# MODEL APPENDIX 1

# ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER IDENTIFICATION

END OF RELEVANT FISCAL YEAR 2015

TAX ID. 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

A.1 Complete the table below on the Company's share structure:

| Date of last change | Share capital (€) | Number of shares | Number of voting rights |
|---|---|---|---|
| 19/12/2014 | 260,572,379 | 260,572,379 | 260,572,379 |

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

**Yes** ☐ **No X**

| 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 |
|---|---|---|---|
| MR WILLIAM H. GATES III | 0 | 14,852,625 | 5.70% |
| INMOBILIARIA CARSO, S.A. DE C.V. | 1,293,308 | 66,798,648 | 26.13% |

| Name or company name of indirect holder of stake | Through: name or company name of the direct holder of stake | Number of voting rights |
|---|---|---|
| MR WILLIAM H. GATES III | BILL & MELINDA GATES FOUNDATION TRUST | 4,429,730 |
| MR WILLIAM H. GATES III | CASCADE INVESTMENT, LLC. | 10,422,895 |
| INMOBILIARIA CARSO, S.A. DE C.V. | CONTROL EMPRESARIAL DE CAPITALES, S.A. DE C.V. | 66,798,648 |

Indicate significant changes in the shareholding structure in the year:

| Name or company name of shareholder | Transaction date | Description of the transaction |
|---|---|---|
| UBS GROUP AG | 14/12/2015 | Exceeded 5% |
| UBS GROUP AG | 29/12/2015 | Dropped below 3% |

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. | 4,132 | - | - | 0.002 |
| Dominum Dirección y Gestión, S.A. | 58,454,939 | - | - | 22.433 |
| EAC Inversiones Corporativas, S.L. | 32 | - | - | 0.000 |
| Gil Madrigal, Manuel | 500 | Tasmania Inmuebles, S.L. | 17,500 | 0.007 |
| Inmobiliaria AEG, S.A. de C.V. | 1 | - | - | 0.000 |
| Kuri Kaufman, Gerardo | 1 | - | - | 0.000 |
| Proglio, Henri | 4,600 | - | - | 0.002 |
| Rodríguez Torres, Juan | 90,000 | - | - | 0.035 |
| Vázquez de Lapuerta, Álvaro | 500 | - | - | 0.000 |

| | |
|---|---|
| **Total pct. of voting rights held by the Board of Directors:** | 22.43 |

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 corporate 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 |
|---|---|---|
| Ms Esther Koplowitz Romero de Juseu and Financing Entities (Financing Agreement) | 50,156 | Relevant events of 08/07/2014 www.cnmv.es (See note). |
| Ms Esther Koplowitz Romero de Juseu and Control Empresarial de Capitales SA de C.V. | 50,156 | Relevant event of 27/11/2014 www.cnmv.es (See note). |

**Note:**

Relevant event of 08/07/2014: By virtue of the provisions in the long-term syndicated financing agreement that was undersigned between 24 and 31 March 2014 and entered into full force on 26 June 2014, the financing entities assumed a number of restrictions on the transfer of shares ("Pact of Non-transfer of Shares") and a commitment to the orderly sale of the new shares of FCC they might receive should they exercise the warrants after the conversion of Tranche B ("Pact of Orderly Sale"). Since the Pact of Non-transfer and the Pact of Orderly Sale represent a restriction of the free transferability of FCC shares, as the case may be, of the financing entities, both these pacts are shareholders' agreements pursuant to Article 530 of the Capital Companies Act (hereinafter, LSC), therefore hereby such pacts are disclosed and the corresponding clauses are published, in conformity with Articles 531.1 and 531.3 of LSC.

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, were successfully completed. A copy of the agreement was enclosed.

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

**Yes** ☐ **No X**

| 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.

The shareholders' agreements regulating company relations between Larranza and CaixaBank, individually, the party of the first part, and Dominum Dirección y Gestíón S.A. of the second part, related to B-1998, S.A., notified on 26 May 2011 and on 3 April 2014, respectively, became void on 15 January 2015. (Relevant event of 19/01/2015.)

**Note:**

Subsequently to 31 December 2015, separate Relevant Events were presented to the CNMV.

1) Relevant event of 5/02/2016, notifying that Ms Esther Koplowitz Romero de Juseu and her related companies, Dominum Dirección y Gestión, S.A. and Nueva Samede 2016, S.L.U., signed with Inversora Carso S.A. de C.V. and its subsidiary Control Empresarial de Capitales, S.A. de C.V. a Novation Agreement Amending and Not Extinguishing the Investment Agreement signed on 27 November 2014.

   The main aspects of the Novation 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 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 on the maximum stake of the parties in the Company's share capital.

2) Relevant event of 9/02/2016, which states: "[for] the purpose of the provisions in Article 228 of the consolidated text of the Securities Market Law approved by Legislative Royal Decree 4/2014, of 23 October, Fomento de Construcciones y Contratas ("FCC" or the "Company") communicates to the market the following Relevant Event: Approval of the securities note on the Capital Increase in relation to the Capital Increase with pre-emptive subscription rights for an effective amount of 709,518,762 euros approved by the Board of Directors of FCC at its meeting held on 17 December 2015, which was communicated to the market by means of a relevant event on that same date and with official registry number 232587, it is hereby informed that the National Securities Market Commission ("CNMV") today approved the Securities Note containing the terms and conditions of the Capital Increase, which is at the disposal of the public at FCC's registered office, and in electronic format both on the CNMV website (www.cnmv.es) and on the FCC corporate website (www.fcc.es). The official announcement of the Capital Increase is scheduled to be published in the Official Gazette of the Mercantile Register

(BORME) on 11 February 2016, therefore the pre-emptive subscription period will commence on 12 February 2016 and will last until 26 February 2016 inclusive."

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 X**

| **Name or company name** |
|---|
| - |

| **Comments** |
|---|
| - |

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 |
|---|---|---|
| 415,500 | - | 0.159 |

**(*) Through:**

| Name of direct owner of stake | Number of direct shares |
|---|---|
| - | - |
| **Total** | |

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 |
|---|---|---|---|
| 03/03/2015 | 2,610,558 | - | 1.003 |
| 21/04/2015 | 2,618,894 | - | 1.05 |
| 02/06/2015 | 2,690,628 | - | 1.034 |
| 15/07/2015 | 2,649,380 | - | 1.015 |
| 26/08/2015 | 2,684,215 | - | 1.029 |
| 18/11/2015 | 2,604,969 | - | 0.997 |

**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 of the agenda):**

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

The Board of Directors considers that, taking into account, among other particulars, the circumstances that gave rise to the acquisition of treasury stock on the basis of the above-mentioned resolution of the General Meeting, the Company must have the possibility of availing of such shares, subject to the Board of Directors closely monitoring the price of the Company's shares and, if necessary, it may approve a new share buyback programme under the terms passed by the above-mentioned General Meeting of Shareholders of 30 November 2009.

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:

"Under the provisions of Article 3 *et seq.* of European Commission Regulation 2273/2003, of 22 December, to approve a Company share buyback programme whose only purpose is (i) to fulfil the obligations of delivering own shares deriving from the issuance of exchangeable bonds for the amount of four hundred and fifty million euros (€450,000,000) approved by the Company under the resolution of the General Meeting of Shareholders on 18 June 2008 and by virtue of an Executive Committee resolution dated 6 October 2009, by delegation of the Board of Directors on 30 September 2009, and (ii) to reduce the Company's capital by amortising the shares acquired by virtue of the programme or those already held as treasury stock (including, for this purpose, the 5,090,000 shares loaned to the Underwriters), which shall henceforth be deemed to be subject to the terms and conditions of the programme approved by the General Meeting. As a result of the foregoing, resolution six adopted by the General Meeting on 10 June 2009 is annulled to the extent that it has not been executed and the Company is authorised so that, directly or via any of its subsidiaries, within a maximum period of five years from the date of this Meeting, it may acquire, at any time and on as many occasions as it sees fit, shares of the Company by any means allowed by law, all in conformity with Article 75 and related Articles of the Consolidated Text of the Public Limited Companies Act (TRLSA).

It is also resolved to approve the limits or requirements of such acquisitions, as follows:

- The par value of the shares acquired, added to those already held by the Company and its subsidiaries, may not at any time exceed ten per cent of the Company's capital.

- The shares acquired must have been fully paid up.

- The acquisition price may not be less than the par value or more than 20 percent of the market price.

The shares acquired under the buyback programme shall be used by the Company to fulfil its exchange or conversion obligations arising from the issuance of the Bonds and/or to reduce the Company's capital, as the case may be".

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

According to the usual practice of listed companies, it is convenient that the Board of Directors have an authorisation for the derivative acquisition of treasury stock in the future, and for such purpose 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 stock exchange 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 market 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 market price, likewise in the three months prior to the time of acquisition.

By virtue of this authorisation the Board, the Executive Committee and the CEO, indiscriminately, may buy treasury stock, according to 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 which have as their object 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 that have acquired them to fill in the non-disposable reserve established by Article 148, rule 3, of the Capital Companies Act.”

**Note:**

A relevant event was reported to the CNMV on 1 July 2011 under number 146731 communicating the suspension of the Share Buyback Programme by the Company.

Furthermore, on 6 July 2011, a Relevant Event was reported to the CNMV under number 146998, communicating the subscription of a liquidity contract with Santander lnvestment Bolsa, Sociedad de Valores, S.A.

A relevant event was reported to the CNMV on 26 July 2013 under number 191238 communicating the renewal of the liquidity contract. The CNMV was informed of the end of operations pursuant to the liquidity contract subscribed with Santander Investment Bolsa, Sociedad de Valores, S.A., on 6 July 2011 in respect of company shares under the operability conditions established by applicable regulations. FCC has subscribed a Liquidity Contract with Bankia Bolsa, Sociedad de Valores, S.A. This contract is applicable to Spanish stock exchanges and the object of the agreement is to favour trading liquidity and regularity. The term of the Liquidity Contract is twelve months, tacitly renewable for 12-month periods, and 180,000 shares and EUR 1.7 million is allocated.

It was also reported that said liquidity contract is established in conformity with the provisions in Circular 3/2007, of 19 December, of the National Securities Market Commission (CNMV).

On the 18 November 2014, the Company sent a relevant event number 214288, communicating the temporary suspension of operations pursuant to the liquidity agreement undersigned with Beka Finance, Sociedad de Valores, S.A., dated 26 July 2013 (Register 191238) involving Company shares in the operability conditions established by the applicable regulations.

On 21 January 2015 the Company informed the CNMV of the resumption, as from 22 January 2015, of the liquidity Agreement undersigned with Beka Finance, Sociedad de Valores, S.A. on 26 July 2013 involving Company shares in the operability conditions established by the applicable regulations.

## A.9 bis Estimated floating capital

45.705%

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 X** **No** 

| **Description of the restrictions** |
|---|
| By virtue of the provisions in the long-term syndicated financing agreement that was undersigned between 24 and 31 March 2014 and entered into full force on 26 June 2014, the financing entities assumed a number of restrictions on the transfer of shares ("Pact of Non-transfer of Shares") and a commitment to the orderly sale of the new shares of FCC they might receive should they exercise the Warrants after the conversion of Tranche B ("Pact of Orderly Sale").<br><br>Since the Pact of Non-transfer and the Pact of Orderly Sale represent a restriction of the free transferability of FCC shares, as the case may be, of the financing entities, both these pacts are shareholders' agreements pursuant to Article 530 of the Capital Companies Act (hereinafter, LSC)<br><br>For further information, consult the Relevant Event of 08/07/2014, number 208276.<br><br>Also, according to the agreement to invest in FCC between B 1998, S.L. and Control Empresarial de Capitales, S.A. de C.V. (see relevant event filed with the CNMV no. 214618), the parties undertake, in pact no. 6.1, not to sell or transfer under any title, or negotiate a transaction of that nature with any third parties, 85% of the shares held by the current shareholders and the investor, until the fourth anniversary of the date of the subscription and payment of the shares by the investor within the capital increase (the "Lock-up Period"), with the exceptions described in said agreement.<br><br>Said agreement, at year-end 2015, was renewed, the contents being reported in the relevant event of 5 February 2016 (number 234682), in clause 5 of which the following is agreed to:<br><br>*"Transfer of the current shares, the CEC shares, the new DDG shares, and increase of the stake in FCC.*<br><br>*The parties agree that if CEC and/or I. Carso for any reason reach the ownership of a percentage of voting rights in FCC equal to or above thirty percent (30%) or in any other way reach the control of FCC, and provided that the new capital increase has been fully subscribed and called up, sections 6.1 to 6.3 of the original Investment Agreement shall be rendered void. If subsequent to CEC and/or I. Carso for any reason reaching the ownership of a percentage of voting rights in FCC equal to or above thirty per cent (30%), said percentage is again reduced to below thirty percent (30%) of the voting rights in FCC, the above-mentioned sections 6.1 to 6.3 of the original Investment Agreement shall again apply between the parties insofar as CEC and/or I. Corso do not again exceed in FCC the aforesaid percentage of voting rights in FCC equal to or above thirty percent (30%) or in any other way reach the control of FCC. The parties agree that section 6.4 of the original Investment Agreement shall be amended so as to render void the limitation provided in clause 6.4 of the Investment Agreement, therefore deleting the current restriction barring a stake of over 29.99% of FCC's share capital, provided that the new capital increase is recorded at the Barcelona Mercantile Register before 30 April 2016, as a result of which clause 6.4 of the Investment Agreement will have the following wording: "6.4: Increase of the parties' stake in FCC. Any of the parties may increase its individual stake in FCC to above 29.99% of the share capital with voting rights during the term of the Investment Agreement."* |

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 X**

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 X**

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 X** **No **

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

| Description of differences |
|---|

The annual and extraordinary General Meetings are quorate:

Generally, when the shareholders present or represented at first call possess at least fifty per cent of the share capital with voting rights. At second call, the Meeting is quorate when the shareholders present or represented possess at least forty-five per cent of the share capital with voting rights.

