

2014  
Annual  
General  
Meeting



Speech by  
José Manuel Entrecanales

Ladies and Gentlemen,

On behalf of the Board I have the honor to chair and on my own behalf, I thank you for your attendance at this meeting at which I will look back over the past year and report on some relevant events related to the current year.

As no doubt all of you know, last year was marked by legislative reforms in the energy sector. Therefore, this presentation will focus on the steps we have taken to mitigate the impact of these regulatory changes. These measures will allow us to maintain ambitious expectations with regard to growth as well as our shareholders' remuneration and to continue our social and environmental contributions, which have been at the core of our strategy for the past ten years.

### **Changing macroeconomic trends**

Despite these difficulties, I want to share with you a certain degree of optimism as regards the ongoing economic recovery, both national and international. I don't need to remind anyone that a year ago, when we held our last General Meeting, the IBEX-35 was around 8,200 points, the risk premium for Spanish ten-year bonds exceeded 315 basis points and the process of job destruction took unemployment rates to record highs.

Just one year later, after a cumulative growth of 35%, the Spanish stock market is the one that has most improved among the European exchanges, the Spanish risk premium stands at 137 basis points and the process of job destruction seems to have been reversed—although the job market is still weak, unemployment is steadily decreasing.

In addition, there is a renewed interest from many international investors, who want to invest in Spain at prices that are still considered to be good value.

As for the world economy, we must make mention of the IMF growth projection which stands at 3.6% for this year and 3.9% for 2015. Meanwhile, the ECB has lowered rates to historic lows, along with another host of measures intended to stimulate credit activity in the Eurozone.

However, although both the real and financial variables in our environment have been moving in a positive direction, for ACCIONA, 2013 has been a year marked by the energy reform in Spain, which will continue to very significantly impact us during 2014 and beyond.

## Main figures for 2013

ACCIONA ended the year with a turnover of 6,607 million euros – 5.8% lower than the previous year – and with an EBITDA of 1,228 million euros, which is 14.1% lower than last year. The constant policy reforms have resulted in a negative impact of 257 million euros in EBITDA for our Company during 2013 and this impact will rise by a further 120 million euros, to a total of about 370 million euros per standard year for 2014 and the forthcoming years.

This is the first time since ACCIONA has been a listed company that we finished the year at a loss, amounting to 1,972 million euros, mainly due to the very significant write-downs that we have had to account for during 2013 to address regulatory changes in the energy sector. Excluding the regulatory impact, the Group's EBITDA would have increased by 4% and pre-tax profits would have increased by 17%.

As regards the volume of investment, ACCIONA has continued its selective policy, only investing in projects it had already committed to in previous years. During 2013, we invested about 400 million euros, which was split approximately 50%-50% between energy and infrastructure.

The total investment in R&D reached 173 million euros, which confirms us as leaders in innovation, placing us in the global ranking of the 1,000 listed companies with the highest investment in research, development and innovation.

The cash generation of our businesses allowed us to close the year 2013 with a net debt of 6,715 million euros, 10% lower than in December 2012. It should also be noted that our company will not face any significant refinancing in the coming years, and that 67% of our gross financial debt is non-recourse debt.

As a result of macroeconomic tensions and energy regulatory uncertainty in Spain, our stock performed extremely unfavorably during 2013, with a drop of 26%. However, the implementation of the Action Plan, together with the Group's focus on its strategic divisions, has been well received by the market, which can be seen in the 55% rise in our share price so far this year.

## **Repositioning and reinventing ACCIONA to give a new impetus to growth**

In view of the current situation and seeking to stay the course with regard to growth and value creation in our business, ACCIONA has reacted by flexibly redefining its strategy for the short and medium term, without losing sight of our long-term objectives, which remain intact. Our strategic positioning is based on a combined offering of Infrastructure and Energy around the globe, since the basic needs to which we seek alternatives and provide solutions are global in nature.

Given the recent global crisis and regulatory changes in Spain, we have taken a series of measures aimed at strengthening our balance sheet and improving the company's liquidity position. Thus, (i) we are refocusing our business model to grow less intensively in our own capital, using alternative financing sources and capital markets. (ii) We are reducing as far as possible our overheads and optimizing our global offering by creating a large Infrastructure division, encompassing our construction, water and services businesses.

(iii) We have made divestitures in non-strategic assets worth 370 million euros and are incorporating new financial partners that will allow us to realize our full potential for value creation. Within this context, this morning we announced a transaction by which KKR becomes the new partner of ACCIONA Energy International. I will elaborate on this below. (iv) In addition, as an unprecedented measure and in line with the general policy of prudence and austerity, it has been decided to not distribute cash dividends attributable to the 2013 results. I hope and trust that in 2014 we can get back to remunerating our shareholders.

As I already mentioned, I want to highlight as a very important milestone in our Action Plan the incorporation of a prestigious partner to our international energy business, in which KKR will have a one-third stake.

ACCIONA Energy International will encompass 2.3 GW of wind, photovoltaic and solar thermal installed capacity, distributed among 14 countries outside of Spain among which the USA, Mexico, Australia, Italy, Portugal, Canada, South Africa, India and Poland stand out.

The key financial figures of the company can be summarized as follows: revenues of 500 million euros, and cash flow distributed to the partners to the amount of 120 million euros. The perimeter is limited to projects in operation that require a minimal structure in place, without assets under development, which will be operated by the parent company, ACCIONA Energy, under a services agreement lasting 20 years.

Furthermore, ACCIONA Energy International will also have a right of first offer on those new assets that ACCIONA Energy will develop in the future, in the 14 countries where ACCIONA Energy International operates.

