



QUANTA  
SERVICES  
1998  
ANNUAL  
REPORT



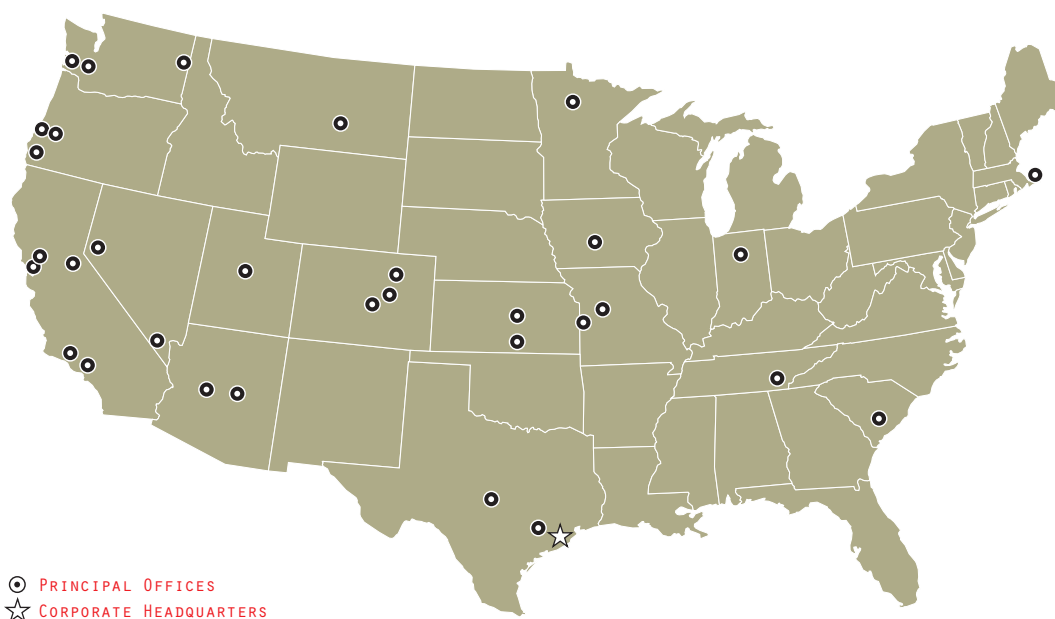
Quanta Services

QUANTA SERVICES, INC.

IS A LEADING PROVIDER OF SPECIALIZED CONTRACTING SERVICES TO ELECTRIC UTILITIES, TELECOMMUNICATION AND CABLE TELEVISION OPERATORS, AND GOVERNMENTAL ENTITIES. THE COMPANY ALSO INSTALLS TRANSPORTATION CONTROL AND LIGHTING SYSTEMS AND PROVIDES SPECIALTY ELECTRIC POWER AND COMMUNICATION SERVICES FOR INDUSTRIAL AND COMMERCIAL CUSTOMERS. QUANTA CURRENTLY HAS OFFICES IN 20 STATES AND PERFORMS PROJECTS NATIONWIDE. QUANTA'S COMMON STOCK TRADES ON THE NEW YORK STOCK EXCHANGE UNDER THE SYMBOL "PWR".

*On the Cover: High voltage transmission lines serving the Las Vegas strip – erected by a Quanta company.*

## PRINCIPAL OFFICE LOCATIONS



## FINANCIAL HIGHLIGHTS

	1998	1997
Revenues	\$ 323,745,000	\$ 179,374,000
Cost of services	261,368,000	144,474,000
Gross profit	62,377,000	34,900,000
Selling, general & administrative expenses	27,374,000	14,864,000
Merger expenses – pooling	231,000	—
Goodwill amortization	2,731,000	1,696,000
Income from operations	32,041,000	18,340,000
Interest expense	(4,598,000)	(446,000)
Other, net	687,000	(644,000)
Income before taxes	28,130,000	17,250,000
Provision for taxes	12,260,000	7,426,000
Net income	\$ 15,870,000	\$ 9,824,000
Basic earnings per share	\$ 0.82	\$ 0.58
Diluted earnings per share	\$ 0.81	\$ 0.58
Diluted earnings per share before merger expenses	\$ 0.82	\$ 0.58
Shares used in computing earnings per share:		
Basic	19,314,000	16,995,000
Diluted	20,334,000	16,995,000

