

JUNTA GENERAL ORDINARIA DE ACCIONISTAS 2013

SERVICIOS AGUA ENERGÍA INFRAESTRUCTURAS



AGUA INFRAESTRUCTURAS ENERGÍA SERVICIOS

INNOVACIÓN. COMPETENCIA. LIDERAZGO. INICIATIVA. EXCELENCIA. COMPROMISO.

Ladies and Gentlemen Shareholders

On behalf of the Board of Directors that I have the honor of chairing, and also on behalf of myself, I would like to thank you for joining us today at this AGM in which I will be summing up FY2012 and helping you to become better acquainted with the principles and goals that govern our Company.

I will do so with my sights firmly set on providing clarity and transparency; as a businessman, I believe that we have reached a point where we are duty-bound to exercise disclosure, independence and objectivity.

In recent years, businessmen and companies, especially large companies, have had to contend with an image problem, and an increasingly serious one at that.

No doubt, we are partly to blame; but I'm certain that it's entirely up to us to make every effort to spruce up our image. And not just for our own benefit, but also because, to a great extent, the future of our country lies in the hand of its youth and its spirit of enterprise. If our youngsters have no models to follow and business activity is viewed poorly by society overall, it will be hard to inject that spirit of enterprise into our economy and for the economy to get back on the path towards the sustainable growth that we all desire.

However, for the time being Ladies and Gentlemen Shareholders, the fact is that five-and-a-half years into the recession, the Spanish economy is still taking a battering that is also hitting most large companies.

The outlook is bleak. Since the economic crisis set in, Spain has lost 17% of its business fabric and 241,000 companies have been wiped off the country's Social Security register¹; and, according to the latest annual report from the national tax agency, six out of ten Spanish companies posted losses, while profits for businesses that managed to stay in the black were down roughly 50% on 2007 figures².

At grass roots level, the situation is dramatic: there are six million people unemployed, and that means that the Spanish economy is failing to leverage 27% of the country's labor force and that Spain's industrial companies are throwing away 31% of their productive capacity³.

We are failing to take advantage of a huge amount of available physical, human and technological resources in a context marked by slack domestic demand, credit shortage, fiscal pressure or investment fears.

And yet even with these serious drawbacks, companies like ACCIONA continue to make considerable efforts to ensure that Spain's potential does not go to waste and to make sure that our country reaches an economic turning point. And all this despite the fact that many of the adjustment measures have been borne precisely by private business, mainly as a result of increased fiscal pressure.

Because, indeed, Spanish companies have embarked on the process of lowering their debt levels, levels that since 2010 fell, overall, 12 GDP points, equivalent to 125 billion euro⁴.

¹Source: Social Security registered company statistics. Spanish Ministry of Employment and Social Security

²Source: Tax Collection annual report 2011. Spanish Ministry of Finance and Public Administration

³Source: Spanish Labor Force Survey 1Q 2013. National Institute of Statistics (Spain)

⁴Source: Spanish Economy Annual Accounts (Chap. 2). Bank of Spain.

Businesses and families alike are helping decisively to meet the goal of reducing the public deficit, and both of us have looked abroad as the only way to solving the problem, boosting exports by more than 50 billion euro a year¹.

There is much more to this than pure coincidence. To a great extent, it stems from our economy's greatly increased competitiveness; in recent years, the economy has not only recovered its competitive position but, indeed, even stepped up the competitiveness it had lost since euro entry in 1999.

At a household level, families are also embarking on a process of "internationalization", looking abroad for jobs that are no longer available at home. Unlike previous occasions, this time it's highly qualified academic and technical specialists who are emigrating. This phenomenon is certain to have a damaging effect, but it may also have its benefits if we're able to recover these young twenty-first century emigrants by giving them at home the opportunities that they were forced to seek out overseas. If we're not capable of achieving this, we'll be seriously losing out on talent for the future of our country; if, however, and in a reasonable space of time, we manage to offer them the right job opportunities, we'll be recruiting an enhanced workforce with greater experience and training and a clearer vision of global reality.

