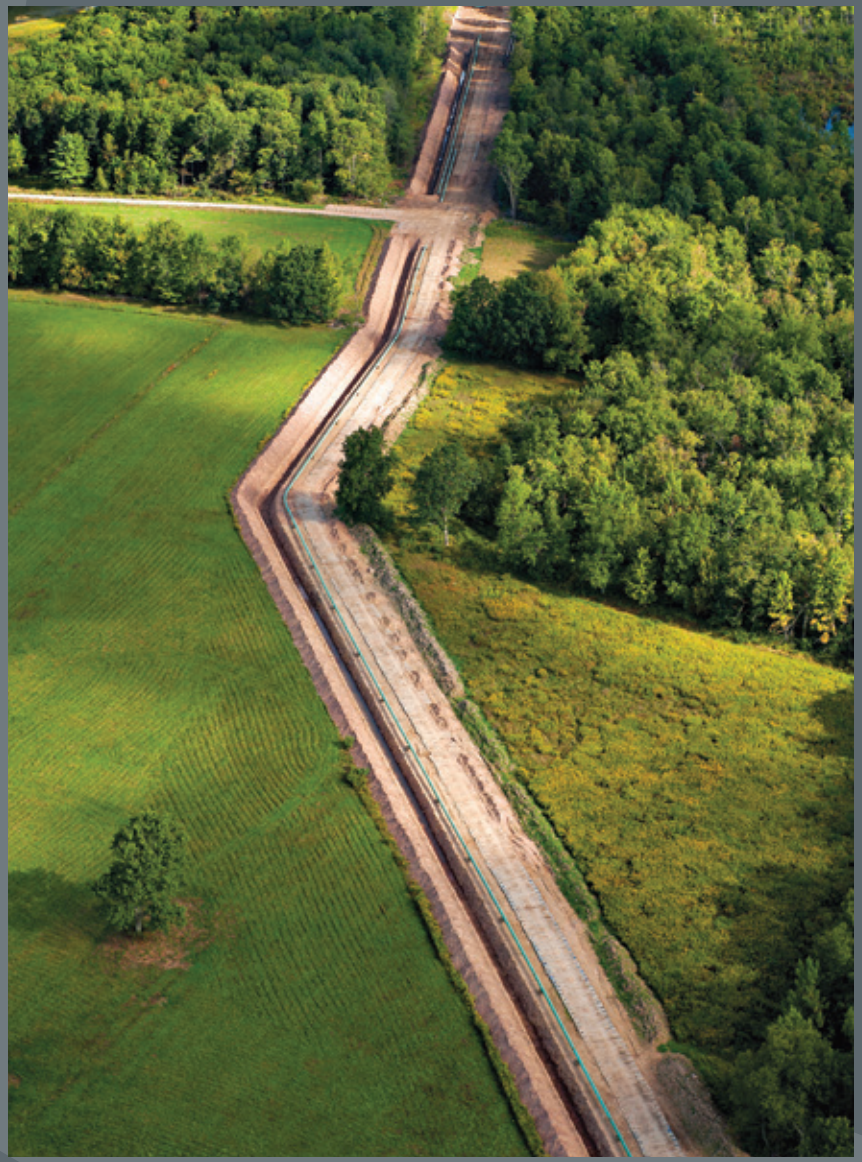
Quanta Services, Inc. 2013 Annual Report

There's always a new horizon.



Perspective

Fifteen years ago Quanta Services was founded with the vision to “be the undisputed industry leader in specialized contracting services.” A lot has changed since then but our commitment to our customers, employees and shareholders has not. There is no end in sight for infrastructure needs. We continue to improve and to grow, as well as work safer and build smarter. We remain focused on the big picture, never underestimating the power of small details. We have always worked this way. We always will. We are Quanta.

What the Q stands for.

The people of Quanta represent the Q at work every day. It is the symbol of our culture, and therefore our badge of pride. At its very core, the Q stands for the character of our people, which is reflected in how we do business and how we conduct ourselves every day.

Resources

We maintain the largest, most qualified workforce in the industry.