Results for these periods are presented on a pro forma combined basis. The pro forma combined income statement data assume that the acquisition of the founding companies, the initial public offering and related transactions were closed on January 1, 1997 and have been restated for a transaction that occurred in June 1998 which was accounted for as a pooling-of-interests. The above results do not include the pre-acquisition results of companies acquired in purchase transactions prior to December 31, 1998 other than the purchases of the founding companies.

# TO OUR SHAREHOLDERS

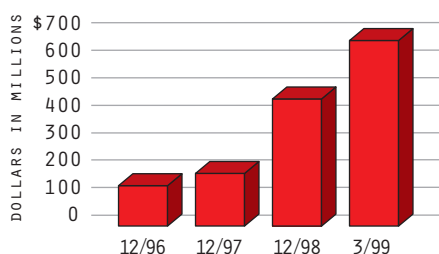
Our 1998 fiscal year was a time of remarkable accomplishments for Quanta Services. The Company completed the year with \$424 million in run-rate revenues, up from \$152 million at the time of our initial public offering (IPO). In addition to growth through acquisition, the Company achieved internal revenue growth for the year of 25 percent. The Company successfully increased its highly profitable telecommunications contracting revenues to more than 35 percent of total run-rate revenues.

At the time of our IPO in February of 1998, Quanta consisted of four companies with operations in 18 states. During the year, Quanta's acquisition program exceeded the planned budget of \$60 million in acquired revenues, reaching a total of \$217 million. The 1998 acquisition program expanded the Company's customer base from roughly 60 customers at the time of the IPO to more than 300 by year end and expanded our operations nationwide. Of the 12 companies acquired in fiscal 1998, nine were well established "platform" companies with average revenues of \$24 million per year and an average of 34 years in business. Three companies were "tuck-ins," small local contractors whose skills are typically folded into the larger platform operations to enhance the menu of services we offer. Many tuck-in companies have been special service subcontractors to the acquired platform companies.

We also acquired the patent to the Linemaster Robotic Arm during 1998. The Linemaster Robotic Arm allows Quanta to work safely on high voltage transmission lines while the lines remain energized, thereby reducing costly outages and saving money for utilities and their customers. Quanta is now the only contractor in the United States with access to this technology.

In October, Quanta obtained a \$175 million line of credit through a consortium of nine banks. The Company's ability to obtain

RUN-RATE REVENUES  
COMBINED



this credit facility is particularly noteworthy, as the Asian crisis dominated the economic scene during this time, and the credit markets became difficult. The credit line will be used for acquisitions and general corporate purposes.

The Company entered into a number of important alliances in 1998, including an alliance with Enron. We believe the Enron alliance will

provide Quanta with many opportunities in the future.

Enron is currently in the process of installing several thousand miles of fiber optic cable and is also engaged in a multitude of other projects that could involve the Company's specialty services. In addition, Enron invested approximately \$50 million in Quanta Services in the form of convertible subordinated notes.

### RECENT ACCOMPLISHMENTS

In late January of 1999, the Company completed a secondary offering that raised more than \$100 million for ongoing acquisitions. Originally slated to sell 3.5 million shares at \$21/share, the secondary offering closed with 4.6 million shares sold at \$23.25/share.

Progress in our acquisition program has escalated since the end of the year. In the first quarter of 1999, Quanta Services acquired an additional seven platform companies and two tuck-in companies, bringing us to more than \$620 million in total run-rate revenues.