It's clear that the Spanish government is carrying out significant reforms that, along with other benefits, have helped Europe's leading institutions to have greater faith in Spain, giving us more room and flexibility as far as deficit goals are concerned and financing from the European Central Bank.

¹Source: Quarterly Accounts. National Institute of Statistics (Spain)

And yet I'm afraid that while reforms are a vital prerequisite, they are not enough. There is an urgent need for strong action where growth policies are concerned; we need policies that complement the Government's reform efforts and the sacrifices being carried out by the business community, by rolling out initiatives aimed at reactivating consumer activity and investment, both public and private.

Turning to public investment, particularly in infrastructures, there is a real need to banish the widespread myth that Spain has over-invested in infrastructure in recent years. I'd like to dispel this notion by looking at almost two decades between 1995 and 2012: the figures show that, in absolute terms, Spain spent less than France, Germany or Italy, among others¹.

Spain needs to continue to invest, not only because it's extremely difficult to "recycle" the unemployed and channel them towards other activities, but also because we're still seriously lacking in key infrastructure. Take water services infrastructure: they are currently displaying severe shortcomings that, sooner or later, are bound to take their toll. Other prime examples include rolling stock infrastructures—currently the best alternative to road haulage—and grid interconnection with the rest of Europe, which, if it were increased, would benefit the [Spanish] electricity system considerably.

As regards private investment, there is no shortage of Spanish and foreign investors ready to invest in Spain. But investment is economically motivated; subsequently, either the right social, tax, labor, administrative, financial and, of course, legal conditions are firmly in place, or we'll find it extremely hard to attract private capital, at least in the amounts required to reactivate the Spanish economy and to create jobs.

¹Source: Eurostat and the SEOPAN Report "Infrastructures: considerations, challenges and the outlook", 14/03/2013

In this sense, there is an urgent need to respect the basic tenets of legal certainty because this is the factor that weighs heaviest when it comes to deciding between one investment option and another, particularly so in the case of foreign investors.

This is why the continuous regulatory changes in the electricity sector over recent years, which have reached extreme levels over the past few months, have done much to dull the shine of our country as an investment option, especially in the eyes of those national and foreign investors that are best-placed to invest and best-disposed to do so with a long-term view.

Let me make it clear that I am well aware of our sector's numerous imbalances. The problem comes when these imbalances or special circumstances are used to justify the introduction of measures that affect legal certainty and the legitimate trust of investors: this leads to inherent doubt on how a future government is likely to justify future changes in the playing field.

Despite all this and regardless of the indisputable risks that come with an interconnected and interdependent economy whose future depends, to a considerable extent, on outside factors, I hope, Ladies and Gentlemen Shareholders, that 2013 will be a turning point for our economy and put it back on the path towards growth.

Last Tuesday's official unemployment figures are, without a doubt, a good sign in this respect.

Yet neither the current economic difficulties nor these glimpses of improvement in years to come are enough to make us forget that there are structural elements and threats that will inevitably lead to disaster if we do not act in a concerted and coordinated manner worldwide.

Neither Europe nor its business community can stand on the sidelines and watch as climate change advances, or make no effort to reduce our enormous reliance on dwindling supplies of natural resources and raw materials, most of which are imported.

Let me just remind you of a few key figures: by 2050, the world population is expected to reach nine billion¹, i.e. two billion more than the planet's population at the beginning of the 21st century. You might like to bear in mind that two billion was what the world's population stood at the beginning of the 20th century².

Given that the lion's share of the planet's population (around 3 billion people) will step up their consumer activity, the current rate of demand can only be met by three times the amount of existing resources and raw materials.

Moreover, in the next 20 years we'll be seeing the largest migratory movements and the highest rates of city-dwelling in the history of humankind. More than one billion people³ are expected to join the middle classes and nearly all of them will live in cities; this will lead to a 64% rise in electricity demand⁴, water demand will increase by more than 50 percent⁵ and the demand for infrastructure is expected to rise by more than 40 per cent⁶.

