

**MODEL APPENDIX 1**

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

ISSUER IDENTIFICATION

END OF RELEVANT FISCAL YEAR 2017

Tax ID Code A-28037224

Name:

FOMENTO DE CONSTRUCCIONES Y CONTRATAS S.A.

Registered Office:

C/BALMES, 36. 08007 BARCELONA

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

A1 Complete the table below on the Company's share structure:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
04-03-2016	378.825.506	378.825.506	378.825.506

Indicate whether there are different classes of shares with different associated rights:

Yes  No

Class	Number of shares	Unit nominal value	Number of voting rights	Different rights
-	-	-	-	-

A.2 Indicate direct and indirect owners of significant stakes in the entity at year-end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights		Pct. of total voting rights
		Direct holder of stake	Number of voting rights	
GATES III, WILLIAM H.	-	CASCADE INVESTMENT, LLC.	15,099,985	3.986%
GATES III, WILLIAM H.	-	BILL & MELINDA GATES FOUNDATION TRUST	6,629,446	1.750%
INVERSORA CARSO S.A. DE C.V.	36,992,351	CONTROL EMPRESARIAL DE CAPITALES, S.A. DE C.V.	194,511,944	61.111%
NUEVA SAMEDE 2016, S.L.U.	17,172,313	-	-	4.533%

State the most significant changes in the shareholder structure during the year:

Name or company name of shareholder	Transaction date	Description of the transaction
-	-	-

A.3 Complete the tables below regarding the members of the Company's Board of Directors who have voting rights from shares in the Company

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights		Pct. of total voting rights
		Direct holder of stake	Number of voting rights	
Aboumrad González, Alejandro	1	-	-	0.000
Dominum Desga, S.A.	6,007	-	-	0.002
Dominum Dirección y Gestión, S.A.	58,454,939	-	-	15.431
EAC Inversiones Corporativas, S.L.	47	-	-	0.000
Gil Madrigal, Manuel	725	Tasmania Inmuebles, S.L.	25,450	0.007
Inmobiliaria AEG, S.A. de C.V.	1	-	-	0.000
Kuri Kaufman, Gerardo	1,501	-	-	0.000
Proglio, Henri	4,600	-	-	0.001
Rodríguez Torres, Juan	200,000	-	-	0.053
Samede Inversiones 2010, S.L.U.	-	Dominum Dirección y Gestión, S.A.	58,454,939	15.431
	-	Ejecución y Organización de Recursos, S.L.	50,965	0.013
	-	Dominum Desga, S.A.	6,007	0.002
	-	EAC Inversiones Corporativas, S.L.	47	0.000
Vazquez Lapuerta, Alvaro	2,910	-	-	0.001

<b>Total pct. of voting rights held by the Board of Directors:</b>	15.508
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Complete the tables below regarding the members of the Company's Board of Directors who own shares with voting rights in the Company:

Name or company name of Director	Number of direct voting rights	Indirect voting rights		Number of equivalent shares	Pct. of total voting rights
		Direct owner of stake	Number of voting rights		
-	-	-	-	-	-

A.4 Indicate, where appropriate, any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the Company, unless they are insignificant or are derived from ordinary commercial transactions:

Related names or company names	Type of relationship	Brief description
-	-	-

A.5 Indicate, where appropriate, any commercial, contractual or business relationships between owners of significant stakes and the Company and/or its group, unless they are insignificant or are derived from ordinary commercial transactions:

Related names or company names	Type of relationship	Brief description
-	-	-

A.6 Indicate whether the Company has been notified of any shareholders' agreements which affect the Company as set out in Articles 530 and 531 of the Spanish Capital Companies Act. If so, list the shareholders involved and briefly describe the agreements:

Participants in the shareholders' agreement	Pct. of share capital affected	Brief description of the agreement
Esther Koplowitz Romero de Juseu and Control Empresarial de Capitales SA de CV	50.156	Relevant events of 27/11/2014 (See note)
Esther Koplowitz Romero de Juseu, Nueva Samede, Inversora Carso S.A. de C.V. and its subsidiary Control Empresarial de Capitales, S.A. de C.V.	72.357	Relevant events of 05/02/2016 (See note)

Note:

Relevant event of 27/11/2014: the controlling shareholder of FCC informed that the negotiations with Control Empresarial de Capitales SA de CV, a company fully owned by Inmobiliaria Carso SA de CV, which in turn is controlled by the Slim family.

Relevant event of 05/02/2016: For the purpose of continuing the process of recapitalisation of Fomento de Construcciones y Contratas, S.A. ("FCC" or the "Company") through a new capital increase totalling 709,518,762 euros announced by the Company on 17 December 2015 (the "New Capital Increase"), the Company has been informed that Ms Esther Koplowitz Romero de Juseu ("EK") (and her related companies, Dominum Dirección y Gestión, S.A. ("Dominum") and Nueva Samede 2016, S.L.U. ("Nueva Samede")) signed with Inversora Carso S.A. de C.V. (I.Carso") and its subsidiary Control Empresarial de Capitales, S.A. de C.V. a Renewal, amendment and non-termination contract of the Investment Agreement signed on 27 November 2014 ("Renewal of the Investment Agreement").

The Investment Agreement was the subject of a relevant event published on 27 November 2014 and subsequently deposited in the Mercantile Register of Barcelona.

The main aspects of the Renewal of the Investment Agreement are that it establishes the terms and conditions for: (a) the incorporation of Nueva Samede to the Agreement in the capacity of a future shareholder of FCC following the New Capital Increase, (b) the continuation of the FCC recapitalisation process by means of the New Capital Increase, regulating the subscription commitment of both I.Carso and Nueva Samede, and (c) the amendment of certain provisions on corporate governance, the share transfer regime and the elimination of the provision regarding the maximum stake of the parties in the Company's share capital.

Indicate whether the Company is aware of any concerted actions among its shareholders. If so, give a brief description:

Yes  No

Participants in the concerted action	Pct. of share capital affected	Brief description of the action
-	-	-

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

Relevant Event of 8 July 2014: Under the long-term syndicated Finance Contract entered into on 24–31 March 2014, which came into full effect on 26 June 2014, the Financing Entities assumed a set of restrictions on share transfers (“Share Non-Transfer Agreement”) and an undertaking for the arranged sale of any new FCC shares they may receive if they exercise the Warrants subsequent to the conversion of Tranche B (“Arranged Sale Agreement”). As the Share Non-Transfer Agreement and the Arranged Sale Agreement restricted any free transferability of de FCC's shares by the banks, the two parties established para-corporate agreements pursuant to section 530 of the Capital Companies Act (“LSC”).

Relevant Event of 28 February 2017 and 8 June 2017: FCC completed the process of signing the contracts for the refinance FCC's syndicated debt. All the affected creditor entities were involved in this process, which completely renewed the existing financing by replacing it with a new long-term credit facility for the FCC Group, with the group of companies headed by FCC Aqualia ceasing to be a bound party. The Company reported due compliance with all the suspension conditions to which the effectiveness of the Refinancing Documents was subject, including the advance repayment of a sum of €1.1 billion of the existing financing (including full cancellation of the tranche convertible into FCC shares and the warrants associated with that convertible tranche), charged to funds obtained from the Bond Issues carried out by FCC Aqualia S.A. (“FCC Aqualia”), reported to the market by means of Relevant Fact 252662 of 1 June.

Thus, the para-corporate agreements in respect of the relevant fact of 8 July 2014 are no longer effective.

A.7 Indicate if there is an individual or legal entity that exercises or can exercise control over the Company in accordance with Article 5 of the Securities Market Law: If so, name the person.

Yes  No

<b>Name or company name</b>
INVERSORA CARSO, S.A. DE C.V.
<b>Comments</b>

A.8 Complete the tables below about the Company's treasury shares:

**At year end:**

Number of direct shares	Number of indirect shares (*)	Pct. of share capital
230,100	-	0.061

**(\*) Through:**

Name of direct owner of stake	Number of direct shares
-	-
<b>Total:</b>	

Detail the significant changes in the year, in accordance with Royal Decree 1362/2007:

Date of disclosure	Total number of direct shares acquired	Total number of indirect shares acquired	Pct. of share capital
-	-	-	-

A.9. Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to issue, buy back or sell own shares.

**Resolution of the Annual General Meeting of 23 May 2013 (item seven on the agenda):**

The General Meeting of Shareholders, on 30 November 2009, resolved under item two on the agenda to approve a buyback programme of own shares to fulfil the obligations deriving from the issuance of bonds exchangeable for shares, resolved under item one on the agenda at that same General Meeting.

Based on the foregoing, it was resolved to authorise the Company to carry out any acts of disposal under any title allowed by law of the treasury stock held by the Company, which were acquired under the Buyback Programme approved by means of a resolution of the General Meeting of Shareholders on 30 November 2009 under item two of the agenda, which states:

FOMENTO DE CONSTRUCCIONES, S.A., together with any of the Group companies fulfilling any of the circumstances set out in Article 42, paragraph 1, of the Code of Commerce, were authorised for the derivative acquisition of treasury stock, by means of purchase and sale, swap or any other transactions allowed by Law, at the price resulting from their listed price on the acquisition date, which must be comprised between the maximum and minimum values detailed below:

The maximum value would be the result of increasing by 20 per cent the highest listed price in the three months prior to the time of acquisition. The minimum value would be the result of deducting 20 per cent from the lowest listed price also in the 3 months prior to the time of acquisition.

By virtue of this authorisation the Board, the Executive Committee and CEO, indiscriminately, may acquire treasury shares, in the terms provided in Article 146 of the Capital Companies Act.

The Board of Directors, the Executive Committee and the CEO may also, indiscriminately, fully or partially allocate the treasury stock they acquire to the execution of remuneration programmes whose purpose is, or which entail the delivery of shares or share options, pursuant to the provisions in Article 146.1 of the Capital Companies Act.

This authorisation is granted for the maximum period allowed by law, and it must also respect the applicable share capital ceiling according to the regulations in force at the time of acquisition.

The acquisition of the treasury shares, which must be fully called up, should allow the companies in the FCC Group, as the case may be, that have acquired them to fund the restricted reserve established by Article 148, rule 3, of the Capital Companies Act.”

A.9 bis. Estimated floating capital

13.143%

A.10 Indicate whether there are any legal restrictions on the transfer of securities and/or the exercise of voting rights. In particular, any types of restrictions which might hinder the control of the company by acquiring shares on the market shall be communicated.

Yes  No

Description of the restrictions
-

A.11 Has the General Meeting of Shareholders resolved to adopt neutralisation measures in the event of a takeover bid as provided in Law 6/2007?

Yes  No

Detail, if appropriate, any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

A.12 Indicate if the company has issued securities that are not negotiated on a regulated market in the European Community

Yes  No

Note:

On 1 June 2017, a new relevant fact was reported subsequent to relevant facts 249540 and 252375, consisting of the setting of the price for two single bond issues by FCC Aqualia S.A. (a subsidiary of Fomento de Construcciones y Contratas S.A.), one to the value of €700 million, with annual earnings of 1.413% and maturing in 2022, and the other to the value of €650 million, with annual earnings of 2.629% and maturing in 2027. These two issues will be covered by the collateral of certain assets of the FCC Aqualia group. Following approval and registration of the corresponding brochure, the Bonds are expected to be admitted for trading on the unregulated Global Exchange Market of the Irish Stock Exchange).

Detail, if appropriate, the different classes of shares and, for each class of shares, the rights and obligations they confer.



## **B** GENERAL MEETING

B.1 State whether there are any differences between the minimum requirements established in the Capital Companies Act (LSC) and the quorum required for a General Meeting to be held.

Yes  No

	Quorum percentage other than that established in Art. 193 of LSC for general cases	Quorum percentage other than that established in Article 194 of LSC for the special cases in Article 194 LSC
Quorum required at first call	50	50
Quorum required at second call	45	45

Description of differences

### **Consolidated Text of the Bylaws Adopted at the Ordinary General Meeting on 28 June 2016 and registered in the Mercantile Register of Barcelona on 21 October 2016**

#### **Art. 17. Constitution of the Board**

1. The Ordinary or Extraordinary General Meeting, will be validly constituted, **at first call**, when the shareholders present or represented at the meeting have at least fifty per cent (50%) of the subscribed capital with voting rights; at second call, the Meeting is quorate when the shareholders present or represented possess at least forty-five per cent (45%) of the share capital with voting rights. Excepted from the foregoing are any cases in which, according to the items included in the agenda, the requirement of a percentage of capital greater than that established by applicable legislation for the possible constitution of the General Meeting is not legally feasible.
2. In addition, the percentages referred to in the preceding paragraph shall also be the percentages applicable, so that the Ordinary or Extraordinary General Meeting can validly decide on the issuance of obligations, which, in accordance with the regulations applicable at that time, that are competence of the General Meeting, capital increases or decreases, changes of corporate form, mergers and spinoffs, the assignment en bloc of assets and liabilities, to suspend or limit the pre-emptive right to acquire new shares, the transfer of the Company's registered office to another country and, in general, any amendment to the Bylaws.

If, in order to validly adopt an agreement in respect of any, or several, of the items on the agenda convening the General Meeting were necessary, in accordance with the applicable legal or statutory regulations, for there be attendance by a particular percentage of the share capital social and this percentage is not reached, or the consent of certain shareholders concerned and they were not present or represented, the General Meeting shall limit itself to deliberating and deciding on those agenda items that do not require the attendance of said percentage of the share capital or of such shareholders.

B.2 State whether there are differences in respect of the system established in the Capital Companies Act (LSC) for the adoption of corporate resolutions:

Yes X      No

Describe the differences in respect of the system provided in LSC.

	<b>Special majority other than that established in Article 201.2 of LSC for the cases mentioned in Art. 194.1 of LSC</b>	<b>Other cases requiring a special majority</b>
<b>Pct. established by the entity for adopting resolutions</b>	50.01%	N/A
<b>Describe the differences</b>		
<b>The Consolidated Text of the Bylaws Adopted at the Ordinary General Meeting on 28 June 2016 and registered in the Mercantile Register of Barcelona on 21 October 2016.</b>		
<b>Art. 26. Deliberations. Agreements adopted. Minutes</b>		
3 [...] In particular, the favourable vote of shares present or represented at the Meeting representing over fifty percent (50%) of the subscribed capital with voting rights, or debentures or securities that are convertible into shares that exclude pre-emptive rights for shareholders of the Company shall be required.		

Note:

50.01% is calculated on the subscribed share capital with voting rights.

- B.3 State the rules applying to the amendment of the company bylaws. In particular, indicate the majorities established for the amendment of the bylaws and, as the case may be, the rules established for the protection of shareholder rights in the amendment of the bylaws.

As adopted at the Ordinary General Meeting of Shareholders of 28 June 2016, following the amendments of the Company's bylaws, Article 26 of the bylaws establishes:

"Resolutions shall be adopted by a simple majority of the votes of the shareholders' present or represented at the Meeting, and a resolution shall be deemed to have been adopted when it receives more votes for than against of the present or represented capital, except cases where the Law or these bylaws require a special majority:

In particular, the favourable vote of shares present or represented at the Meeting representing over fifty percent (50%) of the subscribed capital with voting rights, or the issue of debentures or securities that are convertible in shares that exclude pre-emptive rights for shareholders of the Company shall be required.

Therefore, the internal rules of the Company do not contain any provision concerning the amendment of bylaws different to those provided in the law.

B.4 Indicate the figures on the attendance of General Meetings held during the year referred to in this report and those of the previous year:

Date of General Meeting	Pct. in attendance				Total
	Pct. present	Pct. represented	Pct. of distance vote:		
			Electronic voting	Other	
28-06-2017	20.261%	68.631%	0.004%	0.030%	88.927%

B.5 State whether there are any restrictions in the bylaws regarding a minimum number of shares needed to be able to attend the General Meeting.

Yes  No

<b>No. of shares required to attend the General Meeting</b>	
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B.6 Article revoked.

B.7 Give the address and instructions for accessing corporate governance content and any other information on general meetings that must be made available to shareholders via the Company's web page.

The FCC website ([www.fcc.es](http://www.fcc.es)) has a page dedicated to Corporate Governance, accessible from the home page under 'shareholders and investors' and 'Corporate responsibility'. This page includes the information on the Company's Corporate Governance regulations, government bodies, annual reports on corporate governance and remunerations, meetings of shareholders, shareholders' agreements and ethics and integrity. These sections provide a specific access for electronic voting and for the electronic shareholder forum, pursuant to the provisions in Article 539.2 of the consolidated text of the Capital Companies Act.

This page is two clicks away from the home page. Its contents are structured and ordered by rank, under shortcut titles, and all the pages are printable.

The pages of this website were developed in compliance with Level AA in accordance with UNE 139803:2004 standard, which, in turn, is based on the Web 1.0 Content Accessibility Guidelines of W3C.

All requirements of the Priority 1 and Priority 2 have been checked by experts on accessibility via manual analysis of the accessibility, supplemented by various semi-automatic tools, user agents and technical assistance devices.

## C STRUCTURE OF THE COMPANY'S ADMINISTRATION

### C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors provided in the bylaws:

<b>Maximum number of Directors</b>	15
<b>Minimum number of Directors</b>	15

C.1.2 Fill in the table below with the members of the Board:

Name or company name of Director	Representative	Status of Director	Board position	Date of first appointment	Date of last appointment	Election procedure
Dominum Desga, S.A	Esther Alcocer Koplowitz	Proprietary	Chairperson	27-09-2000	28-06-2016	General Meeting
Samede Inversiones 2010, S.L.U.	Esther Koplowitz Romero de Juseu	Proprietary	Vice-president	13-04-2015	25-06-2015	General Meeting
Pablo Colio Abril		Executive	Director	12-09-2017	12-09-2017	Cooptación
Carlos Manuel Jarque Uribe		Proprietary	Director	29-06-2016	29-06-2016	General Meeting
Alejandro Aboumrad González		Proprietary	Director	13-01-2015	25-06-2015	General Meeting
Dominum Dirección y Gestión, S.A.	Carmen Alcocer Koplowitz	Proprietary	Director	26-10-2004	25-06-2015	General Meeting
EAC inversiones corporativas	Alicia Alcocer Koplowitz	Proprietary	Director	30-03-1999	23-06-2014	General Meeting
Manuel Gil Madrigal		Independent	Director	27-02-2015	25-06-2015	General Meeting
Antonio Gómez García		Proprietary	Director	29-06-2016	29-06-2016	General Meeting
Inmobiliaria AEG, S.A. de CV	Carlos Slim Helú	Proprietary	Director	13-01-2015	25-06-2015	General Meeting
Gerardo Kuri Kaufmann		Executive	Director	13-01-2015	25-06-2015	General Meeting
Henri Proglio		Independent	Director	27-02-2015	25-06-2015	General Meeting
Juan Rodríguez Torres		Proprietary	Director	7-10-2015	28-06-2016	General Meeting
Alfonso Salem Slim		Proprietary	Director	29-06-2016	29-06-2016	General Meeting
Álvaro Vázquez de Lapuerta		Independent	Director	27-02-2015	25-06-2015	General Meeting

<b>Total number of Directors</b>	15
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State any removals from the Board of Directors in the period subject to information:

Name or company name of Director	Status of Director at time of removal	Date removed
Miguel Ángel Martínez Parra	Executive	12-09-2017

C.1.3 Fill in the tables below on the members of the Board and their status:

**EXECUTIVE DIRECTORS**

<b>Name or Company name of Director</b>	<b>Position in the Company</b>
Pablo Colio Abril	CEO of FCC
Gerardo Kuri Kaufmann	CEO of Cementos Portland Valderrivas
<b>Total number of Executive Directors</b>	2
<b>Pct. of total Board members</b>	13.33

**EXTERNAL PROPRIETARY DIRECTORS**

<b>Name or company name of Director</b>	<b>Name or company name of the significant shareholder who is represented or who proposed the appointment</b>
Dominum Desga, S.A.	Dominum Dirección y Gestión, S.A.
Samede Inversiones 2010, S.L.U.	Dominum Dirección y Gestión, S.A.
Carlos Manuel Jarque Uribe	Control Empresarial de Capitales, S.A. de C.V.
Alejandro Aboumrad González	Control Empresarial de Capitales, S.A. de C.V.
Dominum Dirección y Gestión, S.A.	Dominum Dirección y Gestión, S.A.
EAC Inversiones Corporativas, S.L.	Dominum Dirección y Gestión, S.A.
Antonio Gómez García	Control Empresarial de Capitales, S.A. de C.V.
Inmobiliaria AEG, S.A. de CV	Control Empresarial de Capitales, S.A. de C.V.
Juan Rodríguez Torres	Control Empresarial de Capitales, S.A. de C.V.
Alfonso Salem Slim	Control Empresarial de Capitales, S.A. de C.V.
<b>Total number of Proprietary Directors</b>	10
<b>Pct. of total Board members</b>	66.66

**EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of Director</b>	<b>Profile</b>
Manuel Gil Madrigal	Degree in Law and Business (E-3) from ICADE, he is a founding partner of the company Tasmania Gestión. In the year 2000, he also founded the financial company N+1 and has been a Director of Ezentis, Funespaña, General de Alquiler de Maquinaria (GAM) and Campofrío, among other companies. During his professional career, he has also been Capital Markets Director at AB Asesores Bursátiles, a partner at Morgan Stanley and auditor at Arthur Andersen.
Henri Proglío	Degree from the HEC Paris and is chairman of Thales. He is currently a Director on the Boards of Natixis Banque and Dassault Aviation. He chaired the energy giant Électricité de France (2009-2014) and Veolia Environnement (2003-2009)

Name or company name of Director	Profile
	and has been a Director of FCC, Group Lagardière and Vinci, among other companies.
Alvaro Vazquez de Lapuerta	Degree in Law and Business (E-3) from ICADE, he is currently a partner of Akiba Partners and Meridia Capital Partners. He was general manager for Spain and Portugal of Dresdner Kleinwort and CEO and Investor Relations manager of the securities company BBVA Bolsa. He previously held posts at JP Morgan in Mexico, New York, London and Madrid.

<b>Total number of Independent Directors</b>	3
<b>Pct. of total Board members</b>	20

State whether any of the Directors considered Independent Directors receive from the Company or from the group any sums of money or benefits other than their remuneration as Directors, or whether they maintain or have maintained during the last year a business relationship with the company or with any of the companies in its group, either in his own name or as a significant shareholder, director or senior executive of a company maintaining or that maintained such a relationship.

In such event, include a statement by the Board justifying the reasons why it considers that said Director may perform functions as an Independent Director.

