06.

Annual Report ACS Group

ACS
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS

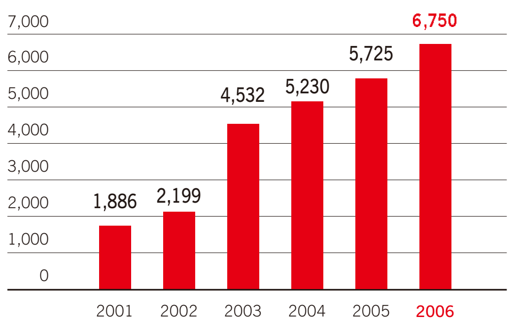
1. Activity Report

1.1 Construction

In 2006, the Construction area's results consolidate the ACS Group's position as the leading company in this sector in Spain, both in terms of turnover and market share. Net sales amounted to 6.75 billion euros and its order book exceeded 10.66 billion euros, which is equivalent to 19 months of activity. This represents a 17.9% increase in production evidencing this activity area's excellent performance for the year.

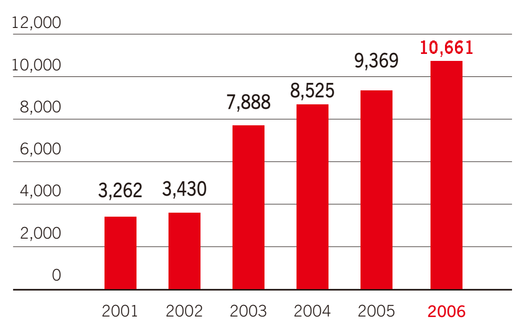
Turnover evolution

Million of euros



Order book evolution

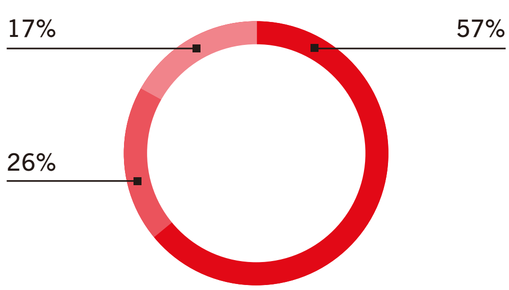
Million of euros



Note: 2004, 2005 and 2006 data according to IFRSs

Turnover breakdown by activity

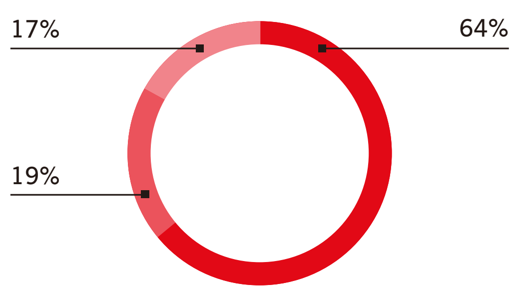
%



- Civil Works
- Non-Residential Building
- Residential Building

Order book breakdown by activity

%

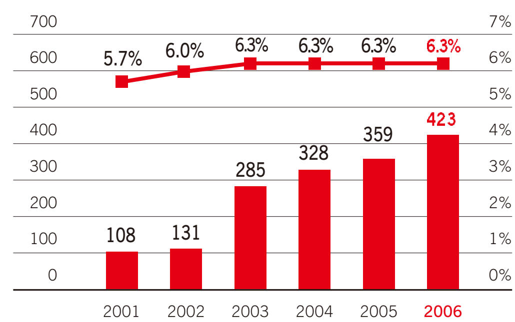


- Civil Works
- Non-Residential Building
- Residential Building

This increase in net sales was accompanied by an upturn in the other operating results, and mainly operating profit, which was up by 17.9% and net profit, which increased by 18%.

Operating profit evolution

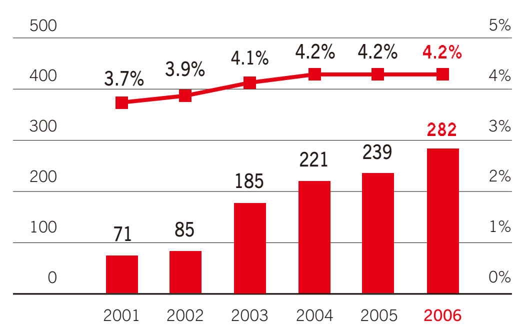
Million of euros Margin %



■ Operating Profit
■ % Margin

Net profit evolution

Million of euros Margin %



■ Net profit
■ Net Margin

Note: 2004, 2005 and 2006 data according to IFRSs

1.1 Construction

2006 was especially positive in terms of order book growth, which ended the year with a record high for the ACS Group.

These results have been achieved thanks to:

- An increase in official bidding processes by public administrations in Spain.

- A commercial strategy focused in recent years on large-scale works, with advanced technical requirements which generate high added value.

- A restructuring of international activity, focused on concessions and projects which require a high degree of specialisation.

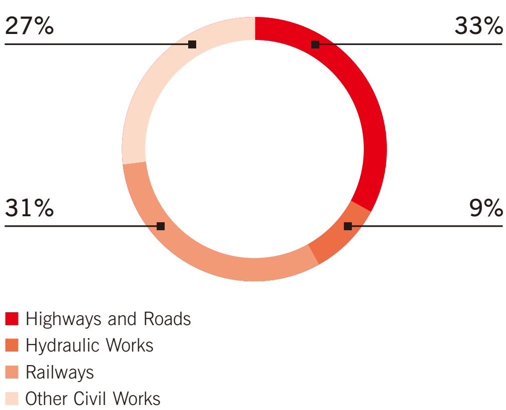
- A clear focus on clients.

- A cost control policy, decentralized management and the optimization of working capital.

This commercial policy and the successive integrations of construction companies into the Group have enabled it to become the indisputable sector leader in Spain, particularly in the segment of civil works, which encompasses all type of projects relating to the development of infrastructures such as motorways, marine and hydraulic works, airports or any other type.

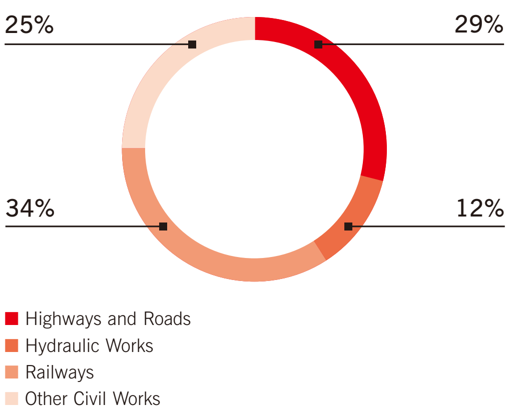
Domestic Civil Works turnover breakdown by type of project

%



Domestic Civil Works order book breakdown by type of project

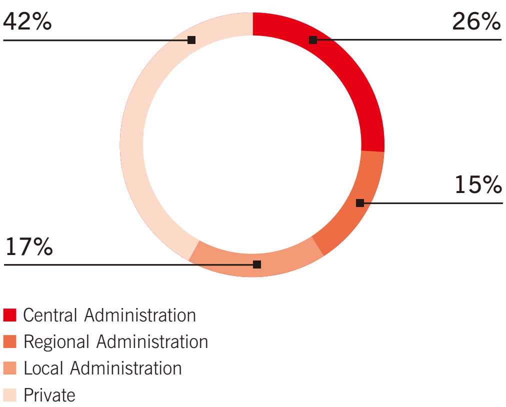
%



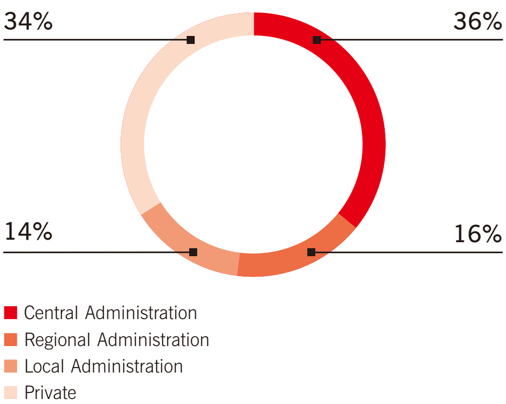
The ACS Group's focus on clients is a key factor in the Construction area. Public administrations, mainly including the Central Administration of Spain, and particularly the Ministry of Civil Works and the Ministry of Environment, as well as regional and local administrations, are of great importance for the development of our activity. For this reason, the Group has made a long-term commitment, which enables the identification of the client's needs and the continuous and efficient adjustment of the Group's offer.

Non-residential building activity continues to clearly focus on Public-Private Partnerships, without ceasing to meet the demand for commercial building during its years of economic growth. In terms of residential building the ACS Group works with the main domestic developers on developments which require a high number of resources due to their complexity or size.

Domestic turnover breakdown by type of client
%



Domestic order book breakdown by type of client
%



1.1 Construction

Strategic objectives

Construction is a mature and competitive business demanding a client management predominantly local. The strategy of the Construction activity of the ACS Group is based on the maximization of the profitability of its projects through an increased focus on large-scale projects which generate greater added value due to the inherent degree of specialisation. The main strategic objectives of this activity are:

- Maintenance of the share of the domestic market and constant improvement of operating profitability, attaining sustainable and profitable growth.

- Selective international expansion through the development of own concessions and/or unique projects requiring a high degree of specialization.

Activity in 2006

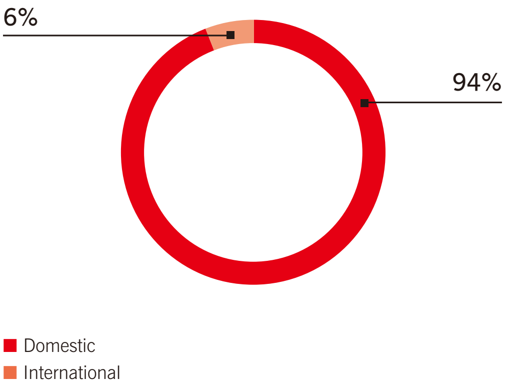
The ACS Group's leading company in the Construction activity, Dragados, S.A. is specialised in all type of infrastructures and has an extensive background in the construction of important projects for highways, motorways, roads, marine works, hydraulic works, metropolitan infrastructures, airports, ports, etc. It also has a significant presence in the building sector, both in non-residential (for commercial, healthcare, educational, administrative, cultural or sporting uses, and in the refurnishment of unique buildings) and in residential building throughout Spain, with presence in the country's principal cities, residential areas and tourist destinations.

In 2006, the Construction area's international activity supposed 6% of the total, and principally came from countries where the Group carries out transport infrastructure concessions.

Last year, the ACS Group began carrying out activities in the United States and Poland. Especially relevant was the entrance into the United States where it was awarded the first contract to expand the New York subway, which involves the construction of four tunnels totalling 7.5 kilometres. These tunnels will serve to unite the Queens borough with the Grand Central Station of Manhattan. Being awarded this project, called East Side Access Manhattan Tunnels, consolidates Dragados as a worldwide leader in the development of infrastructures of high technical complexity. This leadership is based on the experience acquired over the years in Spain.

Turnover breakdown by market

%



1.1 Construction

Civil Works

In **motorways** and **roads** the following projects carried out in 2006 are noteworthy:

■ A number of works were performed in relation to the general project for renovation of the M-30 ring road, in Madrid, including:

– Renovation of the section of the M-30 between Puente de Segovia and Paseo del Marqués de Monistrol.

– Construction of the new tunnel in the Glorieta de Embajadores of Madrid for the renovation of the M-30.

■ Construction of the highway between Valladolid and Cuéllar, in Spain.

■ Construction of the bypass of the Sueca N-332 national road, in Valencia.

■ Construction of the AG-56 toll road between Santiago and Brión, in Galicia.

■ Construction of the Villarrobledo section of the highway between Extremadura and Valencia.

■ Expansion of the section of the motorway A-7 between L'Infant and Montroig, in Tarragona.

In **railways**, in which high-speed, interurban and metropolitan projects are encompassed, the following deserve special mention:

■ Various projects were carried out for the Regional Government of Madrid in order to improve the capital's subway network, noteworthy of which were the following:

– Construction of the complementary section no.1 of Line 7 of the Madrid's subway.

– Works relating to the extension of Line 11 of the Madrid's subway.

■ Construction of the rail section between the towns of Buñol and Cheste, in Valencia.

■ Construction of the AVE railway station in Tarragona.

■ Construction of the rail axis affecting the section of Osuna, in Sevilla.

■ Construction of a high-speed railway line between Figueres and Persignan (France).

■ Construction of Puente del Tercer Milenio (The Third Millenium Bridge), in Zaragoza.

Among the works carried out in **hydraulic infrastructures, coasts and ports**, the following deserve special mention:

- Construction of the Tormentas Arroyofresno reservoir, in the north of Madrid.

- The ACS Group took part in the construction of the green sea wall in the Cádiz port.

Building construction

In **non-residential building**, the ACS Group is involved in many public and private projects, including:

In the construction of **cultural and sports buildings**:

- Construction of Arenes shopping and leisure centre, in Barcelona.

- Construction of the Technical Institute La Marañosa, in Madrid.

In respect of **health centres and hospitals:**

- Construction of the Puerta de Hierro Hospital at its new location in Majadahonda, in the north of Madrid.

- Participation in the construction of the San Pau Hospital, in Barcelona.

In **industrial and office administrative buildings:**

- Building of the central police station in Barcelona.

- Construction of the Puerto III penitentiary centre in El Puerto de Santa María, in Cádiz.

- Construction of an administrative building of the Regional Government of Cataluña, in Girona.

- Construction of the Plaza de Castilla interchanger, in Madrid.

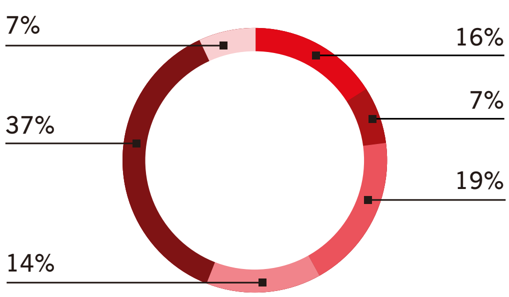
In **residential building,** the group continues carrying out projects for the leading developers of Spain in the construction of residential buildings and complexes throughout the country.

1.1 Construction

Contracts awarded in 2006

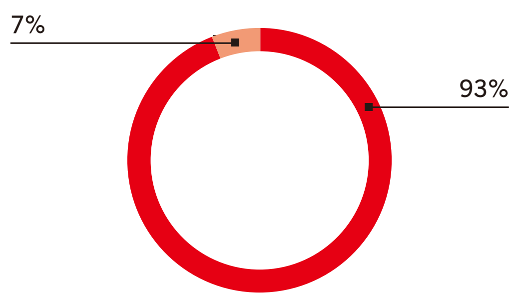
Main contracts awarded in 2006 (Million of euros)	Amount	Type of Project
Construction of the Ionian motorway (Greece)	367	Roads
Construction of 4 tunnels (East Side Access Tunnels) in New York	234	Railways
Construction of the Waterford motorway (Ireland)	138	Roads
Construction of the Hospital Universitario Son Dureta (Baleares)	97	Non-Residential Building
Construction of the new Plaza railway complex (Zaragoza)	89	Railways
Extension and improvement of the Barcelona-Sants station (Barcelona)	78	Railways
Construction of the Levante high-speed railway section between Olalla and Arcas (Cuenca)	77	Railways
Construction of the Penitentiary Centre in Morón de la Frontera (Sevilla)	69	Non-Residential Building
Construction of the Cornellana-Salas road section (Asturias)	60	Roads
Residential development of Paseo de la Dirección (Madrid)	59	Residential Development

Order book breakdown by type of project
%



- Domestic Civil Works
- Highways and Roads
- Hydraulic Works
- Railway
- Other Civil Works
- Building

Order book breakdown by market
%



- Domestic
- International

Organizational structure

Construction

- **DRACE** (100%): Specialised in projects requiring specific technology: bridges, marine projects, special structures, water- and waste-treatment plants
- **VIAS** (100%): Leading general contractor in railway projects
- **TECSA** (100%): Specialised in railway projects. One of the leading companies in this subsector. Also operates as general contractor in the Basque Country, the Autonomous Region where it has its origins
- **DRAGADOS** (100%): Leading general contractor in Spain
  - **DYCVENSA** (98%): Civil works and building activities in Venezuela
  - **DYCASA** (63%): Construction and operation of roadway concessions in Argentina
- **DRAVOSA** (50%): Specialising in dredging, regeneration of beaches, etc
- **GEOCISA** (100%): Operates in projects involving special foundations, land engineering, structural inspection, and diagnosis of structures and restoration
- **COGESA** (100%): Real-estate management and promotion

1.1 Construction

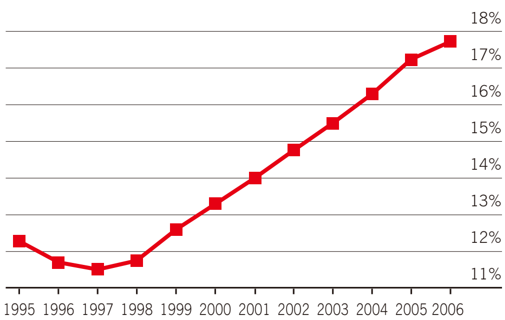
Sector prospects

With a production of 185.2 billion euros in 2006, up by a strong 6% versus 2005 figures, construction activity was again the most dynamic sector of the Spanish economy this year:

- It provides employment to 12.9% of the population in work.
- Its investment constitutes 58.7% of the total investment in economy.
- It represents 17.8% of the country's economic activity.