Quanta's scope and scale is unrivaled. Our workforce stands at nearly 21,000 well-trained individuals, and it's growing. Our employees are the best in the industry and we know that no project is a success unless all employees return home to their families at the end of the day. This is the Quanta difference. This is why our customers count on us to have the industry's premier resources today, and well into the future.

It stands for Service.

Our customers have come to rely heavily on our competencies because we have a track record of success and innovation. We support our customers to minimize risk and maximize production on their projects. We partner with them to get the job done safely, on budget and on time.

THE CREZ INITIATIVE

Quanta played an important role as a key contractor in the Competitive Renewable Energy Zone (CREZ) initiative, which is now delivering 18,500 megawatts of wind power to the Texas energy grid. The ambitious project connected wind farms in West Texas to the state's urban areas with nearly 3,600 miles of new power lines. The timeline was aggressive and the need for skilled manpower and specialized equipment was enormous.

Quanta deployed a peak workforce of nearly 2,300 people who worked 6.7 million man-hours to safely build more than 1,800 miles of new transmission lines, 1,448 foundations and 9,261 structures. As the largest contractor on CREZ, we worked closely with six different utilities to get the job done.

AEP ENERGIZED POWER LINE REBUILD

When American Electric Power (AEP) needed a partner in the most ambitious energized power line rebuild project ever performed, they called Quanta. Using proprietary processes and equipment, Quanta rebuilt 66 miles of 345,000-volt power line while the line remained in an energized state, so there was no interruption in service to AEP's customers.

This project, near Corpus Christi, Texas, is the longest transmission line ever rebuilt in an energized state, and it is the first of a five-phase program that will ultimately span 266 miles. AEP needed a solution that would strengthen its power delivery into the future while keeping its customers' power on.

Solutions

We provide solutions, delivering projects safely, on time and on budget.

At Quanta we don't fix – we solve. We do this by partnering with our customers, allowing us to work through any challenge with innovation and technology. In the end, our customers get much more than a contractor. They get comprehensive solutions.

It stands for Safety.

There is nothing more important than the safety of our employees, our customers and the communities we work in. Quanta has an industry leading safety record, as safety is ingrained into everything we do. We invest in our employees providing them with state-of-the-art personal protective equipment and industry leading safety training, as we continue to improve safety in the workplace.

Strength

Our strong balance sheet allows us to take advantage of opportunities.

In 2013, Quanta once again achieved record revenues and profits. Our solid financial foundation gives us the platform to continually achieve these goals. It starts with a strong balance sheet, which allows us to meet our customers' growing needs, opportunistically expand into new geographies and move into adjacent new industries and markets.

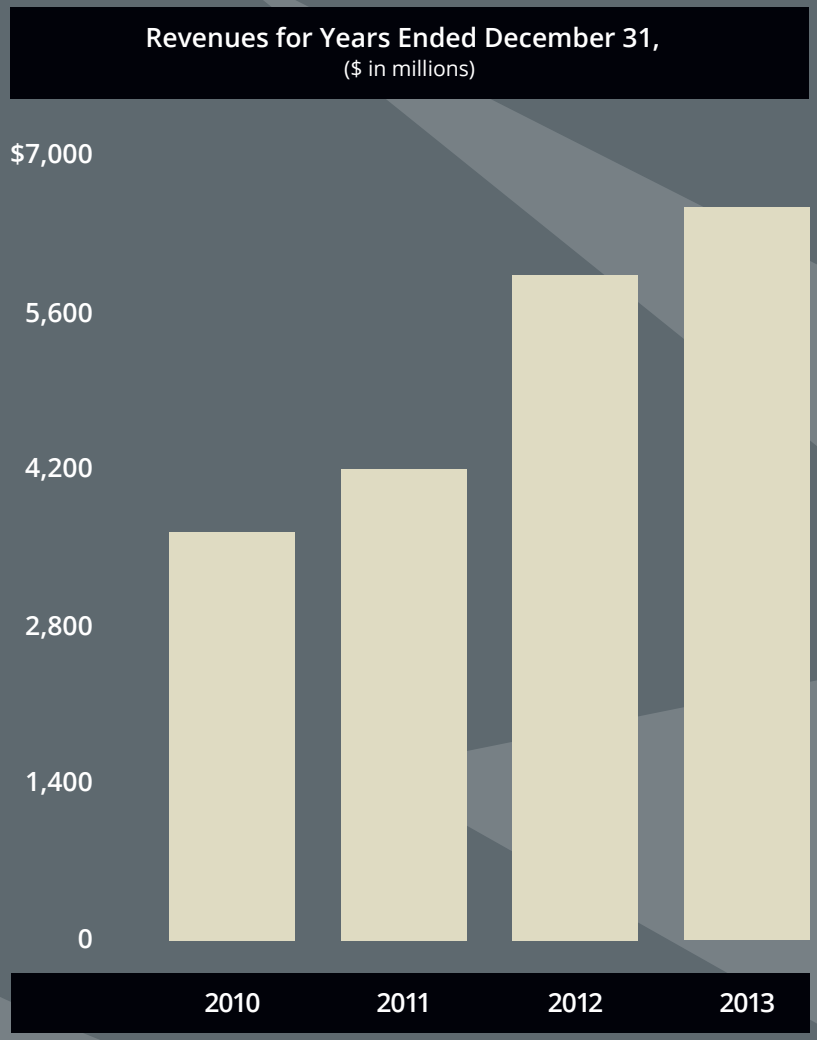
It stands for Quality.