Finally, it is worth mentioning that the intention of the partners is to pursue an IPO in the international capital markets, probably in the U.S., of a significant portion of the asset perimeter, using a YieldCo structure that will allow us to further accelerate our growth.

The transaction will bring the company's value at 2,600 million euros which, given the 1,313 million euros of net debt at the end of 2014, will result in an estimated net capital inflow for ACCIONA of 417 million. This could increase by 50 million if the implementation of the above-mentioned tool, YieldCo, is finally completed and achieves the valuations that we envisage as probable.

In terms of timing, the closing is expected to take place in the last quarter of 2014, when the conditions precedent are met and the required restructuring is completed, so that the relevant range of assets are incorporated within ACCIONA Energy International.

This transaction is a very important step towards achieving our goals, because it allows ACCIONA to accelerate its growth through international renewable projects and to establish a strategic relationship with KKR, a leading global investor that manages more than USD 102 billion.

Both partners are convinced that this transaction could be the first of many joint initiatives in the energy sector, as well as pave the way for future partnerships between other companies of the Group.

Through the actions carried out in the last year, ACCIONA is progressing towards our ultimate goal of mitigating the impact of regulatory changes, optimizing growth opportunities and maintaining a leadership position in our core businesses.

## Long-term outlook

I wish to emphasize that our long-term goal is to become an essential tool for social and economic progress, accomplished through the success of our company as a business.

Economic development, population growth and the fight against climate change are some of the biggest challenges facing societies and companies today. With regard to ACCIONA specifically, our response to the challenges of water shortages, urban concentration, transportation and energy, will determine our future as a company. In short, our areas of business are increasingly becoming, urgent global challenges, which means they present not only immense business opportunities but also constitute a worthy goal to which to devote our efforts and resources.

Let me address the energy issue more concretely. As you know, on June 5th, the UN Secretary General launched the "decade of sustainable energy 2014/2024" under the "*Sustainable Energy for All*" initiative. We are privileged to have been chosen as members of the Advisory Board of this particular initiative; specifically, we will co-chair the Renewable Energy Committee together with the President of the International Renewable Energy Agency, IRENA.

This United Nations initiative aims to transform the global energy model, by doubling the overall use of renewable energy by 2030 and bringing modern energy services to more than 1,400 million people who currently lack them.

In short, it seeks to consolidate an unstoppable global trend that sees renewables becoming the answer for most countries which, having to meet new demand, can now take advantage of their own natural resources by means of these tools, create new technologies and local jobs, and experience economic growth without the downside of an environmental impact. This global mega-trend is corroborated by the fact that 138 countries have already set targets for renewable energy and 127 have policies to facilitate the implementation of renewable energy solutions.

This is made possible today, among other factors, by the fact that renewables are economically efficient and increasingly competitive, with the price of wind turbines having decreased by approximately 30% in the last four years and the price of photovoltaic solar panels experiencing a 50% drop in the last five years. Today, we are able to say that in many parts of the world, renewables can compete directly with conventional energy sources in terms of costs, without even taking into account the negative externalities of the latter.

If we also factor in these costs, there is no doubt that renewable energies are now clearly the most economically efficient method of generating electricity.

Furthermore, renewable energy constitutes the rapid response that many countries are in need of. It takes a mere two years to have a wind farm in operation, compared to at least six to seven years for other fossil solutions, which also entail greater environmental and social risks.

Climate change is another challenge that renewable energy sources provide an answer to. The Intergovernmental Panel on Climate Change (IPCC), in its fifth report submitted last November, highlighted the clear human impact on climate change, mainly brought about by fossil fuels. The report also emphasized that a switch to renewable energies is a necessity if the world is to limit global warming to below two degrees, moving towards an economic model that is low on carbon use.

In this respect, recent policy decisions taken by the U.S. administration regarding the obligation to reduce emissions in the electricity sector, together with the apparent commitment of China to the same goal – the two countries being the two major global emitters of greenhouse gases – allows a certain degree of optimism regarding the possibility of reaching a global agreement to reduce emissions at the climate summit taking place in Paris in 2015 (COP 21).

## **Commitment to Sustainability**

In any case, we will continue working towards and contributing our knowledge and business skills to this new model of energy development in all countries that are able to provide confidence to investors in this respect.

Therefore, despite the difficulties and extreme complexity of the current situation, I can once again reiterate our commitment to sustainability as the backbone of our business strategy. This year we presented, for the third time, our Sustainability Report for approval, with the distinction of having received the highest rating according to the most demanding global standard—the *Global Reporting Initiative*. Moreover, our performance in sustainability has been recognized by the major global organizations working in this field.

We belong to the Advisory Council of the three main UN organizations in this field: we are still part of the executive committee of the World Business Council for Sustainable Development; we have been honored by the *Carbon Disclosure Project* as a company with exemplary environmental management; we are the only Spanish company included in the annual list of the 100 most sustainable companies in the world, compiled by *Corporate Knights*; and we have re-consolidated our presence in the *Dow Jones Sustainable Index* for the seventh consecutive year.

## Conclusion

Ladies and Gentlemen, I end by reiterating that the past years, despite the crisis, have served to reaffirm that ours is a solid business model with a global and long-term vision, which has allowed us to successfully overcome unprecedented economic difficulties.

This year marks ten years since the Board of Directors of ACCIONA, on behalf of all of you Gentlemen, placed their trust in Juan Ignacio Entrecanales as Executive Deputy Chairman and in myself as Chairman.

During the past ten years we have had bad times and good times, but certainly, the overall balance of this period has been a positive one for me personally, which is hard to compare with any other period of my life. And in this I also speak on behalf of the Vice President, who has always supported me through his advice, friendship and dedication to making this company a source of pride and hope for the future generations of shareholders, employees and for society in general, both in Spain and in the many other countries in which we work.