Name or company name of Director	Description of the relationship	Statement

#### **OTHER EXTERNAL DIRECTORS**

Identify any other External Directors and state why these Directors cannot be considered Proprietary or Independent Directors, and indicate any relations between them and the Company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with which he/she is related
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<b>Total number of other external Directors</b>	-----
<b>Pct. of total Board members</b>	-----

Indicate any changes in Directors' status in the period, as the case may be:

Name or company name of Director	Date of change	Previous status	Current status current
Carlos Manuel Jarque Uribe	12/09/2017	CEO	Proprietary director

C.1.4 Fill in the table below on the number of women on the Board over the last four years, as well as what type of Directors they are:

	Number of Female Directors				Pct. of total Directors of the same kind			
	FY t	FY t-1	FY t-2	FY t-3	FY t	FY t-1	FY t-2	FY t-3
<b>Executive</b>	0	0	0	0	0	0,00	0,00	0,00
<b>Proprietary</b>	4	4	4	5	40,00	44,44	50,00	55,55
<b>Independent</b>	0	0	0	0	0,00	0,00	0,00	0,00
<b>Other External</b>	0	0	0	0	0,00	0,00	0,00	0,00
<b>Total:</b>	4	4	4	5	26,66	26,66	36,36	35,71

C.1.5 State the measures adopted, as the case may be, in order to include a number of women on the Board of Directors such as to be able to reach a balanced number of women and men on the Board.

<b>Explanation of the measures</b>
<p>The Board Regulations establish the following in Article 38.4.h, within the duties of the Appointments and Remuneration Committee: "Assisting the Board in its function of ensuring that the procedures for the selection of its members favour gender diversity, experience and knowledge and are not tainted by implicit biases that might imply any discrimination whatsoever and, in particular, they are to favour the selection of female directors, so as to ensure that the Company deliberately seeks and short-lists women with the necessary professional profile and, as the case may be, the Board must disclose in the Annual Corporate Governance Report the reason why there are few or no female directors and the initiatives adopted to correct this situation. For the foregoing purpose, it must establish a representation goal for the gender that is less represented on the Board of Directors and prepare guidelines on how to reach that goal".</p> <p>On 18 November 2014 FCC and the Ministry of Health, Social Services and Equality signed an agreement for the promotion of the balanced participation of men and women on the Board of Directors (Collaboration Agreement between the Ministry of Health, Social Services and Equality and FCC Servicios Ciudadanos, for the promotion of the balanced participation of men and women on Boards of Directors).</p> <p>According to said agreement the Board of Directors of FCC undertakes to: advance in the fulfilment of the recommendation of Art. 75 of Organic Law 3/2007, of 22 March, for the Effective Equality of Men and Women; publicly disclose and keep duly updated the data on the directors in conformity with the recommendations of the Code of Good Governance; for listed companies to include in the internal regulations specific references to the promotion of the balanced participation of men and women on the Board; as well as trying to incorporate members of the least represented gender to the Board.</p> <p>On 5 December 2016, a follow-up report for the aforementioned 2014 agreement was sent to the aforementioned Ministry.</p> <p>Also, FCC has signed the Diversity Charter, a voluntary code for the promotion of fundamental principles of equality. The initiative, supported by the European Commission's Justice Department for the development of its policies to fight against discrimination, contemplates the implementation of inclusive policies and non-discrimination programmes in the signatory companies.</p>

C.1.6 Explain the measures adopted, as the case may be, by the Appointments Committee so that the selection procedures are not tainted by implicit biases hindering the selection of women, and so that the Company deliberately seeks women candidates with the appropriate professional profile.

### Explanation of the measures

The Board Regulations establish the following in Article 38.4.h, within the duties of the Appointments and Remuneration Committee: "Assisting the Board in its function of ensuring that the procedures for the selection of its members favour gender diversity, experience and knowledge and are not tainted by implicit biases that might imply any discrimination whatsoever and, in particular, they are to favour the selection of female directors, so as to ensure that the Company deliberately seeks and short-lists women with the necessary professional profile and, as the case may be, the Board must disclose in the Annual Corporate Governance Report the reason why there are few or no female directors and the initiatives adopted to correct this situation. For the foregoing purpose, it must establish a representation goal for the gender that is less represented on the Board of Directors and prepare guidelines on how to reach that goal"

If despite the measures adopted, as the case may be, there is a very low number of women on the Board or none at all, explain the reasons justifying this:

Explanation of the reasons
-

C.1.6.bis Explain the conclusions of the Appointments Committee regarding the verification of compliance with the Board member policy selection. And especially whether such policy is promoting the goal for 2020 of having at least 30% female members on the Board of Directors.

At the General Meeting of Shareholders held on 28 June 2016, four new directors were appointed at the proposal of the controlling shareholder Inversora Carso, which asserted the power granted by the shareholders agreement dated 25 February 2016. Two other Board members were also renewed at this Meeting.

On 12 September 2017 the Board of Directors appointed Pablo Colio Abril as the CEO.

In the seven cases, the Appointments and Remuneration Committee issued a favourable report to the Governing Council on the suitability of the directors.

In addition, at 31 December 2017, more than 25% of FCC's Board of Directors are women and its non-executive chairperson is Ms Esther Alcocer Koplowitz.

C.1.7 State how shareholders with significant holdings are represented on the Board:

Inversora Carso S.A de C.V., via Control Empresarial de Capitales S.A de C.V., is represented by six proprietary directors: Carlos Manuel Jarque Uribe, AEG Inmobiliaria, S.A. de C.V. (Representative: Carlos Slim Helú), Juan Rodríguez Torres, Alejandro Aboumrad González, Alfonso Salem Slim, Antonio Gómez Garcia.

Dominum Dirección y Gestión S.A. and Nueva Samede 2016 S.L.U. are represented by four proprietary directors: Dominum Dirección y Gestión S.A. itself (Representative: Carmen Alcocer Koplowitz), Samede Inversiones 2010 S.L.U (Representative: Esther Koplowitz



Romero de Juseu), Dominum Desga S.A. (Representative: Esther Alcocer Koplowitz), and EAC Inversiones Corporativas S.L. (Representative: Alicia Alcocer Koplowitz).

- C.1.8 Explain, as the case may be, the reasons why proprietary directors have been appointed at the request of shareholders whose holding is below 3% of the capital:

Name or company name of shareholder	Reason

State whether any formal requests for Director positions on the Board have been rejected, when the shareholders making such request have holdings equivalent to or greater than other shareholders who do have proprietary directors. Detail the reasons for any such rejection, as the case may be:

Yes  No

Name or company name of shareholder	Explanation

- C.1.9 State whether any Directors have been removed from office before the end of their term, if they have explained the reasons to the Board and via what means, and if an explanation was given in writing, then state the reasons that they themselves gave:

Name of Director	Reason for removal
Miguel Ángel Martínez Parra	Personal reasons

- C.1.10 State the powers delegated to the or CEO(s), if any are delegated:

Name or company name of Director	Brief description
Pablo Colio Abril	All except the non-delegable

C.1.11 Identify, if appropriate, the members of the Board who hold Director or senior executive positions in other companies that are part of the group of the listed company:

Name or company name of Director	Name of group entity	Position	Does he/she have executive duties?
EAC, Inversiones Corporativas, S.L., (represented by: Alicia Alcocer Koplowitz)	Cementos Portland Valderrivas	Chairperson	No
Inmobiliaria AEG, S.A. de C.V., (represented by: Alejandro Aboumrad González)	Cementos Portland Valderrivas	Director	No
Gerardo Kuri Kaufmann	Cementos Portland Valderrivas	CEO	Yes
Carlos Manuel Jarque Uribe	Cementos Portland Valderrivas	Director	No
Juan Rodríguez Torres	Cementos Portland Valderrivas	Director	No
Alvaro Vazquez de Lapuerta	Cementos Portland Valderrivas	Director	No
Pablo Colio Abril	FCC Industrial Perú, S.A.	Board member	Yes
	Guzman Energy O&M, S.L.	Chairman	Yes

C.1.12 State, if appropriate, the Directors of your company who are members of the Board of Directors of other companies listed on official securities exchanges in Spain that are not in your same group of companies, which have been communicated to your company:

Name or company name of Director	Name of listed company	Position
EAC Inversiones Corporativas, S.L. (represented by Esther Alcocer Koplowitz)	REALIA BUSINESS	Director
Carlos Manuel Jarque Uribe	REALIA BUSINESS	Director
Gerardo Kuri Kaufmann	REALIA BUSINESS	CEO
Manuel Gil Madrigal	GRUPO BARÓN DE LEY, S.A.	Director
Juan Rodriguez Torres	REALIA BUSINESS	Non-executive chairperson

C.1.13 State whether the board regulations has established rules about the number of directorships its Board members can hold, and describe any such rules:

Yes  No

Explanation of the rules

C.1.14 Article revoked.

C.1.15 Indicate the overall remuneration of the Board of Directors

<b>Remuneration of the Board of Directors (in thousand euros)</b>	3,206.7
<b>Amount of pension rights accrued by the Directors (in thousand euros)</b>	0
<b>Amount of pension rights accrued by former Directors (in thousand euros)</b>	4,232

C.1.16 Identify the senior executives who are not Executive Directors, and state the total remuneration they accrued during the year:

Name or company name	Position(s)
Marcos Bada Gutiérrez	General Manager of Internal Audits
Agustín García Gila	Chairman of Environmental Services
Felipe B. García Pérez	Company Secretary
Miguel Ángel Martínez Parra	Administration and Finance Director
Felix Parra Mediavilla	General Manager of Aqualia

<b>Total remuneration of senior management (in thousand euros)</b>	3168.27
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Note:

The remuneration data includes sums received by the current CEO of FCC and Managing Director of FCC Construcción, Pablo Colio, between 16 January and 12 September 2017, when the sole office that he held was as MD of FCC Construcción.

Also included are sums received by Miguel Ángel Martínez Parra after he ceased to be an executive director of FCC, on 12 September 2017.

The sum corresponding to the severance payment received by Miguel Jurado in 2017 is also included. Miguel Jurado was the MD of FCC Construcción until 16 January 2017. He subsequently held the position of Collections and Claims Director (reporting directly to the CEO) until his employment by the Group was terminated on 27 December 2017.

C.1.17 Indicate, as the case may be, the identity of members of the Board who are in turn members of the Board of Directors of significant shareholder companies and/or in group subsidiaries:

Name or company name of Director	Company name of significant shareholder	Position
Alejandro Aboumrad González	Inversora Carso S.A. de C.V.	General Manager and Director at Group companies
Antonio Gómez García	Inversora Carso S.A. de C.V.	Director at Group companies
Gerardo Kuri Kaufmann	Inversora Carso S.A. de C.V.	Administrator at Group companies
Carlos Manuel Jarque Uribe	Inversora Carso S.A. de C.V.	Member of the supervisory board of Telekom Austria AG
Juan Rodríguez Torres	Inversora Carso S.A. de C.V.	Director at Group companies
Alfonso Salem Slim	Inversora Carso S.A. de C.V.	General Manager and Director at Group companies
Pablo Colio Abril	Inversora Carso S.A. de C.V.	Director at Group companies

Identify, as the case may be, any significant relationships, other than those stated in the preceding section, between Board members and significant shareholders and/or subsidiaries in their group:

Name or company name of related Director	Name or company name of related significant shareholder	Description of relationship
-	-	-

C.1.18 State whether there have been any amendments of the board rules during the year:

Yes  No

### Description of the amendments

- C.1.19 State the procedure for appointing, re-appointment, assessing and removing Directors. State the competent bodies, the process and the criteria for each procedure.

The General Meeting is in charge of appointing and removing Board members. Directors may be re-elected indefinitely one or more times, for maximum periods of four years (Art. 30.3 of the Bylaws).

According to Article 29.4 of the Bylaws, the Board of Directors, in the proposals of appointment, re-appointment, ratification or removal of directors that it submits to the General Meeting and in the appointment decisions adopted by the Board by virtue of the powers of co-optation that it is legally attributed, shall follow the criteria and guidelines established in that respect in the Rules of the Board of Directors.

Chapter IV of the Rules of the Board of Directors, "Appointment and Removal of Directors," establishes the following:

Article 16. Appointment, ratification or re-election of directors 1. Proposals for the appointment or re-election of directors submitted by the Board of Directors to the General Meeting of Shareholders for its consideration, and the appointments made by the Board using the powers of co-optation attributed to it by law, must fall upon people of recognised integrity, solvency, technical competence and experience, and must be approved by the Board based on a proposal from the Appointments and Remuneration Committee, in the case of independent directors, and based on a prior report of the Appointments and Remuneration Committee, in the case of other directors. 2. The proposal must in any case be backed by a report from the Board assessing the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting or of the Board meeting. 3. Where a legal person is appointed as a director, it must appoint a natural person to discharge the duties of the office on a permanent basis; that natural person must fulfil the requirements as to integrity, solvency, technical competence and experience and the rules on prohibitions and incompatibilities contained in these Rules, and the duties of Director established in these Rules shall apply to him/her on a personal basis. Removal of the representative by the legal person that is a director shall not take effect until their replacement is appointed. Also, the proposal of a natural person as a representative is subject to the report drawn up by the Appointments and Remuneration Committee. 4. From the publication of the notice of the General Meeting, the Board of Directors must publish, on the website, the following information about the persons proposed for appointment or ratification as directors and, as the case may be, on the natural person representing a Director who is a legal person: (i) professional experience and background; (ii) Other Boards of Directors on which they are members, regardless of whether they are listed companies; (iii) an indication of the director's classification; in the case of proprietary directors, the shareholder they represent or have links with must be identified; (iv) the date of their first and subsequent appointments as a company director; (v) shares of the Company and financial derivatives whose underlying are shares of the Company that are owned by the director proposed for ratification or re-appointment or by the candidate for first-time appointment as director. This information must be kept up to date; and (vi) the reports and proposals of the relevant bodies in each case. 5. The Secretary

of the Board of Directors will provide each new director with a copy of the Articles of Association, these Rules, the FCC Group Code of Ethics, the Internal Code of Conduct in relation to the Securities Market, the latest annual Financial Statements and Management Report, of both the Company and its consolidated Group, as approved by the General Meeting of Shareholders, the auditors' report on the Financial Statements and the latest financial information provided to the markets. It will also provide them with the names of the current auditors and their interlocutors. 6. Each director must sign a receipt for the documentation and undertake to acquaint himself/herself of it immediately and to faithfully fulfil his obligations as a director. 7. The Company will establish induction programmes to provide newly-appointed directors rapidly with sufficient knowledge of the Company and its Group and the corporate governance rules, while also offering refresher courses when circumstances make this advisable.

#### Article 17. Term of office

1. Directors will hold office for the term established in the Bylaws. 2. The directors appointed by co-optation will hold office until the next General Meeting is held. Also, if there is a vacancy once the General Meeting is called and before it takes place, the Board of Directors may designate a Director until the next General Meeting takes place. 3. Directors whose mandates expire or who cease to sit on the Board for any reason may not render services to FCC competitors for a term of two (2) years. 4. The Board of Directors, at its discretion, may waive or reduce this limitation for outgoing directors.

#### Article 18. Re-election of Directors

Besides fulfilling the requirements for appointment established in Article 16 above, prior to proposing the re-appointment of any director to the General Meeting of Shareholders, the Appointments and Remuneration Committee must issue a report evaluating the quality of work and dedication of the proposed directors during their previous mandate.

#### Article 19. Removal of Directors

1. Directors must step down from the Board when their mandates have expired or when so decided by the General Meeting of Shareholders making use of the powers vested in it by law and by the Articles of Association. 2. The directors must tender their resignation to the Board of Directors and officially resign at the Board's request in the following cases: a) In the case of executive directors, when they no longer occupy the positions or perform the functions by virtue of which they were appointed. b) In the case of proprietary directors, when the shareholder whose interests they represent disposes of its entire holding in FCC or reduces it to such a level that the number of proprietary directors must be reduced. c) When they fall under a situation of incompatibility or legal disqualification provided by law. d) When the Board, by a minimum two-thirds majority, asks the director to resign: - if he or she receives a severe reprimand from the Board due to breach of his or her duties as director, based on a proposal or report by the Appointments and Remuneration Committee, or when their permanence on the Board may jeopardise the Company's credibility and reputation. Accordingly, directors must inform the Board of any criminal charges against them and any subsequent events during trials. In any event, if any director is tried for any of the corporate crimes described in Article 213 of the Capital Companies Act, the Board will examine the case as soon as possible and, based on the specific circumstances, will decide whether or not the director must resign, and it must give a justification in the Annual Corporate Governance Report. 3. If a natural person representing

a Director who is a legal person incurs in any of the events provided in the preceding section, the former will be disqualified as a representative. 4. The Board of Directors may not propose the removal of independent directors before the expiry of their tenure for which they had been appointed, except where just cause is found by the Board, based on a report from the Appointments and Remuneration Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the circumstances enumerated in Article 6.2.a) of these rules that disqualify them from appointment as an independent director. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure due to the proportionality between the number of proprietary directors and independent directors in relation to the capital represented by the proprietary directors and the rest of the capital. 5. When a director steps down before his mandate has finished, either due to resignation or otherwise, he or she must set out the reasons in a letter to be sent to all other members of the Board, notwithstanding that said change should be communicated as a Relevant Event and the reasons must be disclosed in the Annual Corporate Governance Report. In particular, where the director resigns due to the adoption by the Board of significant or repeated decisions to which the director has placed serious objections on record, and decides to resign as a result, the resignation letter to the other directors must expressly state this fact.

C.1.20 Explain to what extent that annual evaluation of the Board has given rise to important changes in its internal organisation and in the procedures applying to its activities:

<b>Description of the amendments</b>
In the year 2017, no deficiencies were detected such as to warrant an action plan.

C.1.20.bis Explain the evaluation process and the areas that the Board of Directors has evaluated, assisted, as the case may be, by an external consultant, regarding the diversity in its composition and powers, the functioning and composition of its committees, the performance of the Chairperson of the Board and of the Company's CEO, and of the performance and contribution of each Director.

The Board of Directors of Fomento de Construcciones y Contratas, S.A. (hereinafter, the Company) issued a report that evaluated by the quality and efficiency of its operation and that of its Committees during 2016 for the purpose of complying with the duty imposed by Article 34.9 of the Rules of the Board of Directors, which incorporates Recommendation 36 of the Code of Good Governance of Listed Companies published by the Spanish National Securities Market Commission on 18 February 2015 and Article 529 nonies of the Capital Companies Act.

The Report was reviewed and approved by the Company's Board of Directors which, according to the aforementioned Article 34.9 of the Rules of the Board of Directors, is responsible for assessing the quality and efficiency of its own operations, in its meeting on 31 January 2018. All the Board members played an active part in drafting the report, and all the comments, assessments, opinions and suggestions made by all of them during the process were taken into consideration.

For the 2017 financial year report, the self-evaluation process was carried out via the appraisal of a number of aspects with a bearing on the functioning, efficiency and quality of the performance and decision-making of the Board of Directors, as well as the

members' contributions to the performance of the functions and the achievement of the objectives entrusted to the Board.

In addition, the adherence to and compliance by the Board of Directors and its members in respect of the Rules of the Board of Directors and, in general, of the rules of Good Corporate Governance of Listed Companies.

C.1.20.ter. Detail, as the case may be, the business relations between the consultant or any of its group companies with the company or any of its group companies.

This does not apply because the evaluation was done internally.

C.1.21 State the reasons for which Directors may be forced to resign.

**Consolidated text of the Rules of the Board of Directors following the changes of 28 July 2016, registered at the Commercial Registry on 21 October 2016)**

Article 19. Removal of Directors

1. Directors must step down from the Board when their mandates have expired or when so decided by the General Meeting of Shareholders making use of the powers vested in it by law and by the Articles of Association.

2. The directors must tender their resignation to the Board of Directors and officially resign at the Board's request in the following cases:

a) In the case of executive directors, when they no longer occupy the positions or perform the functions by virtue of which they were appointed.

b) In the case of proprietary directors, when the shareholder whose interests they represent disposes of its entire holding in FCC or reduces it to such a level that the number of proprietary directors must be reduced.

c) When they fall under a situation of incompatibility or legal disqualification provided by law.

d) When the Board, by a minimum two-thirds majority, asks the director to resign: - if he or she receives a severe reprimand from the Board due to breach of his or her duties as director, based on a proposal or report by the Appointments and Remuneration Committee, or when their permanence on the Board may jeopardise the Company's credibility and reputation. Accordingly, directors must inform the Board of any criminal charges against them and any subsequent events during trials. In any event, if any director is tried for any of the corporate crimes described in Article 213 of the Capital Companies Act, the Board will examine the case as soon as possible and, based on the specific circumstances, will decide whether or not the director must resign, and it must give a justification in the Annual Corporate Governance Report.

3. If a natural person representing a Director who is a legal person incurs in any of the events provided in the preceding section, the former will be disqualified as a representative.

4. The Board of Directors may not propose the removal of independent directors before the expiry of their tenure for which they had been appointed, except where just cause is found by the Board, based on a report from the Appointments and Remuneration Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the circumstances enumerated in Article 6.2.a) of these rules that disqualify them from appointment as an independent director. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure due to the proportionality between the number of proprietary directors and independent directors in relation to the capital represented by the proprietary directors and the rest of the capital.

5. When a director steps down before his mandate has finished, either due to resignation or otherwise, he or she must set out the reasons in a letter to be sent to all other members of the Board, notwithstanding that said change should be communicated as a Relevant Event and the reasons must be disclosed in the Annual Corporate Governance Report. In particular, where the director resigns due to the adoption by the Board of significant or repeated decisions to which the director has placed serious objections on record, and decides to resign as a result, the resignation letter to the other directors must expressly state this fact.

C.1.22 Article revoked.

C.1.23 Is a supermajority, other than the legal majority, required in some decisions?

Yes  No

If so, describe the differences.

Description of differences
-----

C.1.24 Detail whether there are specific requirements, other than those relating to Directors, to be appointed Chairperson of the Board of Directors.

Yes  No

Description of requirements
-----

C.1.25 State whether the chairperson has a casting vote:

Yes  No

Issues in respect of which there is a casting vote
-----

C.1.26 State whether the Bylaws or the Rules of the Board establish an age limit for Directors:



Yes  No X

**Age limit for Chairperson**

**Age limit for CEO  Age limit for Director**

C.1.27 State whether the Bylaws or the Rules of the Board establish a term limit for Independent Directors, other than that established in the regulations:

Yes  No X

<b>Maximum number of years in office</b>	
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C.1.28 State whether the bylaws or the rules of the Board of Directors establish specific rules for delegating votes on the Board of Directors, how this is done and, in particular, the maximum number of delegations to one same Director, as well as whether any limitations have been established regarding categories where it is possible to delegate, beyond the limitations imposed by the legislation. If so, give a short description.