Quanta regularly handles the largest, toughest, and most complex projects in the industry. Customers entrust these endeavors to us because they know we will deliver quality. More than half of our revenues are from strategic relationships. They come back because we come through. Our record 2013 backlog of $8.73 billion reflects the confidence our customers have in Quanta.

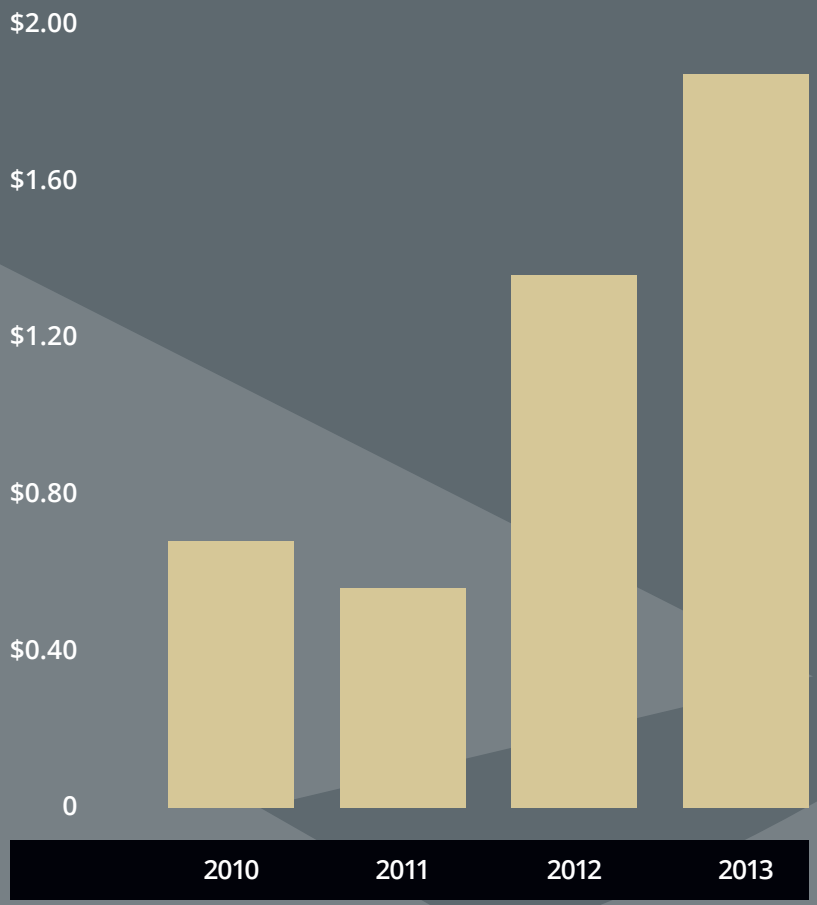
OUR FINANCIAL PRIORITIES

We have a firm set of priorities that guide our capital deployment. At the top of the list is providing working capital to support ongoing projects. Next we make the necessary capital expenditures to operate and grow our business. We continue to opportunistically pursue acquisitions and investments that supplement our growth and create backlog. And finally, we evaluate opportunities to return capital to our shareholders with our share repurchase program.