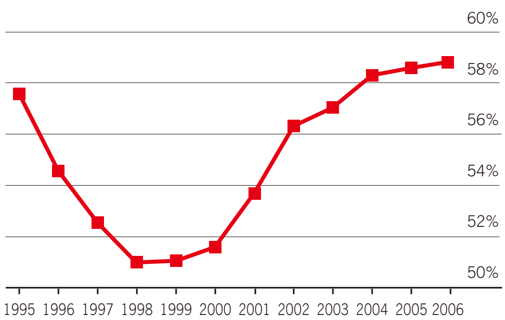
Construction investment over GDP

%



Construction investment over total investment

%



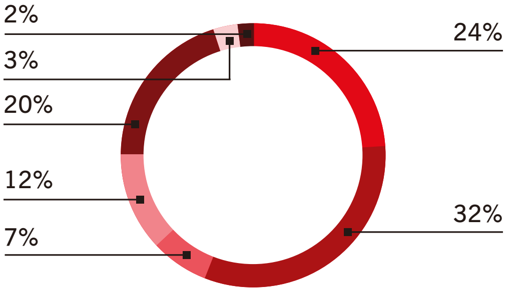
Source: Spanish Statistics Institute

With a 3.4% increase in GDP, a 5.5% upturn in gross fixed capital formation, and a 6% increase in construction activity, Spain recorded growth above the average of the other EU countries. This economic prosperity is a result of the reorganization of the Spanish treasury, with a public sector surplus of around 0.5% of the GDP and a domestic public debt amounting to less than 40% of GDP. This data is a guarantee for future investment in infrastructures, beginning with that forecasted for 2007.

Having compared the budgets published in the fall for 2007 to those for the recently ended 2006, the outlook is positive. A 7.4% increase in the investment in infrastructures by the Central Administration is forecasted, noteworthy being the close to 20% increase in road development, with an investment of 4.186 billion euros.

Budget 2007

%



- Roads
- Railways
- Ports and Maritime Safety
- Airports and Airline Safety
- Hydraulic works
- Environmental actions
- Other

Source: Spanish Ministry of Economy and Finance

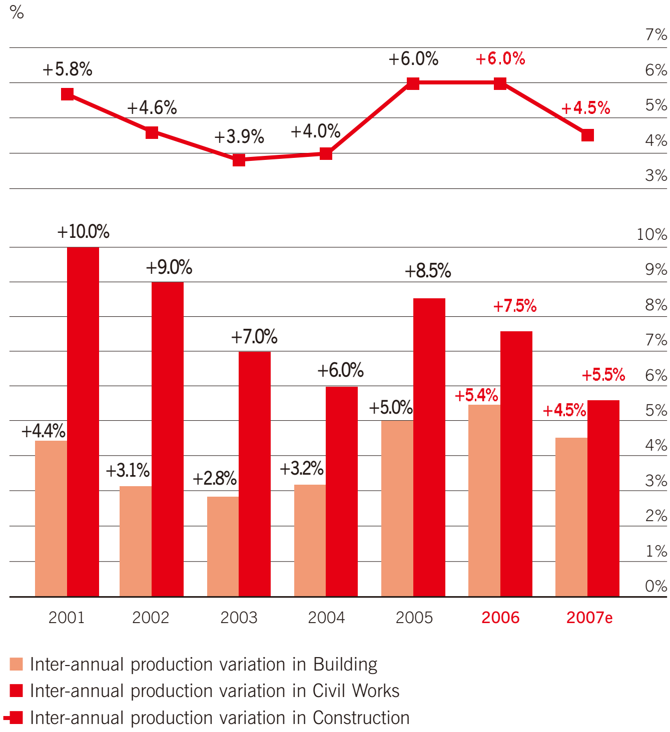
Areas Million of euros	2006	2007	Change
Roads	3,500	4,186	+19.6%
Railways	5,777	5,570	-3.6%
Ports and maritime safety	1,414	1,289	-8.8%
Airports and Airline safety	1,798	2,058	+14.5%
Hydraulic works	3,219	3,521	+9.4%
Environmental actions	n.a.	436	n.a.
Other	499	367	-26.5%
Total	16,233	17,427	+7.4%

1.1 Construction

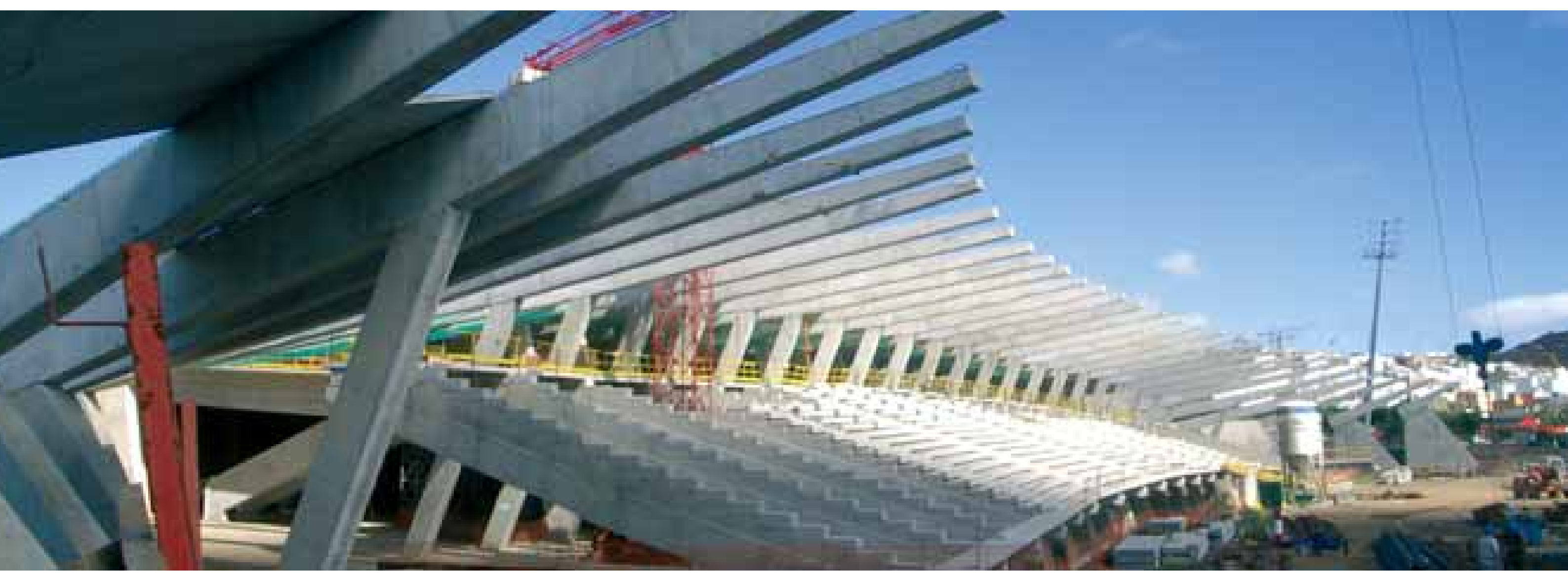
This positive economic backdrop which has lasted over a decade in Spain has led to a demand for transport infrastructures, which has been met by the increased effort of public administrations when investing their annual budgets.

Furthermore, non-residential building is expected to continue growing due to solid demand not only for commercial or office buildings but also based on the development of Public-Private Partnership projects (PPPs). In 2007, growth in residential building is likely to be moderate so as to adapt production to the increase in sales in the past two years.

Evolution of Construction in Spain



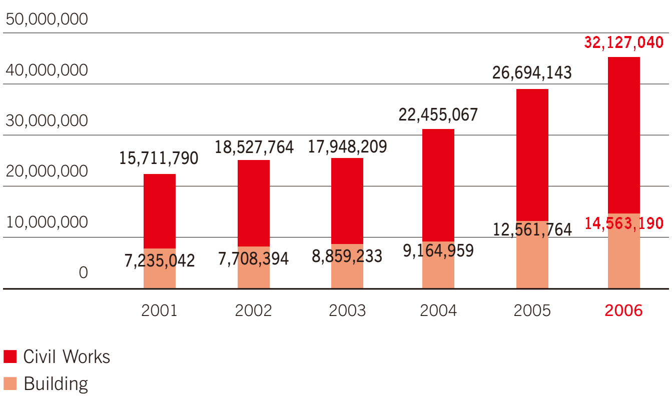
Source: Association of Spanish Contractors (SEOPAN)



In 2006, official bidding processes have increased by 19%, which has enabled the main companies in the sector to position their order books at all-time maximums and improve their turnover growth from the previous year. Likewise, greater participation of regional and local administrations can be appreciated in official bidding processes in detriment to that of the Central Administration, which represents 33.8% of the total, as a consequence of the containment of public deficit through a policy of budgetary rigour, due to the greater active participation of regional and local administrations in the financing of concerted measures and as a result of a growing partnership with the private sector.

2001-2006 Official bidding processes evolution

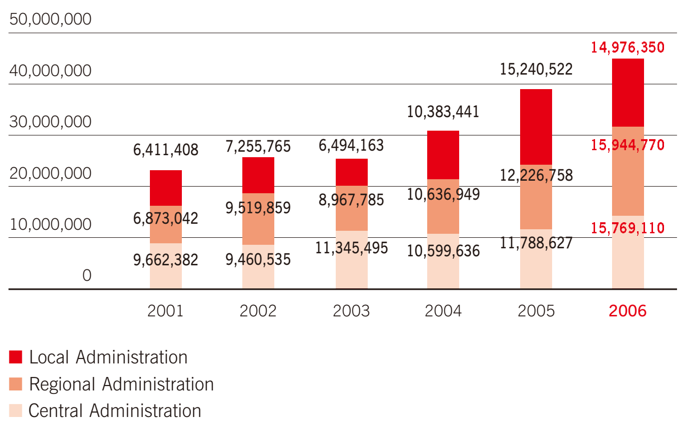
Million of euros



Source: Association of Spanish Contractors (SEOPAN)

2001-2006 Official bidding processes evolution

Million of euros

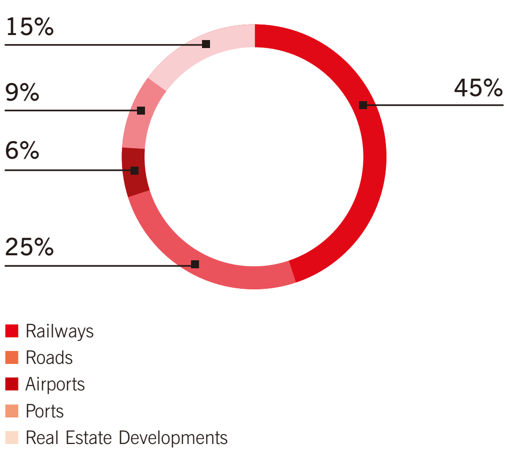


1.1 Construction

The Strategic Plan for Infrastructures and Transport (PEIT), ratified by the Government on 15th July 2005 in the Council of Ministers and aimed at improving Spanish infrastructures in the period encompassed between 2005 and 2020, continues to be the reference framework for the future investment in infrastructures by Central Spanish Administrations. The investment plan presented amounts to €250 billion, which implies an annual average of €15.5 billion and an investment effort of around 1.5% of GDP on average throughout its period of validity. Of the total investment committed, 60% will be charged to the General State Budgets and the remaining 40% will be charged to Public-Private Partnership schemes (PPPs).

Central Spanish Administrations investment in infrastructures

%



Areas Euros	Investment
Railways	108,600
Roads	62,700
Airports	15,700
Ports	23,500
Real Estate Developments	38,200
Total Investment (60% Public. 40%: Public - Private)	**248,700**

The commitment of the PEIT is ambitious and constitutes a pledge for Spain's economic development and competitiveness thorough a more integrated, safer, more efficient and more sustainable transport system that is more respectful to the environment and strengthens social and territorial cohesion.

The measures of the plan are focused on railways, roads, air and marine transport, ports and to urbanize land prior to real state developments, activities in which the ACS Group holds significant competitive advantages.

In 2006, over 16 billion euros of the aforementioned amount was invested, confirming the Spanish government's efforts to foster investment in order to maintain the current state of wellbeing and to promote growth in other sectors which are key to the economy such as tourism and related services.

From a macroeconomic standpoint, the outlook of residential building in Spain is positive based on the demographic growth arising as a result of migratory flows from both developing countries and Northern Europe.

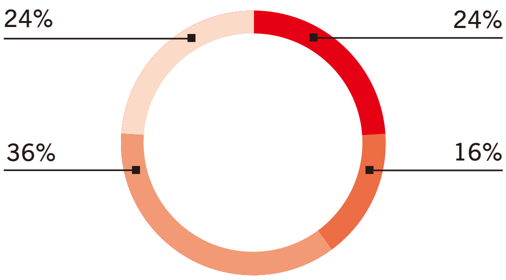
Residential building was up by 8.5% in 2006. The real estate market's drive is based on the continued high demand for second-home property by Spanish citizens as well as the demand by groups of immigrants who have resided in Spain for several years and who, after having stabilized their financial position, have now begun to see the purchase of residential property as a possible. This growth is accompanied by significant activity in terms of construction permits. In this respect, applications for 800,000 permits were recorded and a total of 590,000 dwellings were completed in 2006.

These figures confirm that the residential construction market in Spain continues to have projection, given that in an economy like that of Spain, where there is a floating population of around 55 million people, the absorption of 500,000 to 550,000 new dwellings per year can be sustained.

The boost in the refurnishment and maintenance subsector is notable once again this year, currently reinforced by the need to respond to increasing housing demand, notwithstanding that of new construction, which has experienced high revaluations, and by the financing facilities. The trend of this activity will be to approach the most mature level of the European Union, which represented 36% of the sector production total in 2006, versus 24% of production in Spain.

Construction production in Spain

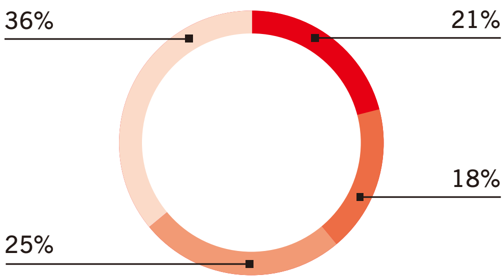
%



- Civil Works
- Non-Residential Building
- Residential Building
- Refurnishment and Maintenance

Construction production in the EU-15

%



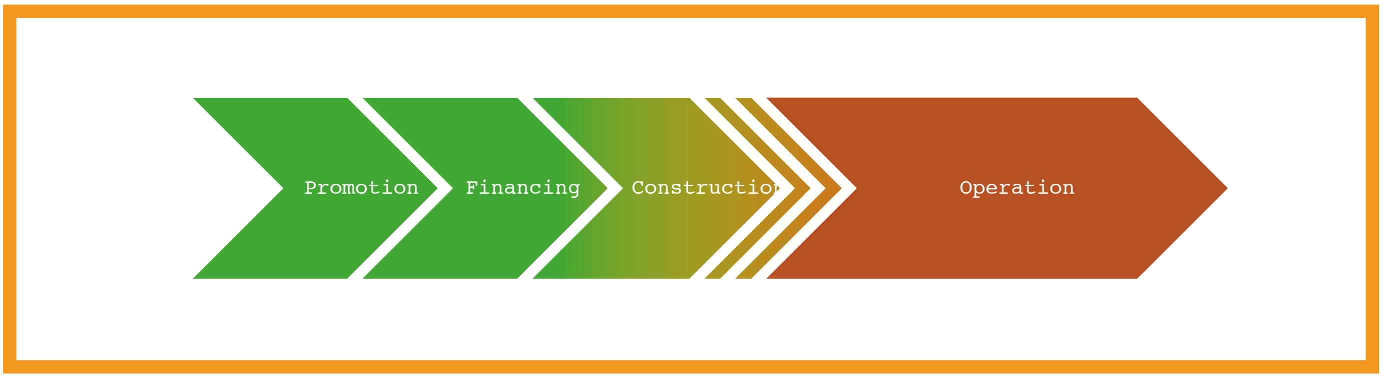
- Civil Works
- Non-Residential Building
- Residential Building
- Refurnishment and Maintenance

1.2 Concessions

Iridium Concesiones de Infraestructuras S.A. is the ACS Group company that engages in the promotion, management, operation, administration, maintenance, refurbishment and conditioning of all type of administrative concessions of both transport and public facility infrastructures.