Today I would like to thank the Board of Directors of ACCIONA for their dedication, confidence and guidance. Without them, without their critical insight, without their support through difficult times, and without their dedication – believe me, Gentlemen – none of what we have achieved would have been possible.

Finally I would like to say a few words to my colleagues. I can never thank you enough for your loyalty, your vision, your generosity and above all your hard work which – as my grandfather, Don José Entrecanales, never tired of repeating – is what really makes all the difference. I would like to thank all of you from the bottom of my heart and to challenge you to another ten years of hard work to reach the ambitious goals we have set.

I would also like to take this moment to especially thank the two members who will leave the Board today, Miriam and Consuelo, for their dedication and valuable contributions. I hope that our paths will bring us together again in the future, if not through the Board of ACCIONA, at least through our continuous pursuit of the goals of social progress, economic development and environmental balance that we have always shared.

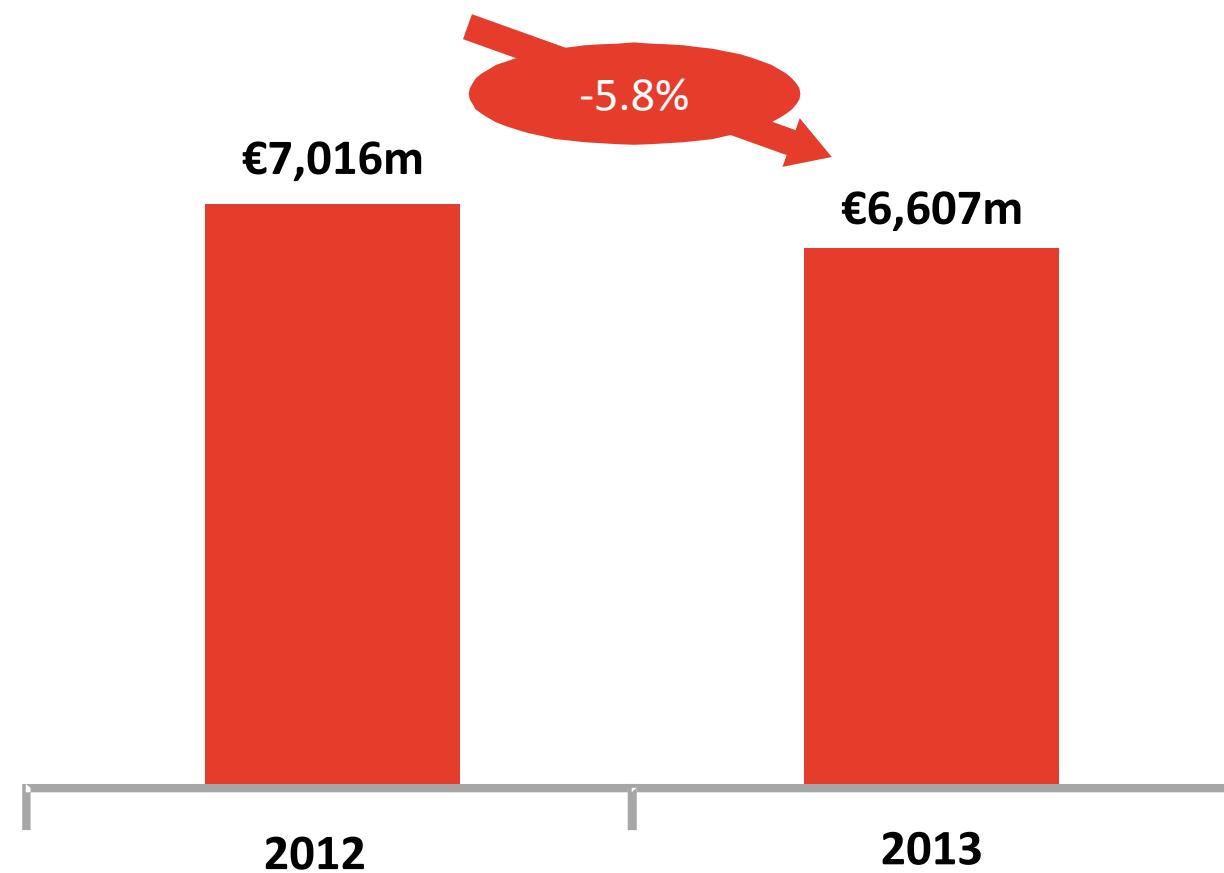
Ladies and Gentlemen, I reiterate my appreciation for the support and confidence offered in the last ten years and I would urge you to continue accompanying us on this project that now has almost a century of history, and that has given pride and satisfaction of all of us who dedicated our lives to its pursuit. With your support we will continue to grow, seeking always to contribute to a balanced development for the benefit of future generations.

Thank you very much.

