



***Ordinary General Shareholders' Meeting***

***of***

***8 May 2018***

***Speech by the CEO***

***Marcelino Fernández Verdes***

## **Introduction**

Fellow shareholders, good morning and many thanks for attending this General Shareholders' Meeting of the ACS Group.

Managing one of the most important and innovative companies of the infrastructures sector in the world, with almost 200,000 employees committed to leadership and the creation of value for its shareholders is a great responsibility and also an exciting challenge. I would like to thank you all and the Board of Directors for the trust you have placed in me.

The solidity of our financial resources, our excellent teams, know-how and technical skills and the competitiveness of our companies all point to a promising future.

## **Organisational structure**

The ACS business model is based on a streamlined, decentralised organisation, with over a thousand companies that share the same values and a sole corporate strategy based on client focus, integrity in management, sustainable development, profitability and value creation for our shareholders.

These companies are grouped into three areas of activity:

- ✓ Construction
- ✓ Industrial Services and
- ✓ Services

- The Construction area with sales of 27,000 million euros, provides 78% of the total revenue of the ACS Group, mainly in North America, Australia and Europe. We operate via three groups of companies.

- ✓ Dragados
- ✓ Iridium; and
- ✓ Hochtief

- a) Dragados, the largest construction company in Spain, founded in 1941 and with some subsidiaries that are more than 90 years old, is given over to developing and building civil engineering and building projects in Spain and in other countries in Europe and America, and is particularly active in the USA and Canada. It has considerable experience in large and technically complex projects that provide it with a competitive edge at international level.

b) Iridium, which currently has a portfolio with 50 concessions in construction and operations, is the world leader in infrastructure promotion and development, both in terms of number of assets and volume of investment. The investment currently managed by Iridium is in the region of 26,800 million euros, with an invested capital of more than 700 million. This portfolio includes projects such as:

- ✓ Motorways
- ✓ Rail concessions
- ✓ Public amenities, and
- ✓ Hospitals

c) Hochtief, an infrastructures company based in Germany and with an international presence has 145 years of history. It operates mainly in North America, Australia and Europe, via local companies with a leading role in their sector.

In the USA, Turner is the leading construction company in activity segments such as health, education, commercial buildings, sports facilities, airport terminals and green building projects. Hochtief also develops civil engineering projects in the USA and Canada via Flatiron, a top ten company in its sector.

In Australia, CIMIC, with a share participation of 72.7% by Hochtief and whose oldest subsidiary is 118 years old, is the leading group in the construction and services market. Its main subsidiaries are: CPB Contractors, national leader in civil engineering and building activities; Pacific Partnerships, an infrastructure concession development company; Thiess, a world leader in mining operation services; and UGL for operation and maintenance services, mainly in rail, energy and transport infrastructures.

In Europe, Hochtief is involved in construction and engineering activities via Hochtief Infrastructure, and concession development via Hochtief PPP. It is highly active in Germany, the UK and countries in Northern Europe.

- Industrial Services, whose oldest subsidiary is almost 100 years old, had a turnover of over 6,200 million euros in 2017, equivalent to 18% of the total of ACS. Grupo Cobra and Dragados Industrial head different specialist companies whose activities are grouped into two main business lines: Support Services for Industry and Integrated Projects.

- ✓ Support Services for Industry are geared towards services for installation, maintenance and support of infrastructures such as electrical, gas and water distribution grids, telecommunication systems, rail installations, electrical installations, marine platforms, and activities for the installation and operation of traffic control systems, industry and urban services.

- ✓ Integrated Projects focuses on developing projects in which the design, supply, construction and commissioning are carried out mainly in the energy and engineering sector applied to industry.

With a presence in over 50 countries, 71% of its sales in 2017 came from abroad, mainly from the Latin American market, and with an emerging growth in new countries such as Japan.

- Clece provides complete maintenance services for buildings and public installations, as well as assistance and provision of services to certain groups such as the elderly, dependent persons and the disabled. Clece is a benchmark company in Spain for the provision of basic services in developed societies, such as social and educational services, and is initiating expansion of its model to countries like the UK.

Under its vision of 'being a company of people for people', Clece is firmly committed to generating employment opportunities for persons in situations of social vulnerability. As a result, at the end of 2017 Clece had integrated 7,547 people, more than 10% of its workforce, who belong to groups at risk of social exclusion, victims of gender violence and persons with functional diversities.

## **Consolidated results**

The financial solidity of the ACS Group is a consequence of the results obtained in recent years, which have enabled us to strengthen our balance, improve our margins and increase our orders portfolio.

The results of the previous year have consolidated this trend, increasing the operational cash flow capacity and improving our financial structure.