With a proven track record due to its pioneering role in the development of these kind of contracts and thanks to the number that has been carried out successfully in several countries, Iridium Concesiones de Infraestructuras, S.A. has ranked among the world leaders in the promotion, financing, construction and operation of transport and public facility infrastructures for over ten years, according to the annual rankings published by the prestigious specialised magazine "Public Works Financing" (PWF).

Iridium develops all type of infrastructure concession projects as well as Public-Private Partnership projects, covering the entire value chain of concession business.



The application of the Public-Private Partnership model application represents one of the ACS Group's main opportunities for international expansion. The conditions that must be met by countries with investment opportunities are the following:

- There must be a true need for infrastructures, both from a renovation and creation perspective.

- The project must have a high level of acceptance among users and the public administration.

- A stable legal framework and detailed legislation are key conditions.

- A financial market developed for the purpose of obtaining capital financing without recourse to or guarantees from shareholders.

In 2006, the company was awarded 4 new concession contracts that are currently in their initial phase, with an investment of over 1.4 billion euros. During the year, several bids presented have yet to be ruled on. The know-how, human resources, technical capability and financial soundness of the company enable it to deal with any project regardless of its complexity or size. Thus the company has tendered in several important projects in Europe, North America, South America and South Africa. These projects amount over 87 billion euros.

1.2 Concessions

The following table summarises all of the ACS Group's concessions as at 31 December, 2006:

Concession-Description	Stake	Consolidation Method	Country	Status	Phase	Ud.	Expiration Date	Managed Investment	ACS Contribution
A8 - Bidelan Guipuzkoako Autobideak	50.00%	E.M.	Spain	Motorways	Operation	78	2018	54	3
AP1 - Bidelan	50.00%	E.M.	Spain	Motorways	Operation	46	2020	3	1
Autovía de La Mancha	66.70%	Global	Spain	Motorways	Operation	52	2033	130	18
Circunvalación de Alicante	50.00%	E.M.	Spain	Motorways	Construction	147	2040	468	42
Infraestructuras y radiales (R2 y M50)	35.00%	E.M.	Spain	Motorways	Operation	80	2028	553	61
Accesos Madrid (R3/R5 y M50)	19.60%	N.C.	Spain	Motorways	Operation	92	2049	1,073	87
Reus-Alcover	85.00%	Global	Spain	Motorways	Construction	10	2038	54	14
Ruta de los Pantanos	25.00%	E.M.	Spain	Motorways	Operation	22	2024	96	4
Santiago Brión	70.00%	Global	Spain	Motorways	Construction	16	2035	108	14
Autovía de los Pinares (Valladolid Cuellar)	53.30%	E.M.	Spain	Motorways	Construction	44	2041	96	14
EMESA (Madrid Calle 30)	50.00%	Proportional	Spain	Motorways	Operation	33	2040	216	51
Vespucio Norte Express	46.50%	E.M.	Chile	Motorways	Operation	29	2032	598	95
Autopista Central (Urban System North-South)	48.00%	E.M.	Chile	Motorways	Operation	62	2031	795	148
Rutas del Pacífico (Ruta del Pacífico)	50.00%	E.M.	Chile	Motorways	Operation	129	2025	372	54
Tunel San Cristobal	50.00%	E.M.	Chile	Motorways	Construction	4	2035	77	15
Dundalk - Celtic - Northlink M1	(1)(CRG) 33.33% (2)(NM1) 27.00%	E.M.	Ireland	Motorways	Operation	54	2034	126	13
N25 Waterford By Pass - Southlink N25	(1)(Waterford) 33.33% (2)(Souhtlink) 16.00%	E.M. / N.C	Ireland	Motorways	Construction	24	2042	285	20
Scut da Beira Interior - Ramalho	25.00%	E.M.	Portugal	Motorways	Operation	187	2029	839	18
A1 Darrington - Dishforth	25.00%	E.M.	UK	Motorways	Operation	53	2036	365	7
A-13. Puerta del Támesis	25.00%	E.M.	UK	Motorways	Operation	22	2030	381	9
Proyecto Platinum - Bakwena - PT Op.	(1)(Bakwena) 25.00% (2)(Pt Ops) 33.33%	E.M.	SouthAfrica	Motorways	Operation	381	2031	281	6
Autopista Jónica (NEA ODOS)	33.30%	E.M.	Greece	Motorways	Construction	380	2037	1,150	64
Total Highways (km)						**1,944**		**8,120**	**758**
SCL	14.80%	N.C.	Chile	Airports	Constr./Oper.	1	2018	168	5
Aerocali	33.30%	E.M.	Colombia	Airports	Operation	1	2019	15	2
Montego Bay	35.00%	E.M.	Jamaica	Airports	Constr./Oper.	1	2033	128	10
Aeropuertos Mexicanos del Pacífico	33.30%	E.M.	México	Airports	Operation	12	2014	251	89
Total Airports (# airports)						**15**		**562**	**106**
Figueras Perpignan - TP Ferro	50.00%	E.M.	Spain - Fr.	Railways	Construction	45	2054	1,097	51
Seville Subway	31.10%	E.M.	Spain	Railways	Construction	19	2038	584	29
Arganda Subway (Madrid)	8.10%	N.C.	Spain	Railways	Operation	18	2029	133	3
Total Railways (km)						**82**		**1,814**	**83**
Brians Jail	75.00%	Global	Spain	Jail	Construction	95,182	2034	107	10
Central Police Station (Barcelona)	100.00%	Global	Spain	Police Station	Construction	60,330	2024	62	9
Vallés Police Station (Terrasa)	100.00%	Global	Spain	Police Station	Construction	8,937	2031	16	16
Vallés Police Station (Barberá)	100.00%	Global	Spain	Police Station	Construction	9,269	2031	20	19
Public Facilities (m^2)						**173,718**		**205**	**54**
Hospital Majadahonda	55.00%	E.M.	Spain	Hospitals	Construction	749	2035	245	15
Hospital Son Dureta	48.00%	E.M.	Spain	Hospitals	Adjudicación	987	2038	230	17
Public Facilities (# beds)						**1,736**		**475**	**32**
Plaza de Castilla Transfer Station	45.00%	E.M.	Spain	Transfer Station	Construction	74,000	2040	117	8
Príncipe Pío Transfer Station	70.00%	N.C.	Spain	Transfer Station	Construction	24,000	2039	59	8
Avda. América Transfer Station	100.00%	Global	Spain	Transfer Station	Operation	41,000	2050	23	5
Total Transfer Station (m^2)						**139,000**		**199**	**21**
TOTAL CONCESSIONS								**11,375**	**1,054**

Note: The company Aeropuertos Mexicanos del Pacífico manages 12 airports in Mexico through the Grupo Aeroportuario del Pacifico: Aguascalientes, Bajío, Guadalajara, Hermosillo, La Paz, Los Mochis, Morelia, Mexicali, Puerto Vallarta, San José del Cabo, Tijuana and Manzanillo.

Strategic objectives

The aim of the ACS Group's concession development area is to create value through the promotion and construction of infrastructure concessions exploiting the Group's operating capabilities, especially the cash flow available to invest in capital-intensive projects.

The projects developed must meet a number of common objectives:

- Creation of value and attractive profitability.

- Project diversification in different markets.

- Fostering of synergies with the capabilities and activity of other companies of the Group.

- Playing a leading role in the development of projects and the application of technologies.

Activity in 2006

Iridium Concesiones de Infraestructuras takes an active part in the main worldwide concession markets, focusing its efforts in Spain, the Unites States, Ireland, Chile, Greece, Canada and France, and also has key resources and relationships to penetrate in Australia and Eastern Europe in the near future.

This year Iridium Concesiones de Infraestructuras, S.A. established itself in the Unites States by incorporating a new company: ACS Infrastructure Development, Inc. This company's aim is to position itself as a reference in the US transport infrastructure market, where private participation in the development of infrastructures is in a budding stage. In this respect, ACS Infrastructure Development, Inc. currently operates in the two states which are currently most active in these areas: Texas and Florida.

1.2 Concessions

During 2006, the following concessions have opened for traffic or start-up:

■ On January 4, and in the presence of the President of Chile and the Minister of Public Works, toll collection was started-up and initiated for the entire Vespucio Norte Express motorway, 6 months in advance of the initial contract date. The Definitive Start-up Certificate for the motorway was obtained on August 22, being the first of the four urban concession companies in Santiago de Chile to receive this certification.

■ January 13, marked the partial start-up of the A1 Highway (United Kingdom).

■ Ten police stations buildings in the municipalities of Montcada i Reixac, Ripollet, Terrassa, Cerdanyola del Vallès, Santa Perpètua de la Mogola, Barberà del Vallès, Sant Cugat del Vallès, Rubí, Esplugues de Llobregat and Cornellà de Llobregat, in Cataluña.

■ On May 8, in the presence of the President of Chile and the Minister of Public Works, the full stretch of the Central Motorway crossing Santiago de Chile from the north to the south, was inaugurated.

The Company demonstrated high efficiency and innovation in the management of project finance without recourse to shareholders, receiving the recognition of the sector's specialized publications. In 2006 the magazine Project Finance awarded the "EMEA Transport/ Rail Deal of the Year" to the concession company TP Ferro for the best financing in 2005 for a railway transport project. This same project also received the award "Infrastructure Deal of the Year" prize awarded from the same magazine as the best infrastructure project in 2005.

During 2006, several finance operations without recourse to shareholders were arranged, noteworthy of which were the following:

■ Waterford (Ireland): €237.7 million, maturity in 2033, with the participation of EIB and the structuring of the cancellation of guarantees conditioned to the meeting of Ratios.

■ Ionia Odos (Greece): total financing of €353 million. €194 million is structured in a Bridge Financing section of Government payments, €121 million is arranged as senior debt which matures in 25 years, a contingent debt Tranche of up to €38 million, and a VAT asset of €51 million.

■ Financing arrangement amounting to €223 million maturing in approximately 28 years for the Majadahonda Hospital (Madrid).

■ Financing arrangement amounting to €114 million which matures in approximately 20 years for Emesa (Madrid).

■ The project finance arrangements for the Pinares Highway (Valladolid-Cuéllar), C-14 Reus - Alcover, the central police station of Mossos d'Esquadra, the Transport Interchanger at Plaza de Castilla and the Transport Interchanger of Príncipe Pío.

Other noteworthy events which took place during the year included the following:

■ On January 19, in the presence of the President of the Galicia Regional Administration, the Mayor of Santiago, the council, mayors and members of parliament, the first stone of the new concession project, Santiago-Brión Highway, was placed, officially commencing the construction of this project.

■ On February 24, 85% of the shares of the Group Aeroportuario del Pacífico (GAP), which is owned by the Mexican government, were placed on the Mexican and New York stock exchanges. The ACS Group has a stake in GAP through its Mexican subsidiary Aeropuertos Mejicanos del Pacífico S.A. de C.V.

■ On March 27, the agreement for the sale of the Columbian company Ferrocarriles del Norte de Colombia to the group of companies of which Drummond and Glencore is the parent company, was signed. In May, the assignment process was completed.

■ Incorporation on April 6, of the Autovía de los Pinares company. Signature of the concession contract on April 26. Shadow toll road contract for a term of 30 years.The total anticipated investment amounts to 97 million euros for a 37 km long highway. "First Stone" ceremony held on July 26 and commencement of the contract works for Los Pinares highway in Spain.

■ On April 24, in the presence of the Irish Minister of Transport, the first stone of the new concession project N25 Waterford City Bypass was placed, officially commencing the construction of this project.

■ On May 26, in the presence of the President of Chile and the Minister of Public Works, the first stone of the San Cristóbal Tunnel concession project was placed, officially commencing the construction of this project.

1.2 Concessions

Contracts awarded in 2006

In 2006, the ACS Group was awarded the following contracts:

■ 30 year concession of the Ionia Odos toll road in Greece, with a length of 379.5 Km. This project includes the "Ionia Odos" highway –closed toll system– which is approximately 196 Km long from Antirio to the connection Egnatia Odos and the section of the PATHE motorway –open toll system– which stretches approximately 172.5 Km. from the Metamorphossi connection to the Skarfia connection, including the connection line from Schimatari to Chalkida, which is 11 Km long. The investment amounts to 1.15 billion euros.

■ 31.5-year concession for the new Hospital in Son Dureta. This project includes the construction, financing, non-electromedical equipment, water and electricity supply, and the provision of the hospital's non-health related services. The Son Dureta Hospital, which is expected to be the Balearic reference hospital, will have 819 hospital beds and 168 internment beds. The cost of the start-up of the hospital amounts to 230 million euros.

■ 26-year concession of 5 Surface Area Rights to construct, finance and lease five buildings to the Regional Catalonian Administration to be used as police stations (Mossos d'Esquadra) in 5 towns (Montcada i Reixac, Ripollet, Terrassa, Cerdanyola del Vallès and Santa Perpètua de la Mogoda). The investment amounts to 16 million euros. The collection of rent will be conditional upon compliance of maintenance quality standards.

■ 26-year concession of 5 Surface Area Rights to construct, finance and lease five buildings to the Regional Catalonian Administration to be used as police stations (Mossos d'Esquadra) in 5 towns (Barberà del Vallès, Sant Cugat del Vallès, Rubí, Esplugues de Llobregat y Cornellà de Llobregat). This investment amounts to 20 million euros. The collection of rent will be conditional upon compliance of maintenance quality standards.

The ACS Group currently has ownership interest in companies which have been short-listed for the following projects:

- 30-year concession for the Central Greece toll road. This project includes the 174 km long "Central Greece (E65)" motorway, which connects the "PATHE" motorway in Lamia to the Egnatia Odos motorway in Grevena, and the section of the "PATHE" motorway between Skarfia and Raches, which is 57 Km long and is being constructed by the State. The concession period is 30 years. The estimated investment in the project amounts to 1.508 billion euros.

- Concession project for the management and operation of sports facilities of the Canal de Isabel II third deposit in Madrid. The awarded contract amounts to 3.25 million euros, and the operating term is five years.

- In Florida, the consortium Miami Mobility Group, in which the company has a stake was short-listed by the Florida Transportation Department to design, finance, build operate and maintain a tunnel which will provide a new entrance to the port of Miami. The price estimated by the client at 2007 prices exceeds one billion dollars and the term of the concession is 35 years. The collection system is by availability of the infrastructure.

- In Texas, the company was short-listed for the TTC 69 and the IH635. In 2007, both projects will be awarded according to the Texas Transportation Department's latest schedule. The TTC 69 project consists in the development of the tunnel crossing Texas from north to south at the height of Houston. The project provides for the possibility of implementing all type of transport infrastructures. In September 2006, the company, in partnership with a local group, was short-listed by the Texas Transportation Department. The winning consortium will advise the State on the most appropriate transportation projects and will have the right to operate a portion thereof.

- In November 2005, the company was short-listed to develop, design, construct, finance, operate and maintain part of the ring road leading to Dallas (Texas), called IH635. Four bidders will compete for the project and the contract will be awarded in 2007.

- Concession for the railway line from the Charles de Gaulle Airport to Paris, France, with an estimated investment of 600 million euros.