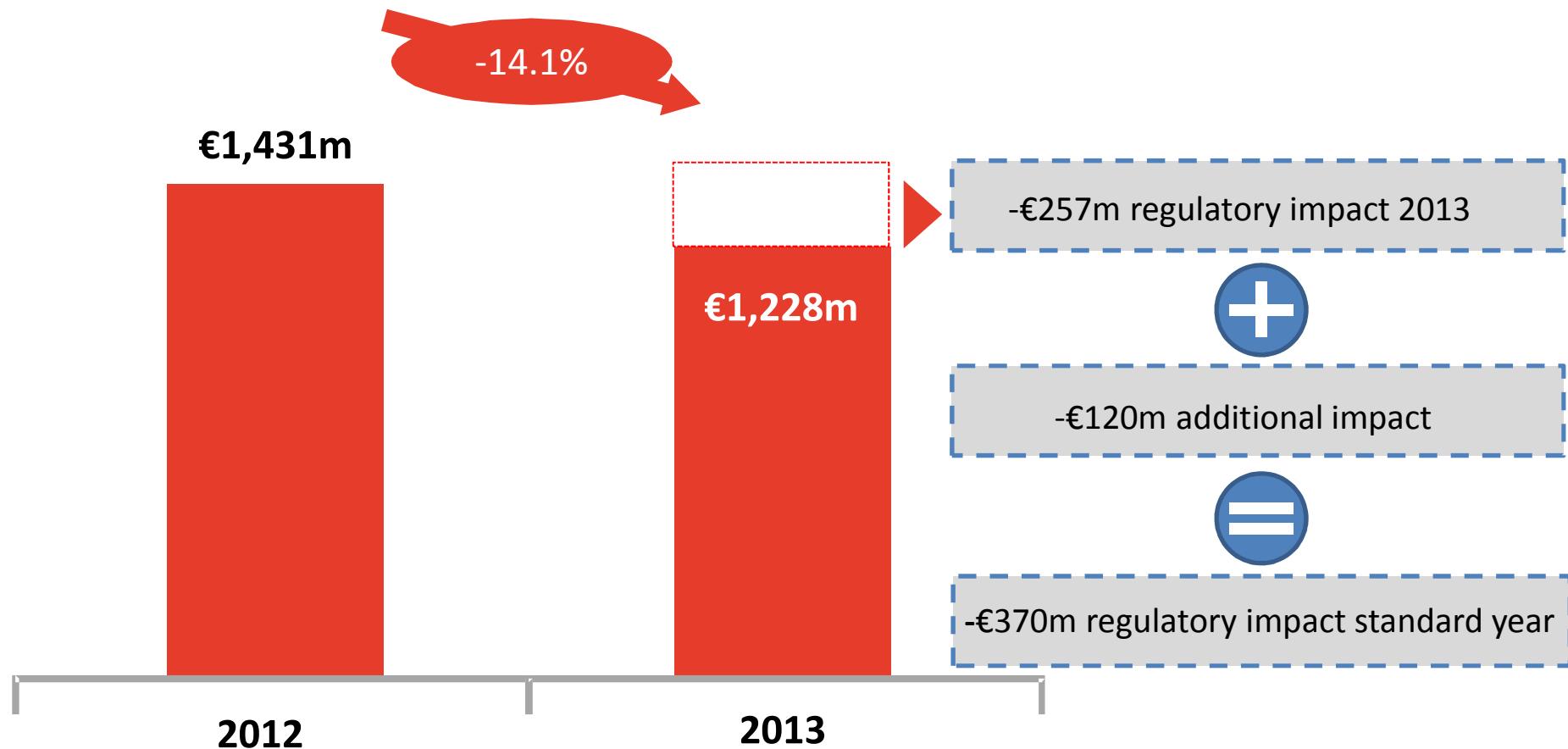
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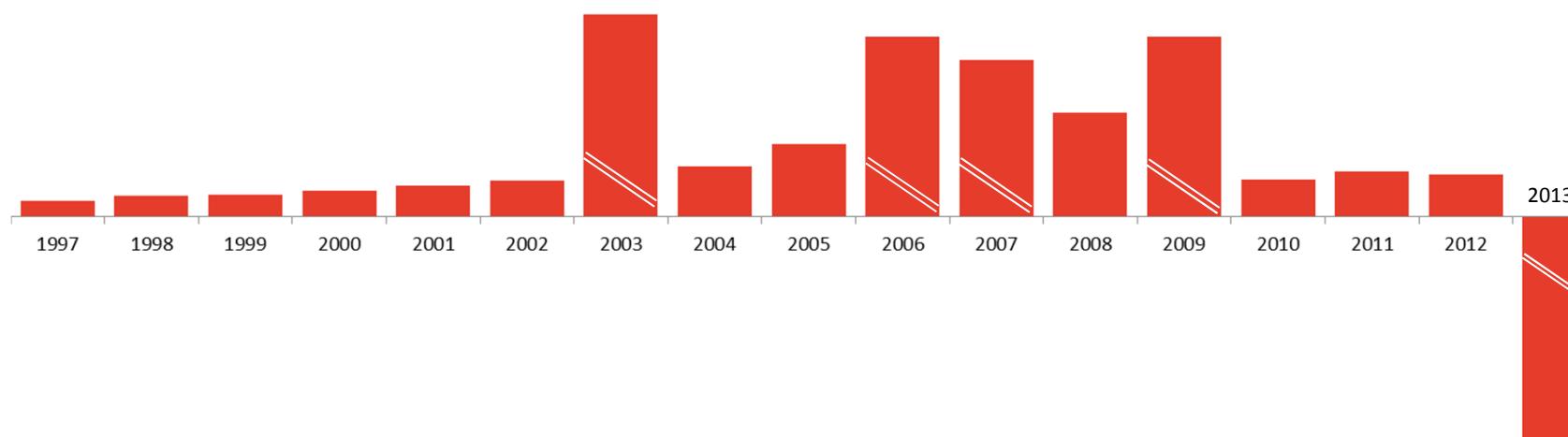
## Group Revenues



