



*Sacyr Vallehermoso faces the future in optimum conditions and from here I would like to thank all the people who work in our Group.*



# Letter from the Chairman

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**Dear Shareholders**, it is an honour and gives me great satisfaction to address you for the first time as Chairman of the Board of Directors of Sacyr Vallehermoso and to present to you a business year replete with very important events for the Group.

In June 2002 Sacyr acquired 24.5% of Vallehermoso and this was the start of a process which was to culminate just a year later with the merger of the two companies on 2 June 2003. I would like to emphasize that the merger process was conducted rapidly and in an exemplary manner – in just four months from the time it was first announced, with no conflicts, thanks to the efficient integration of the workforces, the commitment of all employees to the project undertaken and the support of all of you, our shareholders, who approved this merger at the General Meeting held on 3 April 2003, with 75.7% attendance and 93.0% of those present voting in favour.



The result is a perfectly diversified construction, real estate, property-owning and concessionaire group, with a good balance between the different activities it engages in and a well-defined strategy. It has great growth potential and is undoubtedly a point of reference in all the sectors in which it operates.

We believe that a sound group has been formed, with a strong capacity to generate cash and possibilities of re-investing this in businesses where it is, moreover, the market leader in Spain (property and concessions). This gives it great flexibility for putting these flows into the activities which offer the best investment conditions at each moment in time.

Indeed, this magnificent start was underpinned by two extremely important operations, which illustrate the Group's investment capacity and which I would like to mention to you.

Firstly, in October 2003 after the privatization process conducted by the Sociedad Estatal de Participaciones Industriales (SEPI), the company Empresa Nacional de Autopistas, S.A. (ENA) was

purchased by a consortium led by Sacyr Vallehermoso. This operation involved a total investment of Euros 1,621 million and makes us the second infrastructure group in Spain, where we are involved in 2,650 kilometres of motorways.

In addition, the purchase of ENA has served to balance the contract portfolio, since the majority of ENA's contracts are already mature and have a long period of operation ahead of them. In contrast, with the exception of the motorway Autopista Vasco Aragonesa (AVASA), the contracts we had in our portfolio are under construction or in their early years of operation.

And secondly, last December we announced that the company Somague was to be fully integrated into the Group by means of a share swap. The Group already owned approximately 30% of Somague, Portugal's leading construction firm, and thus the operation strengthens our presence on the Iberian Peninsula, opens doors to new markets, such as Brazil, and, in short, boosts Sacyr Vallehermoso's growth in activities and geographical regions of great strategic interest to the Group.



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All of this took place without losing sight of the targets set at the beginning of the year as regards the growth of our different businesses, in a year when Spain once again grew above the European average, in a foreign environment marked by great uncertainty, albeit with signs of gradual recovery.

The Spanish GDP grew by 2.6%, with a positive spread with the euro zone, on the back of domestic demand and, within this, consumption and construction.

Household income remained steady, thanks to growing employment, positive stock market performance, the increase in the value of property and low interest rates, and private consumption actually grew. Moreover, home-buying remained strong, thanks to the increase in income, good financing conditions, demographic factors and demand from abroad – all sound factors that have little to do with speculation or the much mentioned “property bubble”, and which led to high demand, with over 600,000 homes built in 2003.

The buoyancy of civil works, mainly as a result of the Infrastructure Plan, drove investment in

construction, partly offsetting the gentle slowdown observed in the non-residential private construction sector.

Due to this positive situation and the business strategy followed, with wise investments, a policy of meeting commitments, high quality standards and a target of profitability, revenues amounted to Euros 3,333.7 million, an increase of 61.5%.

Ordinary income totalled Euros 347.2 million, which is an increase of 22.0%. As tax pressure was greater because there were no longer any negative tax bases to be offset, net income was slightly higher than in the previous year and amounted to Euros 334.3 million.

The two investments mentioned earlier, together with the purchase of twelve office blocks leased to Endesa, the acquisition of new land for future housing developments and the projects developed for property for lease or contracts currently in progress involved total gross investments of Euros 4,637.9 million, putting total assets at Euros 11,345.4 million.

I feel it is opportune to mention some important figures for each of our business divisions. Thus, in business year 2003, the area of property for lease was increased by 145,200 square metres to reach a total of 1,430,000 square metres in operation. The occupancy rate of the properties under management was of 96.5%, which makes Testa the leading property-owning real estate company in Spain.

In the year of Vallehermoso's fiftieth birthday, housing was sold for a total of Euros 943.1 million. In terms of revenues and the number of homes sold, Vallehermoso is the leading real estate developer in Spain, which shows that our brand is synonymous with quality and the confidence our clients have in us.

Sacyr and Somague were awarded works contracts worth Euros 2,079.7 million, which guarantees the growth of this business in the future, thanks to the good performance of the construction market, the Infrastructure Plan and the efficient management of the Group.

Itinere has put 136 new kilometres of motorways on stream, so that 2,403 kilometres of the total of 2,650 kilometres contracted are now in operation, after the inauguration of the



*Head Office of the Sacyr Vallehermoso Group*

33.3 kilometre Algarrobo-Casablanca stretch in Chile (Red Vial Litoral Central), the 65 kilometre R-2 (M-40-Guadalajara), the two stretches pending of the A-9 (Rebullón-Tuy and Fene-Ferrol) with a total of 24.1 kilometres, thus completing the Autopista del Atlántico motorway (Ferrol-A Coruña-Vigo-Portuguese border), and the 13.3 kilometre Silleda-Lalín stretch of the A-53 (Santiago-Ourense).

Logically enough, the market recognized these achievements and our share performed extremely well. It appreciated by 21.2% during the year and this is all the more significant if we consider that it had already risen by 41.6% the previous year. At the end of 2003, market capitalization stood at Euros 2,950 million, making our company the



seventh construction group in Europe in this respect.

For all of this, the 2003 Board of Directors agreed upon a large payment to shareholders through dividends, Euros 0.42 per share. This corresponds to 4 ordinary dividends of gross Euros 0.075 each (a total of Euros 0.30) and an extra dividend of gross Euros 0.12 for the merger. In this way, the Board of Directors wanted shareholders to participate in the value created by the Sacyr Vallehermoso merger.

Sacyr Vallehermoso's performance will be equally positive in 2004, since its income statement is guaranteed by the sales commitments in residential development, the rental contracts signed

for periods of between five and ten years, the backlog orders in hand and the foreseeable increase in traffic levels. Moreover, it will be a year when the recently acquired businesses are integrated.

Thus, Sacyr Vallehermoso faces the future in optimum conditions and from here I would like to thank all the people who work in our Group for their efforts and devotion, without whose contribution these achievements would not have been possible. I would also like to express my gratitude for the confidence of our clients and suppliers, who do so much towards the success of the company. My thanks, naturally, also go to yourselves, the shareholders we work for, for the trust you place in us.



**José Manuel Loureda Mantiñán**

Chairman of the Sacyr Vallehermoso Group