¹Source: "Vision 2050" Report. The World Business Council for Sustainable Development

²Source: UN Habitat, U.S. Census Bureau, National Geographic

³Source: United Nations Procurement Division (UNPD)

⁴Source: IEA, World Energy Outlook 2012

⁵Source: OECD

⁶Source: United Nations Environment Programme (UNEP)

I know that you're all aware of the constant increase of carbon in the earth's atmosphere and that there's no need for me to dwell on its effects on the climate and society. Suffice to say that the vast majority of scientists agree that now that there is more than 400ppm of carbon in the atmosphere, we are now on the verge of an irreversible situation. I'm confident that the evidence of this dire situation will lead to relevant international accords, at the very latest at France's climate COP21 summit in 2015.

In any event, regardless of our growth model's impact on climate, the planet is unlikely to be able to neither meet the demand for the necessary natural resources nor adapt itself to a low-carbon economy unless a radical shift takes place in consumer habits, the energy model and the infrastructure needed to make both of these things a reality.

In addition, and logically, this change needs to take place, above all, in those places where most energy is consumed. Let me just remind you that China, the US and Europe account for roughly half of the world's energy consumption¹.

This explains Europe's efforts to encourage renewable energy, energy efficiency and energy independence capable of meeting 20/20/20 objectives, or to set up an EU-wide emissions market, or investment in new technologies capable of bringing about a shift in models, or environmental policies, or a long list of actions that stay several steps ahead of the game and meet today the pressing needs of tomorrow.

¹Source: IEA, World Energy Outlook 2012

Ladies and Gentlemen Shareholders, it's all about getting ready here and now for something that's on its way shortly, and to create a competitive edge that will keep Europe ahead of the pack in every respect. In short, it's all about ensuring that Europe remains true to its history and continues to lead the way in political, economic, social, environmental, human rights, technological, academic and scientific advancement, as it has indeed been doing for centuries. Of course, this leadership calls for sacrifice and a willingness to change models and assume risk. But, then again, that's all part and parcel of being a leader.

Accordingly, while the recession debate continues to run, we cannot ignore the measures that other countries have introduced in order to fight climate change. Just look, for example, at how South Africa slaps taxes on emissions, the introduction of local emissions markets in California, Quebec, Australia or South Korea, or even Mexico's existing emissions reductions schemes.

I know that you haven't come here today to listen to a speech that would be better-suited to a United Nations assembly rather than an AGM. But the truth is that our Company's strategy is based precisely on these concepts and if I weren't to address them, I'd be unable to explain specifically and in detail, as I will shortly, how our Company is performing and how we expect to contribute to the universal objectives that I've just mentioned.

I'd like to take a few moments to underscore our unswerving commitment to the ACCIONA business model and to state my belief that our strategic areas have been in the past, are today and will continue to be in years to come the fundamental linchpins of worldwide economic development in the future.

Having said that, and despite the very positive long-term economic outlook, each of our strategic areas are faced by specific challenges in the short run.

One of the main features of **energy**, for example, is that the task of developing renewables now stands as a universally shared goal. At the European level, the EU Council Session held on May 22 ratified the Union's support for renewable energy and its role as a basic component of EU policy.

As regards Spain, over the past two decades, our country has become an international technological benchmark in the field of renewables, and wind and solar thermal energy in particular.

The knowhow picked up along the way has made us global front-runners in one of the sectors with the greatest potential for growth. However, since 2010 and especially in 2012 and 2013, unexpected and retroactive regulatory changes have taken place, hitting this industry particularly hard.

Spain's energy sector is currently undergoing changes to its regulatory framework, changes aimed at coming up with a solution to the so-called "tariff deficit". So far the collective effect of these changes has led to a 5.6 billion euro fall in revenues for Spain's renewables industry. Two of the reform laws passed in the past year (Law 15/2012 and Royal Decree-Law 2/2013) were enough to eat up the equivalent of ACCIONA's energy business's total pre-tax profit for FY2012, that's roughly 170 million euro. I'm sure you'll understand that we have no alternative but to make painful decisions on asset sales and cost-cutting, dividends and capital expenditure.