## **Group EBITDA**

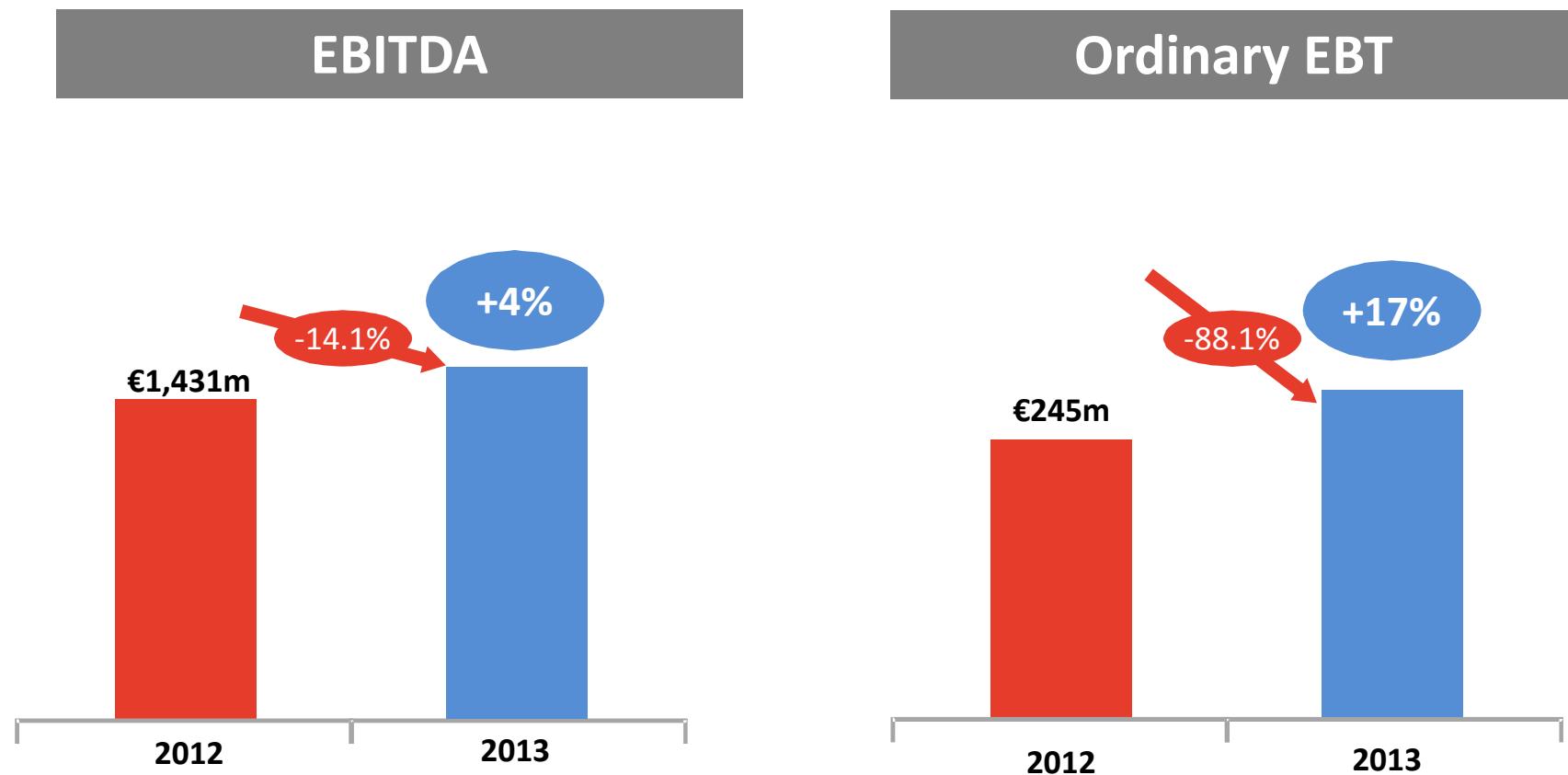


## Evolution of net profit since IPO

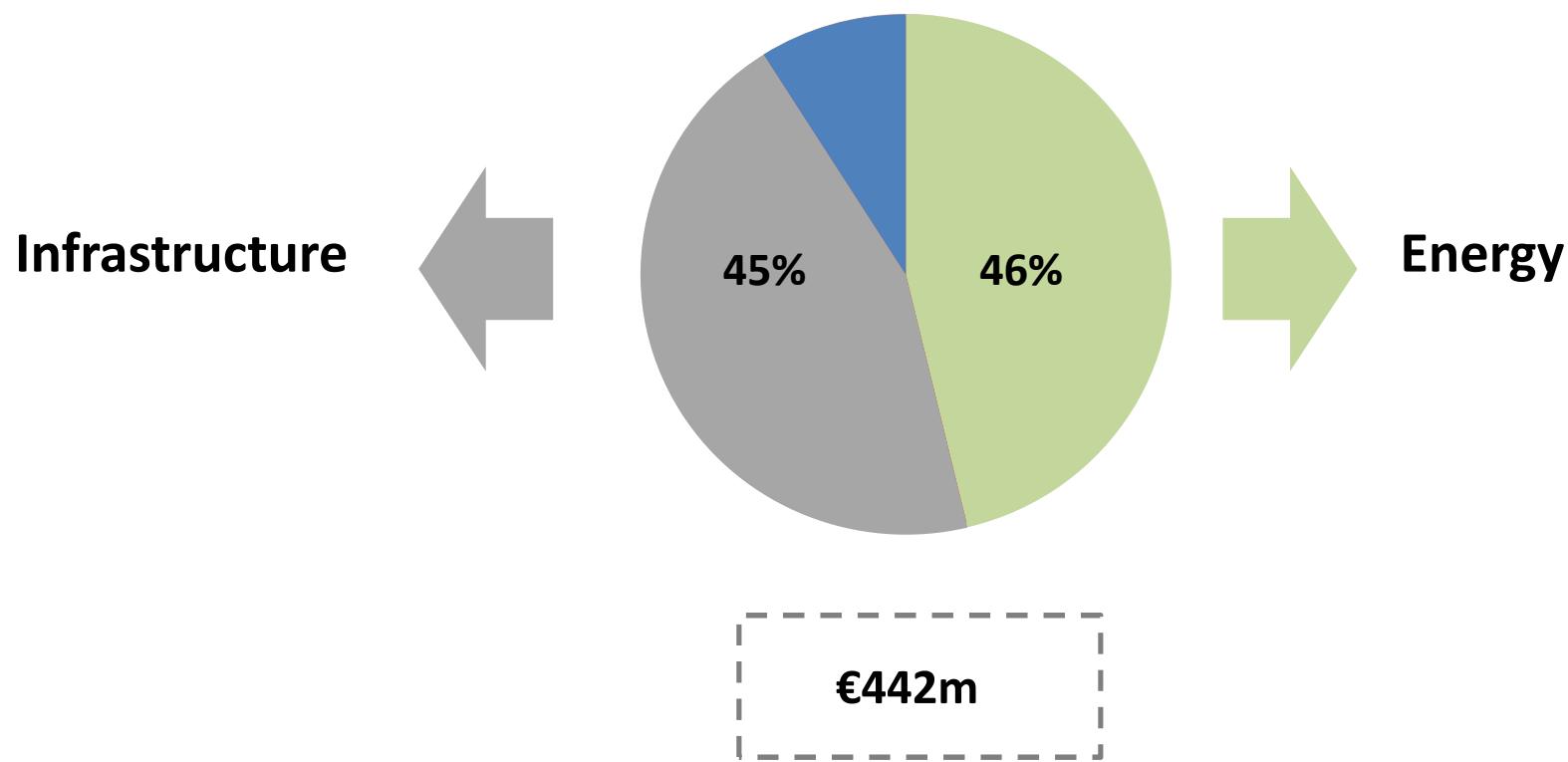


-€1,972m

## Results excluding regulatory impact



## **Group ordinary capex**



Note: Ordinary Capex does not include -€61m from Other Activities ( sale of Trasmediterranea vessel and sale of rental asset)

