

## CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities include the flows of dividends paid in 2012 to the shareholders of Ferrovial, S.A. amounting to EUR 832 million and to the non-controlling shareholders of Budimex (EUR 26 million). It should also be noted that in January 2013 the outstanding account payable in relation to the tax withholdings made from the shareholders as a result of the distribution of these dividends was settled, giving rise to a payment of EUR 85 million.

Also noteworthy was the net payment of interest in the year (EUR -32 million), together with the exchange rate effect (EUR +6 million) and other changes in borrowings (not giving rise to cash flows) (EUR -54 million), which include accounting changes in the borrowings that do not affect the cash flows.

## Cash flows of infrastructure projects

### CASH FLOWS FROM OPERATING ACTIVITIES

The cash flows from operating activities of the infrastructure concession projects include mainly the inflow of funds of the companies which are operating, although they also include the VAT refunds and payments corresponding to those still in the construction phase. The detail of the cash flows from operating activities of infrastructure projects is as follows:

|   | Dec-12     | Dec-11     |
|---|------------|------------|
| Toll roads                                  | 210        | 200        |
| Other                                       | 85         | 28         |
| <b>Cash flows from operating activities</b> | <b>295</b> | <b>228</b> |

Noteworthy in relation to the cash flows from operating activities not generated by the Toll Roads Division was the improvement in the cash flows generated by the Services Division, principally as a consequence of the entry into operation of 100% of the A2 Corridor and Can Mata in 2012.

### CASH FLOWS FROM INVESTING ACTIVITIES

These flows include most notably those relating to the investments in concession assets under construction in the Toll Roads Division in 2012, the most noteworthy of which corresponded to the toll roads in the US (North Tarrant Express, SH-130 and LBJ) and in Portugal (Azores toll road).

| Cash flows from investing activities | Dec-12      | Dec-11      |
|--------------------------------------|-------------|-------------|
| LBJ                                  | -378        | -257        |
| SH-130                               | -169        | -201        |
| North Tarrant Express                | -206        | -111        |
| Chicago                              | -4          | 0           |
| Spanish toll roads                   | -5          | -14         |
| Portuguese toll roads                | -12         | -51         |
| Other                                | 0           | 0           |
| <b>Total Toll roads</b>              | <b>-774</b> | <b>-633</b> |
| Other                                | -24         | -146        |
| <b>Total projects</b>                | <b>-798</b> | <b>-780</b> |

## CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities include the payment of dividends and equity reimbursed by concession operators to their shareholders, as well as the disbursements relating to capital increases received by these companies. For the fully consolidated concession operators these amounts correspond to 100% of the amounts paid and received by the concession operators, irrespective of the percentage of ownership that the Group holds therein. No dividends or equity reimbursements are included for the companies that are accounted for using the equity method.

Interest flows relate to interest paid by the concession operators, plus other fees and commissions and costs closely related to the obtainment of financing. Cash flows in relation to these items correspond to the interest expense for the period and any other item entailing a direct change in net borrowings for the period. This amount does not coincide with the result on financing included in the income statement, mainly as a result of the differences between the accrual and payment of interest.

| Interest cash flows     | Dec-12      | Dec-11      |
|-------------------------|-------------|-------------|
| Spanish toll roads      | -75         | -110        |
| US toll roads           | -127        | -105        |
| Portuguese toll roads   | -38         | -41         |
| Other toll roads        | -16         | -15         |
| <b>Total toll roads</b> | <b>-256</b> | <b>-271</b> |
| Other                   | -30         | -22         |
| <b>Total</b>            | <b>-286</b> | <b>-293</b> |

Cash flows from financing activities also include the impact of exchange rate fluctuations on borrowings denominated in foreign currency, which in 2012 gave rise to a gain of EUR 56 million, largely as a consequence of the depreciation of the US dollar against the euro, which had a significant impact on the net debt of the US toll roads.

Lastly, "Other Changes in Borrowings (Not Giving Rise to Cash Flows)" includes items that represent a change in borrowings for accounting purposes but do not affect the actual cash flows, such as accrued interest payable, etc.

## II. BUSINESS OUTLOOK

### 1. Macroeconomic variables:

The main uncertainties concerning the world economy in 2013 centre on the forecasts of negative growth in certain countries in the euro zone and on how the final decision on tax increases and public spending cuts might affect the recovery of the US economy.

The most recent IMF forecasts point towards a change of trend at the end of 2013. The IMF predicts world economic growth of 3.6% in 2013, as compared with 3.3% in 2012, and that this growth will not be spread evenly over all countries. Growth of 5.6% is forecast for the emerging economies, followed by the leading developed economies (US, UK, etc.), with growth of between 1% and 2%, while the euro zone will hardly experience any growth during this period (0.2%).

The euro zone plays a significant role when it comes to the performance of the world economy, and it may have a negative impact if the latest

measures proposed by European leaders regarding fiscal, banking and financial union are not expedited.