In 2017 the Group obtained sales of 35,000 million euros, growing by 10.7% in comparable terms after adjustments for the exchange rate. The good progress in all business areas, and in particular in the North American and Australian markets, explain this growth.

By countries, the ones with highest turnover are the USA with 38% of sales, Australia with 20%, Spain with 13%, Hong Kong with 4%, Canada with 3.5%, Mexico with approximately 3% and Germany with 2.5%, which taken together represent almost 85% of the total.

The operational results grew in line with increased production, with margins slightly higher than the previous year. The EBITDA was 2,279 million euros while the EBIT was 1,626 million, growing by 12.6% and 12.5% respectively.

The Net Profits of the Group were 802 million euros, 17% more in comparable terms, in other words, after adjustments for the exchange rate and excluding the contribution from Urbaser in 2016. Nominal growth was 6.7%. By areas of activity:

- Construction contributed with 387 million, 24% more than in 2016;
- Industrial Services with 319 million, growing by 5%;
- Services increased its net profits by 38%, up to 37 million euros; and
- The Corporation contributed 59 million euros.

The strong cash flow generation in 2017, with major improvements in all activities, is proof of the solid nature of these results.

In particular, the generation of operational cash flow, or rather, those funds generated by operations before operational investments, net financial expenditure and taxes, increased by 23% to 2,357 million euros, supported by good progress of working capital.

The generation of net operational cash flow, after deducting net financial expenditure, taxes and operational investments, grew by 43% to reach 1,492 million euros.

Operational investments rose to 372 million, mainly in specialised machinery for mining projects, tunnels and energy installations.

The funds obtained by the rotation of the portfolio of infrastructure concession and energy project assets, have produced a net outcome of 63 million euros, and so the free cash flow for the shareholder increased to 1,555 million, 57% more without including the disinvestment of Urbaser in 2016.

This substantial improvement in cash flow generation enabled remuneration for the shareholder to be increased and our debt load to be reduced to historic minimums.

In particular, the net debt at the end of the financial year was 153 million euros, which implies a 0.1 ratio over the EBITDA. Without including project financing, without recourse to ACS, the Group maintained a net cash flow position at the end of 2017.

The reduction of debt by more than 9,000 million euros since 2011 and our capacity to generate solid and sustained cash flows has enabled us to receive a credit rating of "*investment grade*".

To sum up, we have a more solid financial structure, which enables us to face up to new investment opportunities, continue to boost profitable growth and increase remuneration for our shareholders.

The forecast volume of investment in new projects that are expected to be tendered in the next few years in our strategic markets exceeds 600,000 million euros. These opportunities and our

current project portfolio of over 67,000 million euros means that our activities shall continue to increase in the years to come.

The portfolio in the USA is more than 20,000 million euros after growing by 18% in 2017; in Australia it is 18,000 million euros with a growth of 14% and Spain the portfolio has reached 7,000 million.

The main projects awarded in 2017 included:

- The construction of the West Gate motorway tunnel in Australia, for 1,600 million euros.
- The operation and maintenance services for the metro network in Melbourne for 1,270 million euros.
- The turnkey construction of several photovoltaic farms in Spain, with a total installed capacity of 1,550 MW, for over 1,000 million euros.
- The construction of a new metro line under Sydney bay for 850 million euros, which involved the construction of two twin tunnels of 15.5 kilometres in length.
- The modernisation of the Talara refinery in Peru, a contract valued at 780 million euros.
- A project to extend the international airport of Denver in the USA for over 615 million euros.
- The design and construction of the Long Island railway in New York for more than 600 million euros.
- The construction of a sour gas compression offshore platform in Campeche, Mexico for 600 million euros.
- The construction of photovoltaic plants in Japan with an installed power of 100 MW, and in Mexico with an installed power of 291 MW, which taken together make a portfolio of some 450 million euros.

### **Future perspectives**

Out of the 600,000 million euros of potential market I referred to above, our teams identified infrastructure concession projects for an approximate value of 200,000 million, mostly in the USA, Canada, Australia and Europe.

Most of the projects, approximately 40% in terms of value, around 80,000 million, are located in the USA. Our leading position in this market and experience in developing PPP projects give us a clear competitive edge.

The projects in the Canadian market, mainly in motorways and rail, are valued at approximately 50,000 million euros, which is 25% of the total. ACS has a long professional record in developing major infrastructure projects in Canada, a country with considerable experience in the public-private collaboration model.

Europe shows signs of recovery with the launch of new infrastructure investment and development programs in Germany and Spain, where we have identified more than 20,000 million in new projects, some of which have already been recently awarded and others that are in the tendering phase.

