Letter from the Chairmen of the Board of Directors

Dear shareholders,

It is a great pleasure for us to bring you this report on progress at Alba and its investments during 2006.

Equity market performance was excellent, especially in the second half of the year. The Ibex 35 gained 31.8%, setting a new record as it rose above 14,350 points in the second half of December.

Our company's net asset value before taxes (NAV) grew by 1,727 million euros, reaching 4,901 million euros at year-end. This is a new end-of-year record, substantially beating the previous record of 4,347 million euros set in December 1999. As of December 31, 2006, NAV per share was 75.82 euros after deducting own shares held. That is 56.7% higher than in 2005 and 38.3% higher than the record set in December 1999. This strong growth in NAV per share reflects excellent performance by our investments and the effect of our ongoing share repurchase programme.

At the end of 2006 Alba's shares traded at 56.55 euros, representing a 25.4% discount on pre-tax NAV per share. During the year, the share price rose 44.1%, comparing favourably with the 31.8% rise in the Ibex 35 just mentioned.

Consolidated net profit was 918.3 million euros, up 106.7% on the previous year (444.3 million euros). Earnings per share rose to 14.15 euros, up 109.0%. As has been the custom in our company, capital reductions through the cancellation of own shares resulted in a higher percent increase in earnings per share than in overall profit.

Turning to the profit and loss account, *Profit from asset disposals* grew strongly to reach 555.3 million euros at year-end, up 77.6% on 2005 (312.6 million). The bulk of this profit came from the divestment of Carrefour (492.9 million euros) and, to a lesser extent, the sale of 40.3% of Unipsa Correduría de Seguros and gains on *Held-for-trading financial assets*.

Another noteworthy increase is in *Share of profit of associates*, which reflects the impact of investment performance in 2006. Compared with the previous year, Alba's share of profit grew substantially, from 121.8 million euros to 365.6 million euros, mainly due to the increase in the equity interest in ACS and Acerinox and these two companies' strong performance in 2006.

Further on in this report you will find a more detailed analysis of the various profit and loss items.

The following is a summary of the main corporate transactions carried out in the year under review.

• The most significant investment was the purchase of an additional 9.62% of the share capital of Acerinox for 337.2 million euros, bringing Alba's stake to 20.80%. This has reinforced Alba's position as Acerinox's leading shareholder. As a result of this investment and the increase in the Acerinox share price, at year-end 2006 Acerinox accounted for 25.0% of Alba's NAV, versus 11.0% one year earlier.

• Alba also increased its stake in ACS to 21.14% after purchasing an additional 3.21% for a total of 327.9 million euros. ACS now accounts for 65.0% of Alba's NAV, up from 55.0% in December 2005.

• Divestments during the year totalled 719 million euros, the most significant being the disposal of the remaining interest in Carrefour. In the first quarter of 2006, Alba sold 2.5% of Carrefour for 678.7 million euros, registering a profit of 492.9 million euros and completing its divestment. The return on the Carrefour investment has been excellent: an IRR of 16.9% per year for 17 years, the financial equivalent of multiplying the initial investment by more than 13.

• In 2006, Alba maintained its policy of purchasing own shares. It acquired 955,686 own shares for a total of 39.6 million euros, representing 1.47% of the share capital. At the General Meeting in May 2006 the shareholders agreed to cancel 500,000 shares, equivalent to 0.76% of the share capital. The number of own shares held as treasury stock at year-end was 456,686, equivalent to 0.70% of Alba's capital.

Next we shall briefly discuss the performance of our main investment during 2006. More detailed information is provided elsewhere in this report.

• Acerinox posted record results, with sales of 5,637 million euros and net profit of 503 million euros, more than tripling the previous year's result. This magnificent achievement is attributable to strong growth in demand for stainless steel and high nickel prices, and especially in the second half of the year. The Acerinox share price responded to the excellent operational and financial results, rising 87.6% during the year to reach a market capitalization of almost 6 billion euros at year-end.

• ACS achieved substantial improvements in 2006, thanks to strong performance of all its business lines and the contribution of companies accounted for under the equity method, especially Abertis and Unión Fenosa. Sales and EBITDA were up nearly 16% to 14,067 and 1,270 million euros, respectively. Consolidated net profit more than doubled to 1,250 million euros.

During the year, ACS implemented several important strategic decisions. These included increasing its stake in Unión Fenosa (the flagship of the new ACS energy division), acquiring 10% of Iberdrola and disposing of its interest in Urbis. These transactions entailed a net investment of 4,203 million euros.

The ACS share price rose 57.0% during the year, bringing the company's market capitalization at year-end to more than 15 billion euros.

• Prosegur reported consolidated sales of 1,628 million euros, up 17.3% on 2005, mainly due to the growth of the corporate security business and the satisfactory results of Latin American operations. Net profit fell 11.8% to 58 million euros due to an extraordinary expense of almost 20 million euros. Without this, Prosegur's profit would have risen 18.5% to 77 million euros.

During 2006, Prosegur's share price increased (+27.8%), especially in the last quarter. The company's stock market capitalization at year-end was over 1,500 million euros.

The outlook for 2007 is good, both for our investments and for the Spanish market as a whole. Aside from short-term fluctuations such as the market correction in March, we believe that the fundamentals and the overall economy are strong enough to predict a year of market growth. We believe this also applies to ACS, Acerinox and Prosegur.

We continue to place special emphasis on standards and practices of good corporate governance and last year adapted our internal regulations to the latest legal requirements and recommendations. In particular, the Board amended the internal code of conduct to ensure fuller compliance with market abuse regulations.

The corporate web site, which is fully compliant with current regulations, remains an excellent source of company information for shareholders, investors and industry professionals.

The Board has also approved the annual corporate governance report, wich you can find attached at the end of this report, and that gives details of the Company's shareholders and directors, the risk control systems in place, the functioning of the General Meeting, and the monitoring of compliance with corporate governance recommendations.

Regarding the distribution of profit for the year, the Board of Directors will recommend a final dividend for 2006 of 0.06 euros per share, to be paid in the near future. Together with the interim dividend paid in November last year, this brings the full-year dividend to 0.12 euros per share. The dividend payout thus remains on a par with previous years. Also at the General Meeting, the Board will propose a reduction of capital through the cancellation of own shares equivalent to 1.54% of the share capital.

Other resolutions to be laid before the shareholders concern the election, ratification and re-election of directors, the amendment of the regulations of the General Shareholders' Meeting in order to comply with the latest corporate governance recommendations, and the renewal of the authorization to make market purchases of the Company's own shares.

Lastly, we would like to thank all the employees of our group of companies for their professionalism, enthusiasm and commitment, and all of you for your trust and support.

Yours sincerely,

Juan March Delgado
Carlos March Delgado
Chairmen of the Board of Directors