## 2. Main challenges for Ferrovial in 2013:

Ferrovial's strategies will be based mainly upon:

- Continuing at operating level with the cost containment and working capital management policy to maintain a low level of borrowings excluding project debt.
- Implementing a selective policy of investments in projects where it is possible to retain the control, which will contribute to create value and synergies for its respective lines of business.

The principal uncertainties in 2013 relate to the performance of the businesses in Spain as a result of public authority budgetary restrictions and progress will be made towards defining the new regulatory period for Heathrow, which will commence on 1 April 2014.

## 3. Ferrovial's outlook by business area:

The **Toll Roads** business is closely linked to mobility, which in turn is in line with the economic recovery of the various countries.

Positive GDP growth is not forecast for the euro zone countries, except for Ireland. 2013 is expected to continue to see a fall in traffic in terms of both short and long-distance trips as a result of higher unemployment and lower purchasing power arising from the fiscal adjustment measures being adopted by the related governments.

In the US there is a degree of uncertainty regarding the fiscal policies that the Government will adopt. The final decision regarding tax rises and public spending cuts may affect the US economy and the recovery of toll road traffic levels that commenced in 2012. In Canada in 2013 the increase in toll charges is expected to offset a slight reduction in traffic as a result of the completion of construction work on alternative roads.

In 2013 Cintra will implement a selective strategy, submitting bids mainly in green-field projects in the US and Europe with partners with significant holdings. Opportunities will also be explored in Latin America and Australia following the opening of offices in these markets.

As regards the **Construction** business, according to Euroconstruct 2012 will prove to be the worst year of the crisis for the industry in Spain, with a drop of -31% with respect to 2011, and although the negative growth will foreseeably be less significant in 2013 (-23%) and 2014 (-6%), the industry is not expected to witness positive growth until 2016. The decline in business is largely attributable to the adverse performance of the civil engineering business, as a result of the budgetary problems and spending cuts of the public authorities.

Poland -the market in which Budimex operates- continues to be one of the EU economies with the highest allocation of EU funds. However, Euroconstruct is predicting a reduction in the activity of the industry as a whole of -3.4% in 2013 and of -1.0% in 2014 following the end of the Euro 2012 football championship, due to the sharp drop principally in civil engineering work on roads and, to a lesser extent in 2013, in the building

construction sector, which in 2014 will once again make a positive contribution. Euroconstruct expects the fall in civil engineering work on roads to end in 2015, as a result of which the industry as a whole will start to grow once again.

In 2013 the strategy of the Construction business is to continue growing in the international area primarily through contracts awarded by other Group activities (mainly Cintra) and through the direct submission of bids in tenders for construction contracts in the countries in which the Group has traditionally had a presence and in those in which offices have been opened in recent years. This international growth is expected to offset the negative performance of the business in Spain, which has been falling since 2008 and which in 2012 accounted for only 31% of the total revenue of the Construction business.

In the **Services** business in Spain, in 2012 invoices dating back to before 2011 receivable from the public authorities were collected thanks to the various mechanisms put in place by the Government, which gave rise to significant cash inflows and improved average collection periods to levels similar to those of 2008. In 2012 the fall in construction work and industrial activity had a direct impact on business areas such as that of Cespa, due to the reduction in the volume of waste generated.

In 2013 the main uncertainty concerns the budgetary restrictions of the public authorities, which could lead to a reduction in the volume of contracts for services awarded. Also, the need to improve public accounts could accelerate the process of service integration, making it possible to obtain significant savings through operating synergies, in a scenario in which the provision of services will be based on quality (measured using indicators) rather than on the availability of the resources offered.

Secondly, although a worsening of collection periods was not witnessed in the second half of 2012, there is a risk in 2013 of collections being delayed as a result of the financial restrictions placed on public authorities. However, this situation could be mitigated by the new liquidity lines that the Government has announced will be made available to municipal and regional governments.

In the UK, although the crisis has also been felt as a result of the reduction of public spending, Amey's growth in 2012 made it possible to offset the decline in business in Spain. A degree of reactivation of the market is expected in 2013, with tender processes for integrated service packages in which the companies with a proven capacity to integrate services and manage assets will have a clear advantage. As a result of fewer tenders and budget cuts to existing contracts, in 2013 sales and margins are expected to remain unchanged.

The strategy of the Services Division in 2013 will be to focus on achieving operating enhancements, offering integral service packages to local authorities in Spain and the UK and obtaining a geographical diversification of the business in Poland and Chile as the main target markets.

In the **Airports** business, Heathrow achieved a new all-time high in terms of traffic in 2012 (70 million passengers; +0.9%), and posted double-digit growth in the EBITDA margin (10.5%), all in a year in which

the London Olympics took place with Heathrow achieving the best overall rating in its history in terms of passenger satisfaction.