Specifically, in order for the Meeting to validly decide on bond issues, 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, shareholders possessing at least fifty per cent of the share capital with voting rights must be present or represented at the meeting at first call. At second call, it will suffice for shareholders accounting for at least forty-five per cent of the subscribed voting capital to be present or represented.

When the shareholders in attendance or represented at second call account for less than fifty per cent of the subscribed capital with voting rights, the types of resolutions referred to above may only be validly passed with the favourable vote of two-thirds of the share capital present or represented at the Meeting.

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.

| | Special majority other than that established in Article 201.2 of LSC for the cases mentioned in Art. 194.1 of LSC | Other cases requiring a special majority |
|---|---|---|
| **Pct. established by the entity for adopting resolutions** | Over 50% of the subscribed capital with voting rights | |

| **Describe the differences** |
|---|
| Consolidated Text of the Bylaws, approved at the Annual General Meeting of 25 June 2015.<br><br>*Art. 26. Deliberations. Agreements adopted. Minutes.*<br>*3. In particular, the vote for of shares present or represented at the Meeting representing over fifty percent (50%) of the subscribed capital with voting rights shall be required to adopt the following resolutions:*<br>*(i) Amendment of the corporate purpose.*<br>*(ii) Transfer of the registered office abroad.*<br>*(iii) The issuance of shares or bonds or convertible securities which exclude pre-emptive rights for shareholders of the Company.*<br>*(iv) The issuance or creation of share classes or share series other than those currently outstanding.*<br>*(v) The implementation and/or amendment in any way of any remuneration or bonus system for directors or senior executives consisting of the delivery of shares, share options or which in any way are linked to the Company's share price.*<br>*(vi) The winding-up, liquidation, merger, spin-off, transfer en bloc of assets or liabilities, change of corporate form or filing for bankruptcy.*<br>*(vii) The amendment of the articles of the bylaws regulating the above matters."* |

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 Annual General Meeting of shareholders of 25 June 2015, 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, as mentioned below:*

*The favourable vote of at least 50% of the share capital shall be required for the Meeting of Shareholders to adopt decisions on the following matters:*

- *Amendment of the corporate purpose.*
- *Transfer of the registered office abroad.*
- *The issuance of shares or bonds or convertible securities which exclude pre-emptive rights for shareholders of FCC.*
- *The issuance or creation of share classes or share series other than those currently outstanding.*

- *Any remuneration or bonus system for directors or senior executives consisting of the delivery of shares, share options or which in any way are linked to the share price.*
- *The winding-up, liquidation, merger, spin-off, transfer en bloc of assets or liabilities, change of corporate form or filing for bankruptcy.*
- *The amendment of the articles of the bylaws regulating the above matters."*

**Note:**

Relevant event of 5/02/2016, notifying that Ms Esther Koplowitz Romero de Juseu and her related companies, Dominum Dirección y Gestión, S.A. and Nueva Samede 2016, S.L.U., signed with Inversora Carso S.A. de C.V. and its subsidiary Control Empresarial de Capitales, S.A. de C.V. a Novation Agreement Amending and Not Extinguishing the Investment Agreement signed on 27 November 2014.

Among other pacts, in relation to this item the following should be noted:

*"5.1. Commitments of the parties in relation to the Corporate Governance of FCC. The parties agree that, if CEC and/or I. Carso for any reason reach the ownership of a percentage of voting rights in FCC equal to or above thirty percent (30%) or in any other way reach the control of FCC, they undertake to adopt the measures necessary to call an Extraordinary General Meeting of Shareholders of FCC and a meeting of the Board of Directors of FCC, as appropriate, to attend the relevant meeting and to vote for the adoption of the following resolutions: (i) to establish, in the FCC bylaws and in the Regulations of the Board of Directors, the number of members of the Board of Directors at (15), of which four (4) directors shall be designated as proposed by the current shareholders and the new shareholder, eight (8) shall be proposed by CEC and I. Carso, and three (3) shall be independent, one (1) of these being proposed by CEC and I. Carso shall appoint the Managing Director or CEO. The right of the current shareholders and the new shareholder to jointly appoint four (4) directors shall apply provided that in such circumstance CEC and/or I. Carso may maintain a majority of the members of the Board of Directors. (ii) the Audit Committee shall at all times be made up by a majority of independent directors. The Remuneration and Appointment Committee shall be made up by five (5) members, and the Investor and/or I. Carso shall have the right to designate two (2) members and the current shareholders and the new shareholder shall jointly be entitled to designate one (1) member, and the rest of the members of that committee shall be independent directors. On the Executive Committee, if there is one, the representation of the current shareholders and the new shareholder, on the one hand, and of the investor, on the other hand, shall at all times be in proportion to their representation on the Board of Directors. The above-mentioned committees shall at all times respect the rules regarding composition and chair. (iii) There shall be deleted from the FCC bylaws the provision on current special majorities on the vote for of at least 50% of the share capital in order for the Meeting of shareholders to adopt decisions on the following matters: • Amendment of the corporate purpose. • Transfer of the registered office abroad. • The issuance or creation of share classes or share series other than those currently outstanding. • Any remuneration or bonus system for directors or senior executives consisting of the delivery of shares, share options or which in any way are linked to the share price. • The winding-up, liquidation, merger, spin-off, transfer en bloc of assets or liabilities, change of corporate form or filing for bankruptcy. • The amendment of the articles of the bylaws regulating the above matters. Therefore, by default, the majorities for the above matters shall be those provided in the Capital Companies Act except for the adoption of a resolution to delist FCC, which would require*

*the consensus of (a) the present shareholders, (b) the new shareholder, and (c) the investor. By way of clarification, it remains necessary to obtain the vote for of at least 50% of the share capital for the Meeting of Shareholders to adopt decisions on the issuance of shares or bonds or exchangeable bonds with the exclusion of pre-emptive rights for FCC shareholders."*

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:

| Pct. in attendance | | | | | |
|---|---|---|---|---|---|
| **Date of General Meeting** | **Pct. present** | **Pct. represented** | **Pct. of distance vote:** | | **Total** |
| | | | **Electronic voting** | **Other** | |
| 25/06/2015 | 23.208% | 36.694% | | 0.04% | 59.93% |

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 X**

| | |
|---|---|
| **No. of shares required to attend the General Meeting** | |

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) has a page dedicated to Corporate Governance, accessible from the home page under 'Information for 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 and shareholders' agreements. 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 FCC website has been designed and programmed according to the WAI (Web Accessibility Initiative) guidelines, which sets international standards for the creation of web contents accessible across the world.

The AENOR Accessibility Consultants, after conducting a technical analysis of accessibility, established that the FCC Group website complies with all of the priority 2 and priority 1 checkpoints, according to the UNE 139803:2004 Standard, which is in turn based on the Web 1.0 Content Accessibility Guidelines of W3C (known as WAI guidelines).

The “Information for shareholders and investors” section includes a link to the CNMV website.

# 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:

| | |
|---|---|
| **Maximum number of Directors** | 22 |
| **Minimum number of Directors** | 5 |

### 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. | Ms Esther Alcocer Koplowitz | Proprietary | Chairperson | 27/09/2000 | 01/06/2011 | General Meeting |
| Samede Inversiones 2010, S.L.U. | Ms Esther Koplowitz Romero de Juseu | Proprietary | Vice-president | 13/04/2015 | 25/06/2015 | General Meeting |
| Inmobiliaria AEG, S.A. de C.V. | Mr Carlos Slim Helú | Proprietary | Director | 13/01/2015 | 25/06/2015 | General Meeting |
| Dominum Dirección y Gestión, S.A. | Ms Carmen Alcocer Koplowitz | Proprietary | Director | 26/10/2004 | 25/06/2015 | General Meeting |
| EAC inversiones corporativas | Ms Alicia Alcocer Koplowitz | Proprietary | Director | 30/03/1999 | 23/06/2014 | General Meeting |
| Mr Juan Rodríguez Torres | | Proprietary | Director | 13/01/2015 | 25/06/2015 | General Meeting |
| Mr Alejandro Aboumrad González | | Proprietary | Director | 13/01/2015 | 25/06/2015 | General Meeting |
| Mr Gerardo Kuri Kaufmann | | Proprietary | Director | 13/01/2015 | 25/06/2015 | General Meeting |
| Mr Manuel Gil Madrigal | | Independent | Director | 27/02/2015 | 25/06/2015 | General Meeting |
| Mr Henri Proglio | | Independent | Director | 27/02/2015 | 25/06/2015 | General Meeting |
| Mr Álvaro Vázquez de Lapuerta | | Independent | Director | 27/02/2015 | 25/06/2015 | General Meeting |

| | |
|---|---|
| **Total number of Directors** | 11 |

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 |
|---|---|---|
| Mr Rafael Montes Sánchez | Proprietary | 13/01/2015 |
| Mr Gonzalo Rodríguez Mourullo | Independent | 18/02/2015 |
| Mr Olivier Orsini | Independent | 27/02/2015 |
| Mr Gustavo Villapalos Salas | Independent | 27/02/2015 |
| Larranza siglo XXI | Proprietary | 15/01/2015 |

| | | |
|---|---|---|
| Mr Juan Béjar Ochoa | Executive | 18/08/2015 |
| Mr Felipe B. García | Executive | 13/01/2015 |
| Mr Marcelino Oreja Aguirre | Proprietary | 13/01/2015 |
| Mr Fernando Falcó y Fernández de Córdova | Proprietary | 13/01/2015 |
| EAC Medio Ambiente | Proprietary | 13/01/2015 |

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

**EXECUTIVE DIRECTORS**

| Name of Director | Position in the Company |
|---|---|
| - | - |

| | |
|---|---|
| **Total number of Executive Directors** | - |
| **Pct. of total Board members** | - |

**EXTERNAL PROPRIETARY DIRECTORS**

| Name of Director | Name of the significant shareholder who is represented or who proposed the appointment |
|---|---|
| Dominum Desga, S.A. | Dominum Dirección y Gestión, S.A. |
| Samede Inversiones 2010, S.L.U. | Dominum Dirección y Gestión, S.A. |
| EAC Inversiones Corporativas, S.L. | Dominum Dirección y Gestión, S.A. |
| Dominum Dirección y Gestión, S.A. | Dominum Dirección y Gestión, S.A. |
| Inmobiliaria AEG, S.A. de C.V. | Control Empresarial de Capitales, S.A. de C.V. |
| Mr Juan Rodriguez Torres | Control Empresarial de Capitales, S.A. de C.V. |
| Mr Gerardo Kuri Kaufmann | Control Empresarial de Capitales, S.A. de C.V. |
| Mr Alejandro Aboumrad González | Control Empresarial de Capitales, S.A. de C.V. |

| | |
|---|---|
| **Total number of Proprietary Directors** | 8 |
| **Pct. of total Board members** | 72.73 |

