

Madrid, February 27th, 2019 – 18:30 – Edited Transcript of the Ferrovial Significant Event Notice.

## CORPORATE PARTICIPANTS

<b>Ernesto López Mozo</b>	– Ferrovial S.A. CFO
<b>Ricardo Jiménez</b>	– Ferrovial S.A. Investor Relations Director

## Q&A SESSION PARTICIPANTS

<b>Bruno Silva</b>	– Caixa Bank – Analyst
<b>Vittorio Carelli</b>	– Santander – Analyst
<b>Guillermo Fernández</b>	– Kepler – Analyst
<b>Marcin Wojtal</b>	– Bank of America Merrill Lynch – Analyst
<b>Olivia Peters</b>	– Macquarie Bank – Analyst
<b>Antonio Rodríguez</b>	– BBVA – Analyst
<b>Robert Crimes</b>	– Insight – Analyst

## PRESENTATION TRANSCRIPT

**Ricardo Jiménez, Ferrovial S.A. – Investor Relations Director**

Good afternoon everybody, welcome to Ferrovial's conference call in relation to the relevant fact, sent to the Madrid stock exchange commission, a few minutes ago.

The conference call will be held by Ernesto López Mozo, Ferrovial's CFO.

**Ernesto López Mozo, Ferrovial S.A. – CFO**

Thank you Ricardo, good afternoon, good morning to you all.

Well, as you have seen in the communication to the stock market regulator, we have completed the strategic review of the Services division, that we announced in October, and have decided to classify all the Services activities as held for sale, or discontinued activity as of 31 December 2018.

This includes Amey, which is also classified as held for sale, and we have taken an impairment, and I will explain the different mechanics around it.

Basically, following the decision, you have to put the assets and liabilities of these discontinued activities, valued at the lowest of their current amount of fair value, less costs of sale, fair value being a transaction value.

As a consequence, we have taken a provision of EUR774mn, related to Ferrovial's participation in Amey. The provision relates to the fair value of Amey as a whole, based on indications of interest we have received from potential buyers, comparable transactions and other valuation methodologies.

There is no additional provision with regards to the rest of the Services business, in fact, in some cases the fair value is substantially above the book value, however you cannot compensate the impairment resulting from Amey, with potential capital gains in other parts of the portfolio.

The reason for this is that we want to keep the freedom to either sell the whole division or part, and that means we have to assess each unit individually.

The book value of Amey in our books after the provision stands at EUR103mn. It is important to remember that this is a non-cash provision.

As you are aware, in a very challenging market in the UK, where the company is facing macroeconomic uncertainties, and low public budgets. Amey has a long-standing contractual dispute with the Birmingham City Council, in relation to the highway maintenance contract under a PFI scheme.

Amey and the rest of the stakeholders, including of course BCC, are having negotiations to kind of find a settlement, a concession solution to enable Amey to exit the contract.

So, the decision for a sale process for the other units, will not be based on the outcome of the negotiation of these contracts. It will be commencing shortly.

Ok, so if the settlement or negotiations with the BCC Council finish quickly, they could be incorporated with the rest, otherwise it would have to be a separate process.

Ok with that information, I would only want to finish really on the scoring to say that Amey is operating as usual, there is no change, this is a provision that has to relate with a market transaction under current circumstances and does not have to do with the strength and quality of the service that Amey is providing to its customers.

Now we will open the session for the Q&A part.

## Q&amp;A SESSION PARTICIPANTS

**Bruno Silva – Caixa Bank – Analyst****Q:**

Yes, good afternoon everyone. I wonder if you could share with us some more accounting details related with Amey. Namely the last reported, probably you could share the nine-month figures on the net debt provisions and retirement benefit obligations that I guess at year-end 2017 they amounted globally to more than GBP700mn. If you could help us with these figures would be very helpful.

Then secondly, just to make sure I understood. The Birmingham contract is totally isolated from Amey from now on, or just regarding a potential sale, and whether the GBP200mn that was mentioned in the press, to exit the contract, if that in some way was already the part of this impairment that you have just announced? Thank you very much.