## R&D+i

**€173m**

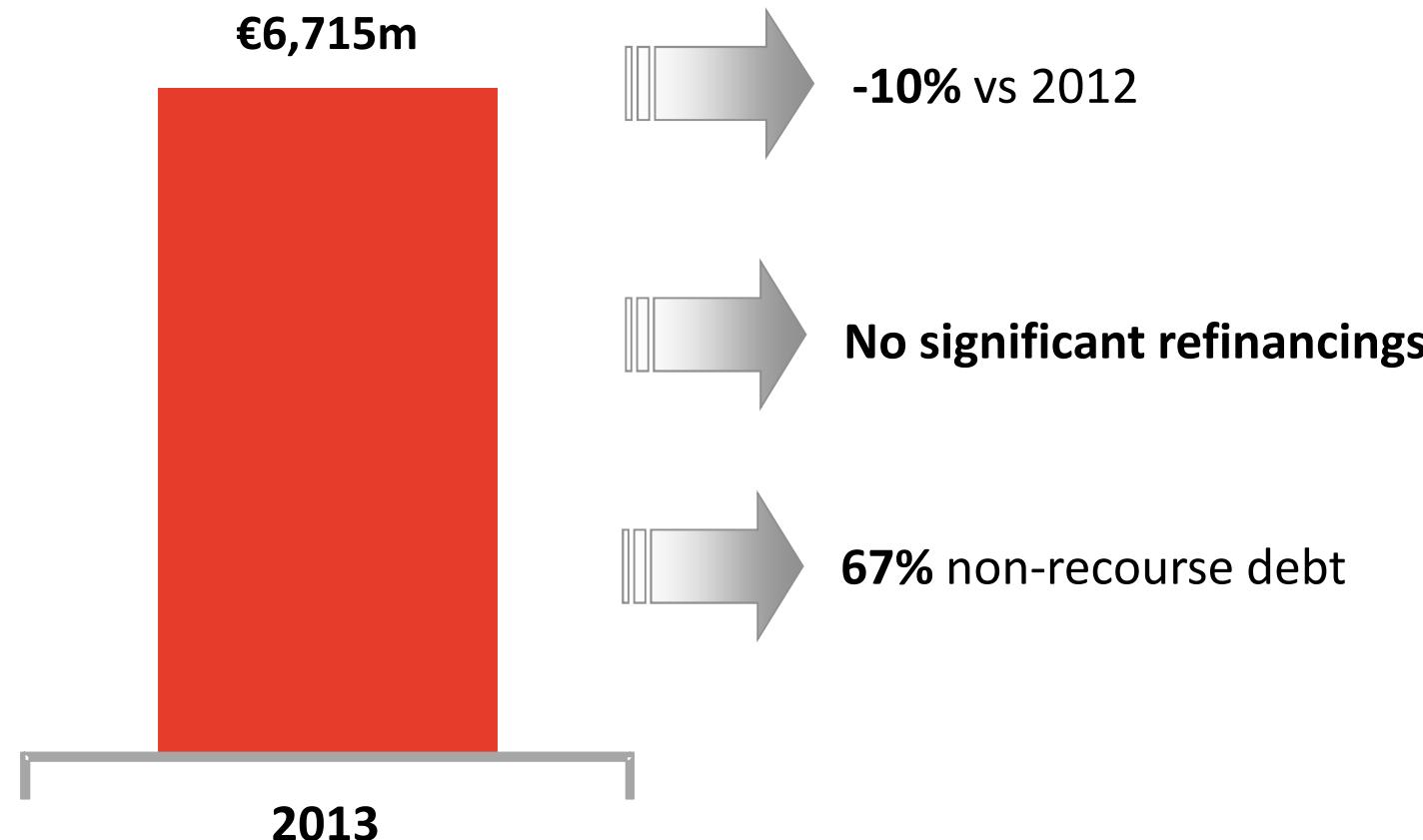


**2013**

Innovation leaders

## Solvency

### Net financial debt



## Share price evolution 2013 and 2014YTD



## Reposition and reinvent ACCIONA for future growth

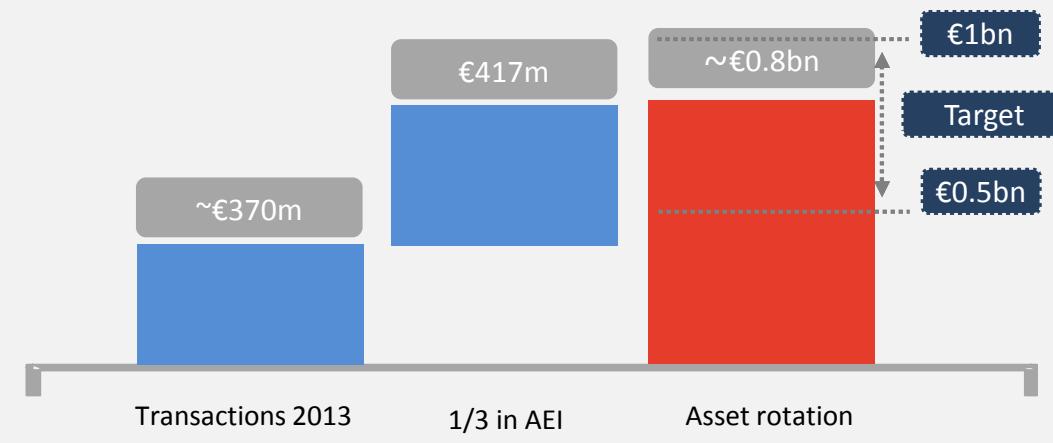
### Business model reorganization

- Growth less reliant on own capital
- Alternative financing sources and capital markets

### New division

- Structure costs reduction and global offer optimization
- Infrastructure → Construction, Water and Services