1.2 Concessions

Organizational Structure

Iridium Concesiones de Infraestructuras, S.A. manages concessions in a decentralized manner based on the type of business and/or geographic location of the markets where it operates. By line of business: international motorways in operation are managed through Inversora de Infraestructuras, S.L. and international motorways under construction are managed through Desarrollo de Concesiones Viarias Dos, S.L; domestic motorways are run through Desarrollo de Concesiones Viarias Uno, S.L, subways and railways are managed through Desarrollo de Concesiones Ferroviarias and airports are concentrated in Desarrollo de Concesiones Aeroportuarias, S.L; the management and operation of the parking lots are concentrated at Iridium Aparcamientos, S.L. With respect to geographical diversification, it currently has subsidiaries in: the United States - ACS Infrastructure Development Inc; Chile - Concesiones Viarias Chile; and Spain - Catalonia - CAT Desenvolupament de Concessions Catalanes.

Sector prospects

Private investment was further consolidated as the alternative for the financing of infrastructures given the profitability of the Public-Private Partnership model. The public administrations choose these solutions to maximize the returns provided by PPPs as compared to traditional public investments:

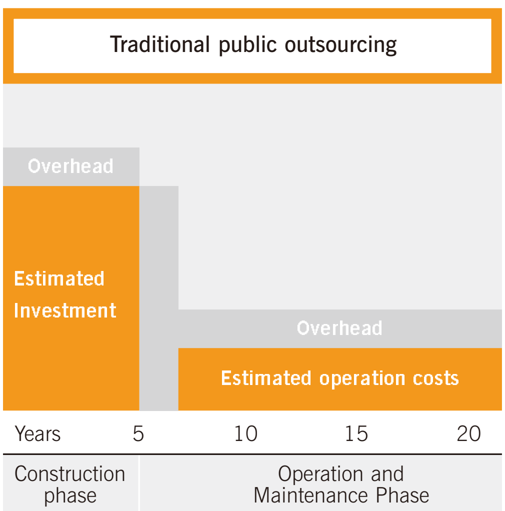
- PPP formulas make the projects viable.
- PPPs maximise the use of the private sector's capabilities.
- Risks are assigned to the party which is best able to deal with and manage them.
- PPPs provide budget security.
- PPPs add value to users and concession companies.
- Foster intergenerational equality.
- The public sector pays on the basis of the services provided, pressing the government to focus on the results and returns.

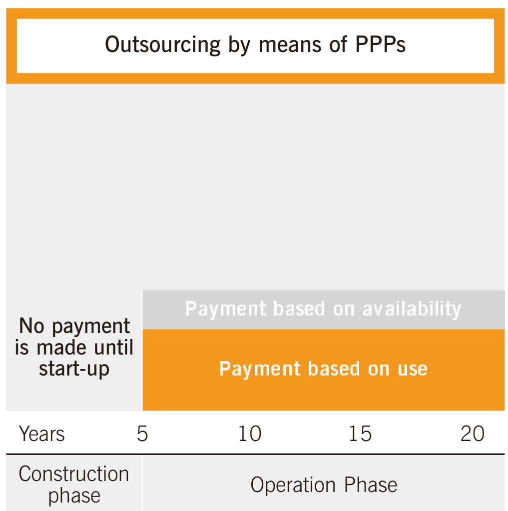
- Quality is maintained over the life of the concession due to the regulatory nature of the public sector.

- Foster the injection of private sector capital while improving its competitive capabilities.

- Allow governments to take on projects which could not be undertaken as a whole from an accounting perspective without these formulas.

These benefits are added to the posibilities that offer these initiatives when the competences transferred to the regional governments utilize important parts of their budgets





1.2 Concessions

Throughout 2006, Spanish local administrations, specially municipalities and regional governments have shown an increasing interest in using the PPP model. In line with the above, over the past year, public work concession contracts were applied to a higher number of projects, to a greater variety of types of transport and public facility infrastructures, and to a broader range of investment volumes.

The US transport infrastructure market has changed significantly due to the introduction of Public-Private Partnerships. The company considers the North American market to be strategic given the countless business opportunities it offers in the short/medium term. An exhaustive analysis is currently being carried out at a general level to identify investment opportunities in certain states. For each state, Iridium is taking into account the needs for new transport infrastructure, the political interest in its development and the existence of a favourable legal framework.

The Irish market continues to be attractive and Iridium's presence in the Republic of Ireland is stable and consolidated. The Irish government presented a new Domestic Development Plan in February 2007, which projects an investment of 183 billion euros up to 2013, of which 9.5 billion is to be through infrastructure PPPs. The most significant of these projects will be the Dublin Subway, in which the Group has already expressed its interest to the Government.

Additionally, Canada offers noteworthy political and economic stability, sufficient legal security and a developed financial system. The infrastructure level is inferior to the country's economic level and short- and medium-term opportunities are foreseen with respect to transport and hospital infrastructures. The degree of projects' maturity under the PPP structure is unequal from province to province, British Columbia and Québec being the most advanced.

Australia is a country in which large infrastructure projects have already been carried out with private financing, mainly in the cities of Sydney (State of New South Wales), Melbourne (Victoria) and Brisbane (Queensland). These three states as well as the states of Western Australia and South Australia have plans to develop new infrastructures through PPP contracts. The model of these contracts in Australia is similar to the British model and is well accepted by government administrations, the financial system and users. Iridium is currently studying the market and analyzing possible interest of several projects in the aforementioned states. This country has both high economic and high population growth and needs new infrastructures. Iridium has already expressed its interest in the Brisbane Airport Link project on which it will bid in 2007.

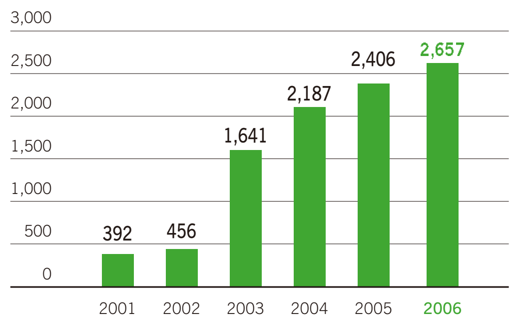
1.3 Environment & Logistics

In this set of activities, in 2006, the ACS Group achieved net sales of 2,657 billion euros, consolidating its position as a reference company in the European market.

Its order book exceeds 65 months of activity and has reached 14,171 million euros.

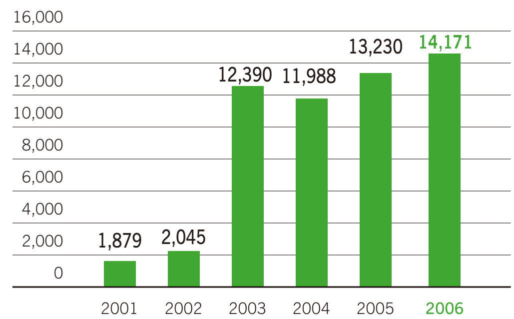
Turnover evolution

Million of euros



Order book evolution

Million of euros

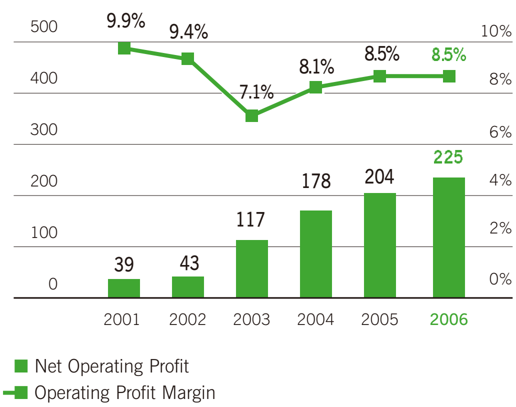


Notes: These figures include the results of the Continental Auto Group in order to allow for a uniform comparison of each year. 2004, 2005 and 2006 data according to IFRSs

The main features of Environmental & Logistics figures are the recurrence and visibility of its contracts, the need for capital and the long-term nature of the investments required. This area provides the ACS Group with stability and geographic diversification in terms of revenues.

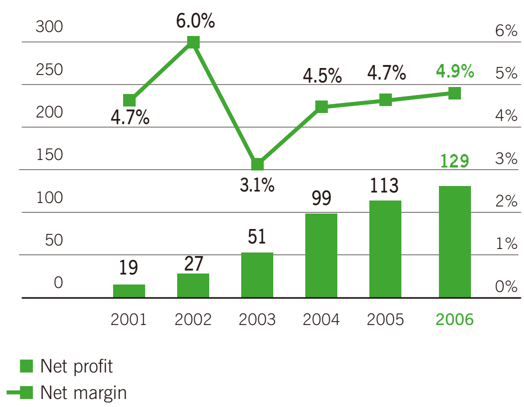
Operating profit evolution

Million of euros — Margin %



Net profit evolution

Million of euros — Margin %



Note: These figures include the results of the Continental Auto Group in order to allow for a uniform comparison of each year. 2004, 2005 and 2006 data according to IFRSs

Environment & Logistics activity is grouped around three business lines:

- **Environmental Services**: area specializing in waste management and treatment. It carries out street cleaning, urban waste collection and transport (“clean point” installations and transfer stations) and urban waste treatment by means of various kinds of processes: packaging plants, sorting and composting plants, biomethanization of the organic fraction, energy recovery with electrical energy generation (both from biogas coming from dumps and from biomethanization, and from the rejection fraction from the sorting plants), elimination of waste in controlled urban and industrial waste dumps, management of special waste (oils, hospital and industrial waste), integrated management of the water cycle and urban gardening.

- **Facility Management**: these encompass the services necessary for the optimum running of public or private use properties (facility management, cleaning or ancillary services), green market-related activities (gardening, reforestation and environmental recovery), care services for social collectives in situations of dependence, airport services, and the management of advertising spaces in large installations and transport systems.

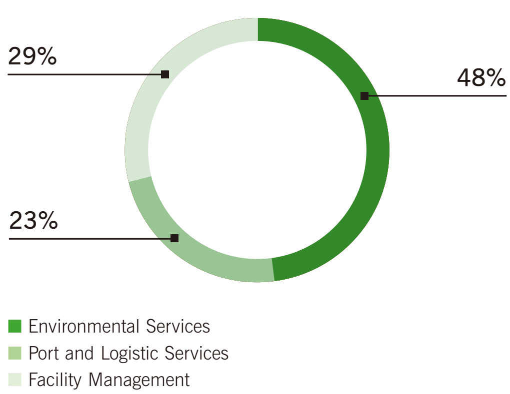
- **Port and Logistic Services**: comprising port management and handling, maritime agency and transit activity, dry-dock management, combined transport and logistics.

1.3 Environment & Logistics

In 2006, the growth trend evidenced in recent years was confirmed in the Environment & Logistics area. These past 12 months were especially positive for the Facility Management area, whose year-on-year growth rate was 17.3%, confirming its leadership in the Spanish market. The Environment area continued its international expansion and a high percentage of its sales are now performed outside of Spain, thereby positioning the ACS Group as a main competitor in the European market on the same level as larger and more experienced companies. In the area of Port and Logistic Services, container terminal activities continued to grow. Our Group leads the market in Spain and continues its international expansion, which led it to extend its activities to Portugal and Brazil in 2006.

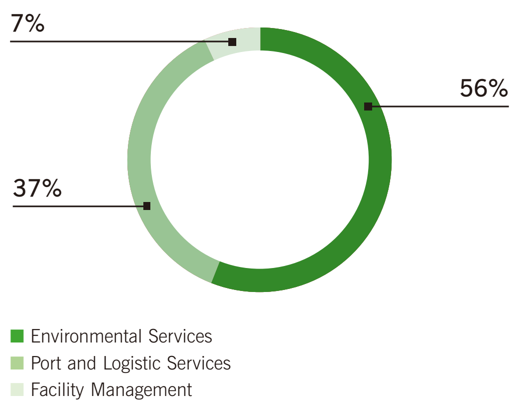
Turnover breakdown by activity

%



Order book breakdown by activity

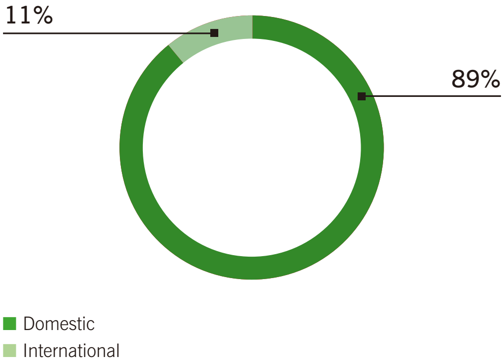
%



Note: Figures for the Continental Auto Group were not included in the breakdown

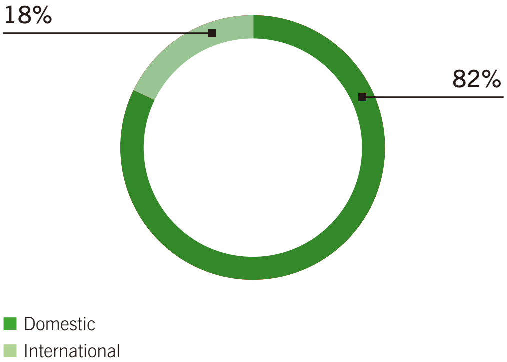
Turnover breakdown by market

%



Order book breakdown by market

%



Strategic objectives

The ACS Group's Environment & Logistics activities are based on the use of two of the company's competitive advantages: service capacity and, in certain activities, availability of capital.

The aim of these activities is to maintain a sustainable growth rate with attractive profitability, and the following are key to this strategy:

- To improve the operational efficiency of all the companies.
- To remain at the technological cutting edge of solid urban waste treatment plants and to continue to lead this sector.
- To develop new services aimed at collectives with care needs and retired Spanish and foreign nationals.
- To grow in the international field, particularly in Environment and Port Services, organically and through acquisitions.

1.3 Environment & Logistics

Activity in 2006

Environmental Services

The ACS Group, through its company Urbaser, S.A., is the leader in the management of solid urban waste treatment plants in Spain, and has undertaken significant actions abroad. In Spain, it currently manages:

- Nineteen recycling and composting plants with a treatment capacity of 2,345,000 tons per year.
- Seven packaging plants with a treatment capacity of 237,500 tons per year.
- Twelve biomethanization plants with a treatment capacity of 2,050,000 tons per year.
- Four integrated plants with energy recovery and a treatment capacity of 1.4 million tons per year.
- Five more plants are in different phases of construction with a treatment capacity of 1.78 million tons per year.

The whole of these plants has generated an equivalent saving in CO2 emissions with respect to the baseline solution: Dumpsit, of around 2.1 million tons per year.

Of the plants managed, noteworthy are the integral plants with material and energy recovery of Mallorca (TIRME), Madrid (TIRMADRID) and Cantabria (TIRCANTABRIA), which process a total of over one million tons of U.S.W. per year, as well as the U.S.W. organic fraction biomethanization plants of León, Pinto (Madrid), Barcelona and Coruña, which generate electricity from the biogas generated.

Large plants under construction include the Zaragoza plant (Biomethanization), Marsella (Integral Plant), Madrid (Biomethanization), Ecoparque nº. 5 (Cataluña) and the Valence and Calais plants in France.

The total installed power in the Madrid, Mallorca and Cantabria plants amounts to 58 MW, and these plants produced 443.6 GWh in 2006.

To this power, it is necessary to add the 96 MW of installed power processed by the biogas obtained from dumpsites and biomethanization plants, which produce around 550 GWh per year.

In total, URBASER has electric power of around 154 MW and generates 1,000 GWh per year.

Urbaser collects and manages industrial oils at different treatment plants by means of the regeneration of lubricant bases. Additionally, the ACS Group is the leader in Spain in the management of sanitary wastes, (CONSENUR), given that it works for numerous health services in all of Spain.

Included amongst the most important contracts for street cleaning and solid urban waste collection are the Madrid neighbourhoods of Argüelles, Latina-Carabanchel, Arganzuela, Salamanca, Puente de Vallecas, Chamberí, Moncloa and Distrito Centro, as well as the Special Emergency Cleaning Service (SELUR) for the Madrid Municipality; those of the Northern Zone of Barcelona; and those of the cities of Alcalá de Henares, Almería, Cádiz, Denia, Elche, Jerez de la Frontera, León, Logroño, Málaga, Orense, Palencia, Santa Cruz de Tenerife, San Cristóbal de la Laguna and Santiago de Compostela. In relation to gardening, noteworthy is the contract for the cleaning and renovation of green zones in Retiro Park in Madrid, and the maintenance and upkeep of the green zones of Huelva, Santander, the northern area of Tarragona and Santa Cruz de Tenerife.

Port and Logistic Services

In 2006, the ACS Group maintained its position as leading operator of container terminals in Spain, handling nearly 4.5 million TEUs. Worth special mention is its activity in the ports of Valencia, Las Palmas de Gran Canaria, Bilbao, Málaga, Jing Tang (China) and Caucedo (Dominican Republic) and the development of Terminales del Sudeste (Málaga), which handled 475,000 TEUs in 2006.