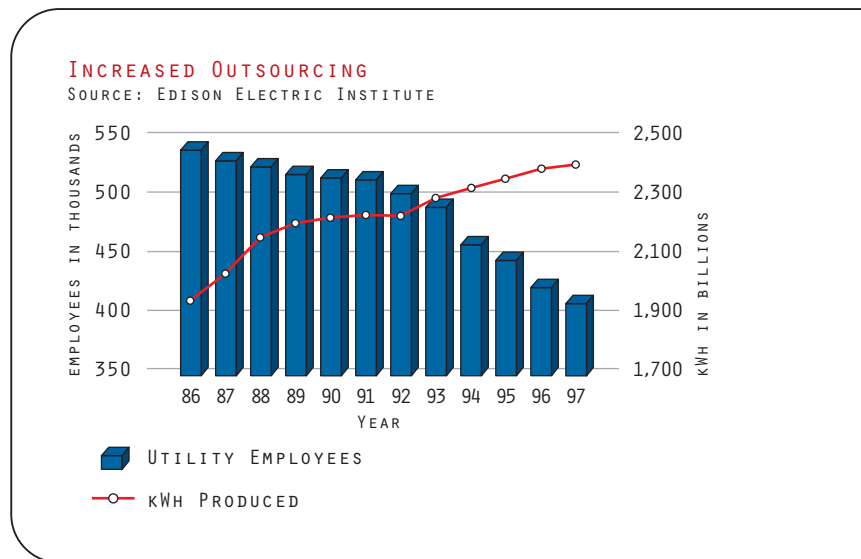
The Company's size and access to skilled labor make it possible to bond and complete projects of virtually any magnitude, a strong competitive advantage. Quanta also enjoys other competitive advantages that help the Company gain customers while maintaining healthy margins: quality equipment, expertise and labor resources can be shared among individual operating companies, and significant discounts can be obtained on equipment, credit and insurance through volume purchasing.

### SUPPORTING THE GROWTH OF QUANTA SERVICES

We believe that the long-term success of Quanta Services is supported by three major industry trends:

The first is deregulation of the electric utility and telecommunications industries. Fourteen states have enacted or ordered electric utility deregulation legislation, and similar legislation is progressing in every other state except Florida and South Dakota. In an effort to become more cost-competitive, utilities are now following general industry trends by outsourcing much of their work to more efficient contractors such as Quanta, thereby converting certain of their fixed costs to variable costs. As the graph above shows, the number of utility employees has dropped dramatically, even as total kilowatt hours produced have risen.

Increased outsourcing has been a key driver of the 25.6 percent annual internal revenue growth experienced since 1996 by the



companies that comprised Quanta Services at year-end. Quanta is a beneficiary of this trend because increasing concerns about safety, quality and reliability have reduced the number of contractors to whom utilities are willing to outsource work. Quanta companies not only have outstanding reputations for safety, quality and reliability, they also share in advanced safety-oriented technology like the Linemaster Robotic Arm. Preparing for deregulation, utilities now offer non-traditional services to their customers, including internet access, telecommunications and even natural gas. As a full-service provider, Quanta can meet virtually all of the changing needs of our customers.

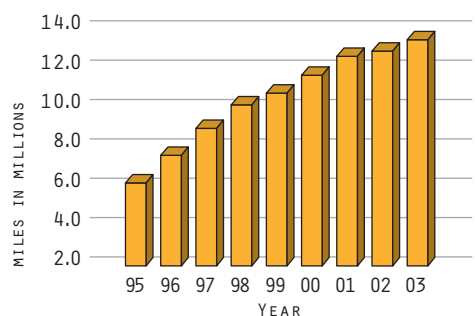
The second industry trend is the aging of the existing transmission and distribution infrastructure in the United States. Much of this infrastructure, collectively valued at \$220 billion, was built soon after World War II and is now 40 to 50 years old, near the end of its useful life. In 1997, for example, capital expenditures for transmission and distribution infrastructure by US investor-owned utilities reached \$11.4 billion, and similar expenditures should continue for many years.