### Divestments & minority Shareholders

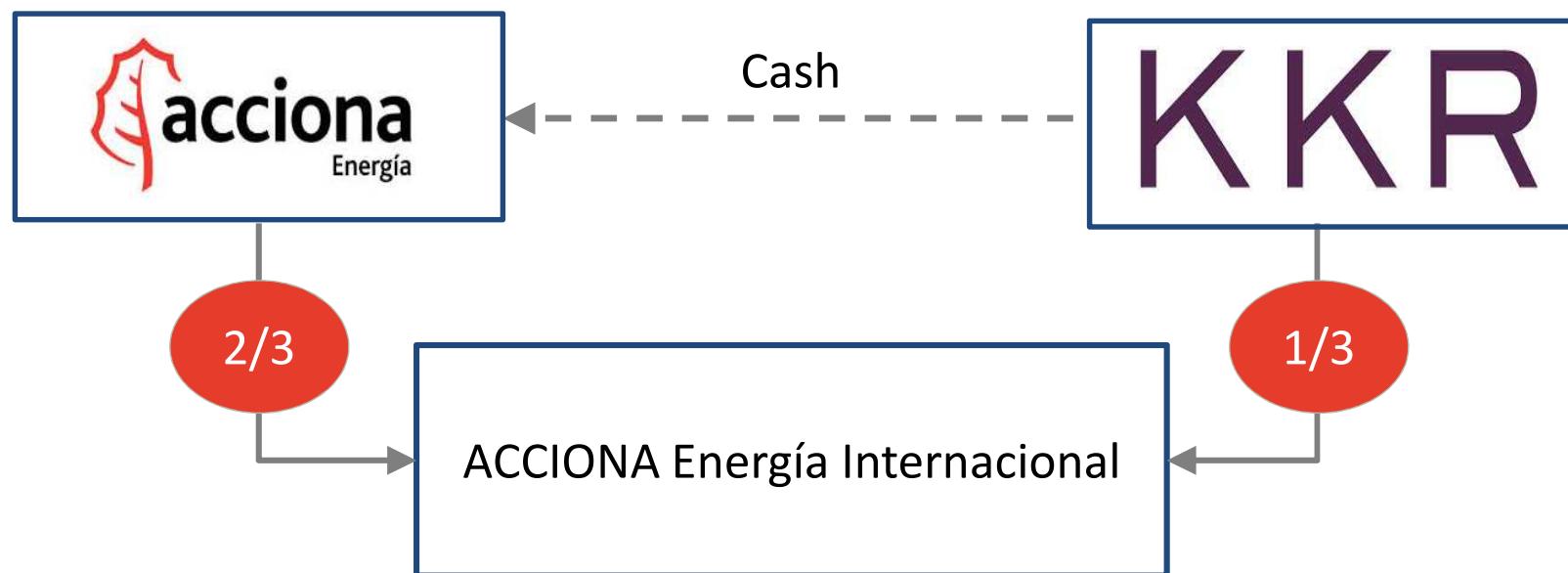


### Dividend

- 2013 dividend cancelled
- Trust on resuming dividend in 2014

## Strategic Partnership with KKR

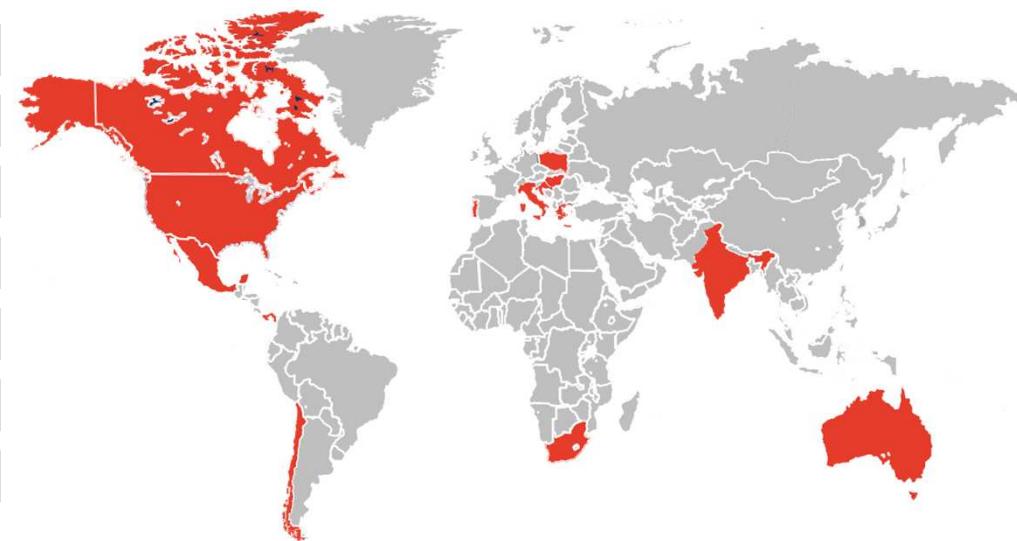
Agreement      Acquisition by KKR of a 1/3 stake in  
ACCIONA Energía International



## Strategic Partnership with KKR

Portfolio

2.3GW of wind, SPV and STE capacity  
in 14 countries outside of Spain



Revenues: ~€500m

Cash distributable to partners: ~€120m

## **Strategic Partnership with KKR**

No pipeline

Only operational projects with minimum structure – no pipeline

Management  
agreement

20 years management agreement with AE