Also noteworthy is the Group's role in other activities such as the handling of bulk material (11 million tons), general merchandise (5.4 million tons) and perishable goods (137,000 tons). In 2006, two terminal containers located in San Francisco do Sul (Brazil) and Setúbal (Portugal).were included in the Group. Additionally, the Group's leading position in other port services (agency, transit, transport, etc.) was reinforced in Spain.

1.3 Environment & Logistics

Facility Management

In *indoor cleaning*, the following contracts in execution in 2006 are of particular interest:

- Cleaning of the premises of the Civil Guard and National Police.
- Cleaning of the installations and mobile material of the Madrid subway.
- Cleaning of La Paz Hospital, in Madrid.
- Cleaning of Carlos Haya Hospital, in Málaga.
- Cleaning service at the Virgen de las Nieves Hospital, in Granada.

In social healthcare services, the following contracts are of particular interest:

- At-home assistance in San Sebastián.
- Catering of Bellvitge Hospital in Barcelona.
- At-home assistance for the Málaga county council.

Integral maintenance services are provided for the following installations:

- Maintenance of the BSCH Financial City, in Boadilla del Monte (Madrid).
- Maintenance of several properties of the Directorate General of the National Police.
- Maintenance of the Doctor Negrín hospital, in Las Palmas de Gran Canaria.

In gardening and environmental services, the following deserve special mention:

- Upkeep and cleaning of paths, and upkeep of green zones in the municipal cemeteries and morgues in Madrid.
- Maintenance and upkeep of green zones in the neighbourhood Arroyo Culebro in Leganés (Madrid).
- Maintenance and upkeep of the garden spaces in the municipality of Alcira, in Valencia.

In management of advertising spaces, the activity carried out in several Spanish airports is worthy of mention, along with that of the Madrid and Barcelona subways, in RENFE (National Rail Company of Spain) and in the Ifema trade fair complex, in Madrid.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1.3 Environment & Logistics

Contracts awarded in 2006

In 2006, the ACS Group's Environment & Logistics order book amounted to 14,171 billion euros, 7.1% more than the previous financial year. The main contracts awarded were the following:

Contract Millions of Euros	Amount	Years	Awarded company
Licence to provide client service to planes on land in the airports of Málaga, Lanzarote and Fuerteventura	143	7	Clece
Administrative concession for water, sewer and water treatment, services in Almendralejo (Extremadura)	75	20	Urbaser
Street cleaning of Ciudad Lineal (Madrid)	63	8	Urbaser
Cleansing of he interior of the municipal offices of Leon	53	10	Urbaser
Cleaning and collection of SUW in San Fernando (Cádiz)	52	10	Urbaser
Construction and operation of the sewage treatment plants of zone 2 (Aragón)	50	20	Urbaser
Street cleaning and collection of SUW inTangiers (Morocco)	44	7	Urbaser
Street cleaning and collection of SUW in Lugo	38	10	Urbaser
Cleaning of streets and beaches, and collection of SUW in Santa Pola (Alicante)	30	10	Urbaser
Street cleaning and collection of SUW in Cartagena de Indias (Colombia)	25	8	Urbaser

Organizational Structure

Environment & Logistics

100%	100%	100%
urbaser	Clece SERVICIOS	Dragados-S.P.L. Servicios Portuarios y Logísticos
Company specializing in waste management and treatment. Its activity encompasses street cleaning; the collection of solid urban waste and its subsequent treatment through the construction and operation of dumps and energy recovery plants; the management of renewable energies and cogeneration, the integrated management of special waste (industrial and hospital waste), integrated water cycle management and the management of urban gardening	Company specialized in the services necessary for the optimum running of public or private use properties (facility management, cleaning or ancillary services), green-market-related activities (gardening, reforestation and environmental recovery), care services for social collectives in situations of dependence, airport services, and the management of advertising spaces in large installations and transport systems	Integrated operator of the logistics chain covering all its associated activities: port handling, including the management of container terminals (multiuse and specialised), maritime agency, transit, ancillary port services, dry-dock management, combined transport, auto logistics and railway transport. Leader in Spain in container handling

In January 2007, the ACS Group decided to divest of its holding in the passenger transport line of business which it operated through its company Continental Auto, and expects to complete this transaction during the first semester of this year.

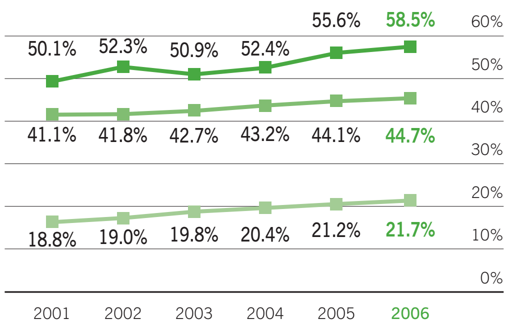
1.3 Environment & Logistics

Sector prospects

The development of the Sector services in Spain benefited in recent years from the significant rise in the population in Spain, both in terms of residents and the floating population, whose growth is basically a result of the growth in immigration and tourism.

Evolution of spanish population and tourist influx

Million of euros



- Tourists
- Population
- Active population

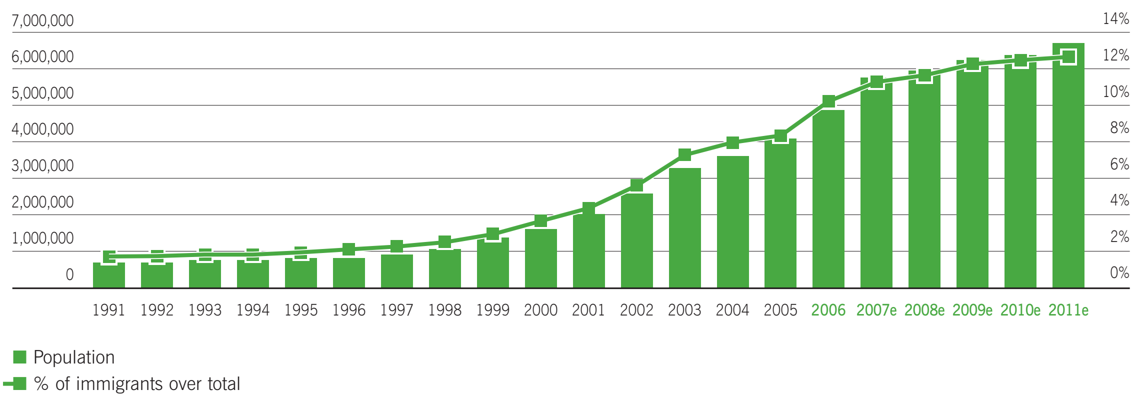
Source: Spanish Statistics Institute and Institute for Tourism Studies

In Spain, immigration is a relatively recent and especially significant phenomenon which has given rise to the greatest part of the increased resident population in the past six years.

Between 2001 and 2006 the Spanish resident population rose by 3.6 million people, of which 800,000 are immigrants from Eastern Europe and 2.8 million are immigrants from developing countries, mainly from Latin American and North Africa.

Factors relating to the economic boom and mainly characteristics of the employment offer in Spain, a service-based country, have fostered this entrance of immigrants which, according the Ministry of Social Affairs and other institutions tracking this phenomenon, is still at full peak.

Evolution of immigrant population



Source: INE

On the other hand, tourism is the second driver of the significant increase of the floating population in Spain. This has been the country's main industry for the past 40 years, and the number of visitors has not ceased to rise in recent years. In 2006, the Institute of Tourism Studies recorded over 58.5 million visitors, mainly Europeans. In view of these figures, according to the World Tourism Organisation (WTO), Spain maintains its second position in the world ranking both in terms of visitors and in terms of tourism revenue, with a 7% share in both variables.

Tourism directly contributes 11% to GDP according to the Tourism Satellite Account (TSA) and generates a similar percentage of direct employment.

Without a doubt, this increase in population is the main driver of the development of urban services which have emerged as a profitable and competitive sector in Spain, and in which the ACS Group is one of the leading companies in the treatment of urban waste and recycling, facility maintenance in buildings, airport “handling” and port logistics.

1.3 Environment & Logistics

Environmental Services

The rising population and increased social awareness have lead to a higher concern for the environment since over a decade ago. This concern and the need to optimise public expenditure mean that Public Administrations increasingly tend to outsource tasks involving the management of urban waste.

Over the last ten years, with the help of the European Union, a large number of waste treatment and sorting plants have been constructed in Spain (almost one per population centre of more than 100,000 inhabitants), most of which are equipped with composting and/or biomethanization processes, where the organic fraction of urban waste is treated. Nonetheless, there is still significant growth potential in this activity in Spain and in the rest of Europe as a consequence of the demands of European directives concerning waste and environmental management.

The Kyoto Protocol has fostered this type of activities in order to reduce the emission of gases generated naturally in solid urban waste dumps (carbon anhydride and methane), which produce the greenhouse effect. The said treaty has also paved the way for other future businesses relating to the emission of CO_2.

Facility Management

The Facility Management market bases its growth prospects on large business groups and public administrations' increasing tendency to outsource. Companies such as Clece, the ACS Group's leader company in this line of business, offers services which enable own resources to be reduced and specialisation to be increased in order to respond to the increasing complexity of equipment and methodologies. This growth, together with clients' demand for the market to present a more concentrated and structured supply, suggests very positive perspectives for this activity.

Other areas such as social healthcare services, to which the public administrations dedicate a significant amount of resources, require an increase in the supply of external services guaranteeing the quality and efficiency thereof together with a reduction in cost, especially in a long-lived society with higher life expectancy.

Furthermore, and as a consequence of the positive performance of tourism in Spain, air traffic is undergoing significant growth, which increasingly leads airport installations and airlines to outsource higher quality services.

Port and Logistic Services

Increasing globalization and the continuous flow of goods from manufacturing countries, mainly in Asia, have led to a significant upturn in container traffic activities and maritime transport. Both Spain, which currently maintains its strategic significance as a connection between Asia and America through Suez, as well as the outlying manufacturing countries in Asia and South America, are the target markets of the ACS Group's Port and Logistic Services area.

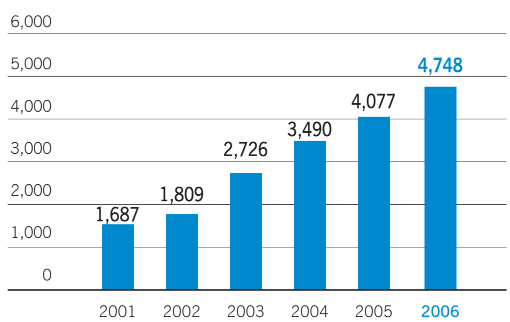
This activity shows sustainable growth especially in ports which supply large reference geographic areas (such as the Port of Valencia which supplies the entire central area of the Iberian Peninsula). These terminals have a more stable and growing flow of containers, given that together with the logistics services provided at the port, they offer added value to the ships as compared to the pure transfer terminals, which only cover a small portion of the value chain of the maritime transport business value chain.

1.4 Industrial Services

In 2006, the Industrial Services area's turnover was 4,748 million euros and it obtained an order book of 5,087 million, guaranteeing 13 months of activity. Turnover in this area multiplied since 2001 by 2.8, once again consolidating the ACS Group's position as the top company in this sector in Spain, and as one of the main competitors in Europe and the other markets in which it operates.

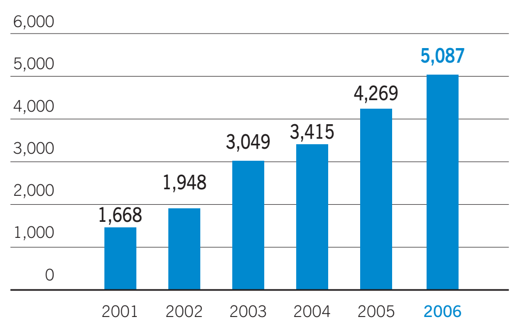
Turnover evolution

Millions of Euros



Order book evolution

Millions of Euros



Note: 2004, 2005 and 2006 data according to IFRSs

In this activity, the ACS Group covers the entire value chain, from the development, applied engineering and construction of new projects to the maintenance of industrial infrastructures in the energy, communications and control system sectors. The Group is positioned as:

- Leading supplier to water, gas and electricity companies in the development and maintenance of their generation and distribution installations.

- Leading name in the development and maintenance of specialized products, such as thermodynamic and mechanical installations, electrical installations, railway installations (both conventional and high-speed) and telecommunications installations.

- One of the leading competitors worldwide in the development of large projects for the gas and oil industries, from the construction of offshore platforms and modules to turn-key projects of refineries and petrochemical plants.

- Leading company in energy power projects, such as combined cycle power plants, regasification plants and renewable energy.

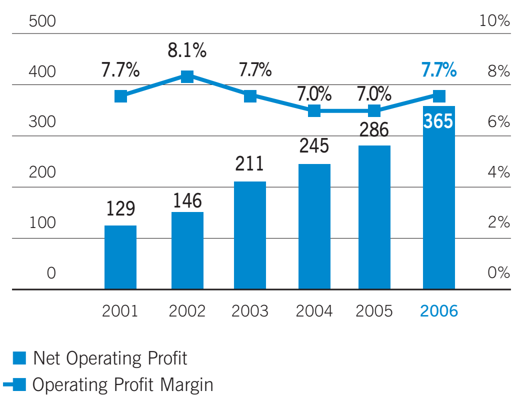
- Leading domestic company in the development and maintenance of technological systems related to telecommunications, roadway and railway traffic, public lighting and industrial control.

The experience of the Group's companies, some of which are over 80 years old, enables it to meet client needs by taking advantage of a decentralised structure which fosters competitiveness and the search for new business opportunities.

Thanks to the features of the services offered, more than 60% of the annual turnover of Industrial Services is of a recurring nature, mainly relating to maintenance contracts with high visibility.

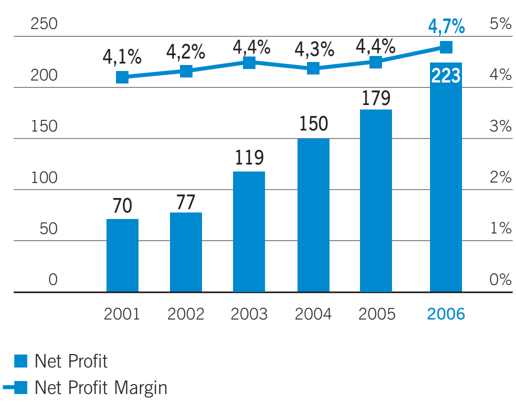
Operating profit evolution

Millions of Euros — Margin %



Net profit evolution

Millions of Euros — Margin %



Note: 2004, 2005 and 2006 data according to IFRSs

1.4 Industrial Services

The Industrial Services of the ACS Group can be broken down into four lines of business:

■ **Networks**: this maintenance activity of electrical, gas and water distribution networks is based on over 80 years of experience. Over this time, the Group has developed in-depth knowledge of the business, high quality in the service provided and a high degree of specialisation by product and geographical area. These competitive advantages have made the ACS Group a clear leader in this business, particularly in its constant innovation in assembly techniques and in the incorporation of specialised machinery, which in many cases is designed and manufactured by the company itself.

■ **Specialized Products**: combines the activities of construction, installation and maintenance of high-voltage electrical networks, telecommunications systems, railway installations, electrical installations, mechanical assemblies and climate control systems.

– In the area of **high-voltage power lines**, the Group maintains a leading position in the sector, carrying out the engineering, supply, assembly, start-up and maintenance works of high-voltage transmission lines and substations. It is also a pioneer and leader in integral electrical maintenance in transmission and distribution lines and substations with voltage, as well as in substations in all voltage steps.

– The **telecommunications** area includes all projects related to the engineering, development, implementation and maintenance of networks and technical equipment used in landline, wireless and cordless telephony for the local loop and fibre-optics, as well as radio links, microwave systems and custom-made telecommunications systems, amongst others.

– In the **railways** area, the Group handles the design, engineering, assembly, start-up and maintenance of railway systems, in specialised areas such as electrification, signalling, railway security systems, communications, ancillary services related to access controls, automatic dispatch, escalators, wiring, ventilation and climate control.

– The ACS Group provides the **integrated management of electrical and mechanical installations in industry and building**. This activity comprises one-off projects requiring a certain specialisation, such as industrial refrigeration and industrial climate control systems, mechanical and structural systems.