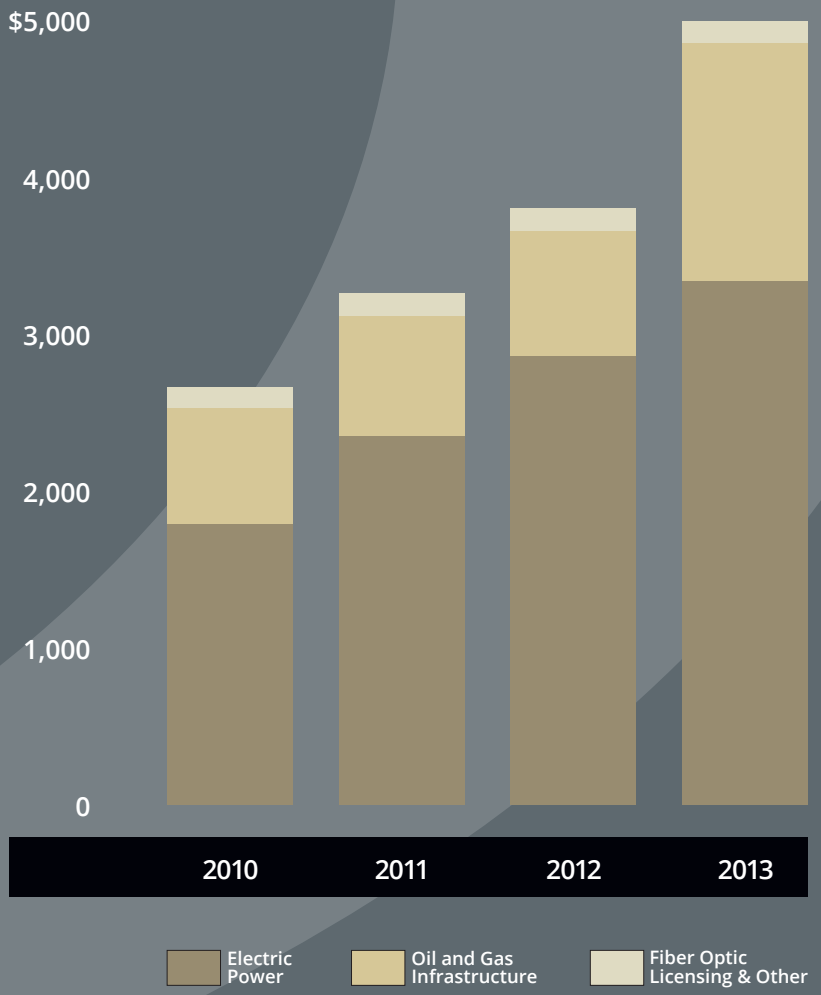
Financial Highlights



Diluted Earnings Per Share from Continuing Operations for Years Ended December 31,



Twelve Month Backlog at December 31,
($ in millions)



My Fellow Shareholders

In last year's annual report, we stated that 2012 had been our best year yet. I am pleased to say that Quanta has done it again. We are proud of our achievements, but we are by no means satisfied. While we know our strategies, execution and culture have carried us to this point, we see our current successes as a starting point. We will never stop in our quest to perform, to profitably grow, and to bring more value to our customers, our employees and our shareholders.

It stands for Integrity.

Our business model is simple. We are accountable to our employees, our customers and our shareholders. We keep our promises. There are no surprises, no hidden agendas, no corners cut. Integrity isn't just woven into our company – it is the very fabric of who we are.

Record Results

Quanta excelled in 2013. We safely and successfully executed on a multitude of projects that expanded, improved and maintained the electric power grid and oil & gas energy infrastructure throughout North America. We continued to progress our strategic initiatives to advance our leadership position in the markets we serve and to position Quanta for profitable growth into the future. Quanta remains the industry leader in providing innovative, comprehensive infrastructure solutions and is a partner of choice for many of our customers throughout the industry.