**EXTERNAL INDEPENDENT DIRECTORS**

| Name of Director | Profile |
|---|---|
| Mr 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 career he has also been Capital Markets Director at AB Asesores Bursátiles, a partner at Morgan Stanley and auditor at Arthur Andersen. |
| Mr Henri Proglio | 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 Envirronnement (2003-2009) and has been a Director of FCC, Group Lagardiére and Vinci, among other companies. |
| Mr Álvaro Vázquez 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. |

| | |
|---|---|
| **Total number of Independent Directors** | 3 |
| **Pct. of total Board members** | 27.27 |

State whether any of the Directors considered Independent Directors receive from the Company or from the group any sums 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 |
|---|---|---|
| - | - | - |

| | |
|---|---|
| **Total number of other external Directors** | - |
| **Pct. of total Board members** | - |

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 |
|---|---|---|---|
| - | | | |
| - | | | |

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** |
| **Executive** | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Proprietary** | 4 | 5 | 5 | 5 | 50.00 | 55.55 | 50.00 | 45.45 |
| **Independent** | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Other External** | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | 4 | 5 | 5 | 5 | 36.36 | 35.71 | 27.78 | 27.77 |

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.

| 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 filling vacancies on the Board favour diversity of gender, experience and knowledge and are not subject to implicit bias 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 above purpose, it must establish a representation goal for the gender that is less represented on the Board and draw up guidelines on how to reach that goal.”* |

| |
|---|
| 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 Citizen Services, for the promotion of the balanced participation of men and women on Boards of Directors).<br><br>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 Unified Code of Corporate Governance; for listed companies 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.<br><br>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. |

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 establishes the following in its Article 38.4.h, within the duties of the Appointments and Remuneration Committee: *vacancies on the Board favour diversity of gender, experience and knowledge and are not subject to implicit bias 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 above purpose, it must establish a representation goal for the gender that is less represented on the Board and draw up 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.

See point C.1.6.

The Board of Directors of FCC, as of 31 December 2015, has over thirty percent (30%) of women on the Board, 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 four Proprietary Directors: Inmobiliaria AEG, S.A. de C.V. (Representative: Mr Carlos Slim Helú), Mr Juan Rodríguez Torres, Mr Alejandro Aboumrad González, and Mr Gerardo Kuri Kauffman.

On the other hand, Ms Esther Koplowitz Romero de Juseu is represented by another four Independent Directors: Samede Inversiones 2010, S.L.U. (Representative: Ms Esther Koplowitz Romero de Juseu), Dominum Desga, S.A. (Representative: Ms Esther Alcocer Koplowitz), EAC Inversiones Corporativas, S.L. (Representative: Ms Alicia Alcocer Koplowitz), and Dominum Dirección y Gestión, S.A. (Representative: Ms Carmen 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 X**

| 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 |
|---|---|
| Mr Rafael Montes Sánchez | Personal |
| Mr Gonzalo Rodríguez Mourullo | Personal |
| Mr Olivier Orsini | Personal |
| Mr Gustavo Villapalos Salas | Personal |
| Larranza Siglo XXI | Personal |
| Mr Juan Béjar Ochoa | Personal |
| Mr Felipe B. García Pérez | Personal |
| Mr Marcelino Oreja Aguirre | Personal |
| Mr Fernando Falcó y Fernández de Córdova | Personal |
| EAC Medio Ambiente | Personal |

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

| Name or company name of Director | Short description |
|---|---|
| - | - |

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 Ms Alicia Alcocer Koplowitz | Cementos Portland Valderrivas, S.A | Chairperson | NO |
| Mr Gerardo Kuri Kaufmann | Cementos Portland Valderrivas, S.A | CEO | YES |
| Mr Juan Rodríguez Torres | Cementos Portland Valderrivas, S.A | Director | NO |
| Inmobiliaria AEG, S.A. de C.V., (represented by Mr Alejandro Aboumrad González) | Cementos Portland Valderrivas, S.A | Director | NO |
| Mr Álvaro Vázquez de Lapuerta | Cementos Portland Valderrivas, S.A | Director | NO |

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 |
|---|---|---|
| Mr Juan Rodríguez Torres | REALIA BUSINESS | Non-executive chairperson |
| Mr Gerardo Kuri Kaufmann | REALIA BUSINESS | CEO |
| EAC Inversiones Corporativas, S.L. (represented by Ms Esther Alcocer Koplowitz) | REALIA BUSINESS | Director |

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

**Yes** ☐ **No X**

| Explanation of the rules |
|---|
| |

C.1.14 Article revoked.

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

| | |
|---|---|
| **Remuneration of the Board of Directors (in thousand euros)** | 15,867 |
| **Amount of pension rights accrued by the Directors (in thousand euros)** | 0 |
| **Amount of pension rights accrued by former Directors (in thousand euros)** | 3,242 |

**Note**:
On 18 August 2015, Juan Béjar Ochoa resigned his office as CEO and left the Company; he received severance pay amounting to 8,375,000 euros.

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) |
|---|---|
| Mr Carlos Jarque Uribe | CEO |
| Mr Agustín García Gila | Chairperson of Environmental Services |
| Mr Felipe B. García Pérez | Company Secretary |
| Mr Miguel Jurado Fernández | Director of FCC Construcción |

| | |
|---|---|
| Mr Vicente Mohedano Martín | Director of FCC Construcción |
| Mr Miguel Martínez Parra | General Manager of Administration and Finance |
| Mr Miguel Hernanz Sanjuán | General Manager of Internal Audits |
| Mr Julio Pastor Bayón | General Manager of Communication and Corporate Responsibility |
| Mr Félix Parra Mediavilla | General Manager of Aqualia |
| Ms Ana Villacañas Beades | General Manager of Organisation |

| Total remuneration of senior management (in thousand euros) | 5,860.63 |
|---|---|

**Note:**

This amount includes severance pay for the termination of the contracts of two senior executives: Mr José Manuel Velasco and Mr Eduardo González. The amounts collected by individuals who throughout the year lost senior executive status have also been added up to the corresponding dates.

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 |
|---|---|---|
| | | |

Identify 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 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 X** **No** ☐

| Description of the amendments |
|---|
| The Board of Directors unanimously adopted, at its meeting of 7 October 2015, the approval of the proposal to amend the Rules of the Board of Directors of the company Fomento de Construcciones y Contratas, S.A. |

After the change in the shareholder composition that took place in 2015, the Rules of the Board of Directors were amended in their entirety in order to adapt them to the new Capital Companies Act, to the Rules of the General Meeting and to the Bylaws. The full text of the Rules of the Board of Directors is available and may be consulted via the FCC Group website, and it is yet to be recorded at the Mercantile Register.

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, fitness, 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, fitness, 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) directorships held in other companies, listed or otherwise;*

*(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. That 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 Articles of Association.*

*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-appointment 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 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.*

*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, and 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 independents 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 self-evaluation of the Board has given rise to important changes in its internal organisation and in the procedures applying to its activities:

| Description of the amendments |
|---|
| In the year 2015, 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.

Article 34.9 of the Rules of the Board states:

*"The Board with all of its members present will dedicate the first of its meetings in a year to evaluate que quality and efficiency of its own functioning during the preceding year, assessing the quality of its work, evaluating the efficacy of its rules and, as the case may be, based on its results, it shall propose an action plan to correct any deficiencies that are detected. At that meeting, in light of the relevant report submitted by the Appointments and Remuneration Committee, it will also evaluate the performance of functions of the Chairperson of the Board and of the CEO, as well as the performance of its committees and, based on its results, it shall propose an action plan to correct any deficiencies that are detected."*

The Board of Directors issued a report at its meeting of 19 January 2016, which was assessed and approved, in which it evaluated the quality and efficiency of its functioning and of its committees during the year 2015.

All of its 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.

The 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.

Conclusions and positive assessments regarding the composition and internal organisation and the exercise of the powers attributed to the Board are obtained from this process.

The Board of Directors assumes and focuses especially on its supervision and control function, always trying to remain abreast of any matters concerning the Company or its Group, likewise exercising this power of supervision and control in respect of the powers delegated to the Executive Committee.

Last of all, it should be noted that the existing distribution of powers and functions across the Board of Directors and its various internal committees is adequate and efficient for seeking the corporate goals, because it favours a more efficient organisation and functioning of the Board.

From the foregoing it may be concluded that the Board of Directors assumes and efficiently exercises the powers and competences attributed to it by the Articles of Association and the rules of the Board of Directors, and at all times the interests of the Company and the maximisation of its economic value are at the forefront.

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.

Rules of the Board of Directors
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.*

*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, and 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 were 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 the 19 duties inherent to the position or has incurred any of the circumstances enumerated in Article 6.2.a) of these rules that disqualify 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 ends, 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 X**

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 X**

| Description of requirements |
|---|
| |

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

**Yes** ☐ **No X**

| 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**

| | |
|---|---|
| **Maximum number of years in office** | |

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 with regard to 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:

| | |
|---|---|
| **Number of meetings of the Board of Directors** | 13 |
| **Number of Board meetings without the attendance of its Chairperson** | 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.

| | |
|---|---|
| **Number of meetings** | - |

Indicate the number of meetings held by the various Board Committees in the year:

| | |
|---|---|
| **Number of Executive or Steering Committee meetings** | 7 |
| **Number of Audit Committee meetings** | 8 |
| **Number of Appointments and Remuneration Committee meetings** | 11 |

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

| | |
|---|---|
| **Number of Board meetings attended by all the Directors** | 3 |

| Pct. of attendance over the total votes during the year | 92.86% |
|---|---|

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

**Yes X** **No ☐**

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

| Name | Position |
|---|---|
| Mr Carlos Jarque Uribe | CEO |
| Mr Miguel Martínez Parra | General Manager of Administration and Finance |
| Mr Víctor Pastor Fernández | General Manager of Finance |
| Mr Juan José Drago Masià | 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 X**

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

| Name or company name of Secretary | Representative |
|---|---|
| Mr 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, notwithstanding other tasks that the Board of Directors may entrust to the Audit and Control Committee, it will be responsible for:*

*a) Informing the General Meeting of Shareholders on the questions raised by shareholders which fall within its scope of authority.*

*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 for the selection, appointment, re-appointment and removal of the external auditor, and the terms and conditions of its engagement.*

*(ii) Receiving regular information from the external Auditor on the progress and findings of the audit programme, as well as maintaining its independence while performing its duties, 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;*

*(iv) Establishing appropriate relationships with the external auditor to receive information on matters that might jeopardise its independence, so that they may be reviewed by the Committee, and any others related to the accounts auditing process, as well as other communications provided for in auditing laws and standards;*

*(v) Ensuring the independence of the external Auditor and, in particular, establishing appropriate measures:*

*1) for 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 will receive an annual report from the Auditors confirming in writing their independence in respect of the Company or the entities directly or indirectly related to it, and information on any additional services of any kind rendered and the corresponding fees paid to these entities by the external auditor or by the persons or entities related to the Auditors, 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 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 the independence of the Company's Auditors. In any* *event, that report must address the provision of any additional services as 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 it 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 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, 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) periodically checking the systems of internal control and risk management, in order that the principal risks are identified, managed and announced adequately*

*(iii) monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-election and removal of the head of internal audit; proposing that department's budget; receiving regular reports on its activities; and verifying that senior management are acting on the findings and recommendations of its reports; periodically receiving information from the Management Control and Risk Management Departments, respectively, on how they carry out their activities and on how internal controls work; and*

*(iv) 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, under 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 X**

| Outgoing auditor | Incoming auditor |
| --- | --- |
| | |

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

**Yes ☐** **No X**

| 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 X** **No ☐**

| | Company | Group | Total |
| --- | --- | --- | --- |

| | | | |
|---|---|---|---|
| **Amount of other non-audit jobs (in thousand euros)** | 372 | 521 | 893 |
| **Amount of non-audit jobs / total amount billed by audit firm (in pct.)** | 52.174 | 14.240 | 20.425 |

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 X**☐

| **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** |
|---|---|---|
| **Number of consecutive years** | **14** | **14** |

| | **Company** | **Group** |
|---|---|---|
| **Number of years the current audit firm has audited / number of years the Company has been audited (as a percentage)** | **53.8** | **53.8** |

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

**Yes X** **No** ☐

| **Detail the procedure** |
|---|
| Rules of the Board Article 27. Expert assistance<br><br>*"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.*<br><br>*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.*

*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."*

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 X** **No ☐**

**Detail the procedure**

Rules of the Board of Directors. Article 26. Information and inspection faculties:

*"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 directors' 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.*

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 X** **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. [...]"*

Rules of the Board of Directors. Article 19. Removal of Directors

*"1. Directors shall be removed from office when the term for which they were appointed has elapsed or when the General Meeting so decides exercising the powers granted to it by the law and the bylaws."*

*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, and 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. [...]"*

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 X**

| 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.