There are no are formal processes for delegating votes on the Board of Directors.

C.1.29 State the number of Board of Directors meetings held in the year. Also, state the number of times that the Chairperson did not attend the Board meeting. Proxies granted with specific instructions are not counted as absences:

<b>Number of meetings of the Board of Directors</b>	9
<b>Number of Board meetings without the attendance of its Chairperson</b>	0

If the chairperson is the CEO, indicate the number of meetings held, without assistance or representation of any Executive Director and under the Chairpersonship of the coordinator Director.

<b>Number of meetings</b>	-
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Indicate the number of meetings held by the various Board Committees in the year:

<b>Number of Executive or Steering Committee meetings</b>	6
<b>Number of Audit Committee meetings</b>	8
<b>Number of Appointments and Remuneration Committee meetings</b>	9

C.1.30 State the number of Board of Directors meetings held in the year that were attended by all its members. Proxies granted with specific instructions are not counted as absences:

<b>Number of Board meetings attended by all the Directors</b>	5
<b>Pct. of attendance over the total votes during the year</b>	89.08%

C.1.31 State whether the individual and consolidated financial statements that are presented for Board approval have been certified:

Yes  No

Indicate any person(s) who have certified the company's individual and consolidated financial statements for Board authorisation:

Name	Position
Pablo Colio Abril	CEO
Miguel Martínez Parra	General Manager of Administration and Finance
Juan José Drago Masiá	General Manager of Administration

C.1.32 Detail whether the Board of Directors has established any mechanisms to prevent the individual and consolidated financial statements authorised by it, being presented to the General Meeting with audit qualifications.

The Audit and Control Committee has among its functions that of revising the process of drafting the economic and financial reports that FCC Group publishes from time to time. This revision is particularly important in the case of the annual report; therefore, prior to the Board of Directors' drawing up of the annual financial statements, the Audit and Control Committee thoroughly examines those statements and requests that the external auditor explain the conclusions of its review.

In this way, once the statements are approved by the Board, the external auditor's report contains no qualifications.

C.1.33 Is the Secretary of the Board a Director?

Yes  No

If the Secretary is not a Director, fill in the table below:

Name or company name of Secretary	Representative
Francisco Vicent Chuliá	

C.1.34 Article revoked.

C.1.35 State the mechanisms, if there are any, established by the Company to maintain the independence of external auditors, financial analysts, investment banks and rating agencies.

For this purpose, Article 37.5 of the Rules of the Board of Directors states that "The basic function of the Audit and Control Committee is to support the Board of Directors in its supervisory duties by periodically reviewing the processes used to prepare the financial information, the internal controls and the independence of the external auditors, among others. In particular, the matters that the Board of Directors may entrust to the Audit and Control Committee include, but are not limited to, the following:

a) Informing the General Meeting of Shareholders on the questions raised by shareholders which fall within its scope of authority and, in particular, on the outcome of the audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has played in that process.

b) Liaising between the Board of Directors and the Company's external Auditor, evaluating the results of each audit, with the following additional duties with respect to the external Auditor: (i) Making recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the external auditor, being responsible for the selection process, in accordance with EU regulations and the terms and conditions of his or her engagement; (ii) Receiving regular information from the external auditor on the progress and findings of the audit programme, as well as ensuring its independence in the performance of its functions, and checking that senior management are acting on its recommendations; (iii) Discussing with the external Auditors any significant weaknesses found in the internal control system as a result of the audits conducted, without compromising his or her independence; For this purpose, and if appropriate, the Audit and Control Committee may submit recommendations or proposals to the Board of Directors and the corresponding term for their follow-up. (iv) Establish the relevant relations with the external auditor to receive information on matters that may represent a threat to his or her independence for consideration by the Committee, and any other related to the process of conducting the audit and, where appropriate, the authorisation of services other than those prohibited, in the terms referred to in the statutory regulations on the activity of account auditing on the relationship to independence, as well as any other disclosures provided for in the legislation on account auditing and in auditing standards; (v) Ensuring the independence of the external auditor, establishing, in particular, suitable measures: 1 ) so that contracting consulting services with that auditor or a company of its group does not jeopardise its independence, to which end the Committee will request and receive annually from the auditor a written confirmation of its independence with respect to the Company or entities directly or indirectly related to it, as well as information on any additional services of any type, and the corresponding fees, provided to those entities by the external auditor or by persons or entities related to the auditor, as provided for in the Auditing Act; and 2) so that the Company issues a relevant event to the CNMV as regards the change in Auditor, with a statement about any disagreements with the outgoing Auditor and, and their nature and in the case where the external Auditor resigns, the circumstances that led to this resignation; and (vi) Seeking to ensure that the Company's Auditor takes responsibility for auditing the companies comprising the Group.

c) Issuing a report each year, prior to the publication of the audit report, expressing an opinion on whether the independence of the account auditors or auditing companies have been compromised. In any event, this report must be a realistic assessment of the provision of each and every one of the additional services referred to in section b) (iv) 1 above, considered individually and in the aggregate, other than legal auditing and in relation to the independence or auditing regulations and standards.

d) Supervising the Company's internal audits that oversee the good operation of the information and internal control systems; the head of internal audit is obliged to present an annual work plan to the Committee and directly report to it any incidents arising in the course of implementing the plan, as well as submitting a report on activities to the Committee at the end of each year.

e) Supervising and analysing the efficacy of the Company's internal control and the risk control and management policy approved by the Board of Directors, ensuring that the latter at least identifies: (i) The different types of risks that the Company faces, including, among others, financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) Establishing the risk level that the Company deems acceptable; (iii) The measures

provided to mitigate the impact of the identified risks in the event they materialise; and (iv) The reporting and internal control systems that will be used to control and manage said risks, including contingent liabilities and off-balance sheet risks, submitting them to the Board of Directors for their approval.

f) Supervising the preparation and presentation of the annual financial statements and management report of the Company, both individual and consolidated, and of the information released periodically to the markets, and submitting recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, checking for compliance with legal provisions and the correct application of generally accepted accounting principles, and informing the Board before it adopts any of the following decisions: (i) The financial reports which the Company, owing to its listed status, must disclose from time to time, ensuring that the interim financial statements are drawn up with the same accounting criteria as annual financial statements and, for such purpose, it must consider whether a limited review by the Company's external auditor is appropriate; and (ii) The creation or acquisition of holdings in special purpose entities or entities domiciled in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, might detract from the transparency of FCC Group.

g) With respect to internal control and reporting systems: (i) Supervising the process of preparing, and the integrity of, the financial reports referring to the Company and, as the case may be, the Group, reviewing the compliance with the regulatory requirements, the adequate delimitation of the scope of the consolidated group and the correct application of the accounting criteria; (ii) Reviewing internal control and risk management systems on a regular basis, including tax control systems, to ensure that the main risks are properly identified, managed and disclosed appropriately; (iii) Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal audit; proposing the department's budget; receiving regular reports on its activities; and verifying that senior management are acting on the conclusions and recommendations of its reports. Receiving information from time to time from the Response Committee and the Risk Control and Management Department on the development of its activities and the functioning of internal controls; and (v) Ensuring that the internal codes of conduct and corporate governance rules comply with regulatory demands and are suitable for the Company, and reviewing that the persons subject to said codes and rules of governance comply with their reporting obligations to the Company.

h) Issuing reports and proposals as requested by the Board of Directors or the Chairperson of the Board and those it deems appropriate for the best performance of its functions, particularly (i) The report on proposed amendments to these Board Rules, pursuant to the provisions in Article 4.3; (ii) Deciding on requests for information presented by directors, pursuant to the provisions in Article 26.3 of these Rules, to the Committee; and (iii) Requesting, as the case may be, the inclusion of any items on the agenda of Board meetings, in the conditions and time periods established in Article 34.3 of these Rules.

C.1.36 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

Yes  No

Outgoing auditor	Incoming auditor

If there was a disagreement with the outgoing auditor, describe it:

Yes  No

Explanation of disagreement

C.1.37 State whether the audit firm performs other work for the Company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of total fees billed to the Company and/or its group:

Yes  No

	Company	Group	Total
<b>Amount of other non-audit jobs (in thousand euros)</b>	306	137	443
<b>Amount of non-audit jobs / total amount billed by audit firm (in pct.)</b>	39.27%	4.19%	10.97%

C.1.38 State whether the auditors' report on the previous year's financial statements had any reservations or was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to explain the content and scope of the qualification or reservation.

Yes  No

Explanation of the reasons

C.1.39 State the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	16	16

	Company	Group
<b>Number of years the current audit firm has audited / number of years the Company has been audited (as a percentage)</b>	57.1%	57.1%

Note:

The Company and the FCC Group have been audited by Deloitte S.L. since 2002. Previously, since 1990 the Company and Group had been audited by Arthur Andersen, which ceased trading globally in 2002 when it merged with Deloitte.

C.1.40 State whether there is a procedure for directors to engage external consultants and, if so, provide details:

Yes  No

<b>Detail the procedure</b>
<p>Rules of the Board of Directors. Article 27. Expert assistance</p> <p>1. In order to assist them in performing their duties, non-executive directors are entitled to obtain the necessary assistance from the Company to perform their duties and, where necessary, to obtain advice, at FCC's expense, from legal, accounting and financial consultants and other experts.</p> <p>2. Requests to engage external consultants or experts must be referred to the Chairperson of the Board of Directors and will be approved by the Board of Directors if the latter considers that: a) it is necessary for the proper performance by non-executive directors of their assigned duties, b) the cost is reasonable, in view of the importance of the problem and the assets and revenues of FCC, and c) the technical assistance received cannot be properly provided by internal FCC experts or technical personnel.</p> <p>3. Requests for expert assistance by any of the Board Committees should not be denied except when a majority of the Board members considers that the conditions envisaged in paragraph 2 of this article are not met."</p>

C.1.41 State whether there is a procedure for directors to have the necessary information to prepare for the meetings of the governing bodies with sufficient time and, if so, provide details:

Yes  No

<b>Detail the procedure</b>
<p>Rules of the Board of Directors. Article 26. Powers of information and inspection</p> <p>"1. In order to perform their duties, all Directors have the right to request and to compile any suitable and necessary information from the Company that is useful in the fulfilment of their obligations on any aspect related to FCC and its subsidiaries and associated companies, in Spain and other countries. To this end, they may examine documentation they consider necessary, talk to the heads of the departments in question and visit the companies' facilities. 2. So as not to disturb the ordinary operations of the FCC Group, the exercise of these information rights must be channelled through the Chairperson, who will respond to the Director's requests by either providing the information directly or offering the appropriate interlocutors at the pertinent organisational level. 3. If such a request for information is denied, delayed or handled deficiently, the requesting Director may refer his petition to the Audit and Control Committee, which must grant a hearing to both the Chairperson and requesting Director before deciding how to proceed. 4. The requested information may only be denied when, in the opinion of the Chairperson and the Audit and Control Committee, it is unnecessary or could be harmful to the Company's interests. Information requests cannot be denied if supported by a majority of the Board members.</p>

C.1.42 State whether the Company has rules obliging directors to inform and, if appropriate, to resign in any circumstance that might harm the organisation's name or reputation, and describe any that exist:

Yes  No

**Explain the rules:**

Rules of the Board of Directors. Article 25. Directors' duty of disclosure  
 Directors must disclose the following to FCC's Appointments and Remuneration Committee through the Corporate Responsibility Department or any other that takes its place: d) Legal, governmental, or any other type of claim which, due to its significance, could have a serious effect on the reputation of FCC. (e) In general, of any event or situation that might be relevant to his or her performance as an FCC Director.

Article 19. Removal of Directors.

1. Directors must step down from the Board when their mandates have expired or when so decided by the General Meeting of Shareholders making use of the powers vested in it by law and by the Articles of Association.

2. The directors must tender their resignation to the Board of Directors and officially resign at the Board's request in the following cases: a) In the case of executive directors, when they no longer occupy the positions or perform the functions by virtue of which they were appointed. (b) In the case of proprietary directors, when the shareholder whose interests they represent disposes of its holding in FCC or reduces it to such a level that its number of proprietary directors must be reduced. c) When they fall under a situation of incompatibility or legal disqualification provided by law. d) When the Board, by a minimum two-thirds majority, asks the director to resign: - if he or she receives a severe reprimand from the Board due to breach of his or her duties as director, based on a proposal or report by the Appointments and Remuneration Committee, or when their permanence on the Board may jeopardise the Company's credibility and reputation. Accordingly, directors must inform the Board of any criminal charges against them and any subsequent events during trials. In any event, if any director is tried for any of the corporate crimes described in Article 213 of the Capital Companies Act, the Board will examine the case as soon as possible and, based on the specific circumstances, will decide whether or not the Director must resign, and it must give a justification in the Annual Corporate Governance Report.

3. If a natural person representing a Director who is a legal person incurs in any of the events provided in the preceding section, the former will be disqualified as a representative.

4. The Board of Directors may not propose the removal of independent directors before the expiry of their tenure for which they had been appointed, except where just cause is found by the Board, based on a report from the Appointments and Remuneration Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the circumstances enumerated in Article 6.2.a) of these rules that disqualify them from appointment as an independent director. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure due to the proportionality between the number of proprietary directors and independent directors in relation to the capital represented by the proprietary directors and the rest of the capital.

5. When a director steps down before his mandate has finished, either due to resignation or otherwise, he or she must set out the reasons in a letter to be sent to all other members of the Board, notwithstanding that said change should be communicated as a Relevant Event and the reasons must be disclosed in the Annual Corporate Governance Report. In particular, where the director resigns due to the adoption by the Board of significant or repeated decisions to which the director has placed serious objections on record, and decides to resign as a result, the resignation letter to the other directors must expressly state this fact."

C.1.43 State whether any member of the Board of Directors has informed the company that he has been charged with, or tried for, any of the crimes stated in Article 213 of the Capital Companies Act:

Yes  No

Name of Director	Criminal Case	Comments

State whether the Board of Directors has analysed the case. If it has, give a reasoned explanation on the decision made regarding whether it is fit for the director to remain in office, or as the case may be, explain the action taken by the Board of Directors up until the date of this report or those that it plans to carry out.

Yes  No

Decision or action taken	Explanation

C.1.44 Detail the significant agreements entered into by the company which will enter into force, be amended or terminated in the event of a change of control of the company following a takeover bid, and the effects thereof.

On 5 February 2016, 2016 Nueva Samede, S.L.U. ("Nueva Samede") and I.Carso signed a purchase option agreement for shares in Fomento de Construcciones y Contratas, S.A. ("FCC") before the Notary of Madrid Mr Jaime Casanova Recarte under Number 285 of his Notary Record (the "Purchase Option"), under which Nueva Samede irrevocably gave and granted to I.Carso a right of option to purchase 9,454,167 ordinary FCC shares representing 2.496% of its share capital and of which Nueva Samede is owner after the subscription and payment provided for in FCC's capital increase which was registered in the Mercantile Register of Barcelona on the 4 March 2016 (the "Affected Shares").

For the record, the Affected Shares are part of the 7.028% of the share capital of CC owned by Nueva Samede 2016, S.L.U. (hereinafter, "Nueva Samede") which are attributed to I.Carso for the exclusive purposes of Article 5.1.d of the Royal Decree on takeover bids and over which I.Carso has no direct or indirect right of vote whatsoever.

In connection with the foregoing, on 22 July 2016, I.Carso moved to exercise its Purchase Option over the entirety of the Affected Shares with an effective date of 14 June 2016. However, the formalisation of the exercise of the Purchase Option was subject to the condition precedent that the following cumulatively occur: (i) authorisation by the Spanish National Securities Market Commission of the bid formulated by CE, approved on 29 June 2016, and (ii) the presence on FCC's Board of Directors of a majority of directors appointed by I.Carso and/or CEC or any company linked to I.Carso (the "Precedent Condition"), which was fulfilled with the appointments of Mr Miguel Martinez Parra, Mr Alfonso Salem Slim, Mr Antonio Gomez García and Mr Carlos Manuel Jarque Uribe on 28 June 2016. As of 22 July 2016, in accordance with that set out in paragraph two of the Article 36 of Royal Decree 1066/2007 of 27 July, the National Securities Market Commission reported through a Relevant Event that the takeover bid made by Control Empresarial de Capitales, S.A., de C.V. for 100% of the share capital of Fomento de Construcciones y Contratas, S.A. was



accepted by a number of 97,211,135 shares, which represent 48.30% of the shares to which the bid was aimed and 25.66% of the share capital of Fomento de Construcciones y Contratas, S.A.

C.1.45 State in aggregate and indicate, in detail, any agreements between the Company and its administration and management officers or employees providing severance, guarantee or golden parachute clauses, whenever they resign or are subject to summary dismissal or if their agreement is terminated due to a takeover bid or other type of transaction.

Number of beneficiaries	3
Type of beneficiary	Description of the resolution
<p>CEO (2 people)</p>	<p>(I) Previous CEO</p> <p>The company has set up a financial fund for his or her benefit that will compensate him or her for the extinguishment of his or her contract that has an annual allocation of 340,000 euros.</p> <p>If the contractual relationship is extinguished during the first three years of this contract (from 18/07/2015), for any reason except the senior executive stepping down, dismissal for objective reasons and disciplinary dismissal, respectively, the senior executive will accrue the amount in the Savings Fund as of the date of extinguishment of his or her contract. This payment will be of a compensatory nature.</p> <p>If his employment should be terminated after the first three years of the contract term (i.e., since 18 August 2015), on any grounds other than objective or disciplinary dismissal, he will accrue the right to receive such sum as on the effective date of termination may be held in the Savings Fund. This payment will be constitute a severance payment.</p> <p>As the CEO's employment was terminated in September 2017 when he resigned, the full sum of the fund has been recovered.</p> <p>(II) Current CEO</p> <p>Also in the case of the contractual relationship being terminated by the CEO on any of the following grounds:</p> <ul style="list-style-type: none"> <li>- Substantial changes to working conditions with a negative impact on his professional training, undermining his dignity or implemented by the company in serious contravention of the principles of good faith.</li> <li>- Failure to pay the remuneration contractually agreed for three consecutive months or six non-consecutive months.</li> <li>- Corporate succession or significant changes to the company's structure resulting in renewal of its governing bodies or the content of its core business, provided that termination occurs within three months following such changes.</li> <li>- Any other serious breach of the company's contractual undertakings, save in cases of force majeure, for which no compensation will be applicable.</li> </ul> <p>As in the case of free, unilateral withdrawal by the employer, he will</p>

	<p>be entitled to receive compensation resulting from the sum of the following two items:</p> <p>a) The sum resulting from the final settlement, dated 12 September 2017 (in accordance with the regulations applicable on that date), of the CEO's previous employment with FCC Construcción or any other FCC Group company.</p> <p>b) The sum resulting from multiplying 7 days' salary by the number of years elapsed between 12 September 2017 and the time of termination of the contract.</p>
Company Secretary	<p>With regard to the Company Secretary, executive Board member until 13 January 2015, the Company, with the authorisation of the Executive Committee, contracted and paid an insurance premium in order to meet the payment of the contingencies related, among other items, to death or to permanent occupational disability and to retirement bonuses and pensions and other concepts, for some of the Executive Directors and senior executives.</p> <p>In particular, the contingencies giving rise to severance pay are those that entail the extinguishment of the employment relationship for any of the following reasons:</p> <p>a) Unilateral decision by the Company.  b) Winding up or disappearance of the parent company for any reason, including merger or spin-off.  c) Death or permanent disability.  d) Physical disability or legal incompetence for any other reason.  e) A substantial change in professional conditions.  f) Resignation, upon reaching the age of 60, at the executive's request and with the Company's consent.  g) Resignation at age 65, by unilateral decision of the executive.</p> <p>As of 31 December 2017, the secretary general is entitled to a net amount equal to 3.5 times his or her gross annual remuneration.</p>

Indicate whether these contracts have to be notified to and/or approved by the company's or group's bodies:

	Board of Directors	General Meeting
Body that authorises the clauses	X	

	Yes	NO
Is the General Meeting informed of the clauses?	X	

## C.2 Board of Director Committees

C.2.1 Detail all the Board of Director Committees, their members and the proportion of executive, proprietary, independent and other external directors on these boards:

### EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Current status
Alejandro Aboumrad González	Chairperson	Proprietary Director
Dominum Desga, S.A. (represented by Esther Alcocer Koplowitz)	Director	Proprietary Director
EAC Inversiones Corporativas, S.L. (represented by Alicia Alcocer Koplowitz)	Director	Proprietary Director
Gerardo Kuri Kaufmann	Director	Proprietary Director
Juan Rodríguez Torres	Director	Proprietary Director
Pablo Colio Abril	Director	Executive Director

<b>Pct. of Executive Directors</b>	<b>16.66</b>
<b>Pct. of Proprietary Directors</b>	<b>83.33</b>
<b>Pct. of Independent Directors</b>	<b>0</b>
<b>Pct. of other External Directors</b>	<b>0</b>

Explain the functions that his committee has, describe the procedures and its rules of organisation and functioning. Summarise the most important activities during the year.

Rules of the Board of Directors. Article 36. The Executive Committee.