In 2013, Quanta generated record revenues of $6.5 billion. Operating income grew 13% to a record $526.9 million, and operating income margin improved to 8.1%. Our year-end backlog of $8.73 billion set a new record, improving nearly 25% over the record backlog levels we achieved in 2012. Our backlog reflects the robust market environment we are currently operating in and provides a clear view toward future growth.

Growth Opportunities in all Segments

Electric Power Services Segment

Strong demand for nearly all of our electric power offerings drove record revenues for the segment. We also achieved operating income margins of 11.6% as we safely executed on projects. We accomplished this despite having approximately $140 million less in emergency restoration revenues in 2013 compared to 2012.

We see double-digit growth opportunities for our electric segment over the next two years, driven primarily by grid reliability challenges. The North American power grid continues to age and has been underserviced for years. Repairs, replacements, upgrades and maintenance are needed now to ensure adequate reliability, which will necessitate significant investment for many years. Other trends also add to our near- and long-term opportunities. Renewable and natural gas generation are being integrated into the grid, coal generation is being retired, and reliability requirements and favorable regulation continue to encourage transmission and distribution investments. With this dynamic market environment, we believe our track record for safe execution, our scope and scale and the excellence of our people in the field are valued by our customers.

Oil & Gas Infrastructure Services Segment

This segment experienced 22% revenue growth in 2013, driven by strong demand for our services. More importantly, this segment's profitability more than doubled during the year. We also gained momentum in awards for mainline projects throughout the second half of 2013, as demand increased for new pipelines to transport oil and natural gas to market, which we believe will carry into 2014 and beyond.

Demand for our pipeline engineering and construction services continues to be driven by robust development in North America's unconventional shale formations and the Canadian oil sands. Most of these developments are in geographic areas where there is little to no energy infrastructure in place to gather, store, process and transport the fossil fuels to markets. We believe we are the leading pipeline construction company in North America and are well positioned to grow our services with our customers as they continue to expand in these markets.

Fiber Optic Licensing and Other Segment

Revenues in this segment declined slightly in 2013, primarily due to variation in our ancillary telecom and wireless infrastructure services. However, we did grow our core fiber optic licensing operations within the segment and see solid growth in demand for our fiber optic networks and services going forward. In late 2013, we launched our lit services strategy to complement our well-established fiber optic licensing operations. We believe leveraging our existing fiber networks to provide lit services will expand our customer base and open a larger end-market opportunity that should accelerate revenue growth once the strategy is fully implemented.

Expansion for Future Growth

We believe our primary markets are in the most prolific time in the history of the energy industry and the early stages of a multiyear investment cycle. Near and long-term growth opportunities are more visible than ever before, and we will continue to strategically position the company for sustainable and profitable

long-term growth. To that end, we continue to expand our service offerings, both organically and through acquisitions to meet our customers' growing needs. In 2013, we acquired several excellent companies that either expanded our footprint, added differentiating technologies and solutions, or opened adjacent market opportunities that leverage our core offerings.

We acquired two electrical transmission and distribution contractors that enhanced our presence in the Northeast, Midwest and Western areas of the United States, and a Canadian generation, transmission and distribution engineering company. We acquired a pipeline logistics management company with operations in key U.S. shale plays, and we acquired a leading company to extend our offerings to the offshore oil & gas infrastructure markets. We also acquired a company in Australia to capitalize on the need for pipeline and related infrastructure to serve the coal seam gas, LNG export, and shale oil & gas markets. Going forward we will continue to strategically pursue acquisitions and investments to support our objectives for long-term profitable growth.

Strong Financial Position

Quanta ended the year with $489 million in cash, no long-term debt and $1.085 billion of borrowing availability under our credit facility, for total liquidity of approximately $1.574 billion. This is the strongest liquidity position in our company's history.

We increased the capacity under our senior secured revolving credit facility to $1.325 billion and sold our equity ownership interest in Howard Midstream Energy Partners, LLC (Howard Energy) for approximately $221 million in cash, more than doubling our investment in just over two years. This capital and our strong cash flow from operations during 2013 supported our growth and funded an active acquisition program.