A change of control of FCC as a consequence of a takeover bid could represent an event of obligatory full early repayment of the Syndicated Financing Agreement amounting to €4,511,644,219.02, undersigned on 24 March 2014, which entered into force on 26 June 2014 (Clause 8.4.1(a)), unless:

(A) The loss of control does not entail the acquisition of control by a third party;

(B) The acquisition of control is done by:

(a) An industrial company of renowned solvency, experience and the management capacity of a group of the size and characteristics of FCC Group (or by a consortium led by such a company);

(b) By credit entities, whether Spanish or foreign, provided that they are of renowned solvency, experience and the management capacity of a group of the size and characteristics of FCC Group.

Likewise, and according to the terms and conditions of the issue of convertible bonds, which are available on the FCC website (www.fcc.es), if an investor launches a takeover bid to all the shareholders and holders of convertible bonds of the Company that would lead to a change of control in FCC (defined as the acquisition of over 50% of the voting rights or the right to appoint more than half of the members of the Board of Directors of FCC), the holders of convertible bonds would have during a given period the option of selling their Bonds to FCC at par value (plus accrued interest), and also during a given term the conversion price will be adjusted under the terms described under Condition 7 of the terms and conditions of convertible bonds.

Also check the relevant event of 5 February 2016, on the novation of the agreement to invest in FCC by Ms Esther Koplowitz and Inversora Carso, S.A. de C.V., specifically where it says:

*5. Transfer of the current shares, the CEC shares, the CEC shares, the new DDG shares, and increase of the stake in FCC.*

*The parties agree that if CEC and/or I. Carso for any reason reach the ownership of a percentage of voting rights in FCC equal to or above thirty percent (30%) or in any other way reach the control of FCC, and provided that the new capital* *increase has been fully subscribed and called up, sections 6.1 to 6.3 of the original Investment Agreement shall be rendered void.*

*If subsequent to CEC and/or I. Carso for any reason reaching the ownership of a percentage of voting rights in FCC equal to or above thirty per cent (30%), said percentage is again reduced to below thirty percent (30%) of the voting rights in FCC, the above-mentioned sections 6.1 to 6.3 of the original Investment Agreement shall again apply between the parties insofar as CEC and/or I. Corso do not again exceed in FCC the aforesaid percentage of voting rights in FCC equal to or above thirty percent (30%) or in any other way reach the control of FCC.*

*The parties agree that section 6.4 of the original Investment Agreement shall be amended so as to render void the limitation provided in clause 6.4 of the Investment Agreement, therefore deleting the current restriction barring a stake of over 29.99% of FCC's share capital, provided that the new capital increase is recorded at the Barcelona Mercantile Register before 30 April 2016, as a result of which clause 6.4 of the Investment Agreement will have the following wording: "6.4: Increase of the parties' stake in FCC. Any of the parties may increase its individual stake in FCC to above 29.99% of the share capital with voting rights during the period of the Investment Agreement."*

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**<br>**2** | |
|---|---|
| Mr Carlos Jarque Uribe (CEO) | Description of the resolution<br><br>For the purpose of establishing an economic fund to compensate the senior executive for the extinguishment of his contract, the company shall create a savings fund for his benefit, which will be filled by the annual contributions made by the Company, amounting to 340 thousand euros per year.<br><br>If this contractual relationship is extinguished during the first three years of force of this contract, 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 contract. Said payment shall compensate the senior executive for the extinguishment of his contract and shall be deemed severance, it shall comprise the indemnity provided in clause 11 of the contract and will replace any other compensation that might arise from the termination of this contractual relationship.<br><br>If the extinguishment takes place once three years have elapsed from the signing of this contract, the senior executive will accrue the amount in the Savings Fund as of the date of extinguishment of his contract, except in the |

| | |
|---|---|
| | event of dismissal for objective reasons or disciplinary dismissal.<br><br>Said payment shall compensate the senior executive for the extinguishment of his contract and shall be deemed severance, it shall comprise the indemnity provided in clause 11 of the contract and will replace any other compensation that might arise from the termination of this contractual relationship. The payment must be made by the Company within the two months following the termination of the contractual relationship. |
| Mr Felipe B. García Pérez<br>(Company Secretary) | <u>Description of the resolution</u><br><br>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.<br><br>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:<br><br>a) Unilateral decision by the Company.<br>b) Winding up or disappearance of the parent company for any reason, including merger or spin-off.<br>c) Death or permanent disability.<br>d) Declaration of physical disability or legal incompetence for any other reason.<br>e) A substantial change in professional conditions.<br>f) Resignation, upon reaching the age of 60, at the executive's request and with the Company's consent.<br>g) Resignation at age 65, by unilateral decision of the executive.<br><br>As of 31 December 2015, the Company Secretary has accumulated under said insurance a net amount equal to 3.5 times his gross annual remuneration. |

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 |
|---|---|---|
| Dominum Desga, S.A. (represented by Ms Esther Alcocer Koplowitz) | Director | External Proprietary Director |
| EAC Inversiones Corporativas, S.L. (represented by Ms Esther Alcocer Koplowitz) | Director | External Proprietary Director |
| Mr Alejandro Aboumrad González | Director | External Proprietary Director |
| Mr Gerardo Kuri Kaufmann | Director | External Proprietary Director |

| | |
|---|---|
| **Pct. of Executive Directors** | **0** |
| **Pct. of Proprietary Directors** | **100** |
| **Pct. of Independent Directors** | **0** |
| **Pct. of other External Directors** | **0** |

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. 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 lines and other financial facilities for unit amounts not exceeding the figure that is established in each case in accordance with 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 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 meeting 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.*
7. *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.*

| |
|---|
| Regarding the most important actions carried out by this Committee, its functioning was evaluated in the meeting held on 19 January 2016. |

| |
|---|
| Generally, the Executive Committee was in charge of monitoring and supervising the ordinary management and administration of the Company, which requires continuous attention and, as the case may be, rapid and diligent actions, as well as matters which may influence the positioning and future projection of the Company and its Group in the market.<br><br>The Executive Committee informed the Board of its decisions on a timely basis. In particular, the Executive Committee exercised the power it is attributed in Article 36 of the Rules of the Board of Directors of deciding on investments, divestments, credits, loans, guarantee and surety lines and other financial facilities for unit amounts not exceeding the figure established by the Board in each case. |

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

**Yes** ☐ **No X**

| If not, detail the composition of the Delegated or Executive Committee |
|---|
| See the item dedicated to the particulars of its composition, where it is shown that all of its members are External Proprietary Directors. |

**AUDIT COMMITTEE**

| Name | Position | Current status |
|---|---|---|
| Mr Henri Proglio | Chairperson | Independent Director |
| Mr Manuel Gil Madrigal | Director | Independent Director |
| Mr Álvaro Vázquez de Lapuerta | Director | Independent Director |
| Mr Juan Rodríguez Torres | Director | External Proprietary Director |
| EAC Inversiones Corporativas, S.L. (represented by Ms Esther Alcocer Koplowitz) | Director | External Proprietary Director |

| | |
|---|---|
| **Pct. of Proprietary Directors** | **40** |
| **Pct. of Independent Directors** | **60** |
| **Pct. of other External Directors** | |

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.*

*3. The Audit and Control Committee will govern its own affairs in accordance with the Articles of Association 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. 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.*

*b) Liaising between the Board of Directors and the 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, 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 of the Company any significant weaknesses in the Internal Control System detected during the audit;*

*(iv) establishing the relevant relations with the external auditor to receive information on any matters that might jeopardise its independence, so that they may be reviewed by the Committee, and any other matters that are related to the development of the accounts audit, as well as any other communications provided in audit laws and standards.*

*(v) ensuring the independence of the external auditor and, in particular, establishing appropriate measures to ensure that:*

*1) 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 set out in audit laws, and*

*2) the Company issues a relevant event to the CNMV as regards the change in auditor, with a statement about any disagreements, should there be any, with the outgoing auditor and their nature, and in the case the external auditor resigned, the Committee must examine the reasons; and*

*(v) the Company's auditor must take responsibility for auditing the companies comprising the Group.*

*c) Issuing an annual statement on the independence of the auditors or audit firms each year prior to the issuance of the auditors' report. In any event, that statement must address the provision of any additional services as referred to in section b) (v) 1) above, individually and in the aggregate, other than the legal audit and related to its independence or with auditing standards.*

*d) Supervising the Company's internal audit units that oversee the proper 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.*

*e) Supervising and analysing the efficiency of the Company’s internal control and the risk control and management policy approved by the Board of Directors, identifying at least:*

*(i) the different types of risk to which the Company is exposed, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;*

*(ii) the determination of the risk level the Company sees as acceptable;*

*(iii) the measures in place to mitigate the impact of risk events, should they occur; 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, submitting them to the Board for approval.*

*f) Supervising the preparation and presentation of the financial statements and management report of the Company and the consolidated group, and of the information released periodically to the markets, checking for compliance with legal provisions and the correct application of generally accepted accounting principles, and informing the Board of Directors before it adopts any of the following decisions: (i) the financial information that the Company must release periodically by virtue of being listed, ensuring that the interim financial statements are drawn up in accordance with the same accounting principles as the annual financial statements and, to this end, considering the suitability of a limited review by the Company's external auditor; and*

*(ii) the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the FCC group.*

*g) With respect to internal control and reporting systems:*

*(i) monitoring the preparation and the integrity of the financial information prepared on the Company and, as the case may be, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidated group, and the correct application of accounting principles;*

*(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, reappointment and removal of the head of internal audit; proposing that department's budget; receiving regular reports on its activities; and verifying that senior management are acting on the findings and recommendations of its reports; receiving regular reports from the Response Committee and the Internal Control and Risk Management Department, respectively, about the performance of its activities and the functioning of the internal controls; and*

*(iv) ensuring that the internal codes of conduct and the rules of corporate governance comply with the requirements of law and are appropriate for the Company, and reviewing compliance, by the persons governed by those codes and governance rules, of their obligations to inform 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) issuing the report on proposed amendments to these Rules, as provided in Article 4.3.*

*(ii) deciding on requests for information presented by directors, by virtue of 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 of 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 case of directors that are legal persons, the age of the natural person representing them shall be considered.*

*8. The Chairperson shall direct debates and give the floor to those attendees who wish 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 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."*

Regarding the most salient actions during the year, it should be noted that on 19 January 2016 the Audit and Control Committee of Fomento de Construcciones y Contratas, S.A. (hereinafter, the Company) issued a report on its activities and functioning during the year 2015.

The Committee assumed and effectively performed the list of powers entrusted to it by Articles 40 of the Bylaws and 37.5 of the Rules of the Board of Directors.

Thus, in the performance and fulfilment of those powers, throughout 2015 the Committee exercised, by way of illustration only, the following functions:

- Liaising between the Board of Directors and the external auditor of the Company, evaluating the results of each audit.

- Receiving regular information from the external auditor regarding the audit plan and the results thereof, and verifying that senior executives act on the recommendations of the external auditor.

- 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 process of preparing 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 accounting principles.

- Issuing a favourable report on the process of drafting the individual and consolidated financial statements and management reports corresponding to the year 2014, 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 2014.

- 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 second quarters of 2015, according to the provisions in Article 20.1 of Royal Decree 1362/2007, of 19 October, and the provisions developing 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.
- 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 2016.
- 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 2014 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 2015 (Abbreviated financial statements and Interim Management Report), according to the provisions in Article 11 and following of Royal Decree 1362/2007, of 19 October, and the provisions developing it.