Finally, the explosive growth of the internet and increased telecommunications traffic have created an enormous demand for increased bandwidth, which is being met by the installation of fiber optic cable. The number of fiber miles installed is projected to increase by 25 percent by the year 2003. At this point, there are a number of technologically viable options for extending bandwidth, including such revolutionary scenarios as combining electric power and telecommunications on the same copper cable. Management feels that Quanta Services is appropriately positioned to benefit, regardless of the way technology evolves.

We believe that the approach we have taken in organizing and operating the Company will be a strong factor for success.

Management focuses on acquiring proven companies with many years in the business and reputations for quality and reliability with

**NORTH AMERICAN FIBER INSTALLATION**  
SOURCE: KMI RESEARCH 1998 WORLDWIDE REPORT



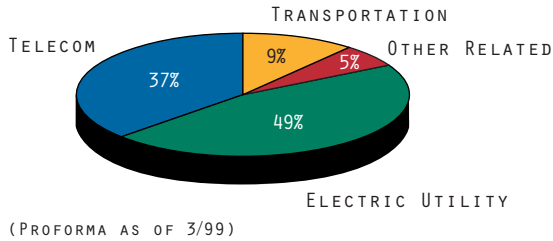
their customers. We incent both management and key employees of the companies we acquire to stay with Quanta and contribute their expertise.

We maintain and capitalize on the brand recognition of acquired firms.

We take advantage of “best practices” by making them available to all operating companies, and we promote cross-marketing opportunities that

effectively utilize skills from sister companies. We also establish strategic alliances with major utilities and telecommunications companies.

**DIVERSIFIED CUSTOMER MIX**  
(REVENUES)



**LOOKING TO THE FUTURE**

We believe that Quanta will continue to grow rapidly, both internally and through acquisitions. We plan to continue to broaden our geographic footprint, to increase our customer base, and to add specialty services that enhance our ability to be a full-service supplier to all our customers.

We will also focus strongly on increasing internal revenue growth by taking advantage of cross-selling opportunities, by marketing Quanta's ability to complete large projects, and by strengthening our marketing efforts for energized services, including the use of the Linemaster Robotic Arm.

At this time, we wish to extend our thanks to the visionary companies that have joined Quanta in its quest, and to all our employees, whose dedication and experience make our goals achievable. We especially want to thank our stockholders, who continue to express their confidence in our company.

Sincerely,

  
JOHN R. COLSON  
*Chief Executive Officer*







## QUANTA SERVICES: A FULL-SERVICE SUPPLIER

Quanta Services gives its customers access to a single source for all their electrical and telecommunications needs, including project design, permitting, installation and maintenance. Customers have the benefit of working with companies they know, companies with long-standing reputations for safety, quality and reliability. Because of Quanta's broad geographic distribution and ready access to skilled labor and capital, customers can feel confident in having the bonding, specialized equipment, and services they need – regardless of the scope or location of the project.

### ELECTRIC UTILITIES

- *Transmission lines from 69 kV to 760 kV*
- *Energized transmission maintenance and repair*
- *Linemaster Robotic Arm services*
- *Distribution projects, both underground and overhead*
- *Substation design and construction*
- *Control wiring and relay work*
- *Bus welding*
- *Secondary electrical networks, including duct bank and manhole installation*
- *Concrete footings*
- *Installation of steel, wood and concrete poles*
- *Lattice steel structures*
- *Horizontal and directional boring for underground installations*
- *Cable and fault locating*
- *Tree trimming and brush clearing in rights of way*
- *Storm damage restoration work*
- *Natural gas distribution systems for utilities*

### TELECOMMUNICATIONS

- *Underground or overhead system installation and maintenance*
- *Trenching and plowing applications, including rail-plow equipment for fast and cost-effective work along railroad rights of way*
- *Installation of all types of telecommunication cables: fiber optic, copper and coaxial, including splicing*
- *Horizontal and directional boring for underground installations*
- *Cable locating*
- *"Wreck out" services for unused or abandoned cable*
- *Urban and rural "long haul" fiber optic installations*
- *Switching systems for local telephone companies*
- *Installation of cable TV systems*
- *PCS and other telecommunication towers*