Australia, with over 50,000 million euros in new concession projects, is a market that is evidently growing. The state infrastructure program for 65,000 million Australian dollars confirms the positive perspectives for this country, where we are market leaders via the CIMIC Group.

In short, these opportunities in combination with our strategic positioning permit us to see a future with sustainable and profitable growth.

## **Innovation**

Innovation is a fundamental part of the principles of our Group. Digitalisation, artificial intelligence, automation and connectivity are factors that are already deeply transforming construction processes and infrastructure development.

We are currently implementing plans based on applied technology that promotes improvements in operational efficiency and occupational safety. New analytical tools, more flexible and effective, help us to make predictive decisions in real time throughout the organisation, with clients and suppliers.

We are also creating technological innovation centres in the USA and Canada, Australia, Germany and Spain, with cooperation agreements with some of the major international technology universities, which enables us to combine our experience and know-how with their technological knowledge and research.

The results of digital transformation shall be better levels of competitiveness, productivity, safety and risk management, along with new opportunities in the professional careers of our teams.

This is a key factor for the development of our Group, which seeks to create a work culture that permits all the potential in our teams to be used, while promoting diversity and inclusion via an equal opportunities policy.

## **Abertis**

On 18 October 2017, Hochtief launched a voluntary takeover bid for 100% of Abertis, one of the largest toll-paying motorway operators in the world. We offered a price of 18.76 euros per share, in a combination of cash and new shares in Hochtief, valued at 146.42 euros.

It was a competitive offer after the one previously presented by Atlantia in June 2017.

Subsequently, on 23 March 2018, ACS, Hochtief and Atlantia signed a joint investment agreement for a holding company to acquire Abertis, and Hochtief undertook to modify its initial bid so that its offer is now all cash and the price is adjusted by the dividend paid by Abertis in 2018, in other words, 18.36 euros per share after adjustment.

The modified bid is currently passing through the acceptance phase by Abertis shareholders; in fact, this period ends today, 8 May, when the acceptances are counted and the subsequent processes, publications and settlements are carried out over a 10-day period.

When the acquisition is final, the shares of Abertis shall be transferred to a holding company, with 50% plus one share owned by Atlantia, 30% by ACS and 20% minus one share by Hochtief. If the final acceptance reaches 100%, the buying company shall have a capital of 7,000 million euros with a debt of 10,000 million euros, which shall be reduced to approximately 7,000 after the planned disinvestments are completed.

The agreement includes Atlantia becoming a major shareholder of Hochtief. To this end, ACS shall sell it up to 17.07 million shares at a price of 143.04 euros per share and it shall simultaneously and fully subscribe a 10% capital increase of Hochtief, equivalent to 6.4 million shares, at the same price of 143.04 euros. This price is equivalent to the initial offer in shares of 146.42 euros, minus the dividend of Hochtief for this year, which is 3.38 euros per share.

With this the participation of Atlantia in Hochtief shall reach a maximum of 24.1% and the participation of ACS shall be just above 50%.

As part of this agreement, ACS, Hochtief and Atlantia have established a commercial framework agreement for the potential development of new greenfield and brownfield toll motorway projects.

At economic-financial level, the operation has a positive impact for ACS on the balance and on the profit and loss account and cash flow.

The net equity of the Group is increased by a maximum of 2,440 million due to the disinvestment in Hochtief and the same time a low level of gearing is maintained, under 0.4 times the consolidated EBITDA.



The purchase of Abertis shall imply a significant increase of profit per share for the ACS Group.

At the same time, the participation in Abertis improves visibility, sustainability and recurrence of the future cash flows of the ACS Group.

### **Investment strategy**

The solid nature of our balance and the greater recurrence and diversification of cash flows, shall lead to higher payments for the shareholder, while we continue to consider new investment opportunities to promote growth.

- With regard to the opportunities for organic growth, our experience in PPP projects and concessions, combined with the strong geographical presence in the most advanced economies in the world, means that the ACS Group has good positioning to make use of the 200,000 million euros I mentioned above.
- With regard to the opportunities for strategic growth, our business dealings continue to be flexible and adaptable to varied market conditions. This flexibility combined with the presence of the Group in the main international markets and its experience in civil and industrial engineering shall enable us to make use of future strategic investment opportunities.

### **Conclusions**

To sum up,

- The ACS Group obtained solid results with strong cash flow generation in 2017
- our financial structure is better than ever, with a net debt at historic minimums, and
- we have excellent positioning in developed markets with good investment perspectives in infrastructures

Fellow shareholders, all this permits us to continue to grow both profitably and sustainably.

Thank you.