Article 36. The Executive Committee 1. The Board may permanently delegate in the Executive Committee all the powers of the Board of Directors with the exception of those which are reserved by law, the bylaws or its these rules. Unless otherwise stipulated in the delegation of powers by the Board of Directors, the Executive Committee will have specific responsibility for deciding on investments, divestments, credits, loans, guarantee and surety facilities as well as other financial facilities for unit amounts not exceeding the figure that is established in Article 7.2.o). Also, in situations of emergency, the Executive Committee will exercise the following powers attributed to the Board of Directors, under Article 8 of these Rules. 2. The Board of Directors, based on a report by the Appointments and Remuneration Committee, will designate the directors to form part of the Executive Committee, ensuring as far as possible that its participation structure is similar to that of the Board itself in terms of the various categories of director. The Secretary of the Board will also be the secretary of the Executive Committee. 3. The Executive Committee will be composed of a minimum of four (4) and a maximum of ten (10) members. 4. The members of the Executive Committee will step down from the Committee when they cease to be directors or when decided by the Board. Any vacancies arising will be filled as quickly as possible by the Board of Directors. 5. The Chairperson of the Executive Committee will be appointed from among members of the Committee itself. If the Chairperson of the Executive Committee is absent, or if the position is vacant, the duties will be chaired by a Committee member chosen by majority vote of those in attendance. 6. The Executive Committee will hold ordinary meetings in the months when a Board of Directors meeting is not scheduled, apart from the month of August, and it may meet on an extraordinary basis when required by the Company's interests. The Executive Committee will be convened by the Chairperson, on his/her own initiative or upon the request of at least two (2) Committee members. The notice will be sent by letter, telegram, e-mail or fax to each of the Committee members at least forty-eight (48) hours in advance of the meeting date, however it may be called with twenty-four (24) hours' notice of the date and time of the meeting for reasons of emergency, in which case the agenda for the meeting will be limited to the issues that caused such emergency. Along with the announcement of each meeting,

the members of the Executive Committee will be provided with the pertinent information they need to form an opinion and to vote. 8. In the absence of the Chairperson of the Executive Committee, or if the position becomes vacant, the Committee may be convened by the longest-standing member or, if there is equal seniority between members, by the oldest one. In the event of legal persons, the age of the individual representing them will be taken into account. 9. The meetings shall be held at the Company's registered offices or any other location designated by the Chairperson and stated in the announcement. 10. The Executive Committee will be quorate when the majority of its members are present or represented at the meeting. Absent members can be represented by another member of the Executive Committee. However, non-executive directors can only be represented by other non-executive directors. 11. Discussions will be directed by the Chairperson, who will give the floor to the attendants wishing to speak. 12. Resolutions will be passed by absolute majority of the Committee members. If there is a tie, the matter will be submitted to the Board of Directors, for which purpose the members of the Executive Committee will request that a Board meeting be called according to the provisions in Article 34 of these Rules, unless a Board meeting has already been called for within the next thirty (30) calendar days, in which case the Chairperson of the Committee will ask the Chairperson of the Board to include the items involved in the tie on the Agenda for the meeting. 13. The Executive Committee, through its Chairperson, will inform the Board of the business transacted and the decisions made by the Committee, and a copy of the minutes of each meeting will be given to each director.

With regard to the most significant actions carried out by the Committee, a report was issued at the meeting held on 31 January 2018 on the committee's functioning and compliance with his duties in 2017.

In particular, the Executive Committee has the authority attributed under section 36.1 of the Rules of the Board of Directors to decide on matters of investment, disinvestment, credits, loans, deposits or guarantees or any other financing facilities, provided the unit price does not exceed the figure set in each case by the Board. The Executive Committee also oversees the application of the FCC Group's Corporate Responsibility Plan "" and during the year approved the new Master Plan for 2020.

In view of this, the Executive Committee can be said to responsibly assume and perform the duties and competencies delegated to it by the Board of Directors, diligently and effectively dealing with the Company's affairs that need constantly need to be addressed and monitored.

State whether the Delegated or Executive Committee's composition reflects the composition of the Board in terms of Director type:

Yes  No

<b>If not, detail the composition of the Delegated or Executive Committee</b>
See table above with the composition of the Executive Committee, where it is shown that all its members have the status of external proprietary directors except the Chair, who is the CEO.

## AUDIT AND CONTROL COMMITTEE

Name	Position	Current status
Henri Proglío	Chairperson	Independent Director
Juan Rodríguez Torres	Director	Proprietary Director
Manuel Gil Madrigal	Director	Independent Director
Alvaro Vázquez de Lapuerta	Director	Independent Director

<b>% of executive directors</b>	0
<b>Pct. of Proprietary Directors</b>	25
<b>Pct. of Independent Directors</b>	75
<b>Pct. of other External Directors</b>	

Explain the functions that his Committee has, describe the procedures and its rules of organisation and functioning. Summarise the most important activities during the year.

Rules of the Board of Directors. Article 37. Audit and Control Committee

1. The Board of Directors of FCC will establish, on a permanent basis, an Audit and Control Committee, without executive functions and with powers of reporting, advising and making proposals within its scope of action, comprising a minimum of three (3) and a maximum of six (6) Directors designated by the Board of Directors having regard to their knowledge and experience of accounting, auditing or risk management; all of its members will be non-executive directors and the majority of them will be independent directors, and the Committee will appoint a Chairperson from among its independent members, and it may also appoint a Vice-Chairperson. The term of the members of the Committee may not exceed their terms as directors, notwithstanding the possibility that they may be re-appointed indefinitely so long as they are also re-appointed as directors. Subject to the foregoing, the term of office for the chairperson and vice-chairperson, as the case may be, cannot exceed four (4) years and the same applies to their mandate as members of the Committee, but they may be reappointed once a year has elapsed since their removal.
  
2. At least one of the members of the Audit and Control Committee shall be an Independent Director appointed on the basis of his/her knowledge and experience in accounting, auditing, or both. Collectively, the members of the Commission will have the relevant technical knowledge in relation to the Company's sector of activity.
  
3. The Audit and Control Committee will regulate its own functioning pursuant to the Corporate Bylaws and these Rules. The Committee members who have held the post of Chairperson may not be re-elected until at least one year has passed since stepping down as Chairperson. The Audit and Control Committee will designate a Secretary, and may also designate a Vice-Secretary, neither of whom need be a member of the Committee, to aid the Chairperson and provide for the smooth operation of the Committee, duly reflecting, in the meeting minutes, the business transacted, the deliberations and the resolutions adopted. The Secretary or the person standing in for him will draft the minutes of each Committee meeting, which will be signed by the Committee members in attendance.
  
4. The Audit and Control Committee will be quorate when a majority of its members are present or represented at the meeting; it will adopt decisions by absolute majority vote of

those present or represented, and the Chairperson will have a casting vote in the case of a tie.

5. The basic function of the Audit and Control Committee is to support the Board of Directors in its supervisory duties by periodically reviewing the processes used to prepare the financial information, the internal controls and the independence of the external auditors, among others. In particular, the matters that the Board of Directors may entrust to the Audit and Control Committee include, but are not limited to, the following:

a) Informing the General Meeting of Shareholders on the questions raised which fall within its scope of authority and, in particular, on the outcome of the audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has played in that process.

b) Liaising between the Board of Directors and the Company's external Auditor, evaluating the results of each audit, with the following additional duties with respect to the external Auditor: (i) Making recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the external auditor in accordance with EU regulations and the terms and conditions of his or her engagement; (ii) Receiving regular information from the external auditor on the progress and findings of the audit programme, as well as ensuring its independence in the performance of its functions, and checking that senior management are acting on its recommendations; (iii) Discussing with the external Auditors any significant weaknesses found in the internal control system as a result of the audits conducted, without compromising his or her independence; For this purpose, and if appropriate, the Audit and Control Committee may submit recommendations or proposals to the Board of Directors and the corresponding term for their follow-up. (iv) Establish the relevant relations with the external auditor to receive information on matters that may represent a threat to his or her independence for consideration by the Committee, and any other related to the process of conducting the audit and, where appropriate, the authorisation of services other than those prohibited, in the terms referred to in the statutory regulations on the activity of account auditing on the relationship to independence, as well as any other disclosures provided for in the legislation on account auditing and in auditing standards; (v) Ensuring the independence of the external auditor, establishing, in particular, suitable measures: 1) so that contracting consulting and advisory services with that auditor or a company of its group does not jeopardise its independence, to which end the Committee will request and receive annually from the auditor a written confirmation of its independence with respect to the Company or entities directly or indirectly related to it, as well as detailed, individualised information on any additional services of any type, and the corresponding fees, provided to those entities by the external auditor or by persons or entities related to the auditor, as set out in audit laws, and 2) so that the Company issues a relevant event to the CNMV as regards the change in Auditor, with a statement about any disagreements with the outgoing Auditor and their nature and in the case where the external Auditor resigns, the circumstances that led to this resignation; and (vi) seeking to ensure that the Company's Auditor takes responsibility for auditing the companies comprising the Group. c) Issuing a report each year, prior to the publication of the audit report, expressing an opinion on whether the independence of the account auditors or auditing companies have been compromised. In any event, that report must contain a realistic assessment of the provision of each and every one of the additional services referred to in section b) (iv) 1 above, considered individually and in the aggregate, other than legal auditing and in relation to the independence or auditing regulations and standards. d) Supervising the Company's internal audits that oversee the good operation of

the information and internal control systems; the head of internal audit is obliged to present an annual work plan to the Committee and directly report to it any incidents arising in the course of implementing the plan, as well as submitting a report on activities to the Committee at the end of each year. e) Supervising and analysing the efficacy of the Company's internal control and the risk control and management policy approved by the Board of Directors, ensuring that the latter at least identifies: (i) The different types of risks that the Company faces, including, among others, financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) Establishing the risk level that the Company deems acceptable; (iii) The measures provided to mitigate the impact of the identified risks in the event they materialise; and (iv) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks. to the Board of Directors for their approval. f) Supervising the preparation and presentation of the annual financial statements and management report of the Company and the consolidated group, and of the information released periodically to the markets, and submitting recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, checking for compliance with legal provisions and the correct application of generally accepted accounting principles, and informing the Board before it adopts any of the following decisions: (i) The financial reports which the Company, owing to its listed status, must disclose from time to time, ensuring that the interim financial statements are drawn up with the same accounting criteria as annual financial statements and, for such purpose, it must consider whether a limited review by the Company's external auditor is appropriate; and (ii) The creation or acquisition of holdings in special purpose entities or entities domiciled in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, might detract from the transparency of FCC Group. g) With respect to internal control and reporting systems: (i) Supervising the process of preparing, and the integrity of the financial reports referring to the Company and, as the case may be, the Group, reviewing the compliance with the regulatory requirements, the adequate delimitation of the scope of the consolidated group and the correct application of the accounting criteria; (ii) reviewing internal control and risk management systems on a regular basis, including tax control systems, to ensure that the main risks are properly identified, managed and disclosed appropriately; (iii) Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal audit; proposing the department's budget; receiving regular reports on its activities; and verifying that senior management are acting on the conclusions and recommendations of its reports. Receiving information from time to time from the Response Committee and the Risk Control and Management Department on the development of its activities and the functioning of internal controls; and (v) Ensuring that the internal codes of conduct and corporate governance rules comply with regulatory demands and are suitable for the Company, and reviewing that the people subject to said codes and rules of governance comply with their reporting obligations to the Company. h) Issuing reports and proposals as requested by the Board of Directors or the Chairperson of the Board and those it deems appropriate for the best performance of its functions, particularly (i) the report on proposed amendments to these Board Rules, pursuant to the provisions in Article 4.3; (ii) deciding on requests for information presented by directors, pursuant to the provisions in Article 26.3 of these Rules, to the Committee; and (iii) requesting, as the case may be, the inclusion of any items on the agenda of Board meetings, in the conditions and time periods established in Article 34.3 of these Rules.

6. The Audit and Control Committee will have access to all the documentation and information needed to perform its functions and it may seek the advice of external

professionals who, acting as advisors and numbering a maximum of two (2) for each member of the Committee, they deem convenient, in which case the provisions of Articles 27.3 and 35.4 of these Rules will apply. These advisors may attend and speak at the meetings but they may not vote.

7 The Audit and Control Committee will meet at least once per quarter and as convened by the Chairperson or when requested by two (2) Committee members. Each year, the Committee will draft an action plan for the year which it will submit to the Board of Directors, as well as a report on its activities during the year, which will serve as the basis for the evaluation to be conducted by the Board of Directors. In the absence or if attendance is impossible, of the Chairperson of the Audit and Control Committee or if that position is vacant, meetings may be convened by the longest-standing member of the Committee and, in the event of there being two or more members with the same seniority, by the one who is oldest. In the event of legal persons, the age of the individual representing them will be taken into account.

8. Discussions will be directed by the Chairperson, who will give the floor to the attendees wishing to speak. In the absence or if attendance is impossible of the Chairperson of the Audit and Control Committee, or if that position is vacant, the functions of Chair will be performed by the member chosen for this purpose by the majority of attendees.

9. Any member of the FCC Group's management team or personnel, and the Company's external auditors, will be obliged to attend meetings of the Committee when requested to do so, and must collaborate and provide the information at their disposal, as provided by Article 35.6 of these Rules where appropriate.

10. For anything not expressly regulated in this article in respect of the functioning of the Audit and Control Committee, the regulations of the Audit and Control Committee shall apply.”

During the course and its performance of the competencies conferred under FCC's internal rules, in 2017 the Committee's duties in 2017 included the following:

- Acting as a communication channel between the Board of Directors and the Company's external auditors, evaluating the results of each audit and making recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the external auditor in accordance with EU regulations and the terms and conditions of his or her engagement;
- Discussing with the external Auditors any significant weaknesses found in the internal control system as a result of the audits conducted, without compromising his or her independence. Receiving from the external auditor information on any matters that may represent a threat to his or her independence and, where appropriate, the authorisation of services other than those prohibited, in the terms referred to in the statutory regulations on the activity of account auditing on the independence status.
- Ensure the independence of the external auditor, establishing the corresponding measures for this.
- Informing the General Meeting of Shareholders on the questions raised which fall within its scope of authority and, in particular, on the outcome of the audit explaining



how this has contributed to the integrity of the financial information and the role that the Committee has played in that process.

- Issuing a report each year, prior to the publication of the audit report, expressing an opinion on whether the independence of the account auditors or auditing companies have been compromised. In any event, that report must contain a realistic assessment of the provision of each and every one of the additional services referred to in Article 37.5. section b) (v)1) of the Rules of the Board of Directors, considered individually and in the aggregate, other than legal auditing and in relation to the independence status or auditing regulations and standards.
- Supervising the Company's internal audit service, as well as its risk control and management policy, reviewing the identification of the most relevant risks and the adoption of the necessary measures to mitigate their impact.
- Supervising the preparation and presentation of the annual financial statements and management report, individual and consolidated and of the financial information released periodically to the markets, and submitting recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, checking for compliance with legal provisions and the correct application of accounting principles.
- Issuing a favourable report on the process of drafting the individual and consolidated financial statements and management reports corresponding to the year 2016, and that they have been drafted complying with legal requirements and applying generally accepted accounting principles.
- Issuing a favourable report on the Corporate Governance Annual Report of 2016.
- Supervising the fulfilment by the Company of the internal codes of conduct and the rules of corporate governance.
- Issuing a favourable report on the appropriateness of the information included in the 'Interim Statement' on the first and third quarters of 2017, according to the provisions in Article 20.1 of Royal Decree 1362/2007, of 19 October, and the provisions implementing it, recommending that it be approved by the Board of Directors and sent to the CNMV and Securities Exchanges.
- Informing, in general, on the "Internal Communications Channel's communications" and the corresponding actions performed. An internal communication channel and procedure is in place to enable employees and third parties to make any queries and report any irregular conduct in confidence.
- Proposing to the FCC Board of Directors, to be submitted to the ordinary General Meeting of Shareholder, the appointment of Deloitte, S.L. as account auditors for FCC and the consolidated Group for 2018.
- Approving, pursuant to the provisions in Article 34.9 of the Rules of the Board of Directors, the self-assessment report on the performance of FCC's Audit and Control Committee during 2016 and present it to the Board of Directors.

- Issuing a favourable report on the appropriateness of the information included in the financial statements of the first semester of 2017 (Abbreviated financial statements and Interim Management Report), according to the provisions in Article 11 et seq. of Royal Decree 1362/2007, of 19 October, and the provisions implementing it.

Based on the above, it can be concluded that the Audit and Control Committee efficiently and diligently adheres to and complies with the competences conferred by the Company's various corporate documents.

Identify the Director who is a member of the Audit Committee who was appointed on the basis of his/her knowledge and experience in accounting, auditing, or both, and report how many years the Chairperson of this Committee has been in office.

<b>Name of Director with experience</b>	Manuel Gil Madrigal
<b>Number of years of the Chairperson in office</b>	3

#### APPOINTMENTS AND REMUNERATIONS COMMITTEE

<b>Name</b>	<b>Position</b>	<b>Current status</b>
Álvaro Vázquez de Lapuerta	Chairperson	Independent Director
Dominum Desga, S.A. represented by Esther Alcocer Koplowitz	Director	Proprietary Director
Juan Rodríguez Torres	Director	Proprietary Director
Manuel Gil Madrigal	Director	Independent Director

<b>% of executive directors</b>	0
<b>Pct. of Proprietary Directors</b>	50
<b>Pct. of Independent Directors</b>	50
<b>Pct. of other External Directors</b>	--

Explain the functions that his Committee has, describe the procedures and its rules of organisation and functioning. Summarise the most important activities during the year.

Rules of the Board of Directors. Article 38. Remuneration and Appointments Committee

1. The Board of Directors of FCC shall permanently establish an Appointments and Remuneration Committee, without executive functions but with powers for informing, advising and proposing within its scope of action, it will be composed of a minimum of four (4) and a maximum of six (6) members appointed by the Board of Directors. Its members may only be non-executive directors, of which two (2) shall be independent directors and another two (2) proprietary directors. The Committee will appoint the Chairperson from among its independent members. The term of the members of the Appointments and Remuneration Committee may not exceed their terms as directors, notwithstanding the possibility that they may be re-elected indefinitely so long as they are also re-elected as directors.

2. The Appointments and Remuneration Committee will regulate its own functioning pursuant to the Corporate Bylaws and these Rules. The Committee will designate a Secretary, who need not be a member of the Committee, to aid the Chairperson and provide for the proper functioning of the Committee, duly reflecting in the meeting

minutes, the development of the deliberations at meetings, the contents of the deliberations and the resolutions adopted; the minutes must be signed by the members of the Committee who attended the meeting in question. The members of the Appointments and Remuneration Committee will step down from the Committee when they step down as directors or when decided by the Board of Directors.

3. There shall be a quorum at the Appointments and Remuneration Committee meetings when the majority of its members are present or represented; its resolutions are to be passed by an absolute majority of the members present or represented and the Chairperson shall have a casting vote in the event of a tie.

4. The Appointments and Remuneration Committee will have the powers to inform, advise and propose within its areas of competence, and in addition to the duties established by law, by the bylaws and according to these Rules, the following functions: a) Evaluating the skills, knowledge and experience needed on the Board. For that purpose, it shall define the duties and capabilities required of the candidates to fill each vacancy, deciding the time and dedication necessary for them to properly perform their duties. Any Director may suggest candidates to the Appointments and Remuneration Committee to be considered to cover vacant positions. b) Examining or organising appropriately the succession of the Chairperson and Chief Executive and, as the case may be, making recommendations to the Board so that the handover proceeds in a planned and orderly manner. c) Submitting to the Board the proposals of appointment and re-election of independent directors so that they may be designated by co-optation or submitted to the decision of the General Meeting of Shareholders, as well as proposals for their re-election or removal by the General Meeting of Shareholders. d) Advising on proposals for the appointment and re-election of the rest of the directors so that they may be designated by co-optation or submitted to the decision of the General Meeting of Shareholders, as well as proposals for their re-election or removal by the General Meeting of Shareholders. e) Advising on the appointment and removal of senior executives and the basic terms of their contract, proposed to the Board by the chief executive, and proposing the candidates for senior executive positions in the Company, in addition to those envisaged in Article 2.2. of these Rules, and making the proposals for reprimands envisaged in Article 19.2.d) of these Rules. The Committee will also issue a report before any appointment to a position or office whose annual remuneration is equal to or greater than the figure established by the Appointments and Remuneration Committee, and it shall be reported to the Board of Directors in each case. f) Proposing to the Board of Directors the remuneration policy for directors and senior executives or those performing senior management functions directly reporting to the Board, the Executive Committee or the CEO, as well as the remuneration of the executive directors and the other conditions of their contracts, overseeing compliance therewith. Also, advising and making proposals on multi-year incentive plans for the Company's senior management, particularly those related to the value of the shares. Also, making proposals to the Board of Directors on the distribution among its directors of the remuneration for Board members decided by the General Meeting of Shareholders, in accordance with the Bylaws and these Rules. g) Preparing and maintaining a record of the status of directors and senior executives of FCC. h) Assisting the Board in the function of overseeing that the procedures for the selection of its members favour the diversity of genders, experience and knowledge, ensuring that the procedures for filling vacancies on the Board are not subject to implicit bias against the selection of female directors, so as to ensure that the Company deliberately seeks and short-lists women with the necessary professional profile, and should disclose to the Board, as the case may be, through the Annual Corporate Governance Report, the reason why there are few or no female directors and the initiatives

adopted to correct this situation. For the foregoing purpose, it must establish a representation goal for the gender that is less represented on the Board of Directors and prepare guidelines on how to reach that goal. i) Advising on the proposed appointment of members of the Board of Director committees. j) Advising on the appointment and removal of the Secretary of the Board. k) Verifying the qualifications of the directors under Article 6.3. l) Informing the Board of Directors in advance of all the matters provided in the Law, the Bylaws and these Rules of the Board, particularly on transactions with related parties. m) Receiving and filing, in the record of situations referred to in item g) above and the personal information provided by directors, as established in Article 25 of these Rules. n) Requesting, as necessary, the inclusion of items on the agenda of Board meetings, under the conditions and by the deadlines established in Article 34.3 of these Rules. The Appointments and Remuneration Committee should consult with the Chairperson and Chief Executive, especially on matters relating to Executive Directors and Senior Executives.

5. The Appointments and Remuneration Committee will regulate its own functioning pursuant to the Bylaws and these Rules.

6. The Appointments and Remuneration Committee will have access to all the documentation and information needed to perform its functions. The members of the Appointments and Remuneration Committee may be assisted during their meetings by up to two (2) advisors per Committee member, as required. Such advisors may attend meetings but not vote, and the provisions of Article 27 of these Rules will apply to them.

7. The Committee will meet as often as determined, at least once per quarter, and whenever convened by the Chairperson or requested by two Committee members. On a yearly basis, the Committee will draft an action plan for the coming year which it will submit to the Board of Directors as well as a report on the activities it has performed during the year, which will be used as the grounds for the assessment that the Board of Directors will carry out.

8. In the absence or if attendance is impossible of the Chairperson of the Appointments and Remuneration Committee, or if the position becomes vacant, the Committee may be convened by the longest-standing member or, if there is equal seniority between members, by the oldest one. In the event of legal persons, the age of the individual representing them will be taken into account.

9. Discussions will be directed by the Chairperson, who will give the floor to the attendants wishing to speak.

10. In the absence or if attendance is impossible of the Chairperson of the Appointments and Remuneration Committee, or if the position becomes vacant, his/her functions will be performed by the member chosen for such purpose by a majority of those attending the meeting.

The Appointments and Remuneration Committee of Fomento de Construcciones y Contratas S.A. reported on its functioning and performance at a meeting held on 31 January 2018.