■ **Energy Projects**: The Group offers a variety of turn-key projects for a range of applications, from engineering to commercial operation. In these kinds of projects, experience, know-how, credibility and technical capability are fundamental. The projects may be broken down into the following groups:

- **Energy projects**: This includes the execution of large-scale projects such as combined-cycle power plants, conventional thermal plants or desalination plants, as well as high-power electrical installations such as substations and transformers for the transmission and distribution of energy and solutions for large-scale consumers.

- **Renewable energies**: Through the promotion, turn-key construction and operation of wind farms and industrial solar thermal energy plants.

- **Industrial projects**: With over 40 years of solid experience, the Group is highly specialised in the management of turn-key projects. Newly developed management tools are used, which enable it to execute large-scale projects in the international arena. This activity integrates applied-engineering services such as installation, construction and transformation in industrial plants, tankers, refineries, petrochemical plants, cement manufacturers, etc.

- **Crude oil and gas extraction platforms**: Dragados Offshore began to construct oil and gas platforms in 1972. Since then, it has gone on to become one of the worldwide industry leaders. Its business groups together the construction of platforms, installations and floating systems in its own yards in Cádiz and Tampico (Mexico). It also carries out modular constructions for refineries, processing plants, loading and unloading terminals, and equipment such as port cranes, sluice gates and lock gates, receptacles, tanks, etc. In its yard in Puerto Real, in the Cádiz bay, it is currently undertaking the "Nord Adriatic" project, a natural gas floating storage regasification plant which will be transported by sea to its final location off the coast of Venice after being completed.

- **High-speed railway systems**: Design, engineering, assembly, start-up and maintenance of installations for high-speed lines. Highly specialised in electrification, signalling, railway security installations, communications and other ancillary services involved in global projects.

1.4 Industrial Services

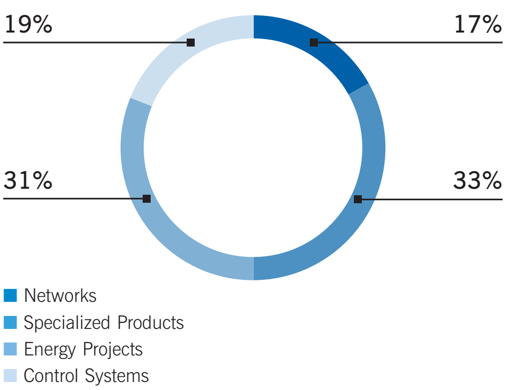
■ **Control Systems**: The Group has become the leading provider of engineering, installation and operation of control systems for industry and urban services.

– **Traffic and transport control systems**: characterised by a highly technological profile and constant requirements of new technological developments, this activity includes integrated solutions for the control and regulation of urban and interurban traffic, technology used in public transport through the management of operating-assistance resources, the control of access to toll roads and parking facilities, the design and installation of new dynamic toll systems for motorways, and the installation and maintenance of lighting systems along public roads.

– The **integral maintenance of public infrastructures** encompasses services that are highly specialised and flexible: signalling and integrated conservation of roads; carrying out of vertical, horizontal and containment-control signalling operations; services associated with hydraulic infrastructures, both in terms of distribution and draining systems, purification and information system networks; electrical and fluid systems for ornamental fountains; intelligent management systems and automation centres in the integral maintenance of public buildings, and treatments used in forestry.

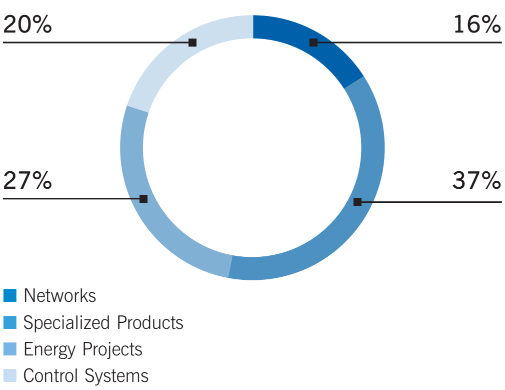
Turnover breakdown by activity

%



Order book breakdown by activity

%



Strategic objectives

Given the sector's positive growth prospects, the strategy in Industrial Services is to select projects which can be performed in the most efficient and profitable manner.

This strategy aims at achieving the following objectives:

■ Maintaining its leadership in the market and sector.

■ Fostering the obtainment of maintenance projects offering recurrence and visibility.

■ Optimizing the average profitability of the activity by dedicating resources to specialised projects or turn-key solutions, while maintaining a strict cost control policy.

■ Investing in the development of renewable, wind power and solar energy, both for the ACS Group and third parties.

■ Promoting organic growth through the purchase of small technologically advanced companies.

■ Tackling international markets hand in hand with clients, meeting rigorous profitability and stability criteria.

1.4 Industrial Services

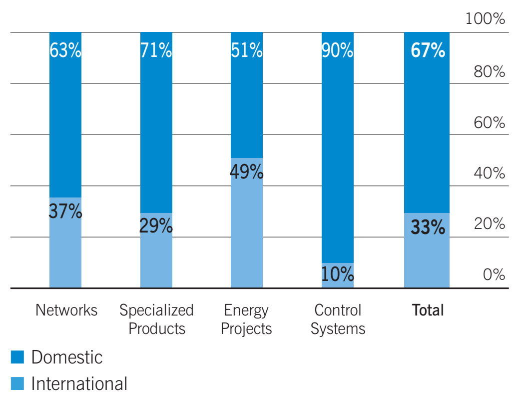
Activity in 2006

Worthy of mention is the performance of Energy Projects, which represents 31% of the activity carried out in the financial year, and which as a consequence of its high added value provides other activities with future income through the maintenance of installations. Furthermore, in 2006, 41.4% increase in its order book guarantees activity in upcoming years.

The wide range of services supplied by the activity guarantees continuous sustained growth and geographical diversification provides growth opportunities in markets with growing development needs. In 2006, sales abroad accounted for 33% of the total.

Turnover breakdown by market

%



In 2006, standout projects undertaken in the maintenance of distribution **network** installations include the following:

■ North Gas pipeline (Mugardos-As Pontes-Guitiriz) Galicia, which is 55 km long and 26 to 30 inches in diameter, with construction engineering, supply of materials, construction and start-up.

■ Medgaz Sud GZ4 48" Gas pipeline. Engineering and supply of the 315 km pipeline of 48" between Hassi R´mel and Sougueur, Algeria.

■ Construction of distribution networks, commercialisation, execution and start-up of 6,500 gas receiver installations, 12,000 community receivers and 1,200 heating systems in various locations in Spain for Gas Natural.

■ Maintenance contracts for different electricity companies in Spain. Reading of meters, repair of installations, construction and maintenance of transformers and distribution lines.

■ Project, construction and preventive and corrective maintenance of low and medium-voltage overhead and underground power networks, including transformers in the province of Buenos Aires, Argentina.

Amongst **specialized products**, in the area of high-voltage electrical networks the following projects are highlighted:

■ 500 kV high-voltage line of 900 km between Itumbiara and Cuiabá, in addition to the construction of 5 substations in the states of Goias and Mato Grosso, Brazil.

■ 230 kV high-voltage line of 490 km between Porto Primavera and Dourados, and between Primavera and Imbirussú, in addition to the construction of 3 substations in the state of Mato Grosso do Sul, Brazil.

■ Turnkey contract for the construction of over 90 km. of high-voltage lines in Aguascalientes, Mexico.

■ Cabling of OPGW of 630 km in high-voltage lines of between 230 kV and 800 kV using techniques in working on live power lines, for EDELCA in Venezuela.

■ Second year of the contract for the live maintenance of distribution and transmission networks up to 132 kV in oil fields in Kuwait.

■ 500 kV high-voltage line of 324 km between Tucuruí and Vila do Conde, in addition to the construction of 2 substations in the state of Para, Brazil.

■ Air-conditioning and integral management of ancillary services in the building Torre Espacio on Paseo de la Castellana in Madrid.

1.4 Industrial Services

In **telecommunications**, amongst the projects undertaken in 2006, the following deserve special mention:

- Framework contract for the installation and maintenance of telecommunications systems with the operator Cableuropa for 2006.

- Performance of infrastructure, civil and electromechanical contract work, supply and assemble of metallic structures for mobile telephony locations in different provinces of Argentina for Movistar.

- Framework contract for the installation and maintenance of telecommunications systems with the operator ONO in Spain.

In **railways** the following High Speed line projects were carried out for the Spanish administrator of railway infrastructures, ADIF:

- Project, works and maintenance of installations of the overhead contact line and associated systems for the Madrid-Barcelona-French border line on the Lérida-Barcelona section.

- Project, works and maintenance of installations of the overhead contact line and associated systems for the Córdoba - Málaga line, in phase I: Almodóvar del Río - Bobadilla; in phase II: Bobadilla - Los Prados; and in phase III: Los Prados - Málaga station.

- Project and works for the electrification of high-speed bypasses at the Almodóvar - Málaga connection of the high-speed Córdoba - Málaga line.

- Remodelling of the overhead power cabling between La Torrassa and the Sants station through the AVE entrance in Barcelona.

In **energy projects**, work has been done in the construction of the combined-cycle thermal power plants of Cartagena (Murcia), Castelnou (Teruel), Central Cristóbal Colón in Huelva, in Nubaria, Talkha and Cairo (Egypt) and in Sagunto (Valencia), as well as the construction of two sulphur removal plants at coal boilers in Algeciras (Cádiz) and in Almería. The following projects relating to **petrochemical plants** were also undertaken:

- ADI-1000 project for the construction of a fuel oil reducing unit for Petronor in Bilbao, Spain.

- Extension of the turn-key project at the Lázaro Cárdenas Refinery in Minatitlán, Package III in Veracruz, Mexico.

■ Project for the construction of the fertiliser plant "DAP Granulation Plant" in Ras Az Zawr, Saudi Arabia.

■ Turnkey project for the execution of engineering design works, supply of equipment and materials, construction, tests and start-up of a terminal for the reception, storage (two tanks of 150,000 m3) and liquid natural gas regasification, located in Puerto de Sagunto, Valencia.

■ EPC-60 and KU-A2 projects and Buzzard project, all of which involve the construction of Offshore production platforms, the first two in the shipyard of Tampico, Mexico for its subsequent definitive installation in the Gulf of Mexico and the third in the Cádiz shipyard for its subsequent installation in the British sector of the North Sea.

■ Expansion project of up to 600,000 tons per year in a polyethylene plant in Shuaiba, Kuwait.

In **renewable energies**, in addition to the construction of two wind farms, Lodoso and Marmellar, of 49.5 MW each, at 31 December 2006, the ACS Group operated 18 wind farms with a total installed power of 572 MW and attributable power of 368 MW. Furthermore, the Group takes part in 11 wind farms currently under construction with an installed power of 299 MW and an additional 21 wind farms in the financing or promotion phase with installed power of 692 MW.

In 2006, in the solar energy area, the Group initiated the projects Andasol I and Andasol II, two thermal solar power plants of 50 MW each. 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 promotion of a third thermal solar power plant in Extremadura, which also has an installed power of 50 MW.

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

1.4 Industrial Services

Wind farms in operation	Location	Power Mw.
Perul	Burgos	52.30
Lastra	Burgos	11.20
Lodoso	Burgos	49.60
Marmellar	Burgos	49.60
Chumillas	Cuenca	50.00
Barrigoso (Miniparque)	La Coruña	3.00
Monte da barda (Miniparque)	La Coruña	3.00
Novo	La Coruña	18.80
Outes	La Coruña	33.60
Requeixo	La Coruña	11.70
Somozas	La Coruña	49.70
Vimianzo	La Coruña	49.50
Raposeras	La Rioja	39.00
Sierra de Utrera	Málaga	33.40
L'Enderrocada - SEESA	Tarragona	29.90
Tortosa	Tarragona	48.10
Penamacor 1	Portugal	20.00
Penamacor 3A	Portugal	20.00
Wind farms in operation		572.20

Note: The average stake in these wind farms is 67.2%

Wind farms under construction	Location	Power Mw.
Arroyal	Burgos	46.50
Sargentes	Burgos	24.00
La Lora 1	Burgos	49.50
La Lora 2	Burgos	49.50
Touriñan IV	La Coruña	24.70
Penamacor 2	Portugal	14.70
Penamacor 3B	Portugal	25.20
Sabugal	Portugal	39.90
Sº João 1	Portugal	8.35
Sº João 2	Portugal	13.36
Alrota	Portugal	3.34
Wind farms under construction		307.10

Wind farms in promotion / financing	Location	Power Mw.
Santa Anta	Albacete	50.00
Boquerón II	Albacete	21.00
Serón I	Almería	50.00
Serón II	Almería	10.00
Tijola	Almería	36.00
La Noguera	Almería	30.00
El Colmenar	Almería	30.00
Tesosanto	Burgos	50.00
La Caldera	Burgos	22.00
Isletes	Cádiz	25.30
Las Vegas	Cádiz	23.00
Aulagar	Granada	30.00
Valcaire	Granada	7.20
Tajos de Bazán	Granada	15.00
Loma del Capón	Granada	33.00
Palencia Sur	Palencia	51.20
Zona 7	Valencia	60.00
Zona 7 fase III	Valencia	40.00
Zona 7 fase II	Valencia	60.00
Sierra de las Carbas	Zamora	40.00
Cabeço das Pedras	Portugal	8.00
Wind farms in promotion / financing		683.70

Thermal Solar Energy	Location	Power Mw.
Andasol I	Granada	49.90
Andasol II	Granada	49.90
Extresol	Extremadura	49.90
Solar Energy		**149.70**

Transmission Line Concession Projects	Location	Km.	Voltage
Uirapurú (Ivaipora - Londrina (B sep 04))	Brazil	122	525
Concesionaria NTE	Brazil	200 / 186	500 / 230
Concesionaria STE	Brazil	386	230
ARTEMIS - (Concesionaria Paraná) Lote B 03	Brazil	376	525
ETEE Expansión	Brazil	581	500
ETIM Itumbiara Marimbondo	Brazil	212	500
CPTE Cachoeira Paulista	Brazil	181	500
ITE Cuiabá - Itumbiara	Brazil	811	500
PPTE Imbirissu - P. Primavera - Dourados	Brazil	324	500
VCTE Tucuruí - Vila do Conde	Brazil	490	230
SMTE Serra da mesa	Brazil	681	500
Redesur	Peru	Under construction	Under construction
Total Kilometres		**4,550**	

In **control systems**, the contracts carried out in 2006 include:

- Concession Contract for the management and control of regulated parking on public streets in Madrid, in the neighbourhoods of Bellavista, Berruguete, Valdeacederas, Almenara, La Paz, Barrio del Pilar and the historical area of Fuencarral, for a period of 11 years (extendable for an additional 9 years).

- Integral improvement of public lighting and traffic lights in Barcelona.

- Maintenance contract for the traffic light and posts in Santa Cruz de Tenerife, for a period of 4 years, extendable for an additional 2 years.

- Maintenance of the public lighting system in Vigo.

- Contract for the supply and installation of an Automatic Incident Detection system by means of artificial vision and a closed circuit television system in the tunnel and burial works on M-30 (Madrid).

- Contract for the supply and installation of megaphone systems, access control, seating, ventilation control and traffic light installations at the M-30 South By Pass in Madrid.

- Maintenance of the Access control systems by means of retractable posts in the historical centre of Barcelona for a period of 2 years.

