



*2006 DIRECTORS' REPORT OF ACS,
ACTIVIDADES DE CONSTRUCCIÓN Y
SERVICIOS, S.A.*

Madrid, 15 March 2007

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

1. Company's business performance in 2006

ACS Actividades de Construcción y Servicios, S.A. is the Parent of the ACS Group, whose performance was very positive in 2006, with an increase in both the Group's sales and the profitability of all its operations. Consequently, its earnings surpassed all the proposed objectives in all the operating aggregates.

Following is a summary of the Group's consolidated financial aggregates:

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

* Profit after taxes excluding extraordinary results

** Net debt with recourse/ Equity

The main item of income of ACS Actividades de Construcción y Servicios S.A. relates to the dividends received from companies forming part of the consolidated group, a detail of which is as follows:

Millions of Euros

Dividends	2005	%	2006	%	Changes 06/05
Construction	187.3	49%	231.7	51%	+23.7 %
Environment & Logistics	10.8	3%	11.1	2%	+3.0 %
Industrial Services	105.9	28%	119.5	27%	+12.8 %
Other	75.1	20%	88.0	20%	+17.2 %
Total	379.1		450.2		+18.8 %

The "Other" heading includes dividends from Abertis and other investees.

Also noteworthy with respect to the Group's business performance in 2006 were the sale of Vías y Construcciones S.A. to Dragados S.A. and the sale of Inmobiliaria Urbis S.A. as a result of the takeover bid launched by the Inmobiliario Reyal Group completed in December 2006, which gave rise to extraordinary profit amounting to EUR 1,059,440 thousand.

2. Treasury shares

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

Treasury Shares	Number of Shares	Millions of Euros
Beginning balance at 31 December 2005	-	-
Purchases	22,537,670	778.3
Sales	-15,552,615	-495.3
Allowance to reduce to underlying carrying amount	-	-215.7
Ending balance at 31 December 2006	6,985,055	67.3

The net gain on the sale of treasury shares amounted to EUR 25.28 million and was recorded as profit for the year.

3. Risk management policy

3.1. Risks Intrinsic to the activity of ACS Actividades de Construcción y Servicios S.A.

As Parent of the ACS Group, ACS Actividades de Construcción y Servicios S.A. is indirectly exposed to the risks to which its subsidiaries are exposed. The ACS Group operates in sectors, countries and social, economic and legal environments which involve the assumption of different levels of risk caused by these determining factors.

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

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

3.2. Financial risk management

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

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

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

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

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

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

4. Human Resources

In 2006 ACS Actividades de Construcción y Servicios S.A. employed an average 53 individuals. The Company's human resources policy is in the same line as that of the ACS Group, and is aimed at maintaining and hiring committed teams of individuals, with a high level of knowledge and specialization, capable of offering the best service to the customer and generating business opportunities with rigour and efficiency.

5. Technological Innovation and Environmental Protection

ACS Actividades de Construcción y Servicios S.A. considers that sustainable growth, its vocation to care for and respect the environment and the meeting of the expectations that society places on a company like ACS must all have a decisive influence on its strategy and on each of its actions.

This commitment is identified in each of the activities in which the Group is present, in each of the investments that it promotes and in the decisions that it takes in order to satisfy its customers and shareholders, to boost profitable growth, quality and technological development, while also attending to growing demands for respect of the environment by implementing measures to prevent or minimize the environmental impact of the Group's infrastructure development and service activities.

5.1. Research and development activities

On an individual basis, the Company does not engage in research and development. However, the ACS Group is committed to a policy of ongoing improvement of its processes and of applied technology in all activities. For this purpose, the ACS Group has its own research program aimed at developing new technological know-how applicable to the design of processes, systems, new materials, etc. in each activity that it manages.

5.2. Environmental Protection

As in the previous case, on an individual basis, the Company does not carry on any environmental activity. However, the ACS Group's main activity, namely the development and maintenance of infrastructures, involves environmental impacts including the use of materials deriving from natural resources, the use of energy (both during construction as well as during the life of the various infrastructures), the generation of waste, as well as both visual effects and effects on the landscape.

In line with its vocation to protect the environment, which has prevailed since its creation, in 2006 the ACS Group promoted two main action areas: an environmental policy, the main objective of which is to minimize the environmental impact of its activity, and for an additional year, an Environmental Management System, which controls the specific actions of each Group company to protect the environment.

6. Significant events after the balance sheet date

6.1. Payment of dividends of the ACS Group

In accordance with the resolution adopted by the Company's Board of Directors at its ordinary meeting on 14 December 2006, on 15 January 2007 the Group distributed a gross interim dividend out of income for 2006. This dividend amounted to EUR 0.40 per share, equivalent to 67% of the total dividend paid in the previous year.

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

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

This integration involves a change in the scope of consolidation in the financial statements of the Group of which ACS, Actividades de Construcción y Servicios S.A is the Parent since, starting on 1 January 2007, Unión Fenosa will be fully consolidated.

6.3. Arrangement of derivatives on the shares of Iberdrola.

In recent weeks ACS Actividades de Construcción y Servicios S.A. entered into a derivatives agreement, specifically an equity swap, on the shares of Iberdrola, S.A. affecting 2.44% of its share capital. This swap may be settled in cash or shares at the option of the ACS Group.

7. Outlook for 2007

The objectives of ACS, Actividades de Construcción y Servicios S.A. for 2007 are specifically to lead the growth and management of the Group in a coordinated manner, in pursuit of the highest profitability for the shareholder. In this respect the Group of which this company is the Parent should attempt to achieve the following goals:

- Reach an approximate 10% organic growth rate in sales, although the Group's consolidated revenue, including the revenue of Unión Fenosa, will increase by over 50%.
- Promote the growth of Group areas and activities, particularly in Industrial Services, Environment and Logistics.
- Maintain the profitable investment policy both at Group companies and at investees.
- Increase the Group's net profit by approximately 20%.

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