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.

| | |
|---|---|
| **Name of Director with experience** | **Mr Manuel Gil Madrigal** |
| **Number of years of the Chairperson in office** | **1** |

**APPOINTMENTS AND REMUNERATION COMMITTEE**

| Name | Position | Current status |
|---|---|---|
| Mr Álvaro Vázquez de Lapuerta | Chairperson | Independent Director |
| Mr Manuel Gil Madrigal | Director | Independent Director |
| Mr Juan Rodríguez Torres | Director | External Proprietary Director |
| Dominum Desga, S.A. represented by Ms Esther Alcocer Koplowitz | Director | External Proprietary Director |

| | |
|---|---|
| **Pct. of Proprietary Directors** | **50** |
| **Pct. of Independent Directors** | **50** |
| **Pct. of other External Directors** | **--** |

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 Administration. Article 38. Appointments and Remunerations 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 for it to consider them for covering 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 the Directors of the remuneration for Board members decided by the General Meeting of Shareholders in accordance with the Articles of Association 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 status 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 of 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."*

During the year 2015, and according to the evaluation report issued at its meeting on 19 January 2016, this Committee carried out the following salient action:

- Evaluating the skills, knowledge and experience on the Board, defining the duties and capabilities required of the candidates to fill each vacancy, and deciding the time and dedication necessary for them to properly perform their duties.

- Advising on the proposals for appointment and re-election of Directors and members of the Board of Director 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.<br><br>- Approving the contents of the documents called 'Report of the Appointments and Remuneration Committee on the Chairwoman of the Board of Directors and Report of the Appointments and Remuneration Committee on the CEO, so that the Board of Directors may evaluate the performance of their functions during the year 2015, 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.<br><br>- Approving the report on the functioning of the Appointments and Remuneration Committee during the year 2015, as well as the report ratifying the current categories (proprietary, independent or executive directors) of Board members.<br><br>- Advising on the appointment of senior executives and other positions comprised within the first three levels, as well as any others with a remuneration equal to or above 75,000 euros.<br><br>- Approving the Report on the remuneration of the Board as per the bylaws for the year 2014.<br><br>- Advising on the fundamental aspects of FCC Group's general wage policy for the year 2015.<br><br>- 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. |

**APPOINTMENTS COMMITTEE (NOT APPLICABLE)**

| Name | Position | Current status |
|---|---|---|
| | | |
| | | |

| | |
|---|---|
| **Pct. of Proprietary Directors** | |
| **Pct. of Independent Directors** | |
| **Pct. of other External Directors** | |

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.

| |
|---|
| |

**REMUNERATIONS COMMITTEE (NOT APPLICABLE)**

| Name | Position | Current status |
|---|---|---|
| | | |
| | | |

| | |
|---|---|
| **Pct. of Proprietary Directors** | |
| **Pct. of Independent Directors** | |
| **Pct. of other External Directors** | |

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.

| |
|---|
| |

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<br>Pct. (No.) | FY t-1<br>Pct. (No.) | FY t-2<br>Pct. (No.) | FY t-3<br>Pct. (No.) |
| **Executive Committee** | 25% (1) | 50% (2) | 29% (2) | 33% |
| **Audit Committee** | 20% (1) | 50% (2) | 40% (2) | 40% (2) |
| **Appointments and Remunerations Committee** | 25% (1) | 37% (3) | 30% (3) | 33% (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 to be queried, and any amendments made during the year. Also, indicate if an annual report on each Committee's activities has been drafted voluntarily.

- The Rules of the FCC Board (Chapter IX. Board Committees).
- Report issued by the Board of Directors at its meeting of 19 January 2016 on the quality and efficiency of its functioning and that of its Committees during the year 2015.

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.

| Procedure for informing on the approval of related-party transactions |
|---|
| Article 24 of the Rules of the FCC board state:<br><br>*Transactions with significant shareholders*<br>*"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.*<br>*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."* |

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:

| 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) |
|---|---|---|---|---|
| Control Empresarial de Capitales, S.A. de C.V. | FCC CO | *Comercial* | Collaboration contracts | Not applicable |

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) |
|---|---|---|---|---|
| | | | | |

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:<br>(thousand euros) |
|---|---|---|
| - | - | - |

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:

**"***Conflicts of interest*

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 state of affairs, financial position and results 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 X No** ☐

Identify the subsidiaries that are listed in Spain:

| Listed subsidiaries |
| --- |
| Cementos Portland Valderrivas, S.A |

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

**Yes** ☐ **No X**

| 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.

FCC Group is currently in the midst of implementing an Integrated Risk Management Model, which began in 2014 and is gradually being extended, that when in full operation will significantly enhance the mitigation of impacts that might lead to deviations and non-compliance with its financial and business strategy. This model will allow the Group to anticipate the materialisation of the possible risks to which its business is exposed, by operating in different geographic areas, activities and legal environments which in turn entail different risk levels suited to the activities in which it carries out its operations.

During 2015, the Risk Management Department prepared and submitted a new set of regulations related to FCC Group's Governance, Risk and Regulatory Compliance to the Audit and Control Committee. Among other documents, these regulations include the Risk Management Policy and System, which will foreseeably be approved by the Group's Board of Directors during 2016, furthering the implementation of the risk control and management model.

The Risk Management regulations are meant to implement, develop and continuously improve a common working structure or framework, with the goal of integrating the risk management process within Corporate Governance in relation to organisation, planning and strategy, management, reporting processes, policies, values and culture:

- Integrating the risk-opportunity vision in FCC Group's management, by defining the strategy and the risk appetite, as well as incorporating this to strategic and operational decisions.
- Separating functions, at an operational level, between risk management and risk taking areas and the areas responsible for analysing, controlling and supervising risks, guaranteeing adequate levels of independence.
- Transparently reporting the Group risks and the functioning of the control systems developed by the Board of Directors, maintaining the adequate channels to favour that communication.
- Supervising the implementation of suitable action plans for hedging risks.
- Acting at all times pursuant to the Law and the Company's Corporate Governance system and, particularly, according to the values and standards of behaviour stated in the Code of Ethics and under the 'zero tolerance' principle in relation to unlawful acts and situations of fraud.
- Supervising suitable compliance with the Rules of Corporate Governance established by FCC Group, through its corporate governance system, in turn guaranteeing the updating and permanent improvement of that system within the framework of the best international transparency and governance practice, in this way allowing the monitoring and measurement of that compliance.

This Risk Management Policy determines a risk control and management model based on three levels of risk management. The first and second risk management levels are within the business unit itself, which as part of its activity gives rise to risk exposure within FCC Group.

The first risk management level is carried out by the business unit's operating lines, which are responsible for managing, monitoring and adequately reporting the risk that is generated, which must be adjusted to the authorised risk appetite and risk ceilings. To meet this function, this first risk management level must have the means to identify, measure, manage and report the risks that are adequately assumed. Below are some of the first level activities related to Risk Management:

- Drafting of Risk Materialisation Reports every four months.
- Assuming executive functions in the assurance of vertical or individual risks in projects or the response thereto.
- Assuming responsibilities in its management of vertical or individual risks in projects.
- Implementing responses to risks on behalf of Management.

The second internal control level is made up by support, risk control and supervision teams within the business unit. This second level oversees the effective control or risks and ensures that these are managed according to the defined risk appetite level. Below are some of the second level activities related to risk management:

- Drafting of the initial Risk Map at the time of bidding for a new project.
- Monitoring the Risk Materialisation Reports exceeding the materiality allocated to each business unit.
- Aggregate analysis of the risk assumption level of each business unit at every given moment to ensure that the risk level accepted and approved by the Board of Directors is not exceeded.
- Making decisions on handling risks.
- Assuming executive functions in the assurance of crossover risks or those applying to the entire business unit or the response thereto.
- Assuming responsibilities regarding own management of crossover risks or those applying to the entire business unit.

The third risk management level includes the corporate functions located outside the business unit and hence independent from it. The most relevant corporate function in the risk management process is performed by the Internal Audit and Risk Management Department, which reports directly to the Audit Committee and assumed two distinct functions: the risk management function and the internal audit function.

The risk management function is responsible for carrying out the adequate coordination of the entire risk control and management process, reporting any incidents found and centralising and transmitting the best practice in this area. Below are some of the activities performed by the risk management function in the third level of Internal Control:

- Developing the risk management strategy so that it may be approved by the Board.
- Proposing the accepted risk level to the Board for approval.
- Leading the implementation of the Risk Management System.
- Assisting in the identification and evaluation of risks.
- Advising Management in the treatment of identified risks.
- Collaborating in the coordination of risk management.
- Collaborating in the implementation and maintenance of the framework for the business risk management and policy, supporting the Board through the Audit Committee.
- Preparing aggregate risk analyses and reports.
- Coordinating the risk management activities, ensuring that there are homogeneous criteria in each business unit.
- Providing assurance in respect of the risk management processes and the correct evaluation thereof.
- Evaluating the preparation of key risk reports by the business unit and reviewing the management thereof.
- Providing assurance in respect of the correct evaluation of key risks.

Subsequently, the internal audit function, as the last line of defence and acting as the last layer of control, evaluates from time to time the compliance with policies and procedures and checks that they are effectively implemented. Below are some of the activities of the third internal control level that are carried out by the internal audit function:

- Reviewing compliance with the risk management process.
- Reviewing the management of key risks.
- Reviewing the effectiveness, efficacy and efficiency of the controls.
- Evaluating the risk management processes, including the supervision of controls and procedures.
- Evaluating from time to time and independently the effective performance of the activities entrusted to the risk management function.
- Keeping the compliance function informed of any circumstances found within the internal audit function with regulatory implications.

The three lines of defence are sufficiently separate and independent so as not to jeopardise the effectiveness of the general approach and they act in coordination in order to maximise their efficiency and boost their effectiveness. To this end, within each specific function at each level there should be the sufficient and necessary independence to allow the adequate functioning of the Corporate Governance System for Risk Management.

Above the lines of defence, the Board committees and the executive risk committees both in the corporation and in the business units take care of the suitable management and control of risks from the highest levels of the organisation.

These risk maps take stock of the identification of the main risks of the business areas, together with the controls established by Management to mitigate the effect of said risks and the assessment, in terms of likelihood of occurrence and their impact on the financial statements, of the area being analysed. Therefore, with support from the risk managers in the different business areas, the Group's Management is being guided in a process of redefining and improving those risks, including the risks related to financial reporting and the preparation of those reports, both in terms of the definition and the allocation of responsibilities in risk management in the field of operations and in the preparation of procedures and methods, which include:

– Identifying the key risks for FCC Group according to the potential threat they represent for achieving the objectives of the organisation.

– Evaluating risks. The risk evaluation scales are defined in terms of the potential impact they could have if they were to materialise and the likelihood that they will occur.

– Identifying the key control activities to mitigate those risks.

– Identifying the risk holders.

– Allocating control responsibilities.

– Establishing key risk indicators.

– From time to time, the management of each business area analyses, together with the Risk Management Department, what risks have materialised in each of the Group areas, reporting it to the Audit and Control Committee.

Additionally, and once the model has been fully implemented, for risks exceeding the accepted risk level for each of the sectors of activity, the necessary action plans are established with the possible corrective measures to ensure their critical levels fall within the accepted risk level. These action plans include the necessary actions to reinforce existing controls and they may even incorporate new controls.

Furthermore, each business unit fills in the Risk Materialisation Report (RMR), identifying the different types of risks that have materialised including:

– Identification and description of the risk that has materialised.

– Reason and cause of the materialisation of risks.

– Economic impact that has materialised, been incurred or accrued, the effect of which has already been recorded on the organisation's financial statements and regarding which Management cannot do too much.

– Economic impact that has materialised and is yet to be incurred or accrued, where the effect on the Group's financial statements may be mitigated by the business area Management or by establishing specific action plans. Said impacts are identified as deviations from the strategic plan in the planning tools of each one of the business areas.

– Control activities.

– Identification of failed controls.

– Risk materialisation indicators.

– Risk holders or people responsible for risks.

The risk materialisation reports are received and analysed by the General Internal Auditing and Risk Management Department, after which it will provide the necessary guidelines in relation to the COSO methodology, with the goal of collaborating with Management and carrying out the pertinent action. At present, the Group's General Internal Auditing and Risk Management is guiding the business units in the suitable identification of existing control activities under COSO, as well as in the identification of the most effective risk materialisation indicators.

During 2015, as a continuation of the work done in 2014 and in keeping with the contents of the above-mentioned regulatory documents, there has been partial risk management in each of the business areas via:

- The identification of key risks for FCC Group based on their potential threat to achieving the organisation's objectives, at the level of each of the business areas.
- Risk evaluation. The risk evaluation scales are defined in terms of the potential impact they could have if they were to materialise and the likelihood that they will occur.
- The identification of the controls and procedures to mitigate the economic impact of the risks and the likelihood of their occurrence.
- The identification of the specific control activities to mitigate the economic impact of the risks and the likelihood of their occurrence.
- The identification of risk indicators making up a warning system, detecting signs of the exposure to and materialisation of risks, warning when a situation arises and enabling the adoption of preventive measures before the materialisation of the risk.
- The identification of a proprietor for each of the identified risks, as the first person in charge of keeping the suitable level of internal control.