1.4 Industrial Services

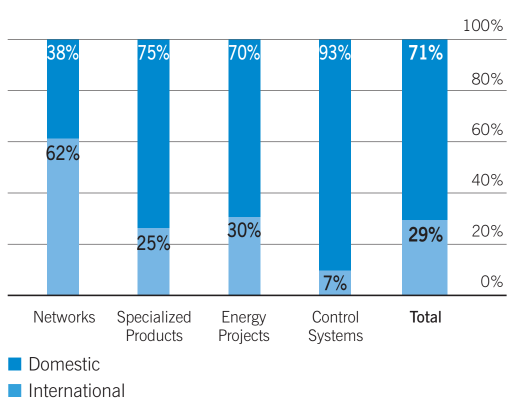
Contracts awarded in 2006

The main contracts awarded in 2006 in the Industrial Services area were the following:

Project Millions of euros	Amount	Type of Project
Construction of Plants; Combined (Atmospheric and vacuum distillation), Hydro-desulphurisation and catalytic in the Lázaro Cárdenas refinery in Minatitlán Package III (Mexico)	270	Integrated Projects
Construction of a combined cycle plant in Morata de Tajuña (Madrid)	212	Integrated Projects
Construction of a thermal solar energy plant in Andasol 1 (Granada)	208	Integrated Projects
Substation and power line in Lybia	146	Networks
Renovation and expansion of a polyethylene plant in Kuwait	112	Integrated Projects
38 km long 500 kV HV line between Jaguara Estreito – Riberao Preto-Poços de Caldas and I/O substations of Jaguara, Estreito, Poços de Caldas and Riberao Preto (Brazil)	110	Networks
Construction of a desalination plant in Escombreras (Murcia)	100	Integrated Projects
500 kV HV line between So Simao-Marimbondo-Riberao Preto and I/O in the three substations (Brazil)	85	Networks
Approved renovation of Buzzard project: Construction of a crude oil and gas production platform (United Kingdom)	81	Integrated Projects
Adriático Project: Construction of topsides for a gasifying plant (Italy)	61	Integrated Projects
Construction of the Ladora I wind farm (Valencia)	55	Integrated Projects

Order book breakdown by market

%



Organizational Structure

Industrial Services

Cobra Group (100%)

%	Company	Activity
100%	Cobra Grupo	Ancillary services for electricity, gas and water distributors, communications and railways; installations and assembly in the specialties of mechanics, electricity, climate control, instrumentation and control of security systems; turn-key industrial plants for electricity, oil and gas energy and desalination
100%	ETRA	Design, installation and maintenance of urban and interurban traffic regulation systems and public lighting
100%	SEMI	High-voltage lines, railway electrification, communications infrastructure and industrial installations in general
100%	MAESSA	Maintenance, assembly, installation and services in the specialities of mechanics, electricity, instrumentation and control systems
100%	IMES, S.A.	Public-lighting services, maintenance of buildings, public telephones, electrical installations and other projects (dumps, collectors)
100%	API	Road safety: integrated road signalling, conservation and maintenance of roads, and consultancy and technical assistance
100%	eyra	Promotion, construction, operation and maintenance of renewable energy plants, particularly wind farms

Dragados Industrial (100%)

Dragados Industrial (Ingeniería y Plantas)

%	Company	Activity
100%	Grupo Industrial – Ingeniería Industrial y Plantas – Grandes Contratos	Management of turn-key projects in the areas of energy, petrol, and industrial and gas installations
100%	Grupo Industrial – Ingeniería Industrial y Plantas – Dragados Proyectos Industriales de México (DPIM)	Construction of industrial projects and projects relating to energy in Mexico
100%	INITEC Energía	Engineering and execution of projects in energy-related fields
100%	INTECSA UHDE	Engineering and construction of industrial plants
100%	Makiber	International management of equipment and services, mainly localisation, promotion and execution of projects associated with social and economic development in countries with emerging economies

%	Company	Activity
100%	Dragados Off Shore	Construction of off-shore platforms, modular plants, large-scale equipment and metallic structures
100%	CYMI – Control y Montajes Industriales	Electrical and instrumentation installations, climate control, energy transmission lines, railway electrification, airport installations, electrical substations, design and manufacturing of electrical display panels, engine control rooms and centres, and security installations
100%	MASA	Industrial maintenance, mechanical assembly and gas pipelines
100%	SICE	Engineering, installation and maintenance of traffic systems, instrumentation, lighting and tolls

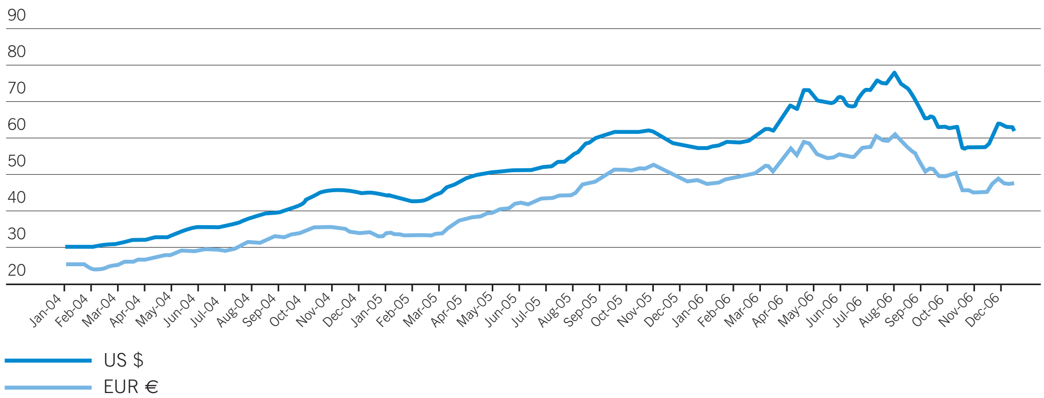
1.4 Industrial Services

Sector prospects

The Industrial Services area encompasses a large number of markets and activities, and is affected mainly by the evolution of the Spanish energy sector and global oil and gas industry. These two sectors have good growth prospects in upcoming years.

The growing demand for energy, as well as the high price of oil, which at December 31, closed at $60 per Brent barrel, guarantees that the large oil and gas companies will continue to undertake energy supply expansion projects. The main projects in this area encompass extraction, refining, transport and storage.

Price of oil-Brent Barrel



Source: Reuters

Additionally, in the last months of 2006, the electricity companies operating in Spain presented strategic plans including investments of over 37.9 billion euros in the period from 2007-2009. The ACS Group is one of the main service suppliers for these electricity companies.

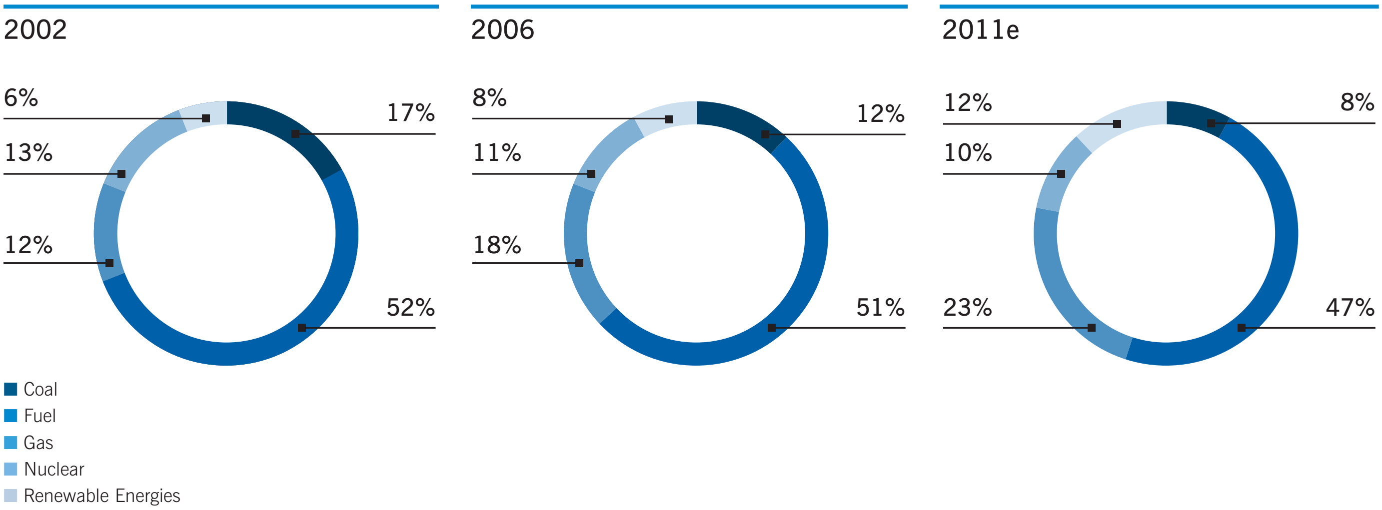
Strategic Plan Millions of Euros	Endesa 2007-2009	Iberdrola 2007-2009	Unión Fenosa 2007-2011	EDP 2007-2009
Investments	12,300	9,000	9,000	7,600

In this sector, construction of new generation and renewable energy plants is expected to continue, as well as the installation and maintenance of high- and low-voltage power lines, without losing sight of the fact that an appropriate combination of energy sources fostering a competitive price level and fulfilling the guidelines of the Kyoto protocol is required.

1.4 Industrial Services

Evolution of the types of energy used in Spain

%



Source: Ministry of Industry and Energy

Furthermore, and as a consequence of this development, demand is also growing for installation operation and maintenance services, largely from public service companies and industrial corporations:

- Many industrial companies are attempting to increase their productivity in order to be able to compete in increasingly liberalised sectors while offering greater flexibility in order to increase efficiency and promote expansion in new activities on domestic and international markets.

- Public administrations are attempting to optimise expenditure in order to meet growing social demands by improving existing public services and developing new products and technologies that improve their quality.

1.5 Energy

The ACS Group has participated in the development of the energy industry in Spain for over 70 years. Therefore, a large portion of the electricity companies' assets was designed and constructed, and is currently maintained by the Industrial Services area, both in the Iberian Peninsula and in those countries where Spanish electricity utilities have expanded their operations.

This experience in the sector makes energy a strategic area for the ACS Group. The Group first's investment in an electricity company, Unión Fenosa, was in September 2005, converting the ACS Group into a reference industrial shareholder in the number three company in the Spanish market. This shareholding was consolidated and reaffirmed in 2006 until reaching a 40.5% stake in the electricity utility.

The ACS Group took an additional step forward in its commitment to the sector with the creation of a fourth activity area, namely Energy, which reinforced its strategic positioning in this market, and inter alia, involved the inclusion of Union Fenosa in the Group's financial statements as of January 1, 2007.

Unión Fenosa is an integrated electricity company with electricity generation, distribution and marketing activity, present on every link of the gas business chain. The company operates in Spain as well as an additional 11 countries mainly in Latin America. As a whole, the company has a total installed power of nearly 13,900 MW, implying an attributable power of 10,289 MW, and services over 8.6 million clients.

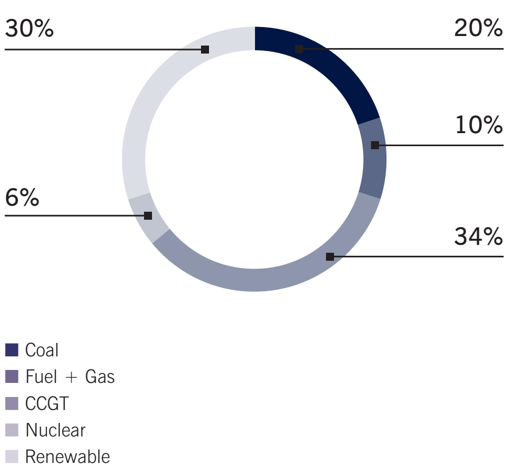
In Spain, Unión Fenosa has ownership interest in power plants with a total installed power of over 11,100 MW implying 7,516 MW of attributable power, with production exceeding 30,700 GWh in 2006. The company has one of the most balanced and efficient technological mixes in the domestic system, relying on all generation technologies (hydraulic, nuclear, coal, combined cycle and renewable).

Additionally, in the domestic sphere, Unión Fenosa distributes electricity to 3.5 million clients located mainly in the central and North Western areas of Spain. In 2006, the energy invoiced exceeded 33,750 GWh.

In 2006, the gas business, after having initiated the regular operation of main infrastructures in the chain designed by the company (gas at source, liquefaction, marine transport and regasification), Unión Fenosa Gas invoiced over 60,560 GWh, reaching a share of 12.7% in the deregulated Spanish market.

Installed power

%



Installed power MW	Unión Fenosa
Coal	2,048
Fuel + Gas	1,030
CCGT	3,493
Nuclear	589
Renewable	3,072
Total	**10,231**

Additionally, over the past decade, Unión Fenosa has consolidated its electricity line of business outside of Spain and currently manages over 2,700 MW of installed power and services approximately 5.2 million clients abroad. In 2006, the company's international production exceeded 15,100 GWh and the power invoiced abroad amounted to over 17,800 GWh. The company's international presence is concentrated in Mexico, Colombia and various Central American countries.

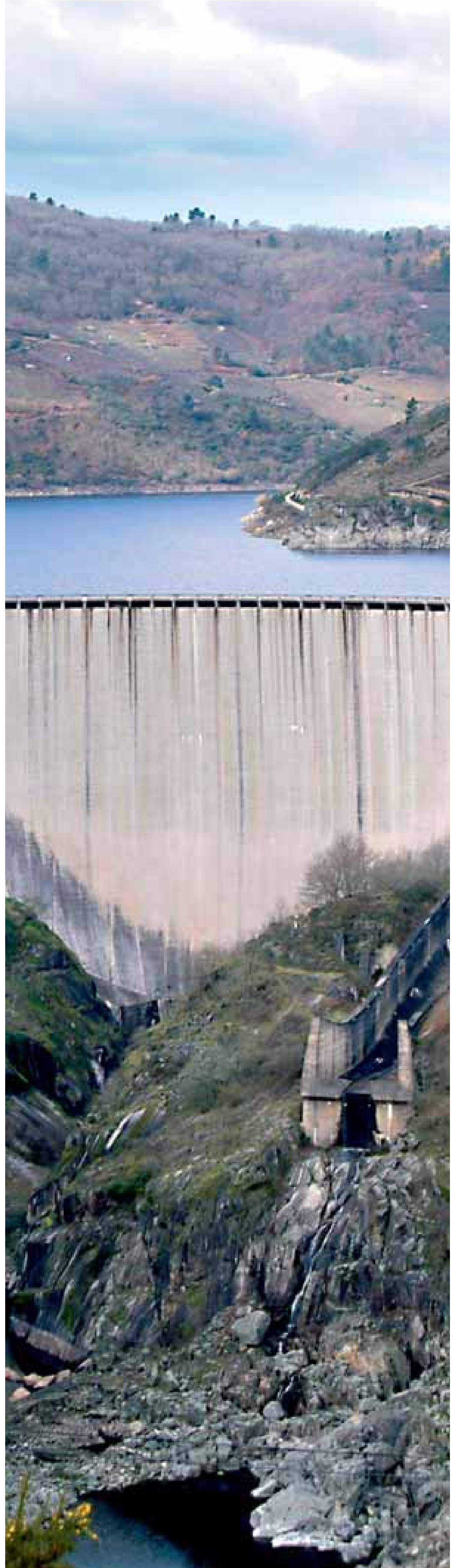
In its current position, Unión Fenosa combines three significant features:

■ In its gas-electricity integration strategy, Unión Fenosa holds a differentiated position, based on the search for competitive gas at source, in its active participation on all links of the gas supply chain and in the ongoing development of an ambitious plan to construct 4,000 MW of new combined cycle electricity generation capacity by 2007.
One of the key elements in this strategy lies in the flexibility of its gas supply, to which the attractive contractual conditions reached contribute, as well as the fact that it has its own time-chartered methane transport fleet.

■ In recent years, Unión Fenosa has developed a series of alliances with strategic partners with renowned experience and international prestige. In this respect, the company shares 50% of its gas business with Eni, and has a 50% stake with Enel in Eufer, a company engaged in the development of generation under the special regime in the Iberian Peninsula. It also participates with the Egyptian companies EGAS, EGPC and the Omani Oman Oil Company in various gas infrastructures, and with CEPSA in the New South Generator Plant (NGS).

These alliances contribute significant complements and competitive advantages to Unión Fenosa, and in terms of the future, they offer the company the possibility of expanding its gas and renewable energy lines of business, and the opportunity to develop new projects of common interest.

■ Unión Fenosa also has a healthy financial structure, enabling it to take advantage of the current backdrop of growth in the Spanish and international energy markets to make new investments.



1.5 Energy

In 2006, which was characterised by the growth of all market segments in which the company operates, Unión Fenosa recorded a turnover of 6,056.7 million euros. The company's EBIT amounted to 1,306.8 million euros and its net recurring profit amounted to 635.4 million, up 41.4% and 38%, respectively on the previous year. Additionally continued its effort to strengthen itself financially, closing the year with a leverage of 50% and Debt/EBITDA ratio of 3 times.

The culmination of the development of the integrated gas business chain, from the supply at source to the combined cycle plants, was the main focus of Unión Fenosa's growth in 2006, which was accompanied by the positive performance of its international business.

The operation over the year of the liquefaction plant in Damietta, together with the start-up of the Sagunto regasification plant and the commencement of Oman's long-term supply contract completed the company's presence on every link of the gas chain. This, together with the start-up of operation of 400 MW combined cycle, a technology with a total 2,000 MW operating in Spain, enable Unión Fenosa to evidence the strength of its "Gas and Cycles" strategy and to predict the growth capacity of both activities by means of the staggered inclusion of larger volumes of gas in upcoming years and the start-up of an additional 1,600 MW of combined cycle power in 2007.

