by 105%, reaching 1,250 million euros, where this figure includes the capital gains obtained from the sale of the ownership interest in Inmobiliaria Urbis. Consolidated sales increased by 16%, reaching over 14 billion euros, and ordinary net profit reached 835 million euros, a 37% increase due to positive development in all operating activities and the contribution from the affiliated companies.

These positive operating results and the efficient management of working capital contributed to the generation of cash flow prior to investments and the distribution of dividends of close to 1,400 million euros. This cash flow and the 1,030 million euros obtained in divestments enabled us to finance a portion of the 6,437 million euros invested this year.

The most significant investments, in terms of size and implication, were those directed at the energy sector. Specifically, the Group increased its ownership interest in Unión Fenosa by 16%, investing more than 1.7 billion euros and reaching 40.5% of its capital. This reinforced our position as its reference shareholder. Simultaneously and for close to 3.3 billion euros, we acquired an ownership interest of 10% in Iberdrola, the second leading Spanish electric company and one of the world's leaders in renewable energies.

This entry into Iberdrola's capital, which situated us as the leading shareholder of the electric company, is intended to position the ACS Group as one of the principal agents in the future electricity sector, where the most probable scenario will require an international consolidation process, which has already been initiated. This consolidation will give rise to companies more operatively efficient, more solid financially and more competitive globally, with the resulting advantages for its clients and shareholders.

This year we have taken a step further in our strategic development by incorporating the area of Energy as a new business line of our Group, fully consolidating Unión Fenosa. As a result, since January 1st 2007, the Group's organisational chart is composed of five principal areas which include the various activities in which we compete in more than 40 countries. Our operating and financial information will be reported in accordance with this new organisation. If this event had occurred in 2006, the Group's revenue would have reached close to 20 billion euros and the gross operating income would have exceeded 3.1 billion euros.

Also in the first months of 2007 we carried out an important operation in acquiring 25.1% of the German company for construction and development of infrastructures Hochtief, the third leading group worldwide in sales volume, and which has widely known historical trademarks in the European, North American and Australian markets. This allowed us to position ourselves as its reference shareholder. The complementary geographical nature of the activities, the opportunities for development of concessions and the potential for improvement in its profitability make this transaction a unique opportunity for creating value for our Group.

During 2006, Construction area sales showed strong growth, rising close to 18% and reaching 6,750 million euros. The positive outlook for the future of civil works in Spain, supported by the 2005-2020 Strategic Infrastructure and Transportation Plan and improved use of the public-private collaboration mechanisms, along with a budding presence in international markets such as the US market, give our income great potential in the upcoming years.

The Concessions area, through its head company Iridium, has continued its plans for development in transportation infrastructures and in public equipment where it has committed to more than 1,000 million euros in direct investment in 40 projects whose managed investment exceeds 11,300 million euros.

Environment & Logistics area sales increased by 10% to 2,657 million euros, in view of the ever-growing need for services relating to infrastructures. This reinforced its leadership position in the Spanish market and increased its multinational offer in the environmental and port and logistics services areas.

The Industrial Services area, which showed positive results in 2006, increased its income by more than 16%, reaching 4,748 million euros. There was strong development in international activity, which represents a third of its sales and more than 50% in Energy Projects where the Group is one of the world leaders. The increased global demand for energy and the need to increase capacity to satisfy this demand guarantee solid growth for this activity.

The total order book grew by more than 11% over the year to nearly 30 billion euros. Its important international growth demonstrated the Group's competitiveness and technical capacity to successfully meet plans for expansion and geographical diversification.

The contribution to the Group's net profit from affiliated companies, consolidated according to the equity method, amounted to 232 million euros, almost triple that of last year. This was the result of the positive results obtained by these companies and to the increase in ownership interest in Unión Fenosa.

In terms of corporate responsibility, the Group made important advances in 2006, demonstrated in the recent approval by the Board of Directors of the "ACS Commitment to Corporate Responsibility" and the "Code of Conduct". While the first document shows the Group's policy on this matter so that it may be acknowledged and understood by stakeholders with which we interact, the second incorporates the ethical principles that guide the operation of the ACS Group and that form part of its corporate culture.

The Group's performance in capital markets was also positive. ACS stock price closed the financial year at 42.71€ with an annual revaluation of 57%, nearly double the revaluation of the principal Spanish and European indexes. Perhaps it is more important to note that in the past 10 years the share value has multiplied by 23, translating into a total return for the shareholder of more than 40%, while the average revaluation of IBEX35 was 10.6%.

We expect to continue to generate the same value for our shareholders which I would like to thank for their trust in us, as well as our clients and employees, whose loyalty and dedication we try to acknowledge by employing our maximum efforts and enthusiasm to make ACS Group the world leader in the sector of construction, services and infrastructure development.

Florentino Pérez