In December 2013, the Board of Directors authorized the repurchase of up to $500 million of common stock over the next three years. This authorization further reflects the Board's and management's confidence in Quanta's long-term growth opportunities and serves as an additional means for delivering value to our shareholders.

Our financial strength and flexibility is the foundation of our strategic growth initiatives and allows us to be opportunistic and prudent with our capital deployment decisions. It also differentiates Quanta from the competition in our customers' eyes.

Unwavering Focus on Safety

The safety of our employees, our customers and the community is an unwavering commitment from the leadership of this organization. This passion is expressed and demonstrated by our executive and operational leadership and is embraced by our front line employees. Safety management and continued operational performance improvement is the core focus of this company and paramount to our past and future success.

In 2013, our man-hours worked increased 18% to 46 million, however our incident rates continued to trend downward and remain well below the industry average. This is a credit to every employee in our organization and their diligence to own safety and drive continuous improvement throughout our company.

Moving into 2014 and Beyond

Today, Quanta is in the most exciting time in its history. We see multiple years of growth opportunity ahead of us in the United States, Canada, Australia and other parts of the world. Both 2012 and 2013 were record years for Quanta, and if our expectations for 2014 come to fruition, Quanta is positioned to achieve another record year. Still, we will continue to forge ahead, driven by the commitment that we will never stop working to lead our industry, to grow profitably, and to serve our customers, employees and shareholders.

As always, I extend my thanks to our shareholders for your continued support and confidence in Quanta. I also thank our great family of employees. Your hard work and dedication is the reason we have achieved record results year after year. We look forward to many more to come.

It stands Apart.

James F. O'Neil, III
President and Chief Executive Officer

Selected Financial Data

(In thousands, except per share information)
As of December 31,

SUMMARY BALANCE SHEET	2013	2012
Current assets	$ 2,313,318	$ 2,201,727
Property and equipment, net	1,205,608	1,045,983
Other assets, net	285,725	171,566
Other intangible assets, net	207,877	183,836
Goodwill	1,780,717	1,537,645
Total assets	$ 5,793,245	$ 5,140,757
Current liabilities	$ 1,043,520	$ 881,179
Deferred income taxes	244,256	225,050
Insurance and other non-current liabilities	264,150	262,612
Total equity	4,241,319	3,771,916
Total liabilities and equity	$ 5,793,245	$ 5,140,757

SUMMARY INCOME STATEMENT	2013	2012
Revenues	$ 6,522,842	$ 5,920,269
Operating income	$ 526,928	$ 465,122
Net income from continuing operations attributable to common stock	$ 401,921	$ 289,694
Diluted earnings per share from continuing operations attributable to common stock	$ 1.87	$ 1.36

SUMMARY CASH FLOW DATA	2013	2012
Net cash provided by operating activities of continuing operations	$ 446,592	$ 166,839
Capital expenditures, net of proceeds from sales	248,764	197,083
Free cash flow [1]	$ 197,828	$ (30,244)

[1] This is a non-GAAP measure provided to enable investors to evaluate performance excluding the effects of certain items management believes impact the comparability of operating results between reporting periods.

Quanta Operating Units

QUANTA SERVICES, INC.
2800 Post Oak Boulevard Suite 2600
Houston, Texas 77056-6175
Tel: 713.629.7600 Fax: 713.629.7676
quantaservices.com