In addition, with the goal of ensuring compliance with the best practice available in the field (COSO), FCC Group's Internal Audit and Risk Management Department has supervised the work performed by the different business areas in the stages of the implementation process of the model related to risk identification and evaluation, as well as to the suitable identification of the existing control activities and the identification of the most effective risk materialisation indicators.

During 2016, and within the above-mentioned regulatory framework, progress will continue in the procedure of implementing the model. For risks exceeding the Accepted Risk for each sector of activity, the necessary action plans will be established with corrective measures to keep their critical levels within the accepted risk area. These action plans will include the necessary measures to reinforce existing controls and may even incorporate new risk controls. Work will likewise be done towards identifying control performance indicators.

Additionally, work will be done to update the specific procedures to carry out the risk management in each of the business areas, so as to ensure both their compliance with the model and their active involvement in any decision-making process within the organisation.

FCC Group's global risk management system, following the best business practice in this field and applying the COSO method, has categorised risks as follows:

- Strategic. These are the risks that are considered key for the Group and hence they must be managed on a proactive and priority basis. Should these risks materialise, they seriously jeopardise the achievement of strategic goals.
- 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.
- Information or reporting. These refer to internal and external financial and non-financial information and comprise established aspects of reliability, opportunity and transparency.

Given the singularity of the reporting risks and how important it is for FCC Group to adequately control this type of risks, in 2015 work began towards treating this as an independent category, with reference to risks associated to the reliability of the financial information generated in business, which is consolidated at the parent of FCC Group. These risks include those related to the generation of information and those related to the management of that information throughout the organisation. Thus far, reporting risks were included in the category of operating and strategic risks.

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

- **Executive Committee**

As set out in Article 36 of the Rules of the Board of Directors of FCC, S.A, the Board may permanently delegate to the Executive Committee all of the powers pertaining to the former, except those which are reserved to the Board by the Law, the Bylaws or the Rules of the Board of Directors. Like the plenary Board, the Committee ensures that FCC Group's organisation structure, planning systems and management processes are designed to deal effectively with the different risks to which FCC Group's business is exposed.

- **Audit and Control Committee.**

In relation to compliance with Article 529 of Act 31/2014, of 3 December, amending the Capital Companies Act for the improvement of corporate governance, the Rules of the Board of Directors have been adapted to the new legal requirements, the latest version having been approved by the Board on 7 October 2015.

Also, in compliance with Articles 529 *terdecies* and 529 *quaterdecies* of that same Act, the name of the Audit Committee is changed (translator's note: the change has no relevance as far as the translation is concerned).

According to Article 37 of the Rules of the Board, and as established in the new Unified Code of Governance of Listed Companies, updated in February 2015, in recommendation 53, and in recommendations 39 to 46.a) and principles 20 and 21, the main function of the Audit and Control Committee is to support the Board of Directors in its general surveillance and monitoring functions, particularly as regards the risk control and management policy, monitoring the risk maps and the action plans needed to mitigate the most relevant risks that have been identified, and last of all it must supervise the Company's internal auditing services.

- **Management Committee**

There is a Management Committee for each business unit.

- **Response Committee**

This Committee is in charge of supervising the adequate functioning of the Whistleblowing Channel, assessing possible improvements of the controls and systems established in the Company, processing communications in order to solve them, encouraging knowledge of the Code of Ethics and regularly drawing up reports on the level of compliance therewith.

- **Risk Committee of each one of the business areas**

Currently, the risk Committees are included in the Committees held by each of the business areas, and it will become fully operational when the implementation of the Comprehensive Risk Management Model process is finished.

During 2016 the relaunch of the risk committees of the business areas is envisaged.

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

**Strategic risks**

***a) FCC Group's substantial borrowing could negatively affect its financial situation.***

**(i) FCC Group's borrowings**

FCC Group has substantial borrowings, fundamentally as a result of the financing agreements and other additional financing arrangements. Said borrowings could increase due to a number of reasons, including fluctuations in operating profit or loss, capital expenditure, working capital requirements and potential acquisitions or temporary trade associations.

FCC Group's financing agreements include financial ratios and other restrictive covenants that limit its capacity to carry out activities that might benefit its long-term interests, to pay dividends or to invest in new projects. If FCC Group does not comply with those covenants or does not meet its debt service obligations, it could incur in a breach of its financing agreements. Said breach, if it is not remedied or dispensed, could lead to an accelerated repayment of all the debt under the corresponding financing agreement. Under certain circumstances, should an event of breach occur, the debt under the financing agreement that entered into force in June 2014 may partially be converted into new FCC shares. On 21 November 2014, FCC Group entered into a binding agreement, the 'New Restructuring Framework Agreement', with creditor entities representing 86.5% of the Financing Agreement and other existing debt. This agreement was implemented by the Court in January 2015 and was challenged by three financial lenders, although it is considered that the likelihood of a final court order contrary to the Group’s interests is remote.

On the other hand, FCC Group’s financing agreements include obligatory clauses establishing the full early repayment that might be triggered by certain events, for instance, among others, a change of control. They also include obligatory clauses establishing partial early repayment. Pursuant to said clauses, the funds originating from certain capital increases and insurance indemnities, as well as from cash flow surpluses, must be used for the early repayment of FCC Group’s financial debt.

Also, FCC Group has recorded liabilities as a consequence of the payment deferrals granted by Spanish tax authorities for Value Added Tax and Corporate Income Tax, as well as deferrals of Social Security contributions, corresponding to withholding taxes for personnel work. Non-compliance with the agreed payment schedule could entail financial losses for FCC Group.

If FCC Group does not have enough cash to pay its debt, meet all the obligations arising therefrom and fulfil other liquidity needs, it might need to carry out action such as reducing or delaying capital investment, selling assets, restructuring or refinancing all or part of the existing debt, seeking additional own capital or missing business opportunities. FCC Group cannot guarantee that it will be capable of carrying out these measures in the future, including the relevant dispensations by the creditor entities under the financing agreements, under reasonable terms or otherwise.

On the other hand, it should be noted that FCC’s financing agreement has restrictions on certain types of fund transfers by the parties obliged under the agreement.

FCC Group’s project finance agreements likewise establish limitations on the use and transfer of funds as long as the debt service has not been fulfilled and as long as certain undertakings under those agreements have not been met.

**(ii) Characteristics of Cementos Portland Valderrivas Group’s borrowings**

As part of FCC Group’s debt mentioned above, Cementos Portland Valderrivas, S.A. must comply with a number of financial ratios by virtue of the syndicated refinancing agreement entered into on 31 July 2012 (the “CPV Refinancing Agreement”). These ratios are based on the costs of the consolidated Cementos Portland Valderrivas subgroup (excluding the Giant Cement Holding, Inc. subgroup) and they are co-related to its net financial debt level and its net financial expenditure in respect of EBITDA, as well as to its CAPEX ceiling.

Notwithstanding the ‘without recourse to FCC’ nature of Cementos Portland Valderrivas subgroup’s debt, as party to Cementos Portland Valderrivas, S.A.’s syndicated refinancing agreement, FCC entered into an agreement called “CPV Support Agreement,” whereby it was agreed that FCC would contribute up to a maximum of 200 million euros to CPV if certain events occurred in relation to CPV’s minimum EBITDA obligations.

Since CPV has not complied with the EBITDA levels provided in the “CPV Support Agreement,” FCC is liable since 10 October 2014 for the payment of up to 200 million euros to CPV pursuant to the above-mentioned CPV Support Agreement, although said payment has been deferred and it is governed by the same terms and conditions of FCC Group’s refinancing agreement.

Besides the situation of the CPV Refinancing Agreement, on 5 February 2015 FCC made a voluntary early repayment of the outstanding debt under the syndicated loan. The payment was made with a favourable resolution of the group of entities financing Cementos Portland Valderrivas, S.A., representing over 75% of the outstanding debt amount. With this payment, CPV met the capital repayment commitments of its debt principal for the entire year 2015.

As a consequence of the non-fulfilment of the ratios as of 31 December 2015, on 4 December 2015 the Company requested and obtained an affirmative reply from financial entities representing 42.1% of the outstanding balance, [allowing it] to keep in suspense the right to call for the early repayment of the financing agreement exclusively as a consequence of the non-fulfilment of the financial ratios.

**(iii) Lenders may seek the early repayment of the debt**

Some of FCC's lenders could interpret that the terms of the New Restructuring Framework Agreement or that the fact that FCC has been subject to an event of obligatory winding-up might give rise to a breach of contract or to an early repayment, according to the terms and conditions of some of the agreements regulating part of FCC's existing debt. As a consequence, they could try to instigate the early maturity of the debt involved.

Bondholders are not affected by the New Restructuring Framework Agreement and the corresponding Court approval thereof. Notwithstanding the foregoing, a group of holders of convertible bonds in January 2015 brought legal action at English Courts, requesting a declaration that the above-mentioned New Restructuring Framework Agreement and the corresponding Court approval represent a general financial restructuring process which, pursuant to the terms and conditions of issuance of said convertible bonds allows the holders to request from FCC the early repayment of their debt individually.

In April 2015, the English judge passed judgment acknowledging the right of bondholders to request from FCC said partial early repayment individually. In order for the early full repayment of the issue to take place, it would be necessary that bondholders representing at least 5% of the nominal balance outstanding ask for a Bondholder Assembly to be called where they, by absolute majority of the nominal balance of bondholders present or represented at the assembly (subject to there being a quorum) resolve said early full repayment. FCC is not aware of any bondholders having sought such an assembly or requested the individual maturity of convertible bonds, not even the bondholders who brought the action in the United Kingdom.

This Court judgment was appealed by FCC Group, which was authorised by the Court of Appeals to appeal, and the outcome is pending. Notwithstanding the foregoing, the plaintiffs could try to execute the judgment provisionally.

Said judgment, once it is firm or executed provisionally, could be resorted to by FCC lenders that are party to the FCC Financing Agreement as an event of early maturity of the credit due to cross breach. However, in order for said early maturity to go ahead it would have to be approved expressly by a majority of at least 66.67% of the lenders.

FCC Group considers that the judgment passed by the English judge regarding the convertible bonds has no impact whatsoever on the approval process, because it is a circumstance affecting debt outside the New Restructuring

Framework Agreement, unrelated to the possible reasons for challenging said Court approval process.

***b) FCC Group is exposed to risks in the execution of its disinvestments***

With the goal of reinforcing its position in its strategic activities and improving its results and financial situation, in 2013 the Board of Directors of FCC decided, among other actions, to divest from certain activities and assets that were not strategically important or in which it did not have a controlling position. Accordingly, in November 2015 Cemusa was sold and an agreement was signed for the sale of Globalvía.

FCC Group might not be able to complete the remaining divestments within the scheduled terms and, also, the divestments that have already been started might not reap the economic results that FCC Group expects to obtain, and the scheduled divestments might not even be executed in the end. It is also necessary to take into account that the contracts documenting said divestments normally include guarantees and obligations to indemnify the buyer in respect of the contingencies identified by the latter regarding the business the object of the divestment. Should said contingencies materialise, FCC Group could be liable for the payment of significant amounts by virtue of the above-mentioned guarantees and indemnities agreed to with the buyer.

FCC Group's current and future financing agreements might restrict its capacity to carry out future divestments or might impose requirements on the use of the revenues obtained from those divestments; also, FCC Group may not be able to obtain the necessary consent in respect of the contractual restrictions prohibiting the projected disinvestment.

***c) Adjustments due to impairment and provisions could have a significant negative effect on FCC Group's business and finances.***

FCC Group has recorded significant goodwill, concessions and other intangible assets on its balance sheet. FCC cannot assure that the Group will not incur losses/adjustments due to impairment of said intangible assets or other Group property, plant and equipment. Should this occur, it could have a significant negative effect on FCC Group's business and finances. For instance, a reduction of the revenues expected in the Construction Area, as a consequence of the difficult market conditions in Spain which remain in place, could oblige FCC Group to record further impairments.