The Committee's assessment of its own functioning positive conclusions has enabled positive conclusions to be drawn, in terms not only of its composition and internal organisation but also of the exercise of the competencies assigned to it.

In 2017 the competencies exercised included the following:

- Assessing the competencies, knowledge and experience that the directors need to have, defining the roles and skills that any candidates to cover vacancies should possess and assessing the appropriate amount of time and degree of dedication necessary in order for them to properly fulfil their roles.
- Advising on the proposals for appointment and re-election of directors and members of the Board of Directors' Committees, as well as on the proposals of natural persons representing directors.
- Overseeing compliance with the remuneration policy established by the Group, proposing to the Board of Directors the remuneration policy for directors and senior executives, as well as the basic conditions of senior executive contracts.
- Approving the contents of the documents called 'The Appointments and Remuneration Committee's report on the Chairwoman of the Board of Directors and the Appointments and Remuneration Committee's report on the CEO, so that the Board of Directors may evaluate the performance of their functions during the year 2017, which is subject to the Board of Directors so that it may carry out the assessment mentioned in Article 34.9 of the Rules of the Board of Directors.
- Approving the report on the functioning of the Appointments and Remuneration Committee in 2017, as well as the report ratifying the current types of directors (proprietary, independents or executive).
- Reporting on senior-management appointments and other positions included within the top three levels, as well as any other employees earning €75,000 p.a. or more.
- Approving the Report on the remuneration of the Board as per the bylaws for the year 2017.
- Advising on the fundamental aspects of FCC Group's general wage policy for the year 2017.
- Proposing to the Board the remuneration policy for executive directors, the terms and conditions of the CEO's contract, and confirming the company's remuneration policy.

Thus, we may conclude that the Appointments and Remuneration Committee efficiently and diligently assumes and complies with the competencies assigned to it under the Company's various corporate documents.

C.2.2 Fill in the table below on the number of female directors on the Board Committees during the last four years:

	Number of Female Directors			
	FY t % number	FY t-1 % number	FY t-2 % number	FY t-3 % number
<b>Executive Committee</b>	33.33% (2)	40% (2)	50% (2)	50.00% (2)
<b>Audit and Control Committee.</b>	0% (0)	0% (0)	20% (1)	50% (2)
<b>Appointments and Remunerations Committee</b>	25% (1)	25% (1)	25% (1)	37.00% (3)

C.2.3 Article revoked.

C.2.4 Article revoked.

C.2.5 Indicate, as the case may be, whether the Board Committees are regulated, where the regulations are available for consultation, and any amendments made during the year. Also, indicate if an annual report on each Committee's activities has been drafted voluntarily.

- FCC's Board of Directors rules (Chapter IX, Committees of the Board).
- Report issued by the Board of Directors at its meeting of 31 January 2018 on the quality and efficiency of its functioning and that of its Committees during the year 2017.

C.2.6 Article revoked.

## **D** RELATED PARTY AND INTRA-GROUP TRANSACTIONS

D.1 Explain, as the case may be, the procedure for approval of related party and intra-group transactions.

<b>Procedure for informing on the approval of related-party transactions</b>
<p>Article 24 of the Rules of the FCC board states:</p> <p>Transactions with significant shareholders</p> <p>“1. The Board of Directors shall approve, on the basis of a prior report by the Appointments and Remuneration Committee, any transactions by the Company or companies in its group with shareholders who, individually or together with others, hold a significant stake, including shareholders represented on the Board of Directors of the Company or of other Group companies or with persons related to them or their directors. Directors who represent or who are related to affected shareholders must refrain from taking part in the discussions and voting on the resolution at issue. 2. Only transactions simultaneously meeting the three characteristics stated under section 6 of the preceding article, in respect of the transactions between the company and its directors or the persons related thereto, will be excepted from this approval requirement.”</p>

D.2 Describe those transactions that are significant due to the amount or subject-matter thereof between the company or group entities and the company’s significant shareholders:

<b>Name or company name of related significant shareholder</b>	<b>Name of group company or entity in its group</b>	<b>Nature of relationship</b>	<b>Type of transaction</b>	<b>Amount (thousand euros)</b>
Realia Business, S.A.	FC y C. S.L. Unipersonal	Contractual	Technical support, consulting and marketing contracts for the housing development with 33 homes at A.R. Nuevo Tres Cantos	NA
Realia Business, S.A.	FC y C. S.L. Unipersonal	Contractual	Technical support, consulting and marketing of the housing development for 86 homes, garage spaces, storage rooms and common areas on plot 1-6.A at A.R. Nuevo Tres Cantos	NA
Grupo Financiero Inbursa	Fomento de Construcciones y Contratas, S.A.	Contractual	Factoring arrangement with assignment of credits without recourse.	130.000
Grupo Financiero Inbursa	FCC Construcción, S.A.	Contractual	Acquisition of purchase certificates for Panama Metro line 2.	347.745
Realia Business, S.A.	FC y C. S.L. Unipersonal	Contractual	Marketing/development contract for the Buenavista residential estate in Tres Cantos, phase II.	NA

Name or company name of related significant shareholder	Name of group company or entity in its group	Nature of relationship	Type of transaction	Amount (thousand euros)
Inversora Carso, S.A. de C.V.	Cementos Portland Valderrivas	Contractual	Interest accrued on subordinated loan.	2.316

D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or group entities and the directors or executives of the Company:

Name or company name of the Directors or executives	Name or company name of the related party	Relation	Nature of the transaction	Amount (thousand euros)
Alejandro Aboumrad González	FCC	Director	Service provision	338
Gerardo Kuri Kaufmann	Cementos Portland Valderrivas, S.A	CEO	Service provision	175

D.4 Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

In any event, any intra-group transactions with entities established in countries or territories deemed to be tax havens must be reported:

Name of group entity	Description of the transaction	Amount (thousand euros)
-	-	-

NOTE: There are many transactions between Group companies in the ordinary course of their business which are eliminated in the process of drawing up the consolidated financial statements.

D.5 Indicate the amount of the transactions with related parties.

D.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or the group and its directors, executives or significant shareholders.

Article 23 of the Rules of the Board of Directors states:

1. Within the scope of the duty of avoiding situations of conflicts of interest stated in section 2.e) of the preceding article, Directors must refrain from: a) Carrying out transactions with the Company or companies in its Group, unless they are ordinary transactions done on an arm's length basis and of low relevance, understanding as such those that do not need to be reported in order to give a true and fair view of the equity, financial position and profit or loss of the Company. b) Using the name of the Company or invoking their director status to unduly influence the performance of private transactions. c) Using corporate assets,



including confidential information of the Company, for private purposes. d) Taking advantage of the Company's business opportunities. e) Obtaining benefits or remuneration from third parties outside the Company or its Group in connection with the performance of his/her office, except where those benefits are merely a matter of courtesy. f) Performing activities for their own account or on behalf of third parties which entail effective competition, whether actually or potentially, with the Company, or which in any other way may place them in a situation of permanent conflict of interests with the Company.

2. The above provisions shall also apply in the event the beneficiary of the prohibited acts or activities is a person related to the director.

3. In any event, directors must report to the Board of Directors, via the Corporate Responsibility Department or any other replacing it, with reasonable notice, any situation of direct or indirect conflict that they or the persons related to them might have with the interests of the Company or the companies included in FCC Group or its related companies.

4. The Company may dispense from the prohibitions included in this article in individual cases where it authorises the performance by a director or a related party of certain transactions with the Company, the use of certain corporate assets, the use of a specific business opportunity, or the obtainment of a benefit or remuneration from a third party.

5. The authorisation must necessarily be approved by the General Meeting when the object is the dispensation from the prohibition of obtaining a benefit or remuneration from third parties, when it affects a transaction whose value exceeds ten percent (10%) of the corporate assets or has to do with the obligation of not competing with the Company. In the latter case, dispensation will only be provided where no harm is expected for the Company or that which is expected is offset by the benefits that are due to be obtained from the dispensation, by way of an express, separate resolution of the General Meeting.

6. In all other cases affecting the prohibitions included in this article, the authorisation may also be granted by the Board of Directors, following a favourable report of the Appointments and Remuneration Committee, provided that there are guarantees as to the independence of the directors granting the authorisation from the director being dispensed or the affected related party. It will also be necessary to ensure that the authorised transaction is harmless for the corporate assets or, as the case may be, that it is done on an arm's length basis and that the process is transparent. The affected directors or those representing or related to the affected shareholders must refrain from taking part in the discussions and voting on the agreement in question. Only transactions that simultaneously meet the following three (3) characteristics will be excepted from the obligation of being authorised by the Board of Directors referred to in the preceding paragraph: a) They are governed by standard form agreements applied on an across-the-board basis to a large number of clients. b) They are performed at market prices or rates generally set by the person acting as supplier of the goods or services in question; and c) Their amount is no more than 1% of the company's annual revenues.

7. In any event, situations of conflict of interest between Directors shall be included in the Annual Corporate Governance Report according to the terms established by law.

8. For the purpose of the provision herein, related parties will be deemed to be those included in the Capital Companies Act.

D.7 Is more than one Group company listed in Spain?

Yes  No

Identify the subsidiaries that are listed in Spain:

Listed subsidiaries
-

Note:

From 24 February 2017, Cementos Portland Valderrivas was definitively excluded from the stock exchange.

Has a public definition been established describing precisely the respective business areas and business relationships between the parent company and the listed subsidiary, and between the listed subsidiary and other group companies?

Yes  No

Define any business relationships between the parent company and the listed subsidiary, and between the listed subsidiary and other group companies

Identify the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms for resolving conflicts of interest

## **E** RISK CONTROL SYSTEMS

- E.1 Explain the scope of the Company's Risk Management System, including those of a fiscal nature.

The FCC Group has a risk-management policy and system approved by the Board of Directors, designed to identify and assess potential risks that could affect business and build mechanisms into the organisation's processes to enable risks to be managed within acceptable levels, giving the FCC Board of Directors and management a reasonable degree of assurance that targets can be met.

Risk management at FCC is governed, among other principles, by integrating the risk/opportunity vision and allocating responsibilities to, which, together with segregating duties, fosters effective monitoring and control of risks, consolidating an appropriate control environment.

The scope of application established under the risk-management policy and system of the FCC Group covers all the member companies, as well as affiliates where FCC has effective control and companies newly taken over as soon as the acquisition is effective. It also covers employees of the FCC Group who are attached to consortia, JVs and mixed companies.

The activities that fall within the scope of the FCC Group's risk-management system include risk assessment (including tax risks) in terms of impact and likelihood of occurring, resulting in risk maps by unit or role and a risk consolidated risk map for the group as a whole, subsequently devising prevention and control actions to mitigate the effect of the risks identified. The system also establishes reporting flows and communication mechanisms at different levels to facilitate continuous review and improvement.

- E.2. Identify the company bodies in charge of drawing up and executing the Risk Management System, including fiscal risks:

As defined in the rules of FCC's Board of Directors, the entire Board has to approve the Company's Risk Control and Management Policy, identifying the risks that are considered to be main ones by the Company and implementing and following-up the internal control systems and suitable information systems, aimed at ensuring their future viability and competitiveness, adopting the most relevant decisions to implement them in the best possible manner.

In addition, the Audit and Control Commission is empowered to supervise and analyse a Risk Control and Management Policy which identifies:

- The different types of risks that the Company faces, including, among the financial and economic risks, contingent liabilities and other off-balance sheet risks.
- Establishing the risk level that the Company deems acceptable.
- The measures provided to mitigate the impact of the identified risks in the event they materialise;
- The reporting systems that will be used to control and manage said risks, including contingent liabilities and off-balance sheet risks, submitting them to the Board of Directors for their approval.

The risk-management policy is based on the existence of three levels of risk management. The first two of these levels covers the business unit, whereas the third is for the corporate divisions.

The first level of risk management and internal control is in the operating lines of the business units, which act as the risk takers and are responsible for managing, tracking and reporting on the risk generated, including tax risk.

The second level is made up of support, control and supervision teams who oversee the effective and appropriate control of risk, including tax risks. FCC Construcción has a Risks and Compliance Committee, whose duties under the risk-management policy include implementing the system, assuring adequate compliance of the risk-management processes defined and developing sufficient control environments to mitigate and maintain risks within acceptable levels.

The third level consists of the corporate staff reporting to senior management (corporate departments), and finally the Internal Auditing, Risk Management and Compliance staff, who report to the Auditing and Control Committee. Specifically, Risk Management is responsible for coordinating, supervising and monitoring the organisation's process for risk management and control. This third level also includes the tax division, which defines tax-related policies, procedures and criteria that are applicable to the FCC Group as a whole.

The Response Committee is responsible for overseeing the proper functioning of the reporting channel and assessing any possible improvements that could be made to the controls and systems in place within the company, being able to recommend corrective actions whenever they are considered necessary.

- E.3 Point out the main risks, including fiscal risks, that may affect the achieving the business objectives.

The risk scenarios considered have been classified on a master transversal risk chart into five groups: strategic, operational, compliance, financial and reporting.

#### **Strategic risks.**

##### **Business opportunities lost for geopolitical reasons**

Certain policies and decisions of a geopolitical nature in the countries where FCC operates or potentially may operate could result in business opportunities being lost.

##### **Changes in a country's political and socio-economic circumstances.**

Changes in the political and socio-economic circumstances in countries where FCC Group operates, or could operate, could give rise to situations such as: a high level of economic interventionism by national/regional governments, fluctuations in local economic growth, political and social, legal, regulatory and macroeconomic instability or potential local conflict, which could negatively impact FCC Group.

### **Changes in development models and management for environmental services, full water cycle and infrastructure**

Sweeping changes in the model for the development and management of environmental services and the full water cycle by public authorities could mean a loss of business opportunities. Also, the different contractual modalities for infrastructure management and payment based on availability could mean the relevant financing must be sought and increase uncertainty.

#### **Loss of market share.**

FCC Group develops its activities in competitive markets. In seeking new business and in businesses where it already operates, FCC Group competes with large groups. Any possible difficulty in developing competitive bids with profitability could cause a loss of market share.

#### **Cuts in forecasts for investment and demand.**

Changing investment forecasts for both private and public clients could have different kinds of negative impact on the FCC Group. Economic or political uncertainty in certain markets where FCC operates could cause the income obtained by public entities to fall, which in turn could mean a reduction in public spending in certain business areas, including concession, infrastructure and services projects that the FCC Group operates.

Moreover, the profitability of the Environmental Services and Water Business Areas generally depends on the level of demand, which is subject to changes as a result of market conditions outside FCC Group's control and outside its capacity to control operative costs and efficiency.

#### **Delays in the new contracts that are scheduled in Spain.**

As a result of the possible slowing-down of Spain's economic recovery, mostly owing to the continuing political instability, FCC Group could be affected by the delay in or withdrawal from potential projects by clients in both the public and private sectors. Also, for services provided in which the assets are owned by public administrations but are administrated and exploited by FCC Group, the Group's operating costs could increase if said administrations do not make the necessary investments for the suitable maintenance and renewal of the facilities.

#### **Impairment of reputational image.**

FCC Group may find itself involved in certain actions, use of its image, damage by negative external publicity and public opinion against the company which could negatively impact its reputational image and, therefore, its business. It may also face a gap in perception between internal and external public. Managing reputation in order to protect the company brand is done by FCC Group's Corporate Marketing and Brand Department.

#### **Operational risk.**

#### **Uncertainty and volatility of raw materials, energy and outsourced services.**

In the course of its business, FCC Group consumes significant amounts of raw materials and energy, and works with numerous subcontractors and industries. Changing economic

conditions and uncertainty in general could cause price oscillations that would cause FCC Group's profits to be affected.

#### **Municipalisation of the management of services currently provided by FCC Group.**

Certain services provided by the FCC Group could be affected by decisions made by current or future local authorities. In certain cases, these decisions could result in municipalisation. In particular, for the FCC Group municipalisation could affect the Environmental Services and Water divisions, with a consequent negative impact on present and future results and orders.

#### **Catastrophic events.**

The complexity of certain environments where FCC Group does business increases exposure to the risk of experiencing unexpected events that may cause damage to persons, property or the environment, including natural disasters and acts of a terrorist or criminal nature.

#### **Information Security.**

Criminal cyberattacks which, whether targeted directly at the company or otherwise, could affect its assets and hinder operations for a lengthy period of time. The FCC Group as an operational unit whose role is to prevent, detect, analyse and mitigate factors related to security events, such as hacking, attacks, etc.

#### **Rescheduling of projects.**

Political or economic/financial instability in certain markets where the FCC Group operates, and other operating circumstances beyond FCC's control, such as a lack of available land for infrastructure projects, could cause some projects in progress to be rescheduled, impacting on their results.

#### **Lack of an assured water supply**

The growing drought problems in Spain could affect normal water supplies, impacting on FCC's business related to the full water cycle.

#### **Risks arising from relations with third parties.**

FCC Group could develop its business activities jointly with public authorities or private entities through different forms of association (companies, consortia, economic interest groups, joint ventures or similar entities). Participants in these entities share the operating, economic and financial risks associated to certain projects or activities. However, adverse effects for the project, the business, the underlying economic and political situation or in the economic situation of the partners could lead to conflict, which could negatively affect its performance and, therefore, FCC Group.

#### **Early termination or unilateral modification of the contract.**

Public administrations could unilaterally modify or terminate certain contracts before they are fully executed. The compensation for FCC Group in such cases might not be sufficient to cover the damage caused, aside from the fact that it might be hard to collect that compensation. Regardless of the nature and the amount of the compensation owed to FCC

Group by virtue of a concession/construction work agreement terminated by the corresponding client, FCC Group might need to resort to legal action or arbitration proceedings to collect it, which would increase its expenses and delay receiving the amounts of compensations.

**Key technical and management staff leaving the company could affect the success of business operations.**

The success of FCC Group business operations largely depends on key staff with technical and management expertise. If FCC Group were to lose a substantial part of its key personnel, which is unlikely, they could be difficult to replace, which would make it more complicated to successfully manage its businesses.

**Labour Conflicts.**

Some of the FCC Group's activities are highly labour-intensive and show a high degree of geographical diversity (with different employment laws), and for various reasons this could harm both the company's production capacity and its reputation.

**Health and safety risks**

A priority goal for the FCC Group is to act with a high level of occupational health and safety (OHS) for all personnel, while strictly complying with the relevant legislation, as can be seen from the OHS policy approved by the Board of Directors. Even so, the FCC Group could on occasion be affected by incidents or accidents at its sites, facilities or during the course of providing its services, which in turn could harm and hinder operations.

**Environmental risks**

FCC's environmental commitment is set out in the Group's environmental policy approved by the Board of Directors. The Group has implemented environmental-management systems for its projects and contracts, all audited and certified under the standard UNE-EN-ISO 14001. Nevertheless, owing to the nature of the group's business, certain circumstances may arise that cause damage in the form of spills, emissions, etc. with an impact on the progress of projects and contracts.

**Compliance risk**

**Litigation.**

FCC Group is, and may be in the future, a party in civil, criminal, arbitration, administrative, regulatory and other proceedings that may arise in the ordinary course of its business. Any court decision or arbitration award that varies from FCC's own legal interpretation could have an impact on results and lead to changes to how services or projects are managed.

**Difficulties adapting to legislative, regulatory or rule changes**

During the course of its operations the FCC Group must respect the applicable law, rules and regulations, which vary from one jurisdiction to the next and even between local authorities, and all of them are subject to changes. A change to the legal framework could result in

changes to the FCC Group's operating conditions, in some cases potentially affecting the group's results and financial position.

#### **Breach of the Code of Ethics.**

FCC Group has a Code of Ethics in place that regulates the guiding principles of Group employees' conduct and the relations between Group employees and other stakeholders, and all the individuals in the Group must comply with it. Non-compliance with the Code of Ethics may cause serious damage to FCC Group, including deterioration of its image and reputational damage.

#### **Quality of service: the risk of non-quality.**

The FCC Group has quality-assurance systems firmly in place within the organisation. These systems are audited and certified by accredited entities under the standard UNE-EN ISO 9001 for all significant activities. Any breach of quality-related contractual requirements could have an impact on results because of penalties and extra costs, as well as potential impact on the FCC Group's reputation.

#### **Financial risks**

##### **FCC Group's level of indebtedness could adversely affect its financial and operational situations.**

FCC Group's level of indebtedness arises primarily from its financing agreements. These contracts contain financial ratios and other restrictive agreements that limit its capacity to carry out activities that may be in its long-term interest, or to invest in new projects. Nevertheless, in 2017 the process of restructuring much of the FCC Group's financial debt was completed successfully and its volume has been reduced significantly.

##### **Liquidity Risk.**

The liquidity risk is mostly associated with receivables and related to the group's exposure to its clients' credit risks. The Group monitors its credit arrangements and the financing of each of the companies with a view to mitigating this risk.

##### **Late payments by certain public and private clients for services rendered and works completed**

FCC's capacity to make payments is related to its clients' payment capacity. In this regard, serious delays in payment by some public and private clients could cause insufficient receipts to be secured to be able to make payments due.

##### **Constraints on access to financial markets.**

Considering the markets where the FCC operates, there could be some difficulty obtaining or renewing financing to carry out projects because of those markets' liquidity limitations, the demands or guarantees required by banks or official financing entities, and the viability of the economic models that justify the return of funds. All this could affect the normal course of business and cause business opportunities to be lost.



### **Impairment of goodwill**

The balance sheet FCC Group shows goodwill for a significant sum. FCC cannot guarantee that the group will not suffer losses or adjustments because of its impairment or that of the Group's other tangible assets, which were it to occur could significantly affect the FCC Group's economic results.

### **Fluctuating exchange rates**

One relevant consequence of the FCC Group's positioning in international markets has been the exposure that arises out of net foreign-currency positions against the euro or the dollar or of one currency against another when the investment and financing for any given activity cannot be carried out in a the same currency. The exchange-rate risk mostly applies to debt expressed in foreign currency, investment in international markets and receipts materialised in currencies other than the euro.

### **Fluctuating interest rates**

The FCC Group is exposed to the risk derived from variations in interest rates because the Group's financial policy aims to optimise the exposure of its current financial assets and debt by partially linking them to variable interest rates. Any increase in interest rates could cause the FCC Group's financial costs related to its debt linked to variable interest rates, and could also lead to increases in the costs of financing the group's debt and the costs of issuing new debt.

#### **E.4 Identify whether the company has a risk tolerance level, including tax risks.**

According to the Risk Management Policy, the level of tolerance to risk that assumed by FCC Group will be unique to a given moment and dynamic in time, and will vary based on internal and/or external factors. It must be approved by the Board of Directors and be aligned with the strategy.