### TRANSPORTATION

- *Intelligent highway systems*
- *Traffic signals*
- *Street lighting*
- *Highway signage*
- *Airport fueling systems*

### RELATED COMMERCIAL APPLICATIONS

- *Commercial phone systems*
- *Low voltage systems in office buildings and industrial plants*
- *Park & recreation lighting*

## NEITHER WIND, RAIN, SLEET NOR HAIL...

Although that phrase was coined for the early days of the postal service, it fits Quanta's Sumter Builders just as

well. Sumter has served the mid-Atlantic states since 1935, and almost nothing can keep them from getting the job done. They are experts in handling natural disasters. • The first disaster

in 1998 was Hurricane Bonnie. In August, Bonnie drifted ashore along the border between North and South Carolina and wound slowly up the coast dumping heavy rains and packing winds up to 115 mph. Nearly half a million people were ordered to evacuate, 18,000 ended up in Red Cross shelters, and 300,000 lost power. • But Sumter Builders was ready. With a management team of seasoned veterans and a storm response plan that could be rolled out at a moment's notice, they had 313 employees on standby before the storm struck. Within only five days, virtually all power was restored to the stricken areas. • Only a week later, Hurricane Earl slipped up from the Gulf of Mexico, gathered strength passing through Alabama and Georgia, and caused major outages in South Carolina. Seventy-five of Sumter's employees went to the rescue, and once again, power was restored in record time. • With an unbeatable reputation for quick response, Sumter was high on the call list when Hurricane Georges threatened the Gulf Coast. Alabama Power, Mississippi Power and Florida Power and Light all asked Sumter for help, and within hours, crews and equipment were on their way. And as a reward for



nearly 24,000 man-hours of work, Sumter gained major ongoing contracts in two states new to its service territory: Alabama and Mississippi. • But nature wasn't finished for 1998. On Christmas Eve major ice storms threatened parts of North Carolina, and Sumter crews interrupted their holiday to restore power. The job took 210 workers three days, because the freezing rain continued all through Christmas Day. The crews hardly had a chance to recover when another ice storm struck South Carolina on New Year's Eve. • "Our response was incredible," says Paul Gaughf, President of Sumter Builders. "Our employees left their homes without complaining and worked for days to restore power under difficult conditions. This call to duty was just part of the job. It's their work ethic. We have high expectations for our people, and they respond to the challenge." • This is the work ethic, the experience, the ability and the quality that Quanta strives to provide to all our customers across the United States.



“It’s hard to find the words to express thanks to you and your organization for the assistance that you gave us Christmas Eve and Christmas Day... I have never seen a more beautiful sight than those red trucks coming down our driveway... Your people couldn’t have worked any harder if they had been restoring power to their own homes... They made Christmas a lot merrier for a lot of people.”

**ALLEN F. HOLD,**  
*Executive Vice President  
and General Manager,  
Randolph Electric  
Membership*

“A lot of what we’re doing takes personal initiative because it’s not all on the drawings. PAR really did that – they did a good job. We had a hard winter here, and they came through with what we needed when we needed it to make our completion date. We expedited the schedule, it was tough, and they did it.”

**JERRY SCOTT,**  
*Project Manager, Zond  
Constructors, Inc*





### WIRING UP THE WORLD'S SINGLE LARGEST WIND FARM

It's like a scene from science fiction: a windswept stretch of gently rolling cornfields studded with steel-lattice towers topped by propellers whose 85-foot blades span farther than the wings of a DC-10 jetliner. Each of these 259 towers turns the namesake wind of Storm Lake, IA into 750 kw of electric power. This wind farm, the single largest in the world, produces nearly 200 megawatts of electricity. • Quanta company PAR Electrical Contractors, Inc., worked for Enron subsidiary Zond Constructors, Inc., to install the wiring and infrastructure that makes the wind farm hum. Sister company Spalj Construction Co. of Deerwood, MN helped, as did linemen from other Quanta companies across the country.