A significant impairment of the cash flows supporting FCC Group' goodwill would have a negative impact on FCC Group's income statement, by recognising impairment adjustments in the corresponding goodwill, and on its balance sheet and equity, due to the subsequent reduction of the corresponding book values. This in turn could have other indirect negative effects, such as the difficulty in complying with the existing commitments under the financing agreements, or the non-renewal thereof or the non-obtainment of new financing.

***d) Risks related to the Court approval, as well as to the breach and early repayment of certain debt***

FCC Group has requested that certain agreements provided in the New Restructuring Framework Agreement, particularly releases from debt, margin reductions, payment deferrals, including the potential extension of the duration of Tranche B in the event of non-conversion, be imposed upon the dissenting creditor entities via the court approval of the agreement. This request met with a favourable decision by the relevant judge of the Commercial Court, although it was subsequently challenged by three of the dissenting lenders. If the challenging of said Court approval is accepted, this would not prevent the validity and application of the New Restructuring Framework Agreement to the lender entities that favoured it, as expressly stated in that New Restructuring Framework Agreement.

A Court decision accepting the challenge in respect of the extension of effects resulting from the Court order of approval should only bear effects for the challenging lenders, which in such event would be released from the effects of the New Restructuring Framework Agreement. Notwithstanding the foregoing, it cannot be ruled out that a decision accepting the challenging of the extension of effects resulting from the order of approval may also have effects favouring the non-challenging dissenting lenders, and hence that the effects of the New Restructuring Framework Agreement not be applied to them either.

***e) FCC Group is exposed to risks in relation to deferred tax assets.***

In principle, the cumulative losses incurred by FCC Group in prior years may be used to offset future profits subject to taxation. These deferred tax assets show the amount of the tax losses that FCC Group expects to be able to use, as well as the deferred tax assets that it expects to recover in the future. A change of FCC's expectations on its capacity to use deferred tax assets in the future (whether because of a change in the rule such as to eliminate or limit the right to offset deferred tax assets or a change in FCC Group's strategic plans or in its expected future profits) may cause an impairment of the value of those assets, which could negatively affect the results of FCC's operations.

The tax reform in Spain affecting Corporate Income Tax reduces the general tax rate applying in Spain from 30% to 28% in 2015, and to 25% as from the year 2016. Although this reduction of the tax rate might have a positive financial impact on the Group in the medium to long term, it will represent a reduction of the deferred tax assets and liabilities corresponding to the activities carried out in Spain and booked in the past, as well as of those booked in the future, and this could have a negative impact on the Group's equity level.

***f) FCC Group's working capital requirements are highly seasonal and require it to maintain high liquidity levels.***

FCC Group's cash requirements are very seasonal. Its cash requirements are higher in the summer and they are lower in the fourth quarter, when FCC Group receives payments from many of its public sector clients, particularly in November and December.

The only bilateral credit facilities available under the Financing Agreement that could be used to provide FCC Group with working capital are factoring, leasing and confirming, and these will be available only throughout the term of the Financing Agreement. The financing institutions that are party to FCC's Financing Agreement have undertaken to maintain the leasing and confirming facilities that were in place on the date when the FCC Financing Agreement was signed.

As long as the Financing Agreement is in force, FCC Group will be subject to limitations for further borrowing. Thus, under certain circumstances, FCC Group may open up new credit facilities provided that the new aggregate debt does not exceed a ceiling of 150 million euros.

On the other hand, the increase of seasonality in FCC Group's business which cannot be managed by extending the credit facilities or other sources of liquidity could have a negative impact on FCC Group's liquidity and on its capacity to meet its working capital requirements.

***g) FCC Group is required to furnish performance bonds or similar instruments***

In project-related business, FCC Group is required to furnish performance bonds or other similar instruments to ensure the timely compliance with its contractual obligations. If FCC Group does not manage to have those bonds granted by financial institutions under terms acceptable for its clients, it cannot submit its bid to take part in a project or, as the case may be, it may have to incur larger financial costs to obtain the necessary guarantees or bonds.

***h) FCC Group cannot ensure that its cost control programme will yield the expected results.***

The cost control programme implemented by FCC Group as from 1 March 2013 affects each and every one of its business areas and is based on the compliance with a number of objectives including (i) staff cuts (both in operations and ancillary services personnel) that significantly affect the Construction and Cement areas, with the object of adapting said personnel to the current conditions of the Spanish market; (ii) reorganisation of the Environmental Services area (mainly outside Spain) and the Water area with the purpose of simplifying the staff structure; (iii) implementation of new operating procedures to improve the efficiency of the contracts in the Environmental Services and Water areas; (iv) elimination of non-profitable business in the Cement area; (v) reduction of the cost of facilities as a result of staff relocation and less space used; (vi) other *ad hoc* measures.

These measures have led and may lead in the future to substantial cost restructuring. FCC Group, however, cannot ensure that its cost savings programme will yield the expected profits and returns.

***i) The staff cuts that FCC Group has carried out to adapt to market demands may negatively affect its business development.***

FCC Group has reduced its headcount as a result of the cost restructuring plan. Since 2013, FCC Group has gradually reduced the number of its employees in order to meet current market demands, adopting for such purpose several types of restructuring measures including the collective redundancy measures in FCC Construcción, S.A. that ended on 30 June 2015.

However, the layoff or early retirement of staff could negatively affect the future development of FCC Group's business, including its capacity to take advantage of new opportunities and maintaining sufficient professional expertise to perform planned activities.

In this regard, FCC Group has developed, in the Spanish territory, a project for the modernisation of the information and human resources management system, integrating all the information in a single, unique global database for the whole Group, with the purpose of supporting and facilitating that human resources management.

This project also includes an IT tool running under SAP, to design and implement the payrolls of all FCC Group's companies in Spain, thereby improving the security, quality and homogenisation thereof.

***j) FCC Group could come across difficulties for the implementation of its international growth strategy.***

International business represents approximately 47% of the turnover of the FCC Construcción Group and it is carried out mainly in European, North American and

Latin American markets. Since at present FCC Group generates over half of its revenues in Spain, it remains exposed to a certain degree of concentration risk in respect of the Spanish economy.

One of the goals of FCC Group's international diversification strategy, contemplated in its Strategic Plan, is to mitigate that risk by reducing the scope of its exposure to one national economy. Insofar as FCC Group is not capable of implementing its diversification strategy it will not be able to reduce its exposure to the Spanish economy.

In addition, at the Shareholders' Meeting of 25 June, FCC Group and Carlos Slim reached an agreement for the joint execution, on a 50-50 basis, of big projects in the Americas except Mexico, which is expected to boost the international growth strategy.

***k) FCC Group's international operations imply additional risks; the exposure to said risks will rise as its international operations grow.***

FCC Group expects to continue facing current and additional risks in international operations in the various jurisdictions where it operates. These risks may include difficulties in terms of managing personnel and the operations involved due to distance, time zones, language and cultural differences, difficulty finding local partners, hiring and training new personnel that speak the local language and with knowledge of the market, and difficulties for the correct implementation of our internal control policy and procedures in all the countries in which we operate. If FCC Group is unable to effectively mitigate or eliminate those risks, the results of its operations could be materially and negatively affected.

***l) The impairment of Spanish and global economic conditions could negatively affect FCC Group's business.***

FCC Group's business returns have been closely linked in the past, and are expected to continue to be so to a certain extent in the future, to the economic cycle of the countries, regions and cities in which it operates. Normally, sound economic growth in the areas where FCC Group operates leads to greater demand for its services and products, whereas slower growth or a contraction of the economy reduces demand.

The global economy has been significantly impaired over the last few years as a result of a severe financial and liquidity crisis. Said crisis has had a global impact, affecting both emerging and western economies. The crisis has affected several markets in which FCC Group develops a substantial part of its operations, including the Spanish market.

If the Spanish economy and that of other markets in which FCC Group operates stagnates or even contracts, FCC Group's business could be negatively affected as a consequence of the delay or even abandonment of potential projects on the part of FCC Group's clients, both in the private and public sectors, as well as due to a reduction of construction activities and a fall in the demand of construction materials. Also, for projects in which the infrastructures 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 adequate maintenance and renewal of the facilities. In periods of economic contraction, the authorities are more than likely to be reluctant to incur these types of expenses.

***m) FCC Group's international operations could be affected due to economic, social and political uncertainty.***

FCC Group carries out its activities in various jurisdictions and in the future it might expand its activities to new countries.

If FCC Group decides to enter new markets, it could be difficult to identify and adequately evaluate the risks present in each one of them until it gathers sufficient experience in each of these new markets. The revenues and fair value of FCC Group's international affiliates, as well as the dividends that may be generated through said affiliates, are exposed to the risks inherent to the countries where they operate. The economies of these countries are in different stages of political and socio-economic development. As a consequence, just like many other companies with a significant number of international operations, FCC Group is exposed to various risks in relation to business and investments outside its own jurisdiction. These risks may include:

- The influence of national governments on the economy;
- Fluctuations in the growth of the local economy;
- High inflation;
- Devaluation, depreciation or excess revaluation of local currencies;
- Foreign exchange controls or restrictions for repatriating profits;
- A changing interest rate environment;
- Changes in financial, economic and fiscal policies;
- Political, legal, regulatory and macroeconomic instability; and
- In some regions, the possibility of social unrest, terrorist acts and war.

**Operating risks**

***a) Public administrations may 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***

In Spain, as a general rule, if a public administration that has granted a concession linked to FCC Group's main activity decides to terminate the concession or recover the control over it prior to the end of the concession period, said public administration would be obliged to compensate FCC Group for all the profits that FCC Group should have received until the end of the corresponding concession period. However, in most of the concession agreements to which FCC Group is party, in the above-mentioned cases it is only entitled to recover the costs actually incurred or committed, the administration costs and the profits from the work completed up until the termination of the concession agreement.

Depending on the jurisdiction and specific circumstances, the public administration may unilaterally terminate its concession agreement with FCC Group without paying any compensation and, particularly in Spain, FCC Group's capacity to recover the profits is conditional upon whether the event of termination may be attributed to FCC Group or otherwise. Even when compensation is requested, it may be insufficient to cover the damages caused to FCC and, in particular, the loss of profit as a result of the termination of the concession agreement. If FCC Group is not capable of replacing the terminated agreements with others, it could suffer a decline of revenues.

Regardless of the nature and the amount of the compensation owed to FCC Group by virtue of a concession agreement terminated by the corresponding public administration, FCC Group might need to resort to legal action or arbitration proceedings to collect it, which would increase its expenses and delay the collection of the amounts the Group is owed.

Additionally, during the life of a concession, the relevant public administration could unilaterally impose restrictions or amendments of the rate agreed and imposed upon end users.

***b) The economic situation has entailed a decline of public administration tax revenues, generating a reduction of the investment in sectors such as concessions or infrastructures***

The context of economic instability and financial crisis in Spain and in other countries has entailed a decline in the fiscal revenues of public administrations, which in turn has entailed a reduction of public expenditure in certain areas of activity, including in this respect the concession, infrastructure and construction projects in which FCC Group operates.

Aside from general budgetary considerations, many of FCC Group's clients, including the public administrations, are continuously seeking cost savings and efficiency improvements. These and other factors could lead to our clients reducing their budgets for expenditure in FCC Group products and services, which would negatively affect FCC Group's results and financial position.

***c) Certain municipalities could decide to manage the services currently provided by FCC Group***

Urban services are affected by the decisions of current or future local governments. In certain cases, said decisions could lead to the municipal management of the services that are currently provided by private companies. In particular, in the case of FCC Group, municipal management could affect the Environmental Services and Water business areas, depriving them of future business.

***d) FCC Group's design and construction activities expose it to certain risks, including economic loss and liability for third-party actions***

In the Environmental Services, Water and Construction business areas, FCC Group develops 'turnkey' design-construction contracts that are remunerated based on a fixed price. The fact that the price of a 'turnkey' contract may be revised can vary depending on the jurisdiction. For instance, internationally the price of 'turnkey' contracts is not revised. On the other hand, in Spain historically it has been possible to revise the terms of that type of contracts, although over recent years there is increased resistance to review the terms of contracts. In many cases, profits are conditional upon the compliance with the execution goals, such that the non-attainment of those goals entails the imposition of contractual penalties.

These kinds of contracts expose FCC Group to technical, operating and economic risks, and FCC Group cannot ensure that the contractual measures adopted to mitigate these risks will be effective. Also, FCC Group could have to face difficulties that are fully beyond its control, for instance, the complexity of certain infrastructure, weather or economic risks or contingencies in the construction, acquisition and orders of equipment and supplies of goods, or changes in execution deadlines.