The elements that must define risk appetite at FCC Group are as follows:

- A general moderate-to-low, predictable general flow, based on a diversified business model.
- A stable, recurring profit-generating policy.
- A separate risk-management role and intense involvement by senior management to assure a risk-management culture focused on protecting and assuring the appropriate capital profitability.
- A management model that assures a global, interrelated view of all risks by means of a robust risk-control environment, with responsibilities at different levels.
- Doing business according to a model of behaviour that protect the interests of clients and shareholders.
- Appropriate availability of resources, systems and tools to strengthen the maintenance of a risk profile that is compatible with the established risk appetite at both the corporate and business levels.
- Zero tolerance for the risk of breaking the law.

E.5\_\_\_State what risks, including tax risks, materialised during the year:

### Strategic risks

- **Changes in political and socioeconomic circumstances in countries or regions**

Political and socioeconomic changes in certain markets, both stable and unstable, where FCC operates have affected the Group's business. Under these circumstances, in recent years the FCC Group has been rolling out a root and branch strategic, operational and financial reorganisation in the markets where this risk has materialised with a view to mitigating it. The group's presence abroad is being selectively stepped up, adding new contracts, while focusing on a select few geographical areas and profitable projects and services. In this way, whenever a new project opportunity arises, multidisciplinary teams are set up to study the suitability of the bid from a strategic, technical, economic/financial and legal point of view. With regard to Brexit, the FCC Group is closely following the progress of the negotiations between the UK and the EU, driving measures for operational efficiency in the different areas of business with a view to adapting to the new market circumstances.

- **Loss of market share**

Fierce competition in the markets where the group operates and the application of tendering policies based on lower risk exposure and higher profitability have affected market share in certain business areas. To mitigate this risk, cost studies are carried out for tenders to enable competitive, profitable proposals to be drawn up during the bidding stage, with a view to increasing penetration in the markets where the group operates.

- **Low level of investment**

By maintaining a low level of investment when building infrastructure and providing services in certain markets where the FCC Group operates, mostly because of political and economic uncertainty, the group has been able to selectively increase its presence abroad, focusing on a select few geographical areas and prioritising profitability.

- **Delay in new contracts expected in Spain**

Some circumstances that have affected the domestic market, largely related to the continuing political instability, have caused tender processes to be held up, delays in the provision of some services already won or to extensions to ones already under way, requiring forecasts to be adjusted. To mitigate the impact of these delays, the FCC Group carries out intensive analysis of the various public authorities it deals with, individually monitoring and studying contracts affected by extensions, making any adjustments to forecasts as necessary.

### Operating risks

- **Rescheduling of projects**

Political or economic/financial instability in certain markets where the FCC Group operates, and other operating circumstances beyond FCC's control, such as a lack of

available land for infrastructure projects, could cause some projects in progress to be rescheduled, impacting on their results. In view of this situation, the FCC Group has launched several initiatives, such as including contractual clauses to enable costs caused by such rescheduling to be charged back, actions to optimise costs at all facilities and so be able, by making major efforts, to adapt to the new deadlines undertaken, relocating personnel from rescheduled projects to others that are under way, as well as intensive liaison with client to seek satisfactory solutions for both parties.

- **Industrial disputes**

The Environmental Services division is labour-intensive. Strike action has caused some stoppages with the consequent economic and reputational impact. For this reason the appropriate industrial-relations communication and monitoring channels with workers and their representatives are being strengthened.

### Compliance risk

- **Litigation**

The FCC is a party in civil, criminal, arbitration, administrative, regulatory and similar proceedings that arise in the ordinary course of its business. With a view to mitigating this risk, provisions are made (whenever a negative outcome is considered likely), so no major impact on the group's assets is expected. During the last year FCC's Legal Services Model was approved, establishing the principles that govern its actions, which include: structure and duties, identification and control of the legal risk of the company and its business, the action unit, efficiency and control of expenditure, and coordination and quality control of Legal Services.

### Financial risks

- **Liquidity risk owing to late payment by certain public and private clients**

Issues with late payment by public and private clients have caused delays in receipts for services rendered and works completed. The requirements under the Public Sector Trade Debt Act for invoices to be paid by stipulated deadlines has enabled the effect of this risk to be reduced. However, late payments for works completed and certified do still persist, giving rise to extra financial costs. For these reasons the procedures for monitoring and controlling clients' debts are being maintained. Similarly, commercial relations with clients are being intensified with a view to settling outstanding payments, including taking legal action when necessary.

- **Exchange rate**

One consequence of the FCC Group's positioning in international markets has been the exposure that arises out of net foreign-currency positions against the euro or the dollar or of one currency against another when the investment and financing for any given activity cannot be carried out in a the same currency. The FCC Group also has certain financial assets and liabilities accounted for in non-euro currencies. The exchange-rate risk mostly applies to debt expressed in foreign currency, investment in international markets and receipts materialised in currencies other than the euro.

Over the last year foreign-currency volatility has continued in the UK — mostly because of the uncertainty over Brexit — and in the United States. This volatility has caused the dollar to depreciate by 12% and the pound sterling by nearly 4% against the euro between 31 December 2016 and 31 December 2017.

The FCC Group's general policy, whenever possible, is to reduce the negative impact of foreign currencies on its financial statements, in terms of both transactional and purely equity-related movements. For this reason, the FCC Group manages the exchange rate risk that could affect both its balance sheet and profit and loss account by means of natural cover, whenever possible, or by contracting different kinds of financial instruments. Nevertheless, any major fluctuations in the value of these currencies against the euro will have an impact on the business, finances and results of the FCC Group.

E.6 Explain the response and monitoring plans for the company's main risks, including tax risks.

The risk-management policy and system approved by the Board of Directors of the FCC Group establish an overall framework for identifying, valuing and managing risks at all levels of the organisation.

Once risks have been identified and prioritised, the risk-management system calls for control mechanisms to be established through risk and control matrices, which are used, together with key controls to prevent and mitigate risks, to determine who is to be in charge of the relevant control activities. For any risks that exceed the accepted risk level, the risk-management system calls for management to prepare specific action plans, designed taking into consideration their operational viability, any impact, and the cost-benefit ratio involved in implementing them. Finally, the business divisions work with the risk-management unit to supervise the model as a whole.

With regard to compliance risks, the FCC Group has a compliance policy and system in place, designed to foster the compliance culture and allocate responsibilities across all levels of the organisation. With regard to regulatory compliance risks and compliance with contractual requirements, FCC's business units have a quality-assurance system in accordance with international standards. As an example, specific plans are in place, such as the Construction Division's Special Plan for Handling Accident Risks, which sets out a set of measures to be applied on sites where serious accidents could occur with significant social impact, and those where the company could suffer major financial losses owing to faults in the project design, performance or management of the contract. This plan is reviewed on a regular basis. FCC also has a certified OHS-management system in place for its business divisions.

In response to environmental risks and risks to comply with environmental regulations, all business units also have an environmental management system in accordance with international standards and, specifically, some of these units are participants in the European Commission's Eco-Management and Audit Scheme.

Financial risks are controlled by specialist departments at the business units, together with the Administration and Finance department. Their duties include decision-making on mechanisms for transferring risks (insurance) and managing equity risks.

To address risks related to information security, the FCC Group has an information-security management system designed in accordance with international standards, with third-party certification in certain business divisions.

The strategic action plans undertaken in 2017 included the successful conclusion of the process to renew much of the Group's financial debt, strengthening international expansion plans, and leveraging synergies between the activities of the different business areas.

Specifically the international-expansion plans of FCC Medio Ambiente and FCC Aqualia, as a strategy to diversify regional risks, have resulted in several contracts being won in the UK, Egypt, Czech Republic, Austria, Romania and the United States. FCC Construcción has developed a plan for selecting major international projects of interest for the Group, such as the building of the new Mexico City airport terminal, the refurbishment of three new railway sections in Romania, the extension of section I of the Inter-American highway in Panama, and the project to improve the Los Chinamos-El Ayote road in Nicaragua.

The plan to reduce competitiveness risks and increase the level of innovation has allowed FCC to garner several achievements in 2017, both in Spain and abroad, including winning the ENR Global Best Projects award, the ACHE prize in the bridges category, and the Gustav Lindenthal medal (all for the Almonte viaduct in Spain), the New Civil Engineer Tunnelling award (for the Bolaños tunnels works, also in Spain), the CEMEX award for technological innovation (for the Cañas-Liberia road in Costa Rica), ISO 14001 certification for environmental management (Caltaqua), the award given to FCC Environmental Services for the best recycling plant in the USA (Dallas, Texas), and the commissioning of the first 100% high-tonnage vehicle for the maintenance and cleaning of sewerage networks.

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (FRICS)**

Describe the mechanisms in the control and risk management systems in relation to the financial reporting process (FRICS) at your company.

### **F.1 The Company's control environment**

Disclose, identifying the main characteristics, of at least:

F.1.1 The agencies and/or functions responsible for: (i) the existence and maintenance of an adequate and effective FRICS system; (ii) the implementation thereof; and (iii) supervision thereof.

The Financial Reporting Internal Control System (hereinafter FRICS) must provide to the Audit and Control Committee and to senior management, with reasonable security as to the reliability of the financial reports submitted to the Board for approval, which is publicly disclosed from time to time to the regulators and the market.

The FCC Group bodies and functions that are responsible for the existence, maintenance, implementation and supervision of a suitable and effective FRICS, and the responsibilities attributed to these agencies, are the following:

#### **Board of Directors.**

Section 8 of the Rules of the Board of Directors of FCC S.A., the latest amendment of which was approved on 28 July 2016 defines the Board's role, including:

- Ultimate responsibility for approving the company's general policies and strategies and, in particular, the risk control and management policy, including tax risks, identifying the company's main risks and implementing and monitoring the appropriate internal control and information systems, with a view to assuring their future viability and competitiveness, taking the most relevant decisions for their optimal development, as well as supervising in-house information and control systems.
- Determining policies for informing and communicating with shareholders, the markets and public opinion, assuring the quality of the information supplied, approving the financial statements that the company, as a quoted entity, must publish on a regular basis.

#### **Audit and Control Committee.**

In Article 37, FCC S.A.'s Rules of the Board of Directors provides that FCC Group's Board of Directors will create a permanent Audit and Control Committee without executive functions and with the powers of information, advice and proposal within its scope of action. In 2017, the Auditing and Control Committee was made up of four directors and a non-executive secretary, remaining unchanged since the previous year. The committee met on eight occasions.

Information and internal-control systems fall within the remit of the Auditing and Control Committee:

- The regular review of, among others, the process for preparing the financial information, the internal controls and the independence of the external auditors.
- Supervising the Company's internal audits that overseeing the good functioning of the Information and Internal Control Systems; the head of internal audit is obliged to present an annual work plan to the Committee and inform it directly of any incidents arising in the course of implementing the plan, as well as submitting a report on activities to the Committee at the end of each year.
- Supervising and analysing the efficacy of the Company's internal control and the Risk Control and Management policy approved by the Board of Directors, ensuring that the latter at least identifies:
  - The different types of risks that the Company faces, including, among the financial and economic risks, contingent liabilities and other off-balance sheet risks;
  - Establishing the risk level that the Company deems acceptable.
  - The measures provided to mitigate the impact of the identified risks in the event they materialise;
  - The internal information and control systems to be used to control and manage those risks, including contingent liabilities or off-book risks.
- Supervising the process of preparing, and the integrity of, the financial reports referring to the Company and, as the case may be, the Group, reviewing the compliance with the regulatory requirements, the adequate delimitation of the scope of the consolidated group and the correct application of the accounting criteria;
- Supervising the process of preparing and submitting the individual and consolidated financial statements and management reports, and the financial reports disclosed to the markets from time to time, ensuring the compliance with the legal requirements and the proper application of generally accepted accounting principles, reporting to the Board of Directors on the financial information that the Company, owing to its listed status, must disclose publicly from time to time, ensuring that the interim financial statements are drawn up with the same accounting criteria as annual financial statements and, for such purpose, it must consider whether a limited review by the Company's external auditor is appropriate, and the creation or acquisition of holdings in special purpose entities or entities domiciled in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, might detract from the transparency of FCC Group.

### **Senior Management.**

The senior management of each of the units is ultimately responsible for implementing the risk-management and internal control system, contributing towards the development of an appropriate system for internal control of financial reporting.

## **Management Committees.**

Each of the business units has its own management committee or a body with similar functions, which include assuring effective, efficient control of risks on a permanent basis, including those associated with financial reporting.

## **General Administration and Finance Department**

The Administration and Finance Department is made up of the administration, IT Systems, HR Coordination Development, Procurement and Finance units, with the latter in turn covering Markets and Management Control, Communication, Corporate Marketing and Branding.

The Administration unit runs the administrative management of the FCC Group. Its duties regarding information systems and internal control include the following:

- General accounting
- Accounting standards
- Consolidation
- Tax advice
- Taxation procedures
- Tax compliance
- Administrative procedures

The Finances area is entrusted with the centralised management of the finances of FCC Group. With respect to Information Systems and Internal Control, its goal is, and it will act in:

- Financing of the Group's activities.
- Management of the Group's debt and financial risks.
- Optimization of cash flow and financial assets.
- Management and financial control of the Group.
- Management of markets and Spain's Security Market Commission (CNMV).
- Investment analysis and financing.
- Management, monitoring and control of sureties and guarantees.
- Insurance and management of industrial and equity risks.
- Management Control.

The FCC Group's IT Systems unit assures the appropriate technological support for the group's management processes, optimising the management of the necessary resources and service levels for users, assuring the confidentiality and security of the information systems. Depending on this unit is the FCC Group's Information Security and Technological Risk Management department, which develops and implements internal control policies and procedures for information systems, including those that house processes for preparing and publishing financial reports.

## **General Internal Auditing, Risk Management and Compliance**

Its purpose is to provide the Board of Directors, via the Auditing and Control Committee, and the FCC Group's senior management with support for their responsibilities to supervise the



internal control system by exercising a function of single, independent governance aligned with professional standards, to contribute towards good corporate governance, verify due compliance with the applicable rules and regulations, both internal and external, and reduce to reasonable levels any impact of risks on the FCC Group's achievement of its objectives.

The Internal Auditing, Risk Management and Compliance department is structured into two separate sections, whose most significant responsibilities in terms of systems for the control of financial reporting are:

- The Internal Auditing section supports the Auditing and Control Committee in its supervision of the process of preparing and presenting financial reporting and other information conveyed to third parties, as well as contributing towards the development of internal control by supervising the policies, standards, procedures and activities that make up the control system put in place by the group to assure the appropriate management and reduction of risks.
- The Risk Management and Compliance section drives the establishment of a compliance system for internal control together with an architecture of responsibilities and integrated with a homogeneous risk-management model, thereby making it feasible for the risk level accepted by the Board of Directors to be maintained. Its responsibilities also include driving and coordinating the integration of the criminal-law-compliance model into the Group's compliance model by developing internal control that focuses on controls and preventive actions and establishing a structure of responsibilities to minimise the body corporate's criminal liability.

**F.1.2 State whether any of the following elements exist, in particular in relation to the process of preparing financial reports:**

- **The departments and/or mechanisms are in charge of: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of authority and responsibility, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures are in place for their proper dissemination in the company.**

In accordance with the Rules of the Board of Directors, the remit of the Appointments and Remuneration Committee includes examining and organising the succession of the chairman and the CEO and making proposals to the Board for any succession to take place in a straightforward, properly planned way. Its duties also include reporting on proposals for the appointment and dismissal of senior managers made to the Board by the CEO and the basic conditions of their employment contracts. Under the Board Rules, the company's senior managers are those who report directly to the Board or to the CEO, and in any case the internal auditor. Senior management also includes those who, although not strictly in positions other than those described, are declared to be senior managers by the Board of Directors, pursuant to a favourable report by the Appointments and Remuneration Committee.

The CEO, who is appointed by the Board, is ultimately responsible for the design and review of the organisational structure and defining areas of responsibility and authority. Each corporate or business department defines its own organisational structure and its managers' areas of responsibility.

The process for determining the organisational structure is governed by section 10 of the group's General Standards Manual, which regulates the bodies that report directly to the Board of Directors, the distribution duties among the Group's senior managers and their appointment.

The top-level organisational structure is published on the corporate intranet. On a regular basis, the various business units internally publish their own organisational structures and those associated with specific projects and contracts.

In addition, the compliance policy sets out the specific responsibilities in the internal control system for financial reporting (SCIIF), including the assumption by the General Administration department of top-level executive duties for the management of the SCIIF, performing control tasks related to the consolidation sub-process and the standardisation of processes related to the preparation of information. The Risks and Compliance section's duties include providing methodological support for the identification and assessment of risks in the process of preparing financial reporting and in respect of the identification of controls, while also contributing in towards analysis of the robustness of the control environment. Finally, the Internal Auditing section reviews the financial information that is regularly released to the markets.

- **Code of conduct, approving body, degree of dissemination and instruction, principles and values covered (stating whether it makes specific references to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary actions.**

According to the Rules of the Board of Directors, a full Board meeting is needed to approve FCC's Internal Rules or Codes of Conduct. Also in accordance with the aforementioned rules, the Audit and Control Committee is also empowered to ensure that the Internal Codes of Conduct and Rules of Corporate Governance meet regulatory requirements and are appropriate for the Company, as well as to review compliance by persons affected by these codes and governance rules with their obligations to communicate with the Company.

The FCC Group has its own Code of Ethics, first approved in 2008 and subsequently revised twice, as a cornerstone of the compliance model. It is a key tool for guiding actions in different ambits, including relations with and between employees, internal control and prevention of fraud, undertakings made towards the market, the company, the community, etc. The code is published on the corporate intranet and also on the Group's website, where it can be accessed by anyone. All FCC Group employees are obliged to enforce and use the channels that the company makes available to report any practices contravening the code and the standards on which it is based that may become aware of.

Among the principle and values included in the Code are: regulatory compliance and respect for ethical values, respect for people, equal opportunities and non-discrimination, people's health and safety, internal control and fraud prevention, respect for free competition, political neutrality, respect for the environment and social commitment, among others.

With regard to the recording of operations and preparation of financial reporting, the current Code of Ethics, under its "Handling Information" section, specifies the following: *"The falsification, manipulation or deliberate use of false information is fraud. As a principle of conduct, FCC Group undertakes to provide transparency of information, understood as the commitment to convey reliable information to the markets and to society that will allow them*

*to have a true and fair view of the Group's activities, strategy and economic, social and environmental performance. Employees must convey this information in a truthful, comprehensive and understandable manner. In no event will they knowingly provide incorrect, inaccurate or imprecise information that may mislead the recipient of the information".*

The company has established a procedure to allow its employees to communicate confidentially any irregularities or improper practices observed, reporting them to the Response Committee to be investigated. This committee operates as a joint body composed of the Internal Auditing, Risk Management and Compliance Director, the Legal Director, the HR Coordination and Development Director, and the Corporate Responsibility Director. Its duties, which includes making recommendations to improve internal controls, are set out in the Crime Prevention and Response Manual.

Responsibilities for training in and disseminating the Code of Ethics are in tune with the development of a culture of compliance within the FCC Group, so the compliance section, together with the business-unit departments, supported by the HR, Corporate Responsibility, Communication, Corporate Marketing and Branding sections, press for the inclusion of compliance-related content in training plans, so that they are steadily disseminated across all levels of the organisation.

- **Whistleblowing Channel, which allows financial and accounting irregularities to be reported to the Auditing Committee, as well as possible breaches of the code of conduct and irregular activities within the organisation, stating, as the case may be, the confidential nature thereof.**

The FCC Group has an internal-communication procedure to enable employees to confidentially make queries and report any irregularities, whether they are criminal offences or otherwise, related to the Code of Ethics.

Communications can be done three ways:

- Via the corporate intranet.
- By writing to an email address that can be accessed only by the Response Committee.
- By writing to a P.O. box number managed by the chair of the Response Committee.

The procedure and functioning of the internal communication channel are described in the Code of Ethics, which specifies that all FCC Group employees and those of any other companies over which the group has management control are obliged to report any breaches or infringements of the conduct set out in the document.

- **Training and periodical refresher programs for the personnel involved in the preparation and review of financial reports, and in the evaluation of the FRICS, covering at least accounting standards, auditing, internal control and risk management.**

The FCC Group's Transversal Training Plan for 2017 included training actions related to the preparation and supervision of financial reporting and risk management, including the following: *"International Tax Expert", "Preventing Money-Laundering and the Financing of Terrorism", "IFRS 15 and 16", "International Accounting Standards" and "Transfer Prices"*. Specifically, in 2017 a total of 2,418 hours of training was given in the FCC Group on the acquisition, updating and recycling of economic and financial knowledge, including accounting

and auditing standards, internal control and risk management and control, as well as other regulatory and business questions that it necessary to be familiar with in order to be able to prepare the Group's financial reporting adequately.

## **F.2 Evaluation of financial information risks**

**Report, at least, on:**

### **F.2.1 What are the main characteristics of the risk identification process, including error or fraud, in respect of:**

The FCC Group has a risk-management policy and system approved by the Board of Directors that describes a management and risk-control model based on allocating responsibilities in different ambits of the organisation, establishing three levels of risk management.

The first risk-management level is carried out by the operational areas of each business unit, who are responsible for managing, monitoring and properly reporting any risk generated.

The second level, also to be found within the business units, is made up of support, control and supervision teams who oversee the effective control of risks. As part of this second level, the business-unit managements, via committees set up for the purpose, are responsible for the effective implementation of the risk-management system, including risks related to financial reporting, beginning by identifying and prioritising risks, approved by means of risk maps, and making decisions on their processing and monitoring.

The third risk-management level lies within corporate areas that fall outside the business units, reporting directly to senior management and the Auditing and Control Committee. From this level, the Risk Management section is responsible for adequately coordinating the entire risk control and management process, reporting any incidents found and acting as a clearing house and transmitter for best practices in this regard. The Internal Auditing section is the last line of defence. Its tasks in the final stage of control include assessing whether the policies, methods and procedures are appropriate and verifying their effective implementation.

To do this, based on a transversal-risks master plan, the business units identify and value risks in terms of the likelihood of their occurrence and impact to obtain specific prioritised risk maps for each of them. This risks master plan includes, under different perspectives, risks related to errors and fraud in the preparation of financial reporting. On a regular basis, the management of each business area reports on any risks that have materialised in each of the group's divisions. This information is used both to update the risk maps and for taking action.

