

# Annual General Meeting 2019

May 7, 2019

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## Marcelino Fernández Verdes

Chief Executive Officer (CEO)

### **Embargoed until 10:30 a.m. (CET) on May 7, 2019**

Check against delivery.

Guten Morgen, meine sehr verehrten Damen und Herren, liebe Freunde von HOCHTIEF.

Im Namen des Vorstands begrüße ich Sie sehr herzlich.

Ich werde im Weiteren Englisch sprechen. Eine Übersetzung hören Sie über Kopfhörer.

I would particularly like to welcome the board members and top managers of CIMIC, Turner, Flatiron and HOCHTIEF.

The future starts now. That was the message of our new HOCHTIEF movie. I find the film inspiring and hope you share my view. After all, in just a few minutes you saw how innovative our work is already worldwide, and how Industry 4.0 technology will help us to become even more sustainable and efficient in the future.

I will come back to this later. First of all, I would like to speak about

- project wins and accomplishments,
- our economic performance,
- shareholder remuneration
- and our strategy

Let us start with our **achievements** in 2018.

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HOCHTIEF delivered a very robust operating performance in 2018 and took another major step forward strategically by investing in the leading international toll road operator Abertis. Supported by strong cash flow, we managed to increase our operational net profit for the sixth consecutive year. This was accompanied by improved margins, solid top-line growth and further order book expansion.

Our focus on developed markets and our diversified business mix gives us a robust, well-balanced profile in the infrastructure sector that is paying off in a sustainable manner.

2018, we booked numerous successful projects and new large-scale orders in our core markets around the world.

HOCHTIEF started construction on a 15-kilometer-plus subway tunnel under Sydney Harbor as well as a major transportation project in the Amsterdam region. We are in the final stages of constructing the three-kilometer bridge over the St. Lawrence River in Montreal and the Marienturm high-rise in Frankfurt.

Here are some projects we have completed or started operating:

- PPP projects to expand the A7 highway in northern Germany and to build the police headquarters in Aachen,
- several tunnels with a total length of 31 kilometers built by CIMIC, and
- the Mercedes Plaza in Berlin.

In 2018, we won several major contracts, including:

- construction of The Spiral skyscraper in New York,
- a convention center in Las Vegas,
- a net zero energy building for the California Department of Natural Resources,

- seven airport projects, at Los Angeles, Denver, Washington D.C., and in Poland, amongst others
- subway projects, for example in Melbourne, Copenhagen, and Munich,
- a solar farm in Australia, and
- mining projects in Australia and Chile.

Meine lieben Aktionäre,

Our success is based on our people. They deliver unique projects and top performance—with full commitment every single day. This deserves utmost respect and recognition.

Join me in thanking all the HOCHTIEF teams. They have done a great job. Thank you very much!

I would also like to thank our Supervisory Board for its continued support and commitment.

Let us now have a look at the 2018 full-year results:

- **Nominal net profit** rose by 29% to EUR 541 million which includes a EUR 84 million contribution from the 20% stake in Abertis from June to December 2018.
- **Operational net profit** increased by 15% year on year to EUR 521 million. This result is at the top end of the guidance range we announced a year ago of EUR 470 to 520 million.
- Adjusting for foreign exchange rate movements, **sales** were 11% higher year on year at EUR 24 billion, or up 6% in nominal terms. This growth was accompanied by increased margins.
- The Group's **operational PBT margin** was up 30 basis points year on year to 4.1%.

- Our **net cash from operating activities** was at a continued high level of EUR 1.4 billion in 2018.
- After around EUR 340 million of net capital expenditure, we achieved over EUR 1 billion of **free cash flow from operations** in the last twelve months. It is the fourth consecutive year that we generated around EUR 1 billion of free cash flow from operations.
- HOCHTIEF ended the year with a **net cash position** of EUR 1.6 billion, almost EUR 300 million higher compared with the end of 2017.
- Our year-end **order backlog** of more than EUR 47 billion has increased by 7% year on year on an exchange rate adjusted basis. At over EUR 28 billion, **new orders** in the last twelve months represented 1.1 times the Group's level of work done. New orders in Germany were up by EUR 340 million to EUR 1.2 billion.

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Again all three divisions contributed to the positive overall development of the Group. Let us have a look at them in detail.

**Americas** delivered a positive performance on all fronts in 2018.

**Operational PBT** rose by 18% year on year to EUR 304 million, at the top end of the divisional guidance range of EUR 270 to 300 million.

The **operational PBT margin** expanded by 10 basis points year on year to 2.3% while sales, in local currency terms, rose by 14%. In Euro terms, sales reached EUR 13.1 billion, up 10% year on year.