OPERATING UNIT	NUMBER	WEBSITE	OPERATING UNIT	NUMBER	WEBSITE
Allteck Line Contractors	866-882-8191	allteck.ca	PAR Electrical Contractors	800-821-7893	parelectric.com
CAN-FER Utility Services	972-484-4344	can-fer.com	Performance Energy Services	985-868-4895	pesllc.com
CONAM Construction	907-278-6600	conamco.com	Phasor Engineering, Inc.	403-238-3695	phasorengineering.ca
Crux Subsurface	509-892-9409	cruxsub.com	Potelco	800-662-8670	potelco.net
Dacon Corporation	713-558-6600	dashiell.com	Price Gregory Services	713-780-7500	pricegregory.com
Dashiell Corporation	713-558-6600	dashiell.com	Probst Electric	435-657-1955	probstelectric.com
EHV Power	888-799-6342	ehvpower.com	QPS Engineering	918-858-7620	qpsepc.com
H.L. Chapman Pipeline Construction	512-259-7662	hlchapman.com	Quanta Energized Services	713-629-7600	energizedservices.com
InfraSource	734-434-2000	infrasourceus.com	Quanta Power Generation	303-459-8300	quantapower.net
Intermountain Electric	303-733-7248	imelect.com	Quanta Technology	919-334-3000	quanta-technology.com
Irby Construction Company	800-872-0615	irbyconst.com	Realtime Utility Engineers	800-297-1478	realtimeutilityengineers.com
J.W. Didado Electric	330-374-0070	jwdidadoelectric.com	Ryan Company	508-742-2500	ryancompany.net
Longfellow Drilling Services	641-336-2297	parelectric.com	Service Electric Company	423-265-3161	serviceelectricco.com
McGregor Construction	780-437-1340	mcgregor2000.com	Summit Line Construction	435-657-0721	summitlineconstruction.com
Mears Group	800-632-7727	mears.net	Sumter Utilities	800-678-8665	sumter-utilities.com
Microline Technology Corporation	231-935-1585	microlinetc.com	Sunesys	267-927-2000	sunesys.com
M.J. Electric	906-774-8000	mjelectric.com	T.G. Mercer Consulting Services	817-489-7100	tgmercer.com
Nacap Australia	+61-3-8848-1888	nacap.com.au	The Underground Construction Co.	707-746-8800	undergrnd.com
North Houston Pole Line	713-691-3616	nhplc.com	Utilimap Corporation	866-732-3460	utilimap.com
Northstar Energy Services	713-691-3616	nses.com	Valard Construction	780-436-9876	valard.com
Nova Group	707-265-1100	novagrp.com	Winco	503-678-6060	wincoservices.com
O.J. Pipelines Canada	780-955-3900	ojpipelines.com			

DIRECTORS

James R. Ball [1,4]
Private Investor; Former President and Chief Executive Officer, Vista Chemical Company

J. Michal Conaway [1,3]
Chief Executive Officer, Pergerine Group, LLC

Vincent D. Foster [2,4]
Chief Executive Officer, Main Street Capital Corporation

Bernard Fried [1,4]
Executive Chairman, OpTerra Energy Group

Louis C. Golm [2,3]
Private Investor; Former President and Chief Executive Officer, AT&T-Japan

Worthing F. Jackman [1,4]
Executive Vice President and Chief Financial Officer, Waste Connections, Inc.

James F. O'Neil III
President and Chief Executive Officer, Quanta Services, Inc.

Bruce Ranck
Chairman of the Board, Quanta Services, Inc.; Partner, Bayou City Partners; Former Chief Executive Officer and President, Browning-Ferris Industries, Inc.

Margaret B. Shannon [2,3]
Former Vice President and General Counsel, BJ Services Company

Pat Wood, III [2,3]
Principal, Wood3 Resources; Former Chairman, Federal Energy Regulatory Commission

1 Audit Committee
2 Compensation Committee
3 Governance and Nominating Committee
4 Investment Committee

EXECUTIVE OFFICERS

James F. O'Neil III
President, Chief Executive Officer and Director

Earl C. Austin, Jr.
Chief Operating Officer

Derrick A. Jensen
Chief Financial Officer

Jesse E. Morris
Executive Vice President-Corporate Development

Eric B. Brown
Vice President and General Counsel

Nicholas M. Grindstaff
Vice President-Finance and Treasurer

Peter B. O'Brien
Vice President-Mergers and Acquisitions

Wilson M. Yancey, Jr.
Vice President-Health/Safety and Environmental

NEW YORK STOCK EXCHANGE

Last year, our Annual CEO Certification, without qualifications, was timely submitted to the NYSE. Also, we have filed the certifications required under The Sarbanes-Oxley Act of 2002 as exhibits to our Form 10-K.