• The project started in mid-August with the installation of the underground infrastructure for power distribution, transmission and control. Spalj Construction brought in their heavy equipment to plow in more than 734,000 feet of 25 kV power cable; 279,000 feet of fiber optic cable; and 330,000 feet of 12-pair copper cable. It was a race against time to complete all 255 miles of underground work before the ground froze for the winter. • Other projects proceeded apace: the construction, testing and commissioning

of the Buena Vista substation (one of two on the wind farm); the construction of 7.5 miles of 69 kV transmission line; and, most challenging of all, the tower cabling. • Imagine clinging to the top of a 210 foot lattice tower in the dead of winter, the temperature at -18° F and the wind blowing 30 mph, while you run cable from the generator on top down to the controller and transformer at the base. Now imagine doing this from daylight to dark, seven days a week. • “They asked us to expedite the schedule on the towers,” says John Wilson, President of PAR Electric, “and we beat the target by five days, even with the adverse weather. Labor was scarce, too, but our sister companies helped us out. And Spalj really helped with the underground plowing, because that’s their specialty. One of the neat things about Quanta is that we have many different companies that do many different types of utility installations, so we can always find the expertise we need.” • Providing a single source for all the resources required for complex projects is one important way that Quanta helps customers save money, time and inconvenience.

## 231 MILES OF FIBER OPTIC CABLE – FROM START TO FINISH

It was a new way of doing business for AT&T: they awarded us a long-haul fiber optic cable run as a turnkey project, instead of separating the job into design, permitting and construction phases. Quanta's Manuel Bros., Inc. won the longest and most difficult part of the job, 231 miles from Billings to Glendive, MT. About 75 percent of the cable would follow the Burlington Northern railway in the Yellowstone River Valley; most of the rest would parallel state and county roads. Quanta would carry out the entire job in six months, much of it in the middle of the legendary Montana winter.

- The project started in August, and within a month, enough of the route had been designed and permitted to begin construction. The design had to overcome difficult geography. • In some areas, the railroad right of way was jammed against 75 foot tall bluffs on one side and a sheer drop to the Yellowstone River on the other. The right of way already had another cable in place that could not be disturbed. • Permitting involved the state, six counties, two railroads, and a number of towns and cities. Issues to be resolved included access, environmental concerns, safety, restoration and more. As soon as permits were obtained for an area, work started. • Managing the logistics for labor, equipment and materials was a real challenge. Multiple segments of the project, all in different phases of construction, proceeded simultaneously along the entire length of the cable run. Many of the work sites

were almost inaccessible. • Overall, Quanta plowed nearly 2 million feet of 2-inch schedule-40 pipe and pulled more than a million feet of fiber optic cable. We plowed 173 miles, trenched 44 miles, and directionally bored at 456 locations for a total of 14 miles, including three 1,000 foot crossings of the



rocky Yellowstone River. • “We got the job,” says Gary Smith, President of Manuel Bros., “because we have the reputation for completing jobs on budget and on schedule, without a lot of change orders. Our turnkey method allowed AT&T to get the project done six months sooner than they would have been able to do it if they'd bid design, permitting and construction separately.” • The turnkey advantage – and the resources to back it up – are available to all Quanta Services customers.



"Manuel Bros., you did a great job! The project was well managed and completed ahead of schedule. Your experience, expertise and dedication made this project the success it was. Using the turnkey method of construction enabled AT&T to complete this project six to eight months sooner than our traditional projects."

**JOHN HEIDEL,**  
*AT&T OSP Project Engineer*

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CHAIRMAN, QUANTA SERVICES, INC.  
MANAGING DIRECTOR, MAIN STREET  
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## ANNUAL MEETING

MAY 19, 1999 AT 9:00 A.M.  
DOUBLETREE HOTEL – POST OAK  
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