The results achieved in 2006 enabled the company to meet the objectives included in its 2003-2007 plan, in which it was estimated that the company's EBIT and net profit would amount to 1.1 billion and 600 million euros, respectively.

Main operating aggregates

Unión Fenosa	Installed Power	Production	(*) Distribution	(**) Gas Invoiced	(000) Electricity Clients
Spain	7,516 MW	30,727 GWh	33,756 GWh	30,283 GWh	3,456
International	2,773 MW	15,114 GWh	17,808 GWh	——	5,162
Total	**10,289 MW**	**45,841 GWh**	**51,564 GWh**	**30,283 GWh**	**8,618**

(*) The distribution figures refer to power invoiced
(**) The gas figures correspond to Unión Fenosa's consolidation criteria. (50% Unión Fenosa Gas)

Main Financing Aggregates

Millons of euros

	2005	2006	% Change
Income Statement			
Revenue	6,098.8	6,056.7	-0.7%
EBITDA	1,477.3	1,906.8	29.1%
EBIT	924.0	1,306.8	41.4%
Attributable Profit	823.7	635.4	-22.9%
Recurring attributable profit	460.5	635.4	38.0%
Balance sheet			
Total assets	17,731.0	16,802.1	-5.2%
Equity	5,066.8	5,563.8	9.8%
Gross Financial Debt	6,227.8	5,673.8	-8.9%

1.5 Energy

Unión Fenosa recently presented a strategic plant encompassing the period from 2007-2011, which is aimed at duplicating its earnings per share through the performance of a number of investments both in Spain and abroad.

The Strategic Plan rests on three types of investments: recurring, project development and acquisitions up to a total 9 billion euros.

The recurring and project development investments already identified amounting to 5.4 billion euros make up the basis of the plan and allow for 90% of the foreseen objectives to be reached with an improvement of financial ratios. These investments would give rise to an increase in EBITDA to 2.9 billion euros, as well as an increase in earnings per share to 3.6 euros per share, maintaining a leverage ratio of 46%.

Based on its characteristics and in accordance with its investment possibilities, Unión Fenosa envisages additional investments amounting to 3.6 billion, which would enable the company to reach and even exceed the objectives of the Strategic Plan.

Based on its current positioning and its investment capacity, Unión Fenosa provides the ACS Group with a significant growth platform. The ACS Group's strategy in Unión Fenosa is basically focused on:

- Reaffirming its strategic commitment to the electricity industry by including Unión Fenosa as a new operating area of the organisation.

- Using and sharing the knowledge of the electricity market which the Industrial Services area has developed over the course of more than 75 years of activity.

- Supporting the company in its domestic and international expansion, in both gas and electricity sectors.

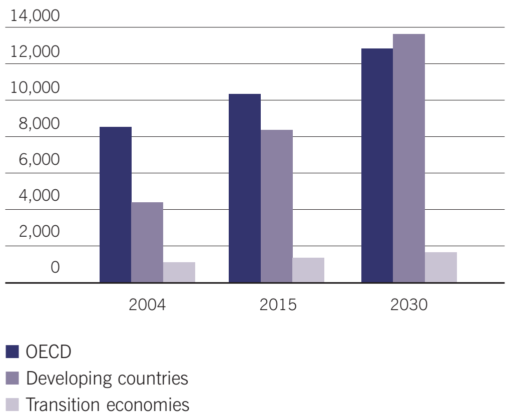
- Reinforcing the industrial nature of Unión Fenosa in its activities in the medium and long term.

Sector prospects

According to the projections made by the International Energy Agency (IEA), the worldwide demand for energy will rise by over 50% in the next 25 years due to worldwide economic growth and the development of emerging countries. By 2030, demand for electricity is expected to duplicate from 14,376 TWh in 2004 to 28,093 TWh at the end of this period, with average accumulative growth rates of around 2.6%.

Additionally, the IEA estimates that over 20 trillion dollars in investments will be required to cover the high energy demand projected. Of this amount, over 11 trillion dollars, i.e. 56%, corresponds to the investments required for the replacement and development of power generation, transport and distribution infrastructures.

World electricity demand by region in the reference scenario



Additionally the worldwide energy environment will be conditioned by the difficulty of making three fundamental objectives compatible with each other: guarantee of supply, efficiency of energy markets and sustainability in a backdrop marked by the maintenance of the weight of fossil fuels in the energy model (according to the IEA it will continue to account for 80% of primary energy) and growing environmental demands.

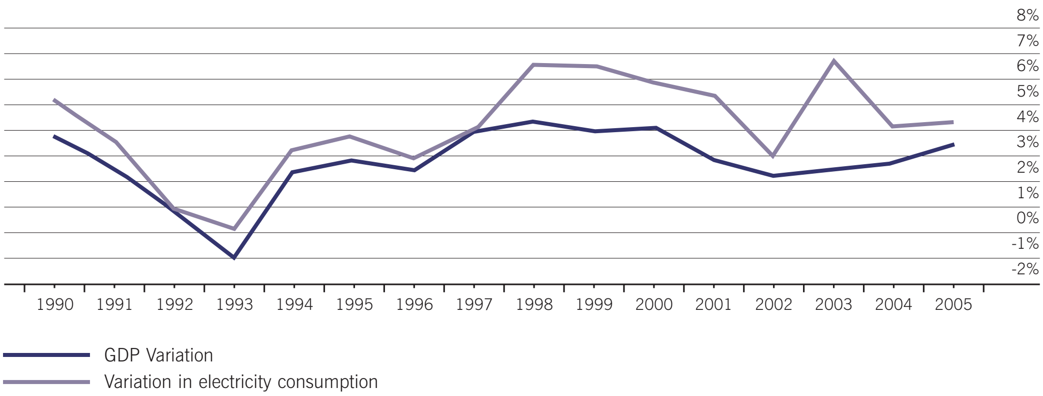
The future of the worldwide, and particularly European, energy sector, will pass through a possible concentration process in future years. The significant replacement and technological improvement needs of this sector imply costly investment plans that companies will be required to implement in order to guarantee their competitiveness and expand their activity, which will require the financial and technical capacity only held by large groups.

1.5 Energy

The trends of the electricity market in Spain will not be any different than the aforementioned general trends. On the contrary, in the past 10 years the demand for electricity has increased by 66%, with accumulated average annual growth rate exceeding 5%, which is higher than GDP growth and much higher than the average recorded in the rest of the European Union countries. With respect to the future, rising population estimates, economic growth and the evolution of income levels and consumer energy equipments will lead to further increases in demand, which the Spanish Energy Commission predicts will average an annual 3.9% in the case of electricity, and 5.8% in the case of gas from 2006-2010.

GDP Evolution and Demand for Electricity from 1990-2005

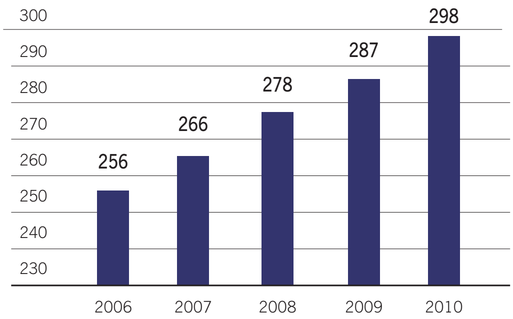
Variation %



Source: "Fifth Framework Report on electricity and natural gas demand, and its coverage. 2006". CNE (Spanish Energy Commission)

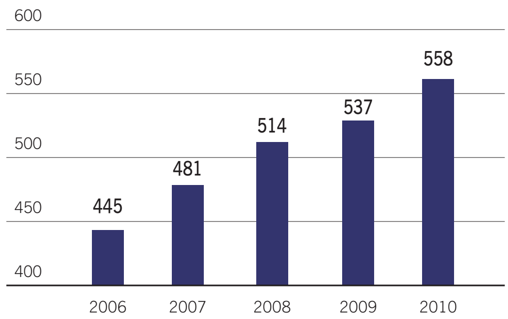
Forecasted growth in the demand for electricity in the period from 2006-2010

TWh



Forecasted growth in the demand for gas in the period from 2006-2010

TWh



Source: "Fifth Framework Report on electricity and natural gas demand, and its coverage. 2006". CNE (Spanish Energy Commission)

In view of these increases in demand, the Spanish energy system must continue to make investments which will allow it to expand and develop gas and electricity infrastructures to guarantee the safety of supply. These are in addition to the investments and measures that need to be taken to reduce the environmental impacts of energy activities.

Unión Fenosa has a solid position from which to face the challenges and conditions of this environment. The company considers that the sustainability and guaranteed supply objectives require numerous investments and an appropriate balance between all generation technologies. From this standpoint, its strategic plan seeks stability in the supply and prices of primary energies (mainly gas and coal), predicts significant increases in combined cycle and renewable energy generation capacity, and backs the development and application of new generation technologies with coal and the capturing and storage of CO_2.

1.6 Strategic Investments

The ACS Group actively participates in key sectors of the economy both directly and indirectly through its stakes as the reference industrial partner in its investees. In the Transport Infrastructure Concession sector, it has a stake in Abertis, whereas in the Energy sector it has ownership interest in Iberdrola. In 2006, the ACS Group invested over 3,297 billion euros in Iberdrola. Also, noteworthy is that in December 2006, the Group's stake in Urbis was sold.

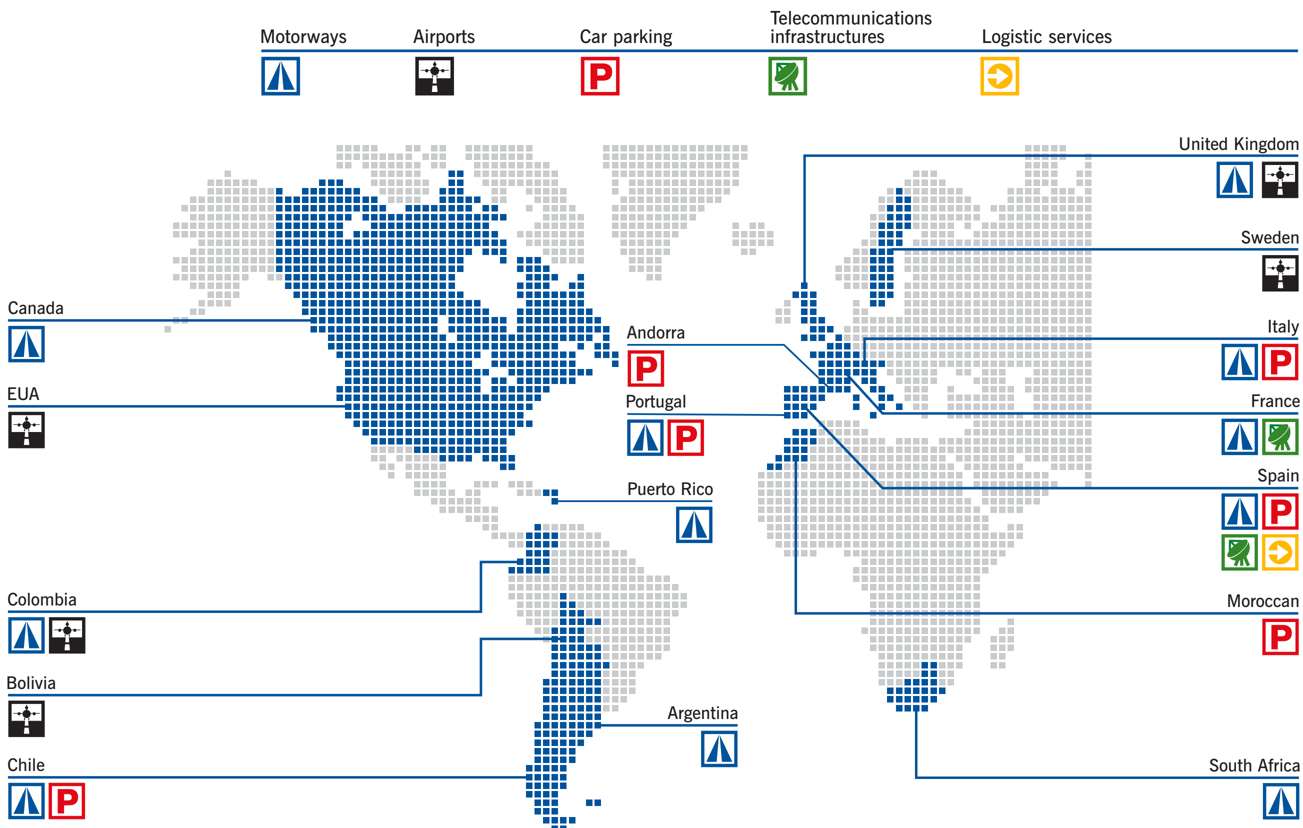
1.6.1 Abertis

Abertis is the most important infrastructures company in Europe in terms of market capitalization and number of projects. Its main mission is the management of assets such as motorways, airports, car parking, telecommunications infrastructures and logistics services.

Its results of 2006 show an increase in sales of 75% climbing to 3,335 billion euros and total net profit of 530 million euros, 4% above the previous year.

In 2006, Abertis showed great dynamism in all its business areas, with the consolidation of its internationalisation, diversification and selective growth strategy.

With respect to motorways, in February 2006, it acquired Sanef, with a total investment of 3,064 billion euros. This company's inclusion has allowed for a significant increase in the group's revenues, of which 48% are now earned abroad.



abertis

The process of internationalising Abertis telecom was carried out, with the announcement of the acquisition of a 32% stake in the European satellite dish operator, Eutelsat, in December 2006. Following this transaction, the price of which amounts to 1.07 billion euros, Abertis is now this operator's majority shareholder. Additionally, Abertis had a key role in the launching of Digital Terrestrial Television in Spain.

With respect to the airport area, noteworthy is the increase of passengers (+4%) to over 22 million users in the entire network of Abertis airports. The last steps required for the integration of TBI were also taken, as well as the investments required to increase the capacity of the main airports.

At December 31, 2006, the ACS Group had a holding of 24.8% in Abertis.

The ACS Group, through its presence in Abertis, participates in the operation and management of infrastructures within the value chain of the concessions business.

■ The contribution of Abertis to the ACS Group's profit from companies accounted for the equity method was €107 million in 2006, 15.2% higher than in the previous year. The ACS Group's unrealised gains from its holding in Abertis exceeded 1.5 billion euros at December 31, 2006.

■ The main activity engaged in by Abertis, the management of mature concessions with a long horizon, is in line with the objectives of the ACS Group.

■ Abertis bases its growth opportunities on a solid financial structure, a broad international presence, high capacity and the experience required to take advantage of market opportunities, and a selective and stable investment strategy.

1.6 Strategic Investments

1.6.2 Iberdrola

Iberdrola is one of the 10 largest electricity utilities in the world, both in terms of installed capacity and profitability and earnings.

- It is the number two electricity company in the Iberian Peninsula, with installed power of 30,384 MW.

- It has significant international presence, particularly in South America, as well as a clear determination to continue expanding its activity internationally.

- It has presented a strategic plan whose objectives are to increase its net profit by more than 40% and to increase dividends by over 3 billion euros between 2006 and 2009. In this process, it will invest over 9 billion euros, without including the Scottish Power transaction.

- It is the worldwide leader in the development and management of renewable energies, considering it has a generation capacity of 4,434 MW and generated over 7,300 GWh in 2006.

Iberdrola	Installed Power	Production	Distribution*	Gas Supplies	Clients (000)
Spain	25,966 MW	68,348 GWh	99,520 GWh	46,570 GWh	9,900
International	4,418 MW	23,643 GWh	27,662 GWh	—	8,500
Total	**30,384 MW**	**91,991 GWh**	**127,182 GWh**	**46,570 GWh**	**18,400**

*International distribution refers to invoiced energy

IBERDROLA

In 2006, its results were very positive, and it recorded sales amounting to 11,017 billion euros, with a net profit of 1.66 billion euros, up by 20% versus 2005.

In September 2006, the ACS Group became the company's main shareholder due to the acquisition of 10% of the shares of the electricity utility on the stock exchange. The total investment amounted to 3,297 million euros, financed mainly through a loan without recourse to the shareholders of the ACS Group.

Iberdrola contributes to the Group's profit through its dividends, which are recorded as financial profit. In the last quarter of 2006, its contribution amounted to 40.6 million euros.