Without going into more-or-less technical issues, I'd like to highlight how absurd, or even just downright unfair on businesses (if you'll pardon the expression), this is for a sector, renewable energy, which in 2103 is expected to meet nearly a quarter of Spain's electricity requirements. It turns out that, as a result of continued regulatory chopping and changing over the past few years, the renewables sector can't even look forward to pulling in 10% of the total estimated profit for Iberian electricity market. At the very least, it would appear that renewables will no longer serve to finance cost cuts in the system.

In addition, and with the considerable ongoing efforts to promote the "Spain" brand and the overseas presence of our companies, it is important to underline the fact that Spanish renewables outfits are at the leading edge worldwide and enjoy an excellent technical reputation across the globe. Clearly, it would be nothing short of incoherent to blame renewables for the evils currently besetting Spain's electricity system, and to force us to shoulder the burden of the greater economic sacrifices demanded by the reforms, while expecting us to hold on our competitive edge, our reputation as a cutting-edge industry or our capacity to invest in new projects or in R&D initiatives.

Also, and as clear proof of where the energy world is heading, I'd like to remind you of the recent decision adopted by the French and German governments, namely to set up a "Franco-German Renewable Energy Bureau", intended to foster industrial cooperation between these two countries and promote renewable energy as a driver for competitiveness.

Or the communique launched on Sunday 1 June in Berlin, marking World Environment Day, in which energy ministers from China, Germany, France, the UK, South Africa, Russia, Denmark, the UAE and even Morocco pledged to develop renewable energy as an indispensable means of achieving sustainable development.

Spain, a country that has already gone a long way down that road (and successfully, at that), cannot miss out on these global pacts, and it cannot lose its leading role or surrender it to other economies or industries that are in the running for leadership.

I'm sure that in the decision-making process in the run-up to future reform of Spain's energy model, the Government will display sensitivity towards this issue and will show that it is aware of the need to protect the value that this kind of energy represents for our future growth, our energy independence and our global industrial reputation.

Infrastructures, as you are well aware, were the starting-point of our Company. It is a complex and ever-changing industry that calls for constant, ongoing adaptation. I'm sure that there's no need for me to elaborate on the difficulties that it is currently encountering in Spain. To give you a sharper picture of the cuts suffered by this industry, I'd like to point out that in 2013 and 2014 Spain will have the lowest investment ratio per surface and population of any EU-27 member state, and between 50% and 60% lower than countries such as Italy, Germany, France or England¹.

While Spain has to contend with its current difficulties, we are witnessing strong growth in the infrastructures market worldwide.

Spanish companies are blessed with the experience and proven technical capacity to build, finance and operate every kind of civil infrastructure, and this leaves us well-poised, among the leaders, to develop and lead this kind of international projects. However, eroded balance sheet strength as a result of financing difficulties and the risk premium, the relatively larger scale of our rivals, rising fiscal pressure or an inexistent domestic market, are all stumbling blocks to our progress and come as colossal hurdles to our efforts to hold on to our position as leaders.

¹Source: Eurostat and the SEOPAN Report "Infrastructures: considerations, challenges and the outlook", 14/03/2013

Our vision of the **Water** sector today shares many of the features of 20 years ago when we first undertook our commitment to renewables. The sector holds enormous potential, stands out for its considerable tech content and has a clearly global scope.

According to UN estimates, in 2030 nearly half of the world's population will live in areas plagued by hydric stress¹. Four clear factors underlie this trend: significant population growth, more and more city-dwellers and growing per capita consumer spend, ageing infrastructure and climate change.

These major trends will lead to severe imbalance between water supply and demand; this is set to become—and quite likely already is—one of the main global challenges in the short term. The positive aspect of this is that it presents ACCIONA not only with major business opportunities, but also the chance to contribute to society at large. Suffice to say that the water industry's growth prospects are estimated at somewhere between 3% and 4% per annum in developed nations and 8% and 10% in the developing world².

ACCIONA Agua is small when viewed alongside other ACCIONA Group divisions, but it is unquestionably among the world's leading players when it comes to building and managing water treatment plants. More than 70 million people across the globe benefit from our activities, namely desalination, wastewater and drinking water treatment and end-to-end water services. To date, this Company has built more than 400 treatment plants, more than 100 drinking water plants and more than 70 desalination stations. We operate more than 300 water treatment plants that deliver water to more than 40 million people, and we are currently building the world's largest-ever wastewater treatment facility, in Atotonilco, Mexico.