**A:**

*Ok, thank you. I will try and answer this, I mean some of them are more questions regarding the balance sheet and results that should be answered tomorrow, but I will try and answer some.*

*Maybe I didn't get right some of the questions but let me try and address them. Amey of course is part of a different defined benefit pension schemes, and that have been managed by the trustees and investors and I think that that's been done quite prudently, and from a technical provision basis, they should be ok. It could be zero depending on the financial strength that you attach to the covenant, but its pretty much close to zero, right.*

*On a self-sufficient basis, maybe it could be around 100, but of course these are moving figures, but I mean not the sort of deficit you were suggesting, right. So, probably you were talking about a figure that is the liability, but not the deficit.*

**Q:**

Sorry, I was asking about 3 different lines, so net debt, total provisions, general provisions that you may have. At the end of last year, I think it was around GBP367mn, then in April you had another GBP200mn and something, so I don't know what exactly is the last figure that you could share with us. Just to understand how that compares with the impairment and the equity book value, on the fair value accounting that you have just reported.

**A:**

*Well basically all of these amounts, it makes more sense to give you the year-end figures tomorrow, right? I mean, well basically you will see that the net debt and you know that in the last quarter of the year, you have a good cash inflow, right? So, it's probably better to talk about the net debt with year-end figures, and also regarding the provisions, because there have been movements in the last quarter of the year, so it's probably better for me to address these questions tomorrow.*

*Then you were talking about the press also mentioning GBP200mn to exit the contract, I mean we don't comment on press rumours, and of course this is subject to confidentiality, the different talks that Amey, as part of the contract is having with the different stakeholders, so I cannot comment I'm afraid.*

**Q:**

Ernesto, sorry for insisting, because I think this is really important. In a nutshell, what I am asking about, is what is the refence enterprise value that is consistent with the equity book value that you are now assuming in our balance sheet regarding to Amey?

And regarding the Birmingham, just to clarify, if understood it correctly, that the current valuation of Amey. What is the assumption regarding the Birmingham contract and whether or not you have said that any sale would disregard or would be considered separately the Birmingham contract? Thank you.

**A:**

*Bruno, we are not disclosing the different details of the fair value analysis arrived at via different methodologies, and we are not providing that. I mean, we are talking about sale process at the moment, and for commercial reasons we are not discussing that kind of breakdown now.*

*The other question that you were asking about the Birmingham contract, what? I'm sorry I missed the last question.*

**Q:**

What have you assumed for the valuation of Amey? Are you taking it separately? In case of a sale, is that contract going to be isolated or how is it possible to value this right now?

**A:**

*The valuation assumes the current situation with all the information we have available. It has not been separated from the valuation.*

**Vittorio Carelli, Santander - Analyst**

**Q:**

Good evening Ernesto. Thank you for receiving my question. Quickly, you said that these negotiations with the Birmingham City Council is still on-going. So, my first question is. Should we wait for a different provision related to the final outcome of this possible transaction to exit the contract?

**A:**

*I cannot answer that for commercial reasons.*

**Q:**

Ok, fine. Secondly, I don't really recall the total provision related to Amey, but let's say that the Amey EBITDA was really in the past, about EUR100mn, right.

So, valuing this business four times, EUR400mn enterprise value, you are provisioning EUR774mn, plus the past provisions so, how did you value Amey?

**A:**

*Vittorio, probably the best way for you for that EBITDA ex-Birmingham is to wait for tomorrow's call, right? I mean because we have provided, always the kind of margins you were having without the Birmingham contract, right? So, tomorrow, with the release of the results, you will see the full year EBITDA without Birmingham.*

**Q:**

Ok, so a few numbers. My last question is, if I may. Who has suggested that you do this kind of provision right now? So, the accountants, management, the potential buyer? So, which is exactly the reason behind this massive provision behind Amey right now, if I may? It could have also happened one year ago.

**A:**

*It is deduced in the accounts. We've seen the interest in moving ahead with the Services disposal, and especially with the other part if I may, but of course, if we can sort out this part of Amey as well, we think it is a good time to move.*

*Once you take the decision to move and hold for sale, everything just follows, you have to do a fair value analysis, where you have to estimate a transaction price. The only problem is that if we want to keep freedom to maybe sell separately, instead of the total, we cannot take the benefit of the potential capital gain of the remainder, right? So, that's the unfortunate part of this. So, I don't think we have any degrees of freedom, it's just the duty to report in that way.*

**Q:**

Ok, I have finished thank you.

**Guillermo Fernández, Kepler - Analyst**

**Q:**

Good evening everyone and thanks for taking my questions. I have two if I may.