As regards the divestments triggered by the decision of the competition authorities, in April 2012 and January 2013 the sales of Edinburgh airport to GIP for GBP 807 million and of Stansted airport to Manchester Airport Group for GBP 1,500 million were announced.

In 2013 the Brent oil price is expected to be around USD 110 per barrel, down from the USD 130 reached in 2012. According to the International Air Transport Association (IATA) the outlook for world air traffic for 2013 is positive (+5.3%), based largely on a slight recovery of the world economy and on lower Brent oil prices.

The main uncertainties facing this business concern the new regulatory period that will commence in April 2014 and the possible development of a third runway at Heathrow. In 2013 progress will be made on the regulatory process with the CAA and the airlines.

In 2013 the strategy of the Airports Division will focus on growth, on increasing profitability and on improving passenger service at Ferrovial's airports. Also, having successfully completed the sales required by the UK competition authorities, the Group will continue to actively seek new investment opportunities.

### III. INFORMATION ON: THE ENVIRONMENT, EMPLOYEES, RESEARCH AND DEVELOPMENT, TREASURY SHARES, EVENTS AFTER THE REPORTING PERIOD, MAIN RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT

- Within Ferrovial's commitments in the area of corporate responsibility, environmental policy holds a prominent place and focuses on the use of environmental management systems and the setting of objective indicators and follow-up mechanism for environmental performance. The Annual Corporate Responsibility Report published by the Company includes a detailed breakdown of the evolution of all these indicators in 2012.
- Also, investment in R&D is considered to be a strategic objective at the Company, an in-depth analysis thereof being presented in the Annual Corporate Responsibility Report.
- Human Resources policies are a key element in Ferrovial's commitments in the area of corporate responsibility. Human Resources activities are oriented towards guaranteeing sustainable growth of the organisation and developing the potential of its employees in order to increase the competitive level of the Company in the market. The annual report published by the Company monitors in detail the Human Resources activities undertaken in 2012, along with the main indicators related thereto.
- At 31 December 2012 no treasury shares were held. In 2012 2,807,305 treasury shares were acquired (directly and indirectly), which were subsequently sold for a gain of EUR 21 thousand.
- In January 2013 HAH announced the sale of Stansted airport for GBP 1,500 million and the first corporate bond issue of Ferrovial, amounting to EUR 500 million, maturing in five years and with an annual coupon rate of 3.375%, was successfully completed. The purpose of the issue was to reduce exposure to bank financing by obtaining financing from the capital markets.

- The information on risks and uncertainties is included in the Corporate Governance Report, which forms part of this report.
- The Group's activities are exposed to various types of financial risks, primarily interest rate risk, foreign currency risk and market risk. The principal hedging policies and the main derivatives arranged are described in Notes 3 and 11, respectively, to the Group's consolidated financial statements.

## IV. CORPORATE GOVERNANCE REPORT

In accordance with Spanish corporate law, the Annual Corporate Governance Report forms part of this directors' report. The aforementioned document was formally prepared by the Board of Directors and sent to the Spanish National Securities Market Commission together with the text of this directors' report.

## V. AUDIT AND CONTROL COMMITTEE REPORT

### COMPOSITION

Pursuant to the applicable legislation and the bylaws and the Board of Directors Regulations of Ferrovial, S.A. (the Company), all the members of the Audit and Control Committee are non-executive directors and the Committee is presided over by an independent director.

The members of the Committee are as follows:

- Juan Arena de la Mora, *Chairman* (Non-Executive Independent Director)<sup>1</sup>
- Gabriele Burgio (Non-Executive Independent Director)
- Leopoldo del Pino y Calvo-Sotelo for PORTMAN BAELA, S.L. (Non-Executive Proprietary Director)
- Santiago Fernández Valbuena (Non-Executive Independent Director)

### FUNCTIONS

The competencies of the Audit and Control Committee, which are governed by the Company's bylaws and by the Board of Directors Regulations, are summarised as follows:

#### ● In relation to external audit:

- Propose to the Board of Directors, for submission to the shareholders at the Annual General Meeting, the appointment of the external auditors, including the conditions of appointment; scope, dismissal or non-renewal.
- Act as a channel of communication between the Board of Directors and the auditors, with whom it shall discuss any significant internal control system weaknesses detected in the course of the audit.
- Verify compliance by senior management with the auditors' recommendations.
- Oversee the independence of the external auditors. Exercise control over the additional services of any class provided to the Company. Issue, prior to the issuance of the auditors' report, a report expressing its opinion concerning the independence of the external auditors.

#### ● In relation to internal audit:

- Propose the selection, appointment, re-appointment or replacement of the director of internal audit; propose a budget for these services.

<sup>1</sup> Juan Arena de la Mora was appointed as the Chairman of the Committee, for the statutory four-year period, at the meeting held on 22 February 2012.