**Cash generation** was solid again during the year. Net cash from operating activities of EUR 318 million reflects a continuing high level of cash conversion. As a consequence of the good cash flow performance, divisional **net cash** ended December 2018 at over EUR 1.1 billion, up EUR 170 million year on year.

The order situation developed again very positively. Americas delivered another high level of **new orders** at EUR 15.3 billion. The **order backlog** reached a new record level of EUR 21.1 billion at the end of the year, up 20% on December 2017.

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**For 2019**, we expect the Americas division to further increase **operational profit before tax** to EUR 305 to 320 million.

Now to **Asia Pacific**:

In 2018 **nominal profit before tax** grew by 7% year on year to EUR 620 million. On **sales** of EUR 9.3 billion, the **PBT margin** reached 6.7% compared with 6.4% in 2017. The reported divisional result was influenced by exchange rate movements with the Australian dollar being, on average during the period, 7% lower versus the Euro year on year.

The **order backlog** remained solid at EUR 22.6 billion and provides a consistently high visibility of 26 months of work.

**For 2019**, CIMIC expects **net profit after tax** of between AUD 790 million and AUD 840 million, after AUD 781 million in 2018.

Turning to **Europe**:

The division developed positively during 2018 continuing the trend seen in prior years as a result of our strategy implementation. **Operational PBT** increased by EUR 14 million year on year to EUR 59 million, in line with the guidance of EUR 55 to 65 million. The division's **operational PBT margin** stands at 4.1%.

At the end of 2018, Europe showed a strong **net cash** position of EUR 475 million, an increase of over EUR 264 million compared with the previous year.

A solid level of **new orders** at EUR 1.9 billion was secured during 2018, in line with the prior year figure and exceeding the level of work done during the year by 10%. The divisional **order backlog** at the end of December stood at EUR 3.6 billion representing around two years of work and includes EUR 2.3 billion of projects in Germany.

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**For 2019**, we expect further growth in divisional **operational profit before tax** to EUR 65 to 70 million.

Meine Damen und Herren,

We want to offer you, our **shareholders**, attractive **remuneration** on a long-term basis. That is a key element of our capital allocation strategy.

Since 2012, the compound annual dividend per share growth rate is 38%. As a consequence of the sustainable strength of the balance sheet and the further increased earnings visibility that results from the investment in Abertis, the dividend payout ratio is to increase from 50% to 65% of nominal net profit. Reflecting this and the Group's strong profit development, we propose a **dividend** of EUR 4.98 per share for 2018, an increase of 47% compared to 2017.

Let us talk about our strategy,

Our objective is to create value for all our shareholders, clients, suppliers, subcontractors, and our employees. And we aim to do this in a sustainable manner.

Since 2012, our economic performance has been continuously improving as a result of operational and strategic measures. Operationally HOCHTIEF remains focused on risk management and on generating cash-backed profits. The disciplined bidding approach was maintained across the Group.

A major strategic transaction last year has further improved our business profile:

We invested EUR 1.4 billion to acquire a 20% stake in the leading international toll road operator, **Abertis**, which has a strong position in France, Spain, Chile and Brazil. This strategic investment together with Atlantia and ACS will significantly increase our level of profit and cash flow and, at the same time, enhance our earnings visibility.

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As a leading infrastructure group, HOCHTIEF today spans the entire life cycle of infrastructure projects in developed markets. Leveraging our core competency in construction, we have a long track record of delivering complex projects worldwide, including bridges, subways, and high-rise buildings, amongst others. Over time, we have expanded our activities which now encompass engineering, mining, construction management, maintenance services as well as PPP projects and the concessions business.

Today HOCHTIEF has a well-balanced business profile. Construction management, services and mining—activities with a low risk profile—contributed two thirds to our 2018 sales. And civil construction one third.

Overall, we attach utmost importance to intensifying the cooperation between our Group companies to the benefit of our clients and shareholders and to systematically leveraging that competitive edge.

In the public-private partnership market, we see a growing pipeline of global opportunities that will enable additional growth.

Together with our majority shareholder ACS, we are the largest PPP player in the world.

During 2018, we together won orders with a combined contract value of around EUR 6 billion in the PPP field. This included awards for:

- the people mover at Los Angeles airport,
- a prison in New Zealand, and
- a school in Gladbeck, Germany.

In the beginning of 2019, we secured a PPP rail project with a volume of AUD 1.3 billion in New South Wales, and also in Australia we were awarded the

largest infrastructure project of Queensland, the Cross River Rail in Brisbane with a total volume of over AUD 5 billion.