One would be if you can share with us the book value for the rest of the Services division, ex-Amey. The second, I understood why you could not share, well not today, what's the net debt of Amey as of year-end, but if you could share the net debt of Amey as of September this year, and as well remind us what it was at year-end 2017?

**A:**

*Well Guillermo, basically we don't disclose the book value of the remainder, because we are for commercial reasons in the middle of a sale, it doesn't make much sense to be talking about these book values at the moment.*

*Regarding Amey's position, as I said, always has a very good last quarter, because there are very important clients that submit their payments to Amey at the end of the year. So usually it ends up with a positive net cash position at the end of the year. I think that was the case in 2017 and I don't remember the exact number now, but tomorrow we can update and tomorrow you can see. I mean you just have to wait for a day, but the normal patterns have occurred again this year, ok, so tomorrow you will have more information on the net debt position of Amey.*

**Q:**

Ok, understood thank you.

**Marcin Wojtal, Bank of America Merrill Lynch – Analyst**

**Q:**

Good afternoon, thank you for taking my question.

This is more of a technicality, but I just wanted to ask you, if you could confirm by reclassifying those assets to held for sale, does it imply that you have a high level of confidence of actually divesting all of those businesses within the next 12 months, including the UK? I mean, I believe that would be the accounting requirement to reclassify them, so if you could clarify if you have had let's say discussions with auditors, which I guess you must have had, but if you could comment a little bit if there is an implication on your level of confidence from this accounting change, as to this transaction actually happening?

**A:**

*You're absolutely spot on. I mean we are highly confident that this will happen in the next 12 months and that is the reason why it is classified as held for sale and that includes Amey as well.*

**Q:**

Alright, very clear.

**Olivia Peters, Macquarie – Analyst**

**Q:**

Hi, I've got two questions please. Firstly, on Amey's net debt, and sorry to insist, you said that in 2017 there was a net cash position. I calculate that at 155mn, however, it looks like there was a loan made to Amey for GBP398mn. Should we not be including that and therefore it would take us to a net debt position of almost 250mn as of 2017?

Then my second question is around other PFI contracts. You say in the statement that the UK is obviously a very tough market and I was wondering how your negotiations are going as far as exiting other contracts? Thank you.

**A:**

*Thank you Olivia, well basically when I mentioned net cash, I mentioned external net debt position. I didn't mention the internal loans.*

*What is true, is that when we talk about our whole exposure to Amey being limited to EUR103mn, we take everything into account, our equity and inter-company loans, so its all our balance sheet exposure.*

*Regarding other PFI contracts, we are fine. I mean I think that Amey is performing really well, in the different conference results, we've talked about some specific contracts that were either being phased out or basically finished, like the completion of the waste treatment plants of Milton Keynes, or some contracts that were being finalised, like some contracts in Liverpool that we exited, but in general the performance is good as I said, its a high level of standard and there is no negotiations to exit other contracts or to settle them, right. As we say in the communications, this is really concentrated in one particular contract.*

**Q:**

Thank you.

**Antonio Rodríguez, BBVA – Analyst**

**Q:**

Hello, my questions were answered, thank you very much.

**Robert Crimes, Insight, Analyst**

**Q:**

Hi. In terms of the inter-company loans, if UK services was to be sold, what would actually happen with regards to the inter-company loans? Would Amey have to take out more debt at difficult rates in order to pay Ferrovial back? Thanks.

**A:**

*Well, basically it would be cash in by the payment of the buyer. I mean, when we talk about 103 expected value, it's the expected value of our exposure, that's what we would be getting, right? So, the risk of the maths for any buyer is simple.*

**Q:**

Ok, so let's assume you receive proceeds of GBP400mn, then it would effectively be no proceeds, because you would have to pay back the inter-company loan.

**A:**

*Robert, we won't be working any back-math calculations, as I mentioned before, for commercial reasons of course, so our exposure is 103, that's the expected money we would be getting. Hopefully we will do better, but our expectations with the current information is the one that we have put in the accounts.*

**Q:**

And that's net of the inter-company loans?

**A:**

*Yes.*

**Q:**

Ok, thanks.

**Ernesto López Mozo:**

Ok, are there anymore questions?

Ok, thanks a lot and we'll be providing details on the results and balance sheet tomorrow.

Thank you, bye bye.