TRANSFER AGENT

American Stock Transfer & Trust Co.
59 Maiden Lane, Plaza Level
New York, New York 10038 718.921.8200

AUDITORS

PricewaterhouseCoopers LLP
1201 Louisiana Street, Suite 2900
Houston, Texas 77002 713.356.4000

INVESTOR RELATIONS

Kip Rupp, CFA, Vice President Investor Relations
713.629.7600 Fax 713.629.7676
investors@quantaservices.com

Ticker Symbol PWR

FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "project," "forecast," "may," "will," "should," "could," "expect," "believe," "plan," "intend" and other words of similar meaning. Although Quanta's management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. These statements can be affected by inaccurate assumptions and by a variety of risks and uncertainties that are difficult to predict or beyond our control, including the risks and uncertainties detailed in Quanta's Annual Report on Form 10-K for the year ended Dec. 31, 2013 and any other documents that Quanta files with the Securities and Exchange Commission. Should one or more of these risks materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expressed or implied in any forward-looking statements. Quanta does not undertake and expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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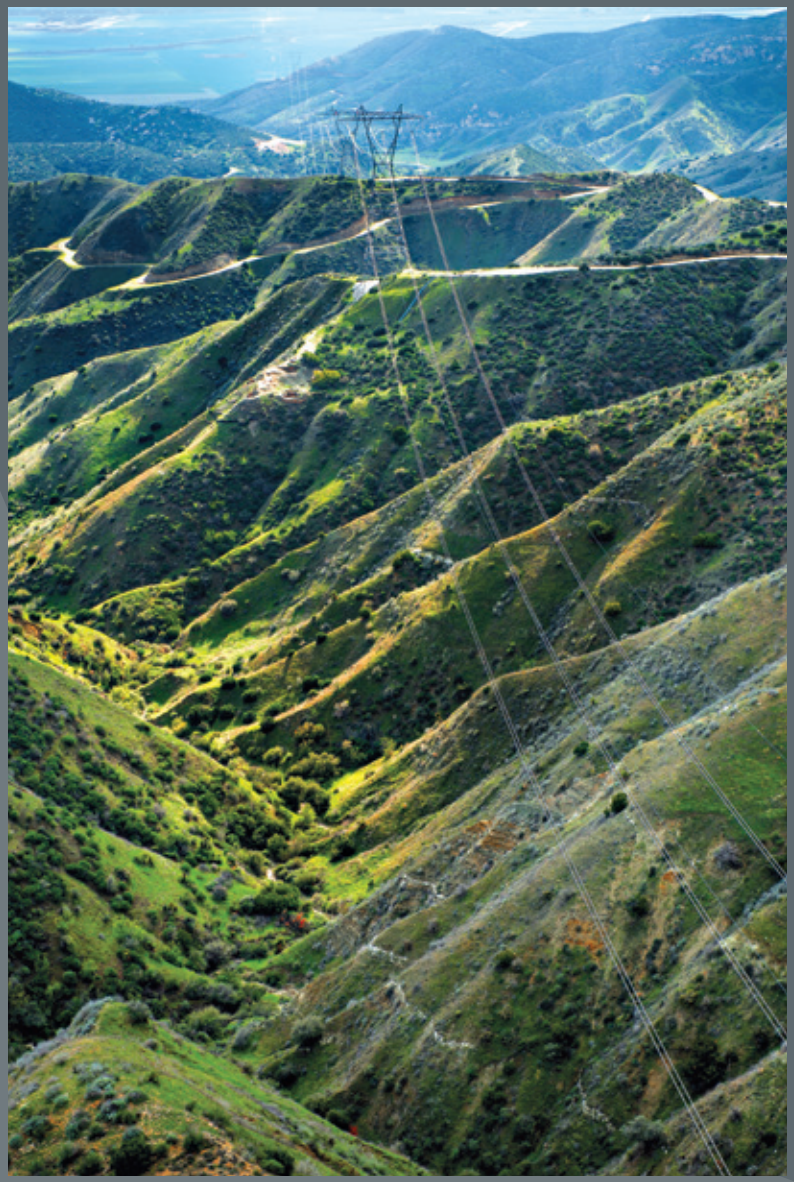
Quanta Services, Inc.
2800 Post Oak Blvd.
Suite 2600
Houston, TX 77056
Tel: 713.629.7600
quantaservices.com