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Our teams have identified a tender pipeline of PPP projects with a volume of approximately EUR 230 billion in our core U.S., Australian, Canadian, and European markets.

Meine Damen und Herren,

Let me now come to our **innovation strategy**. We launched this long-term project about a year ago. And we can see first opportunities and even results already now, as the film at the beginning of our Annual General Meeting has shown.

Innovation is one of our guiding principles and a key driver of HOCHTIEF's competitive strength. Building Information Modeling, for example, has already been used in the digital planning and efficient execution of more than 2,300 projects. But innovation goes further. It generates fascinating opportunities to build the world of tomorrow. You have seen in the film at the beginning that last year we launched a pilot project at the A6 highway in southern Germany using drones with laser scanners for the first time to document the progress of construction.

This is just one small example of the many ways we aim to harness digitalization. We have created a new organizational structure for innovation: In 2018, we have set up Nexplore, a Group-wide digital innovation hub. Looking ahead, Nexplore will lend us huge support in transitioning to an enhanced digital future for our engineering, construction, mining, services and PPP activities.

HOCHTIEF's digital transformation is not about introducing technical innovations for their own sake. The fundamental objective is to create value for our clients, stakeholders and employees by changing the way we work. Drawing on our deep understanding of our clients' needs and priorities, we intend to offer cutting-edge solutions for the future.

In Essen, Frankfurt/Darmstadt, Minneapolis, Sydney and Madrid Nexlore is establishing several innovation centers.

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Nexlore will cooperate closely with the world's leading universities and IT companies. A first series of research projects conducted jointly by scientists and Nexlore's employees has started. The aim is to systematically take advantage of the opportunities for our business offered by digitalization, tapping the fields such as artificial intelligence, virtual reality, machine learning, the Internet of Things, and Industry 4.0. A key partnership with the MIT-IBM Watson Artificial Intelligence Lab in Cambridge, Massachusetts, USA, has recently commenced.

HOCHTIEF will harness the products and processes developed by Nexlore to continuously increase efficiency and execution quality as well as to optimize project management. Our clients, project partners, and employees will benefit from these innovations which we will roll out in the coming years.

Meine Damen und Herren,

HOCHTIEF is an innovative and thriving group that prepares for the future.

We have decided to build the new Corporate Headquarters at the historical Opernplatz location. Therefore, HOCHTIEF has bought back the Headquarters in the heart of Essen.

The new building will support our digital transformation. We will create an efficient, inspiring and productive working environment for our employees.

**Safety** is a top priority in our daily work. The health of our people as well as of our business partners and subcontractors is of primary importance for us.

It is with the deepest regret I have to inform you that despite all efforts, three fatal accidents occurred on construction sites of the HOCHTIEF Group last year.

On behalf of the Supervisory Board, the Executive Board, and all HOCHTIEF employees, I would like to express my deepest sympathy to the families and friends of the colleagues who have passed away.

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We work continuously to identify work-related risks at an early stage and to improve our prevention performance. Because every accident is one too many. In 2018, the Group-wide Lost Time Injury Frequency Rate, which measures the number of accidents per million hours worked, was 1.37. We are not happy with that. We will continue work to ensure that all our people are working in a safer environment.

Let us look ahead at our economic prospects:

HOCHTIEF has a strong tender pipeline. In total, our local teams have identified a pipeline worth about EUR 600 billion of relevant projects coming to our markets in North America, Asia-Pacific and Europe in 2019 and beyond. Regarding PPP projects, we have a tender pipeline with a volume of approximately EUR 230 billion.

Our guidance in concrete terms:

For 2019, we expect to achieve an operational net profit of EUR 640 million to EUR 680 million compared with EUR 521 million in 2018 – which is an improvement of up to 30%.

Meine lieben Aktionäre,

let me **summarize:**

- Today HOCHTIEF has a well-balanced business risk profile as an engineering-led global infrastructure group with leading positions across its core activities of construction, services, mining and concessions/public-private partnerships focused our core markets.

- Together we delivered the sixth consecutive year of increasing operational profit with a strong cash flow generation.
- Our robust balance sheet combined with the deep presence in our core markets as well as our engineering expertise leaves us well positioned to take advantage of potential future opportunities. We maintain our disciplined approach to capital allocation with our focus on value creation and sustainable shareholder remuneration.
- The outlook is very encouraging based on our strong global tender pipeline. Backed by our robust order book we expect further profit growth in 2019, and, longer-term, our digital transformation will enable us to further enhance our leading position in our industry.

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As I said at the start of my speech:

Glauben Sie mir:

Die Zukunft beginnt jetzt!