¹Source: UNESCO, "New report highlights crucial role of water in development", 2009

²Source: Impax AG report, "Investing in water: global opportunities in a growth sector"

With your permission, I'd like to keep my review of FY2012's key economic and financial figures short, as you are all more than familiar by now with all the relevant details.

Allow me to emphasize the fact that the Group has managed to achieve a balance between strict cost control measures and selective investment criteria, and financial muscle and reasonable growth. I'm sure there's no need for me to reiterate that, given the current circumstances, striking the right balance between these goals was hard and that, along the way, we've been faced with some pretty tough calls.

In FY 2012 we posted 7.016 billion euro's worth of revenue, that's 5.6% more than the previous year; EBITDA amounted to 1.431 billion euro, up 9% on FY2011, while net attributable profit came to 189 million euro, down on the 2011 figure by 6.3% owing to lower extraordinary results in 2012.

Last fiscal year we invested 854 million euro in projects; almost half of it went on energy, and more-or-less the rest on infrastructure concessions. R&D investment came to 166 million euro, making us an EU-wide leader in R&D and Innovation investment effort in the electricity and construction sectors, according to the table compiled by the European Commission.

Net financial debt in 2012 came to a total 7.482 billion euro, 7% more than at December 2011, despite the hefty investment effort that I mentioned earlier. Even so, our financial structure remains solid, with undrawn credit lines and a cash balance of approximately 2.5 billion euro; in addition, close to 70% of our financial debt is non-recourse and there are no significant refinancing requirements on the horizon.

Accordingly, we propose to the Shareholders' Meeting a dividend of 2.65 euro per share, equivalent to 80% of profit, a dividend yield of 5.4% on the average share price in 2012 and 17.4% lower than the effective dividend for 2011.

Turning now to our annual Sustainability Report, for the second year running we put the latter forward for your approval. I would draw your attention in particular to the Sustainability Master Plan that guides each and every one of our actions in this sphere, with special reference to a few illustrative milestones. As regards remuneration, we introduced a sustainability-linked pay variable for more than one thousand employees, a Company first. We also made progress in our environment efforts: in 2012 we avoided 14 million metric tons of carbon emissions, 20% more than the previous year. At the social level, the year saw the launch of the "Light in the Home" project in Mexico, as an extension of the rural electricity-supply project using domestic PV solar units that scored a great success in Peru three years ago and for which the ACCIONA Microenergy Foundation has received a number of awards.

We also continue to be a component of a number of the world's leading sustainability indices, such as the Dow Jones Sustainability Index, FTSE4Good or the STOXX Global ESG Leaders, among others.

And finally, we have stepped up the dissemination and transparency efforts that I mentioned earlier: the existing and usual list of reports and memoranda routinely presented at each AGM is today joined for the first time by ACCIONA's brand new Integrated Report. This new addition to our corporate reporting stable sets out to sum up and describe, in simple and direct terms, our strategy, our vision of the future, our expectations and the reasons behind our unwavering belief in both our Company and its business model. Among other numerous details, the Integrated Report looks at other Group areas, such as ACCIONA Service, Trasmediterranea, Bestinver or Hijos de Antonio Barceló; all of them are highly relevant, but time constraints prevent me from addressing them in further detail today. Please take the time to read this new Report—it represents a quantitative shift, a departure from the usually tedious, and not necessarily enlightening, read offered by conventional annual reports.

Ladies and Gentlemen Shareholders, as I stated at the beginning of this address, despite the current complex and adverse environment, I wish to convey a message of optimism and reiterate my confidence in Spain, in our Company's business model, our corporate strategy and in our team of professionals.

Our Company is a solid one, it enjoys widespread admiration and it is perfectly poised to take on today's major challenges and social demands. With your help, Ladies and Gentlemen Shareholders, and the commitment of our professionals and the Board of Directors, ACCIONA is sure to remain on the path to growth and value-creation, all the while contributing to a model of balanced development that is intended to benefit our shareholders, our employees, society around us and the generations to come.

Thank you very much.