Section E of this Annual Report on Corporate Governance contains details of the activities and functioning of the FCC Group's risk-management model.

- **If the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The FCC Groups Risks Master Plan covers, from different perspectives, the risks related to financial-reporting objectives. Under operational and financial risks, different aspects related to the analysis, monitoring and efficiency of the management of financial reporting are

considered. Under compliance risks, the impact of any breaches of regulatory requirements on accounting, commerce and corporate matters is covered. Finally, under reporting risks, various risks are included related to lacks in reporting models and systems, addressing such issues as reliability, opportunity and transparency.

The risk of fraud is covered on the Crime Risk Map, identifying various high-risk types of behaviour that could lead to different types of fraud being committed.

The processes for both identifying and valuing risks are updated regularly, in accordance with business needs and also external factors. In addition, every four months the business units update the main risks that have materialised during the previous period.

- **A specific process is in place to define the scope of consolidation, regarding the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Each of the divisions into which the FCC is organised is responsible for maintaining and updating the scope of consolidation for its specific area of business. The Consolidation and Accounting Standardisation department regularly updates the Economic and Financial Manual for the group companies that fall within the scope of consolidation, based on data provided by the business divisions. In addition, regular checks are made to ensure that the companies within the consolidation group are dealt with correctly in accounting terms.

- **Whether the process takes into account the effects of other types of risks (operating, technological, financial, legal, reputational, environmental, etc.) to the extent they affect the financial statements.**

The FCC Group's risk-management system, considering their likely impact on financial statements and other factors, groups risks in a transversal Risks Master Plan into five major categories.

- **Strategic:** These are risks considered to be key for the organisation and hence managed on a proactive and priority basis. These risks, should they materialise, seriously compromise the achievement of the strategic objectives.
- **Operating:** These risks are related to operations management and the value chain of each one of the business areas and the protection of assets in the case of possible losses.
- **Compliance:** These are risks affecting internal or external regulatory compliance.
- **Financial:** Risks associated with the financial markets and with the generation and management of cash.
- **Reporting:** These refer to internal and external financial and non-financial information and comprise established aspects of reliability, opportunity and transparency.

Each of these categories covers different risks related to technological, legal, compliance, reputational-damage and environmental-damage issues, etc.

- **Which of the company's governing bodies oversees the process.**

The process of identifying financial-reporting risks is supervised by the Auditing and Control Committee, whose duties include supervising the internal control systems and risk management within the FCC group, as established under section 37 of the Board Rules.

It is supported by the Internal Auditing section (which reviews the controls) and the Administration and Finance department (which performs various internal controls roles related to the internal control system for financial reporting, including top-level duties, control tasks related to the consolidation sub-process, and the standardisation of processes related to the preparation of reporting). In addition, the managements of the business units, via the established committees, also perform a supervisory role for the risk-management process. Their main duties and responsibilities are implementing the risk-management system, preparing and approving documents, studying and monitoring, designing alert indicators and liaising with the Risk Management and Compliance section.

### **F.3 Control activities**

**Disclose, identifying the main characteristics, whether you have at least:**

**F.3.1 Procedures for reviewing and authorising the financial reports and the description of the FRICS, which are to be disclosed to securities markets, indicating who is responsible for these, as well as for the documentation describing all the activities and controls (including those related to the risk of fraud) of the different types of transactions that may materially affect the financial statements, including the procedure for closing the accounts and the specific review of the relevant judgments, estimates, appraisals and projections.**

With their second-level function of compliance with internal control, the areas of economic and financial control, management control, legal advice, procurement and technical services of each business unit define and implement the financial information control policies and procedures and are responsible for designing, implementing and maintaining the internal controls created by those responsible for operations. Meanwhile, as recipients of the financial information, the Management Committees or committees of similar function of each business unit carry out monitoring tasks.

Regarding the Financial Information Internal Control System, high-level executive functions are assumed by FCC Group's General Administration Management. Having previously received the report of the Audit and Control Committee, the Board of Directors will prepare the Financial Statements and the Management Report. These statements will be certified in advance as to their integrity and accuracy by the General Manager of Administration and Finance with the approval of the CEO. In addition, during the process of publishing the financial information in securities markets, whether quarterly or occasionally, or when a relevant event takes place, the managers of each area will review the information reported for consolidation. This information is consolidated by the Group's General Administration and Finance Management, which carries out certain control activities in the closing of the accounts to ensure the reliability of said information.

In addition, the specific review of the relevant judgments, estimates, assessments and projections used to quantify certain assets, liabilities, income, expenses and commitments recorded and/or broken down in the financial statements, is also carried out by General Administration and Finance Management, supported by the rest of the General Managements. Any hypotheses and estimates based on business developments are reviewed and analysed together with the corresponding Business Departments. These procedures and their associated controls are included in the General Standards Manual and in the Group's Economic and Finance Manual.

Also, the function of Risk Management and Compliance provides methodological support in relation to identifying and evaluating risks in the financial reporting process and in identifying and designing

controls, and the function of Internal Audit reviews the financial information disseminated regularly to the markets.

The conclusions of the evaluation of internal controls conducted by the external auditor as part of the audit of accounts, together with the monitoring carried out by General Internal Auditing, Risk Management and Compliance are referred to the Audit and Control Committee through reports contains the recommendations considered necessary to correct them.

With regard to the documentation describing activities and controls, in addition to the bases set out in the Compliance Policy and in Articles 10, 11 and 14 of the Rules of the Board of Directors, which describes the specific functions relating to the financial statements, the Management Report and the relationship with securities markets, FCC Group has defined procedures for the closing and maintenance processes for the chart of accounts, including procedures for ensuring the correct identification of the scope of consolidation. In particular, the Economic and Finance Manual covers the various types of processes and transactions that may affect the financial statements (accounting, tax, insurance, cash flow, computer applications, etc.) and contains a series of rules that make it possible to obtain economic and financial information in a standardised and correct manner.

**F.3.2 Internal control policies and procedures for IT systems (including, among others, secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

FCC has an Information Security Policy that defines the Company's information security model, the regulatory body, the organisation and responsibilities of the security, the classification of the information, the areas of information security, the risk analysis model and the procedures for auditing information. The internal control policies and procedures for information systems cover all processes of the Group's information management, including the processes of preparation and publication of financial information. Certain processes in the infrastructure (construction and industrial) and water business areas have a management system for the information-security management with international ISO/IEC 27001 certification.

The documentation for the Information Security System includes specific rules on database security, encryption technologies, control of access to applications and information systems, control of computer hardware settings, principles and measures necessary to ensure the confidentiality, integrity and availability of the information accessed and/or processed through mobile devices, safety criteria for backups, management of security incidents, security for information system testing and maintenance rooms, security criteria for implementing and connecting networks, principles to be met by passwords, control of privacy, security for developments, security criteria for procuring services from non-Group companies, principles of security to meet in FCC facilities where information is processed, control of roles and responsibilities in the information security, return of technological resources, secure browsing guide and email security guide.

Information security is evaluated from time to time through internal reviews conducted by the Information Security Department.

### **F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

As FCC Group policy, only goods and services which cannot be produced or implemented internally with Group staff will be purchased or contracted, unless this means higher costs than contracting a third party.

Under the FCC Group's Procurement Rules for 2017 the Procurement department is responsible for managing procurement related to the specific business of Central Services, for both the business and corporate divisions, regardless of the type of goods or services involved, including goods and services related to IT, consulting, tax and legal advice, etc., as well as managing any transversal procurements of goods and services within the group. Any purchases where management is delegated to the business units must be in accordance with the provisions of the General Standards Manual.

The Procurement Rules, and specifically the Procurement Manual, set out the activities and responsibilities for the management of suppliers, particularly with regard to the analysis process prior to calls for quotations and the assessment of performance once the service has been partially or fully completed. In turn, in their procedures for procurement and inspecting subcontracted services the business units include mechanisms for monitoring and assessing services provided.

With regard to subcontracted activities with a significant impact on financial statements, the FCC Group has outsourced the management of its ICT infrastructure and support for the main corporate applications. As part of the contract, investments are being made to standardise the architecture of the FCC Group's systems so that there will be no differences in the environments managed by the group companies in terms of availability and security. The IT Systems department has specific procedures in place to control outsourced services by contractually regulating the following matters:

- Mechanisms of governance and monitoring of the service.
- Audits, inspections and reviews of the provision
- Management of service levels.
- Monitoring and control of services provided by third parties that affect 27001 certifications.

The main subcontracted activities related to performing or processing transactions that appear in the Group's financial statements are the valuation of derivative financial products, actuarial calculations and certain ad hoc property valuations.

## **F.4 Reporting and communication**

**Disclose, identifying the main characteristics, whether you have at least:**

**F.4.1 A specific function to define and update the accounting policies (accounting policies area or department) and to solve any doubts or disputes arising from the interpretation thereof, maintaining fluid communications with the operations managers in the organisation, together with an updated accounting policy manual that is communicated to all the units through which the Company operates.**



The responsibility to apply the Accounting Policies of FCC Group is centralised in General Administration and Finance Management, is centralised in the Consolidation and Accounting Standards and Administrative Coordination Departments, and their functions, among others, are the following:

- Defining the accounting policies of the Group and including them in the Economic and Finance Manual
- Issuing the accounting regulations applied in the Group.
- Solving doubts or disputes arising from the interpretation or application of the Group's accounting policies to any of its Companies.
- Analysing the unique individual operations and transactions that the Group has carried out or those that are planned, to ensure that they are booked according to the Group's accounting policies.
- Tracking the new regulatory projects under study at the IASB, the new standards approved by this agency and the process of official validation thereof.

The Administrative Coordination Division specifies, clarifies or broadens the instructions and regulations issued.

The Economic and Finance Manual, which contains the accounting regulations, is available on the Group's intranet. The updating and maintenance of the manual is the responsibility of the Administration, Management Control, Finances and Taxes Divisions and Departments.

In cases where the application of accounting regulations is subject to different interpretations, General Internal Auditing and Risk Management and Compliance and/or General Administration and Finance Management may take part in the explanation to the external auditor, stating the grounds on which the interpretation of FCC Group is based.

**F.4.2 Mechanisms for gathering and preparing financial reports with standardised formats, to be applied and used by all the units in the Company or the Group, supporting the main financial statements and the notes to the financial statements, as well as any financial reports on FRICS.**

FCC Group has implemented SAP environmental tools for consolidating the economic and financial information which cover its needs to report its financial statements. This tool manages to centralise in a single system most of the information corresponding to the accounting for the individual financial statements of the subsidiaries making up the Group. The system is centrally managed and uses a single chart of accounts.

The Corporate Finance department uses this tool to compile full information on the entire FCC Group (Spanish and foreign-registered companies), except those integrated by the equity method.

The internal accounting policies, procedures and standards related to the account closing, reporting and consolidation processes are described in the Group's Economic and Finance Manual, which also details the information that must be furnished for consolidation purposes and defines the basic documents and forms to be used for that purpose.

In addition, when closing the year's accounts and with a view to publishing the annual report, the Administration department sends out the year-end plan, including a set of instructions for those

responsible for providing the relevant financial information. These instructions are made more specific, clarified or extended by the Administrative Coordination unit as required.

The consolidated financial statements follow International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). In order to homogenise FCC Group's economic and financial reporting according to international standards, model financial statements and a corporate accounting chart have been developed, and these are also included in the Economic and Finance Manual.

## **F.5 Supervision of the system's functioning**

**Disclose, identifying the main characteristics, whether you have:**

**F.5.1 The FRICS supervision activities performed by the Auditing Committee, and whether the company has an Internal Auditing function authorised to support the Committee in its task of supervising the Internal Control System, including FRICS. Likewise, the scope of the FRICS assessment carried out during the year and the procedure that the person responsible for executing the evaluation uses to communicate the results, state also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The Audit and Control Committee was created by the Board of Directors as a permanent body without executive function and with the powers of information, advice and proposal within its scope of action. Its activities, according to section 37 of the Board Rules, are as follows:

- Informing the General Meeting of Shareholders on the questions raised which fall within its scope of authority and, in particular, on the outcome of the audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has played in that process.
- Liaising between the Board of Directors and the Company's external Auditor, evaluating the results of each audit.
- Supervising the Company's internal audits that oversee the good operation of the information and internal control systems; the head of internal audit is obliged to present an annual work plan to the Committee and directly report to it any incidents arising in the course of implementing the plan, as well as submitting a report on activities to the Committee at the end of each year.
- Monitoring and analysing the effectiveness of the Company's internal control and the control and management of risk policy approved by the Board of Directors.
- Supervising the process of preparing, and the integrity of, the financial reports referring to the Company and, as the case may be, the Group, reviewing the compliance with the regulatory requirements, the suitable delimitation of the scope of the consolidated group and the correct application of the accounting criteria;

- Reviewing internal control and risk management systems on a regular basis, including tax control systems, to ensure that the main risks are properly identified, managed and disclosed appropriately;

The function of Internal Audit is carried out by General Internal Auditing, in the framework of General Internal Auditing, Risk Management and Compliance. Its main mission is to facilitate the Audit and Control Committee fulfilling its functions and responsibilities, acting with complete independence from the management areas, its functional dependence on the Auditing and Control Committee. Its functions include the efficiency of the internal controls, ensuring compliance with legal requirements, the evaluation and enhancement of the risk management processes, and ensuring that the financial information prepared is correct and appropriate for FCC Group. These functions are specifically, among others, the following:

- Reviewing the (individual and consolidated) accounting information, the Management Reports and the financial information disclosed to the markets from time to time, evaluating that they are correct and reliable, in compliance with the law in force, and that the generally accepted accounting principles are applied.
- Suggesting internal control measures to enable compliance with standards applying to the preparation and disclosure of financial reports.
- Checking that assets really exist and the systems guaranteeing their integrity and safeguarding.
- Supporting the different areas in their technical relations, control and monitoring with external auditors.
- Assisting the members of the Group's Organisation, furnishing them with analyses, recommendations, advice and information on the activities reviewed. Reporting any incidents that are detected to Management and recommending corrective actions.

The result of the reviews carried out by the Internal Auditing section and any incidents detected are reported by the Internal Auditing, Risk Management and Compliance department to the Auditing and Control Committee.

Meanwhile, the Audit and Control Committee approves the Annual Audit Plan and monitors the Activities Report. In 2016, the following work relating to the management and control of risks and the monitoring of the Group's financial information, among others, was carried out in various areas:

- Review of the physical and logical security of the information systems that support the Group's processes and business areas, particularly in Spain, including those related to financial reporting.
- Monitoring any weaknesses in internal controls detected by internal or external audits of the IT division.
- Collaborating on internal audits for ISO/IEC 27001 compliance.
- Handling any complaints received via the Reporting Channel to be looked into by Internal Auditing.
- Supervising the individual and consolidated accounts of FCC S.A. and its six-monthly financial statements reviewed by the external auditors.
- Monitoring of the financial information disclosed to regulators and markets and monitored by the Audit and Control Committee:

- Annual financial report,
  - Management reports,
  - Semi-annual financial report,
  - Quarterly reports,
  - Annual Corporate Governance Report.
- Review of financial information associated with fulfilling financing agreement conditions.
- Reviewing the control environment regarding the prevention of money-laundering and the financing of terrorism.
- Proposing for Board approval the procedure for authorising auditing and other services provided by auditing firms in order to cover the Auditing and Control Committee's responsibility for issuing an annual report that sets out an opinion on the auditor of the group's accounts.
- Defining a group-level Risks Master Plan as the starting point for the business units to identify critical risks, providing a homogeneous methodology in line with the risk-management policy and system.
- Auditing key sites, projects and contracts, focusing primarily on reviewing financial information and contractual risks.
- Collaborating on ensuring that the internal regulatory framework is consistent with the law on questions related to money-laundering and the financing of terrorism.

**F.5.2 If there is a discussion procedure whereby the auditor (in accordance with what is provided in the NTA), the Internal Auditing function and other experts may communicate to senior management and to the Auditing Committee or Directors of the company, any significant internal control weaknesses identified during the process of reviewing the financial statements or any others entrusted to them. In addition, report whether there is an action plan to correct or mitigate the observed weaknesses**

Section 37 of the FCC Group's Board Rules stipulates that it falls within the remit of the Auditing and Control Committee to act as the liaison between the Board and the company's external auditors, assessing the results and discussing and significant weaknesses in the internal control system detected during the course of audits.

The FCC Group's Basic Auditing Standard states that the Auditing and Control Committee must be made aware, via the Internal Auditing, Risk Management and Compliance department and its liaison with external auditors, of the process for preparing financial reporting, the proper application of generally accepted accounting principles, and compliance with legal requirements and the functioning of the internal-control systems.

In addition, the Group's Basic Internal Auditing Rules sets out, among Internal Auditing's functions and competences, that of assisting the members of the Group's Organisation, providing them with analyses, recommendations, advice and information on the activities reviewed, report to Management any incidents found and recommend corrective actions.

With the purpose of ensuring that the financial reports submitted to the Audit and Control Committee have been prepared according to generally accepted accounting principles and that they offer a true and fair view of the state of affairs of FCC Group, the General Internal Auditing Management performs a number of processes for the review of the accounting information (both individual and consolidated), the management reports and the financial reports disclosed to the markets from time to time.

FCC Group's General Internal Auditing, Risk Management and Compliance reports regularly to the Audit and Control Committee on any significant internal control weaknesses identified during the performance of their tasks, giving recommendations to appropriately correct them. The Audit and Control Committee also receive the revelations carried out by the General Administration and Finance Management.

Lastly, the Group's auditor has direct access to the Group's Senior Executives, and has meetings with them from time to time, both to obtain the information needed to perform his work and to communicate any control weaknesses detected. The external auditors present the conclusions of their reviews to the Audit and Control Committee, detailing the internal control weaknesses that have come up while reviewing the Group's financial statements, including any aspects they consider relevant. In 2016, the internal auditor attended the Audit and Control Committee five times and submitted three reports.

#### **F.6 Other relevant information**

N/A

#### **F.7 Report by the external auditor**

**Report on:**

**F.7.1 If the FRICS information disclosed to the markets has been reviewed by the external auditor, the Company must include the relevant report as an Appendix. Otherwise, explain the reasons for the absence of this review.**

The information included here on the Financial Reporting Internal Control System was reviewed by the external auditor, and the report thereof is attached as an Appendix to this document. The review has been based on the "Action Guide and Model Auditor's Report for Reporting on the Internal Control System for Financial Reporting of Quoted Entities" (*Guía de Actuación y Modelo de Informe del auditor referido a la información relativa al Sistema de Control Interno de la Información Financiera de las entidades cotizadas*) published by the CNMV in 2013.

## **G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

State the Company's degree of compliance with the recommendations of the Unified Code of Corporate Governance for listed companies.

In the event of not complying with some recommendations or only partial compliance, include a detailed explanation of the reasons so that the shareholders, investors and the market at large may have sufficient information to assess the Company's procedures. General explanations will not be acceptable.

- 1. The Articles of Incorporation of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.**

Compliant  Explain

- 2. When a parent and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

- a) The type of activities they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) The mechanisms in place to resolve possible conflicts of interest.**

Compliant  Partially compliant  Explain  Not applicable

Note:

From 24 February 2017, Cementos Portland Valderrivas was definitively excluded from the stock exchange.

- 3. During the celebration of the Annual General Meeting, supplementing the dissemination in writing of the Annual Corporate Governance Report, the Chairperson of the Board of Directors should verbally inform the shareholders, in sufficient detail, of the most relevant aspects of the Company's corporate governance, in particular:**

- a) The changes that have taken place since the previous Annual General Meeting.**
- b) The specific reasons why the Company does not follow one or more recommendations of the Corporate Governance Code and the alternative rules applied in this matter, if any.**

Compliant  Partially compliant  Explain

The Company believes that sufficient information about its corporate governance is offered to its shareholders in the specific report that accompanies the information made available to them prior to the Meeting being held.

In this regard, the section on "Right to Information" in the announcement of the General Meeting of Shareholders explicitly states that any shareholder may obtain from the Company, among other documents, the Annual Corporate Governance Report, which, as part of the Management Report, is subject to approval by shareholders, for examination at the Company's registered offices or by having it sent to them immediately and free of charge.

This report may be consulted on the Company's website in the section on corporate governance.

- 4. The Company should define and foster a policy on disclosures and contacts with shareholders, institutional investors and vote advisors that is fully respectful of the rules against market abuse, giving similar treatment to shareholders in the same position.**

**The Company should publish that policy on its website, including information on how it has been put into practice and identifying the interlocutors or persons in charge of executing the policy.**

Compliant

Partially compliant

Explain X

Although the Company has not formally approved a policy on this matter, through the Stock Market and Investor Relations Department and Shareholders Department it maintains a relationship with institutional investors and vote advisors that is fully respectful of the aim of the recommendation, of which the Board is informed.

- 5. The Board of Directors does not submit to the General Meeting a proposal on the delegation of powers, for the issuance of shares or convertible securities excluding pre-emptive subscription rights, for an amount in excess of 20% of the share capital at the time of delegation.**

**When the Board of Directors approves an issuance of shares or convertible securities excluding pre-emptive subscription rights, the Company must immediately publish on its website the reports on said exclusion mentioned in commercial legislation.**

Compliant X

Partially compliant

Explain

- 6. The listed companies drawing up the reports stated below, whether by obligation or voluntarily, should publish them on their website sufficiently ahead of the Annual General Meeting, even though dissemination thereof may not be compulsory:**

**a) Report on the Independence of the auditor.**

**b) Reports on the operation of the Audit Committee and the Appointment and Remuneration Committee.**

c) **Report of the Audit Committee on transactions with related parties.**

d) **Corporate social responsibility policy report.**

Compliant X

Partially compliant

Explain

7. **The Company should broadcast live its General Meetings of Shareholders via its website.**

Compliant

Partially compliant

Explain X

The Company does not follow this recommendation because it has not, to date, received a request in this regard by its shareholders, and the cost it means for the Company.

8. **The Audit Committee should ensure that the Board of Directors submits its financial statements to the General Meeting of Shareholders without any limitations or qualifications on the audit report and, in the exceptional event there are any qualifications, both the Chairperson of the Audit Committee and the auditors must clearly explain to the shareholders the contents and scope of those limitations or qualifications.**

Compliant X

Partially compliant

Explain

9. **The Company must publish on its website, on a permanent basis, the requirements and procedures it will accept for accrediting title to shares, the right of attendance at the General Meeting of Shareholders and the exercise or delegation of voting rights.**

Said requirements and procedures are to favour attendance and the exercise of shareholder rights and are to be applied in a non-discriminatory manner.