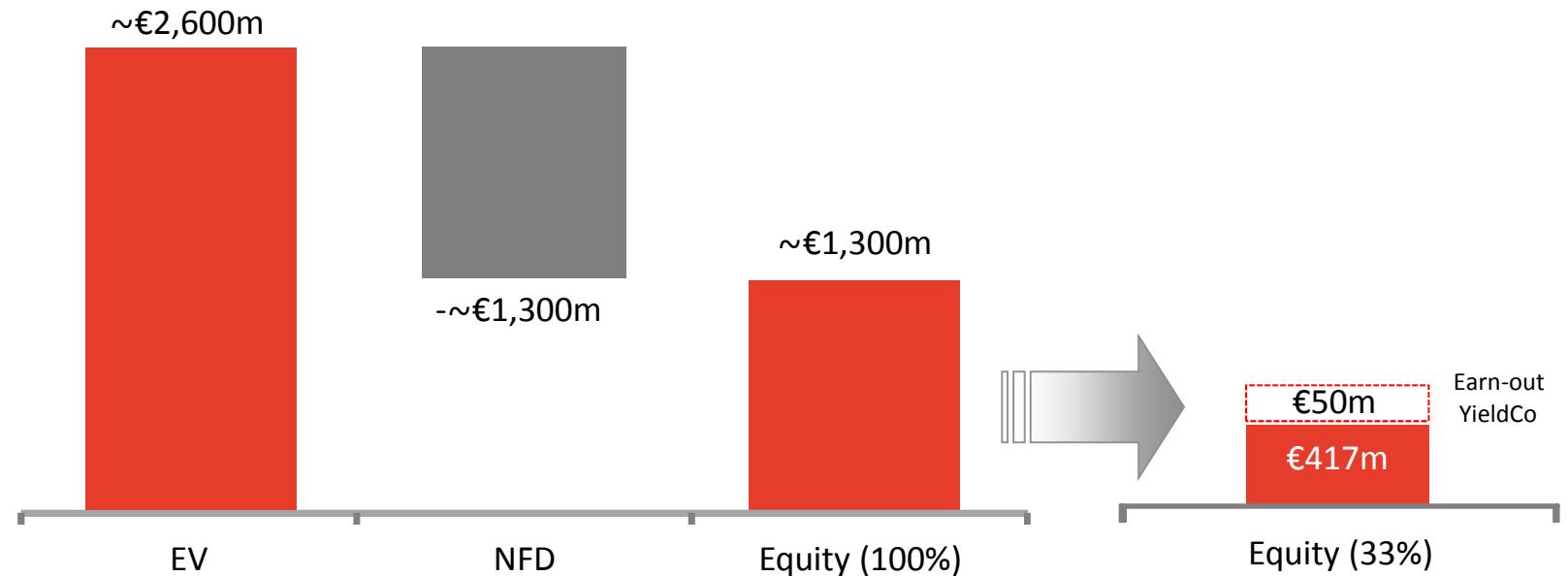
ROFO

AE will give AEI a Right of First Offer on future renewable projects it develops within AEI's operational territory

YieldCo

Intention to promote an international IPO through a YieldCo that will hold all or part of the assets

## Strategic Partnership with KKR



Estimated cash in: €417m

Earn-out YieldCo: up to €50m

Expected closing date → Q4 2014

## Strategic Partnership with KKR

Transaction  
rationale

Accelerating growth in international renewable projects

Strategic  
alliance  
rationale

Long term strategic relationship with KKR (>US\$102bn)



> Growth  
+ Alliances



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