Compliant X

Partially compliant

Explain

10. **When an authorised shareholder, prior to the General Meeting of Shareholders, has exercised the right to complete the agenda or submit new resolution proposals, the Company:**

a) **Must immediately disseminate the supplementary items and new resolution - proposals.**

b) **Must publish the attendance card form or vote delegation or remote voting form with the necessary amendments so that the new items on the agenda and alternative proposals may be voted under the same terms as proposed by the Board of Directors.**

c) **Must submit all those items or alternative proposals to vote and must apply the same voting rules as those drawn up by the Board of Directors, including in particular the assumptions or deductions on the way of a vote.**



**d) Subsequent to the General Meeting of Shareholders, it must communicate the breakdown of the vote on said supplementary items or alternative proposals.**

Compliant X      Partially compliant       Explain       Not applicable

**11. If the Company plans to pay premiums for attending the General Meeting of Shareholders, it must establish beforehand a general policy on premiums and said policy must be stable.**

Compliant       Partially compliant       Explain       Not applicable X

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its value over time in a sustained manner.**

**In seeking the corporate interests, besides respecting the law and regulations and a behaviour based on good faith, ethics and the respect for generally accepted usage and good practice, it must reconcile, where applicable, the corporate interests with the legitimate interests of its employees, suppliers, clients and other stakeholders involved, as well as caring for the impact of the Company's activities on the community at large and on the environment.**

Compliant X      Partially compliant       Explain

**13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise between five and fifteen members.**

Compliant X      Partially compliant       Explain

**14. The Board of Directors must approve a Director selection policy that:**

- a) Is specific and can be verified.**
- b) Ensures that the appointment or re-election proposals are based on the prior analysis of the needs of Board of Directors.**
- c) Favours the diversity of know-how, experience and gender.**

**The results of the prior analysis of the needs of the Board of Directors are to be included in the report of the Appointments Committee published when calling the General Meeting of Shareholders where the appointment or re-election of each Director is to be ratified.**

**The Director selection policy must foster the goal of having female Directors representing at least 30% of the total members of the Board of Directors in the year 2020.**

**The Appointments Committee will verify the fulfilment of the Director selection policy annually and it will be reported in the Annual Corporate Governance Report.**

Compliant X

Partially compliant

Explain

- 15. Proprietary and independent directors should occupy an ample majority of seats on the Board, while the number of Executive Directors should be the minimum necessary, bearing in mind the complexity of the corporate Group and the ownership interests they control.**

Compliant X

Partially compliant

Explain

- 16. The ratio between proprietary and non-executive members should match the proportion between the capital represented on the Board by these Directors and the remainder of the Company's capital.**

**This criterion may be relaxed:**

- a) In large capitalization companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) In companies with a plurality of shareholders represented on the Board of Directors that are not otherwise related.**

Compliant X

Partially compliant

Explain

- 17. The number of independent directors should represent at least one half of all Board members.**

**However, when the Company is not a company with high market capitalisation or, being so, it has one shareholder or several shareholders acting together who control over 30% of the share capital, the number of independent directors must represent at least one third of the total Directors.**

Compliant

Partially compliant

Explain X

FCC has three independent directors among its fifteen members, which represents nearly 20% of total directors.

FCC believes that this percentage does not make it necessary to increase the number of independent directors, taking into account the Company's highly concentrated shareholder structure and the effective role played by the three independent directors.

**18. Companies should post the following particulars on the Directors on their websites, and keep them permanently updated:**

- a) Professional experience and background.
- b) Other Boards of Directors on which they are members, regardless of whether they are listed companies, and any other remunerated activities they may perform regardless of their nature.
- c) An indication of the Director's classification, in the case of proprietary directors, stating the shareholder they represent or have links with;
- d) The date of their first and subsequent appointments as a Company Director;
- e) Shares held in the Company and any options thereon.

Compliant X

Partially compliant

Explain

**19. The Annual Corporate Governance Report should also disclose, subsequent to a prior verification by the appointments committee, the reasons for the appointment of proprietary directors at the request of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

Compliant

Partially compliant

Explain

Not applicable X

**20. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

Compliant X

Partially compliant

Explain

Not applicable

**21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure they had been appointed for, except where just cause is found by the Board, based on a proposal from the Appointments Committee. In particular, there shall be deemed to be a just cause when the Director takes new positions or obligations preventing him/her from dedicating the necessary time to perform the functions of a Director, breaches the duties inherent to the office or incurs circumstances which make him/her lose independent status, according to what is established in the applicable laws.**

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction leads to changes in the Company's capital structure, when such changes in the structure of the Board of Directors are prompted by the proportionality criterion stated in Recommendation 16.

Compliant X

Explain

22. Companies should establish rules obliging Directors to inform the Board of any circumstance that might harm the Company's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings.

The moment a Director is indicted or tried for any of the crimes stated in corporation law, the Board should examine the matter as soon as possible and, in view of the particular circumstances, it shall decide whether that Director should remain in his position or not. The Board should also disclose all such determinations in the Annual Corporate Governance Report.

Compliant X

Partially compliant

Explain

23. All Directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independents and other Directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking Board representation.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions, and if he or she decides to resign, the reasons must be explained in a letter as regards the following recommendation.

The terms of this recommendation should also apply to the Secretary of the Board, regardless whether he or she has Director status.

Compliant X

Partially compliant

Explain

Not applicable

24. Directors who resign from office before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all the members of the Board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

Compliant X

Partially compliant

Explain

Not applicable

25. The Appointments Committee should ensure that non-executive directors have enough time available to properly perform their functions.

The Rules of the Board must establish the maximum number of Boards on which its Directors may be members.

Compliant

Partially Compliant X

Explain

In Article 21.4 of the Rules of the Board of Directors, the Company sets out that "Directors must inform the Appointments and Remuneration Committee of their other professional obligations in case these could interfere with the commitment required by their positions. The Board of Directors must, at the proposal of the Appointments and Remuneration Committee, establish the number of boards the directors of which they may be a member".

Since the aforementioned Committee has so far not made any statement in respect of this number, the Company believes that it partially fulfils the recommendation.

At the moment, the Company has not established the maximum number of boards that each director may belong to, given that the directors' demonstrated commitment to the company is appropriate, and therefore there is no need to state the number.

- 26. The Board should meet with the necessary frequency to properly perform its functions efficiently, and at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items on the agenda not considered initially.**

Compliant X

Partially compliant

Explain

- 27. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When a Director cannot attend a meeting, they must appoint a proxy with instructions.**

Compliant X

Partially compliant

Explain

- 28. When Directors or the secretary express concerns about some proposal or, in the case of Directors, about the Company's performance, and such concerns are not resolved at the Board meeting, the person expressing them can request that they be recorded in the minute book.**

Compliant X

Partially compliant

Explain

Not applicable

- 29. The Company should provide suitable channels for Directors to obtain suitable advice for the performance of their functions, extending it in special circumstances to external advice at the Company's expense.**

Compliant X

Partially compliant

Explain

- 30. Regardless of the know-how required of Directors to perform their functions, Directors should also be offered refresher programmes by their companies when circumstances so advise.**

Compliant X

Explain

Not applicable

31. **The agenda of meetings must clearly indicate the items on which the Board of Directors must adopt a decision or resolution so that Directors may study or gather the information they need for that purpose beforehand.**

**Whenever, exceptionally and for reasons of urgency, the Chairperson wishes to submit for approval to the Board of Directors decisions or resolutions that are not included on the Agenda, the prior and express consent of the majority of the Directors present shall be required, and this shall be duly recorded in the minutes.**

Compliant

Partially compliant

Explain

Although the second part of this recommendation is not included word-for-word in the Company's internal rules, it is true, however, that when topics not on the agenda are added to it, this is done with the prior consent of the directors in attendance.

32. **Directors must be informed from time to time of shareholder movements and the opinion of significant shareholders, investors and ratings agencies on the Company and its Group.**

Compliant

Partially compliant

Explain

33. **The chairperson, as the person in charge of the efficient operation of the Board of Directors, apart from exercising the functions entrusted to him/her by law and the bylaws, must prepare and submit to the Board of Directors a programme of dates and matters to be discussed; organise and coordinate the periodic evaluation of the Board and, as the case may be, of the chief executive of the company; must be responsible for managing the Board and that it operates effectively; makes sure that enough time is dedicated to discussing strategic matters, and agrees to and reviews the programmes for refreshing each Director's know-how, when the circumstances so advise.**

Compliant

Partially compliant

Explain

34. **When there is a coordinating Director, the Bylaws or the Rules of the Board of Directors, apart from the powers legally entrusted to him/her, must attribute the following to him/her: preside over the Board of Directors in the absence of the chairperson and the vice-chairpersons, if there are any; to take stock of the concerns of the non-executive directors; to be in contact with investors and shareholders to know their points of view in order to build an opinion on their concerns, in particular, in relation to the Company's corporate governance; and to coordinate the plan for the succession of the chairperson.**

Compliant

Partially compliant

Explain

Not applicable

**35. The Secretary of the Board of Directors must especially oversee that the actions and decisions of the Board of Directors take into account the recommendations on good governance included in this Code of Good Governance that are applicable to the Company.**

Compliant X

Explain

**36. The Board in full should evaluate the following items on a yearly basis, adopting, where applicable, an action plan to correct the deficiencies detected in respect of:**

- a) The quality and efficiency of the Board's operation.
- b) The operation and composition of its Committees.
- c) The diversity in the composition and powers of the Board of Directors.
- d) The performance of the chairperson of the Board of Directors and of the Company's chief executive.
- e) The performance and contribution of each Director, paying special attention to those in charge of the different Board Committees.

To evaluate the different committees, the reports they submit to the Board of Directors will be used, and the Board itself will be evaluated based on the report submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted for its evaluation by an external consultant, whose independence will be verified by the Appointments Committee.

The business relations between the consultant and the Company or any of the Group companies must be detailed in the Annual Corporate Governance Report.

The process and the areas that are evaluated will be described in the Annual Corporate Governance Report.

Compliant X

Partially compliant

Explain

**37. When there is an Executive Committee, the representation of the different Director categories must be similar to that of the Board of Directors itself and the Secretary of the Committee must be the Secretary of the Board.**

Compliant

Partially compliant X

Explain

Not applicable

The Secretary of the Executive Committee coincides with the Secretary of the Board. However, there are no independent directors in the Committee, whereas there are three independent members on the Board of Directors.

**38. The Board must always be informed of the matters discussed and the decisions adopted by the Executive Committee, and all the Board members must receive a copy of the minutes of Executive Committee meetings.**

Compliant X      Partially compliant       Explain       Not applicable

**39. The members of the Audit Committee, particularly its Chairperson, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters, and a majority of the members must be Independent Directors.**

Compliant X      Partially compliant       Explain

**40. Under the supervision of the Audit Committee, there must be a unit assuming the internal auditing function and overseeing the proper operation of the reporting and internal control systems, functionally dependent on the non-executive chairperson of the Board or of the Audit Committee.**

Compliant X      Partially compliant       Explain

**41. The head of the internal auditing unit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.**

Compliant X      Partially compliant       Explain       Not applicable

**42. Apart from those provided by Law, the Audit Committee has the following functions:**

**1. In relation to the reporting and internal control systems:**

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- b) Monitoring the independence of unit that performs the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal auditing; proposing the department's budget; approving the focus and work plans, making sure that its activity is geared towards the relevant risks for the company; receiving regular reports on its activities; and verifying that senior executives are acting on the findings and recommendations of its reports.
- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the company.



**2. With respect to the external auditor:**

- a) Investigate the issues giving rise to the resignation of any external auditor, in the case thereof.
- b) Make sure the remuneration of the external auditor does not jeopardise his/her quality or independence.
- c) Monitor that the company notifies the change of auditor to the CNMV as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same, if any.
- d) Make sure that the external auditor meets annually with the plenary Board of Directors to report on the work carried out and on the evolution of the Company's accounting and risks situation,
- e) Make sure that the Company and the external auditor respect the rules in force on the performance of services other than auditing services, the limits on the auditor's concentration of business and, generally, any other rules on the independence of auditors.

Compliant X

Partially compliant

Explain

**43. The Audit Committee should be empowered to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant X

Partially compliant

Explain

**44. The Audit Committee is to be informed of any structural or corporate amendments planned by the Company so that it can analyse and submit a report to the Board of Directors beforehand on the economic conditions and impact on the accounts, especially on the proposed exchange equation, if applicable.**

Compliant

Partially compliant

Explain X

Not applicable

To date, all the operations referred to in this recommendation have been approved by the votes in favour of all the Company's directors, including independent directors, and so the step prior to these operations with the Audit Committee is not considered necessary.

**45. The risk management and control policy should specify at least:**

- a) The different types of risk, both financial and non-financial, (operational, technological, legal, company, environmental, political, reputational, etc.) to which the Company is exposed, with the inclusion of contingent liabilities and other off-balance-sheet risks under financial or economic risks.
- b) Establishing the risk level that the Company deems acceptable.

- c) **The measures provided to mitigate the impact of the identified risks in the event they materialise;**
- d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

Compliant X

Partially compliant

Explain

**46. Under the direct supervision of the Audit Committee or, as the case may be, of a specialised committee of the Board of Directors, there must be an internal function for controlling and managing the risks, exercised by a unit or department within the Company that is expressly attributed these functions:**

- a) **Ensuring the proper operation of the risk control and management systems and, in particular, that all the important risks affecting the Company are satisfactorily identified, managed and quantified.**
- b) **Actively participating in the elaboration of a risk strategy and in the important decisions on managing that strategy.**
- c) **Ensuring the risk control and management systems satisfactorily mitigate risks within the policy defined by the Board of Directors.**

Compliant X

Partially compliant

Explain

**47. The members of the Appointments and Remuneration Committee (or of the Appointments Committee and the Remuneration Committee, if they are separate) are to be appointed making it a point that they have the suitable know-how, skills and experience for the functions they are to perform, and the majority of the members should be independent Directors.**

Compliant

Partially compliant X

Explain

The current composition of the Appointments and Remuneration Committee comprises two proprietary directors and two independent directors, one of whom holds the Chairmanship.

FCC believes that the composition of the Appointments and Remuneration Committee, with two independent directors of a total of four, one of which is, in addition, the Chairman, is sufficient guarantee of this Committee's proper functioning while simultaneously fulfilling the spirit or philosophy of the recommendation.

**48. Highly capitalised companies should have separate Appointments and Remuneration Committees.**

Compliant

Explain X

Not applicable

The two committees that are recommended are integrated within a single Appointments and Remuneration Committee, because the Board of Directors considers that together in one Committee, it is easier for such committee to fulfil the functions with which it is entrusted.

- 49. The Appointments Committee should consult with the Company's Chairperson and Chief Executive, especially on matters relating to Executive Directors.**

**Any Board member may suggest directorship candidates to the Appointments Committee for its consideration to fill vacancies.**

Compliant X

Partially compliant

Explain

- 50. The Remuneration Committee must exercise its functions independently and, apart from the functions it is attributed by law, it should also have these functions:**

- a) Proposing to the Board of Directors the basic conditions of senior management contracts.**
- b) Overseeing compliance with the remuneration policy set by the Company.**
- c) Reviewing from time to time the remuneration policy applied to Directors and senior executives, including remuneration systems including shares and the application thereof, as well as guaranteeing that their individual remuneration is proportional to that paid to other Directors and senior executives of the Company.**
- d) Ensuring that any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.**
- e) Verifying the information on Director and senior executive remunerations included in the different corporate documents, including the annual report on Directors' remuneration.**

Compliant X

Partially compliant

Explain

- 51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior managers.**

Compliant X

Partially compliant

Explain

- 52. The rules on the composition and operation of the Supervision and Control Committees are to be included in the Rules of the Board of Directors and must be consistent with those applying to the legally obligatory committees according to the preceding recommendations, including:**

- a) They are to be made up exclusively by non-executive Directors, with a majority of independent Directors.**

- b) **Committee Chairmen must be independent directors.**
- c) **The Board of Directors shall appoint the members of the Committees, taking into account the Directors' knowledge, skills and experience and each Committee's area of competence; discuss their proposals and reports; and at the first Board meeting following each Committee meeting, should inform on the business and activities performed, and respond for the work carried out.**
- d) **These Committees may engage external advisors when they feel this is necessary to carry out their duties.**
- e) **Minutes must be drawn up of their meetings, and they shall be available for all the Directors.**

Compliant X

Partially compliant

Explain

Not applicable

**53. Monitoring of compliance with the rules of corporate governance, the internal codes of conduct and the corporate social responsibility policy is to be attributed to one or split across several of the Board of Director Committees, which may be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, if there is one, or a specialised committee that the Board of Directors, exercising its powers of self-organisation, decides to create for the purpose, and they will specifically be attributed the following minimum functions:**

- a) **Monitoring compliance with the Company's internal codes of conduct and rules of corporate governance.**
- b) **Monitoring the communication strategy and shareholder and investor relations, including small and medium shareholders.**
- c) **Evaluation from time to time of the Company's corporate governance system, in order for it to fulfil its mission of developing the Company's interests and take into account, as appropriate, the legitimate interest of other stakeholders.**
- d) **Review of the Company's corporate responsibility policy, seeing to it that it is geared to creating value.**
- e) **Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance therewith.**
- f) **Monitoring and evaluating relationships with the different stakeholders.**
- g) **Evaluating everything related to the Company's non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks.**
- h) **Coordination of the process of reporting non-financial information and diversity, in conformity with the applicable regulations and accepted international standards.**

Compliant X

Partially compliant

Explain

**54. The corporate social responsibility policy must include the principles or commitments voluntarily assumed by the Company in its relations with the different stakeholders, identifying at least:**

- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy regarding sustainability, the environment and social matters.
- c) Specific practices in matters related to: shareholders, employees, clients, suppliers, social issues, the environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of applying the specific practices stated under the preceding item, the associated risks and the management thereof.
- e) The mechanisms for supervising non-financial risk, ethics and company behaviour.
- f) The channels for communication, participation and discussion with stakeholders.
- g) The responsible communication practices preventing the manipulation of information and protecting integrity and honour.

Compliant X

Partially compliant

Explain

**55. The Company is to report, on a separate document or in the management report, on matters related to corporate social responsibility, using any of the internationally accepted methods for the purpose.**

Compliant X

Partially compliant

Explain

**56. The remuneration of Directors shall be as necessary to attract and retain Directors with the required profile and to reward the dedication, qualification and responsibility of the position, but not too high so as to jeopardise the independence of criteria of non-executive Directors.**

Compliant X

Explain

**57. Variable remuneration linked to the performance of the Company and personal performance, as well as remuneration via the delivery of shares, options or share options or share-indexed instruments and long-term savings systems such as pension plans, retirement schemes and other corporate benefit systems, must be limited to executive Directors.**

The delivery of shares as remuneration to non-executive Directors may be considered, but must be conditional upon their keeping them until they are no longer Directors. The foregoing shall not apply to the shares that the Director may need to dispose of, as the case may be, to meet the costs related to the acquisition thereof.

Compliant X

Partially compliant

Explain

58. In the case of variable remuneration, the remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector, or other circumstances of this kind.

In particular, the variable components of remuneration:

- a) Should be linked to performance criteria that are predetermined and measurable, and those criteria must consider the risk assumed to obtain a result.
- b) Should foster the sustainability of the Company and include non-financial criteria suited to long-term value creation, such as compliance with the rules and internal procedures of the Company and of the risk control and management policies.
- c) Are to be based on the balance between compliance with short, medium and long-term objectives, allowing the remuneration of returns for continuing performance during a sufficiently long period to appreciate their contribution to sustainable value creation, such that the measuring elements do not focus only on singular, occasional or extraordinary facts.

Compliant

Partially compliant

Explain

Not applicable X

59. The payment of a relevant part of the variable remuneration should be deferred for a sufficient minimum period to make sure that the previously established performance conditions have been met.

Compliant

Partially compliant

Explain

Not applicable X

60. In the case of remuneration linked to company earnings, any qualifications stated in the external auditor's report which may reduce the said results should be considered.

Compliant

Partially compliant

Explain

Not applicable X

61. A relevant percentage of the variable remuneration of executive Directors is to be linked to the delivery of shares or share-indexed financial instruments.

Compliant

Partially compliant

Explain

Not applicable X

- 62. Once the shares or share options or share rights corresponding to the remuneration systems are allocated, Directors must not transfer the ownership of a number of shares equal to twice their fixed annual remuneration, and must not exercise the options or rights till at least three years have elapsed since the allocation.**

**The foregoing shall not apply to the shares that the Director may need to dispose of, as the case may be, to meet the costs related to the acquisition thereof.**

Compliant       Partially compliant       Explain       Not applicable X

- 63. Contractual agreements should include a clause enabling the Company to claim the refund of the variable remuneration when the payment was not adjusted to the performance conditions or when it was paid according to data that were subsequently proven not to be exact.**

Compliant       Partially compliant       Explain       Not applicable X

- 64. Contract termination payments should not exceed an established amount equivalent to two years of the total annual remuneration and are not to be paid until the Company has been able to check that the Director has met the previously established performance criteria.**

Compliant       Partially compliant       Explain       Not applicable X

## **H** OTHER INFORMATION OF INTEREST

1. If you consider that there are any relevant principles or aspects of corporate governance in the Company or subsidiaries which have not been assessed in this report but which are necessary to include in order to provide more complete and reasoned information on the structure or governance practices of the company or group, state and explain the contents thereof below.
2. This section may include any other information, clarifications or nuances related to the previous sections of the report, insofar as they are relevant and not repetitive.

Specifically, indicate whether the company is subject to laws other than those of Spain in the field of corporate governance and, as the case may be, include any information that it must provide other than that required in the report herein.

3. The company may also indicate whether it has voluntarily adhered to other codes of ethics or good practices, that are international, industry or otherwise. If applicable, identify the relevant code and the date of adherence. In particular, mention whether the Company has adhered to the Code of Good Tax Practice, of 20 July 2010.

FCC has its own Code of Ethics, approved by the Board of Directors on 10 June 2008, subsequently reviewed in 2010 and 2012. The Group has provided employees with a Whistleblowing Channel in relation to this Code.

FCC adhered to the United Nations Global Pact on 7 May 2007.

This Annual Corporate Governance report was approved by the Board of Directors of the Company at its meeting held on 27 February 2018.

State whether any of the Directors voted against or abstained from voting the approval of the report herein.

Yes  No

<b>Name or company name of the Director who has not voted in favour of this report.</b>	<b>Reasons (against, abstention, not attended)</b>	<b>Explain the reasons</b>