In some cases, FCC Group has to integrate existing information or studies provided by the client into its project planning, even though they may be inexact or incorrect. Also, sometimes the project requires the use of existing infrastructure with deficient operating characteristics. These difficulties and risks may lead to non-compliance with the contractual performance indicators, added expenses, loss of revenue or contractual penalties.

On the other hand, to execute its projects in all of its business areas, particularly in the Water and Construction areas, FCC Group relies on subcontractors and suppliers and FCC Group is generally entitled to make claims if they do not comply with their contracts. However, if a subcontractor or supplier files for bankruptcy or unexpectedly ceases its activity, that non-compliance could cause delays and subject FCC Group to relevant additional costs, which in many cases could not be fully or partially recovered. The evaluation and selection process to which FCC Group submits its potential subcontractors and suppliers might be inadequate for identifying those with unacceptable risk levels.

All of the foregoing could negatively affect FCC Group's results and financial position.

***e) FCC Group carries out its activities via long-term contracts that may diminish its capacity to react rapidly and satisfactorily to new unfavourable financial situations.***

The initial circumstances or conditions in which FCC Group signs a contract may vary over time, and said change may have a negative impact on FCC Group's results and financial situation. These changes vary in nature and might not be easy to predict. FCC Group cannot ensure the effectiveness of certain contractual measures, such as price-indexing clauses, which may be used to face those changes and restore the initial economic balance of the contract. As a consequence, FCC Group may be unable to adapt the remuneration to be collected from those contracts so that it may offset the changes in terms of costs or demand, regardless of whether that remuneration consists of a price paid by the client or a fee imposed upon end users based on an agreed scale.

Said limitations are worsened by the long-term nature of many of FCC Group's contracts. In this type of contracts, particularly in the case of public service management contracts, FCC Group is obliged to ensure the continuation of service, without being able to unilaterally terminate a contract even if considers that it yields no profits, and neither may it change its characteristics, except in certain circumstances, in the event of an evident infringement or breach by the client.

In addition, the new De-indexation of the Spanish Economy Act has amended the system for reviewing prices, rents and monetary securities with the purpose of more appropriately reflecting market information in terms of costs and demand, reducing the effects of persisting inflation and reducing possible price-competitiveness losses. This goal is sought by generally preventing the prices of contracts tendered after 1 April 2015 to be revised according to the Consumer Price Index ("CPI"), which could have a negative impact on FCC Group's business, especially in the Environmental Services Area if every Town Council is free to interpret how to apply the law.

On the other hand, in a negative CPI environment such as the present one there may be negative price revisions that would bring down turnover and hence the profitability of certain contracts tendered before 1 April 2015 or the prices of which are revised according to the CPI.

***f) FCC Group's payment capacity is related to the payment capacity if its clients***

FCC Group's liquidity risk is mainly attributed to its receivables and is therefore related to the Group's exposure to its clients' credit risk. In this connection, the most relevant risk is that not enough income is generated to be able to meet its payments. This collection risk may in turn be divided into two classes, according to client type: (i) collections from public administrations, mainly in the Environmental Services business area; and (ii) collections from industrial and commercial clients. The risk in relation to public administration clients is mainly that of delayed payments, which may hamper the Group's liquidity. FCC Group cannot ensure that public administrations will continue or increase any type of stimulus packages or that the Spanish government will eliminate or reduce any measures currently in force. However, if the Spanish economy contracts again, there could be a new increase of the payment period for public administrations. On the other hand, the risk with commercial clients is that of delayed payments and, in extreme cases, that they may become insolvent before FCC Group has been able to collect all the amounts owed by that client at the time. Also, expense reductions carried out by FCC Group clients, the fact that fewer construction projects are performed and an increased risk of clients' insolvency are other examples of general risks that FCC Group may experience.

To manage said risk, FCC Group has adopted a number of measures, but it cannot ensure that the measures adopted are the most suitable to protect itself against the possible risks related to trade debts, or that said measures will be able to effectively mitigate the adverse effects of those risks. If clients do not pay the amounts that FCC Group is counting on to meet its financial obligations, or if the payment thereof is delayed, FCC Group would have to find an alternative source of financing. And if it cannot find it, FCC Group would be exposed to the risk of not meeting its payment obligations, which could affect its financial situation.

***g) The decline in the acquisition of goods and services or the delay of projects, both in the public and the private sector, may negatively affect FCC Group's results***

Current economic conditions have led to a decline in acquisitions of goods and services by public administrations and companies in the private sector. Some of the latter could decide to halt the projects that are currently under development due to the lack of funds, or delay or abandon studies of potential projects until more favourable investment conditions arrive. Although the normal procedure in the private sector is for payment to take place gradually as the work is executed, FCC Group is exposed to losing revenue if the work is delayed.

On the other hand, the financial limitations of public administrations could force some municipalities to reduce their budgets, which in turn could reduce the funds earmarked for the maintenance or renewal of existing infrastructures or it could affect the scope and calendar of projects that are pending. Any resulting public expenditure deficits could have a significant effect on FCC Group's Environmental Services, Water and Construction business areas. Also, the Cement area could be affected indirectly by the reduction of the construction budgets of public administrations. Public expenditure reductions could cause FCC Group to have to assume additional investments to maintain its business operations in the way it had planned (for instance, water treatment facilities might not be renewed in satisfactory terms, i.e., with sufficient funds for the maintenance of those facilities) or to suspend or shut down certain business projects (for instance, if a municipal authority decides to shut down a facility for which FCC Group has the concession, for example a landfill).

***h) FCC Group relies on technology to develop its business areas and maintain its competitiveness. If FCC Group does not manage to adapt to technological developments or industry trends, its business could be affected negatively***

For the development of its various business areas, FCC Group relies on technology, including, among other aspects, communication systems, infrastructure management systems and systems for material and human resources control. In particular, for the development of certain activities FCC Group may rely on software or other custom-made technologies for which it may be difficult or even impossible to find an alternative supplier. As the number and scope of FCC Group's operations grow, it will be necessary to improve, update and integrate FCC Group's business areas, systems and infrastructures. Accordingly, FCC Group's future success will depend on its capacity to adapt its services and infrastructures to the rapidly evolving trends of its clients and to technology demands. On the other hand, the success that FCC Group has traditionally enjoyed in the development of technological platforms does not guarantee the continuation of that success. If FCC Group is not capable of continuing to develop the technologies it requires to compete and to execute its projects, it could lose market share and revenues compared to its competitors or to new market operators that are capable of implementing the necessary technologies.

Competitiveness in FCC Group's business areas is high and technology advances rapidly. If it is to succeed, FCC Group must develop and continuously improve its technology platforms. If FCC Group does not achieve this, any competitive advantages provided by its technology will most likely decrease in the short or medium term, leaving FCC Group at a disadvantage compared to competitors that are able to advance and improve their technology platforms. Furthermore, even if FCC Group's technological developments are superior to those of its competitors, this still doesn't ensure that it will maintain its competitive advantage.

FCC Group also faces the risk of technological developments arising that could dramatically alter the industry. If FCC Group is unable to adopt those new technologies or to adapt existing technologies to compete in an effective manner, it will be hard or impossible for FCC Group to maintain or improve its position in the markets in which it operates.

In this respect, FCC Group has an active presence in the field of technological research and innovation and dedicates substantial efforts to the continuous training of its staff. Additionally, it has outsourced the management of its IT and telecommunication infrastructures.

Also, FCC Group has implemented a common reporting system, with which it seeks to cover the reporting needs of its individual financial statements, as well as standardising on a systematic basis the process of consolidating the Group's economic and financial reporting.

***i) The entities in which FCC Group participates alongside third parties could expose it to risks***

FCC Group may develop its business activities in joint ventures with public authorities or private entities through different forms of association (companies, consortia, economic interest groups, joint ventures or similar entities). These types of structures are sometimes a requirement stated in the bidding conditions. Participants in these entities share the operating, economic and financial risks associated to certain very large projects or activities. In some of these associations FCC Group does not have a controlling stake, although it tries to manage the situation through contracts. 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, and this could negatively affect the performance and, in some cases, could end up in a breakup of the association. Also, if any of the members of the Association files for bankruptcy or if its financial capacity is jeopardised or limited in any other way, FCC Group could be liable for the payments owed by the association or by another partner, on the basis of any related obligation or guarantee, and it might not be able to obtain compensation from the other partner.

To mitigate these risks, the Group selects the partners with which it participates in the different business areas, applying the procedures included in the FCC Group General Rules Manual.

Regarding the risks arising from outsourcing, the outsourcing model established by FCC Group is applied homogeneously, according to that General Rules Manual, where an action protocol is established stating the minimum requirements for Group companies to be able to outsource work under public or private contracts.

Also, the Human Resources Manual defines the work liabilities assumed by FCC Group in cases where it outsources staff for works or services.

***j) Some of FCC Group's subsidiaries are controlled by third parties over whom FCC Group exercises no control***

FCC Group carries out operations in a number of jurisdictions in which the local regulations restrict or may restrict: (i) foreign shareholders from acquiring a majority stake in companies registered locally or in companies operating in certain sectors, for instance construction; or (ii) the possibility of foreign companies participating in public tenders.

In keeping with the strategy followed by many foreign companies operating in these jurisdictions, FCC Group in some cases has tackled this restriction to foreign ownership by using structures that are commonly used in practise, where the majority of the shares in FCC Group's local business are held by a company registered locally or nationally (depending on the requirements of each jurisdiction), by virtue of a management or similar agreement in the name or on behalf of FCC Group. The remaining minority stake in the capital of the local entity is held by FCC Group via one of its affiliates incorporated locally. Notwithstanding the foregoing, these management agreements may be less effective in terms of controlling and managing local businesses than in cases where FCC Group has a controlling stake.

Also, any ownership structure may be unilaterally questioned in Court in one or more jurisdictions. If such an objection is made regarding the ownership structure of any of the FCC Group affiliates in jurisdictions where restrictions to foreign ownership are applied, it cannot be ensured what criterion will be followed by the Courts when it comes to applying the local laws and policies to said ownership structure. A Court decision against the ownership structure in question could entail the nullity or non-enforceability of the contracts entered into, the amendment of the ownership structure of the businesses in that jurisdiction and penalties being imposed, which could negatively affect FCC Group's results and its financial situation.

***k) FCC Group's order-book is subject to adjustments and cancellations of projects, therefore it is not an accurate indication of future revenues***

In the Environmental Services and Construction business areas, FCC Group calculates the order-book on any given date as the sum of the contractual values less the amounts of the contracts it has recognised as income. Also, FCC Group calculates the order-book in the Water area based on long-term estimates throughout the duration of the contract, which serve as a basis for contracts with clients and with the rates established in said contracts.

Certain events or unexpected circumstances may negatively affect the amount and calendar of future income generated by the projects based upon which FCC Group's order-book is calculated. These factors may include: project cancellations; reductions or other amendments of terms of projects; more time requirements to complete works; interruptions of the works; and termination of a contract by the client if FCC Group's performance is inadequate.

On the other hand, FCC Group cannot predict the impact that future economic conditions may have on its order-book. In this regard, negative economic conditions may hinder FCC Group's capacity to secure new orders once projects are completed; these circumstances may also lead to the termination, modification or suspension of projects currently included in said order-book. Last of all, in the Water area, the differences between the original estimates and actual billing of water consumption throughout long-term contracts could make the actual income differ from the amounts forecast in the order-book.

FCC Group cannot ensure that its order-book will generate the expected income or cash flows, or that it will generate them in future financial periods. As a consequence, the Group's order-book should be analysed cautiously and should not be taken as a true forecast of future income.

***l) FCC Group participates in tender procedures and in regulatory authorisation procedures that may generate significant expenditure with no guarantee of success***

FCC Group is awarded a significant number of its contracts in competitive tenders. The tender or negotiation processes prior to the awards of these contracts are often lengthy, costly and complex, and the outcome is uncertain and hard to predict. FCC Group may invest significant resources in a project or tender in which it may not ultimately win the award, meaning that it misses growth opportunities.

The risks and opportunities arising in the tender and contracting process represent one of the major challenges faced by FCC Group. Accordingly, the Group is currently in the process of redefining the specific processes related to risk management in the bidding and contracting stages. The company has formally established policies and procedures that focus on technical quality, technological capacity, economic feasibility and competitiveness of the bids. The process of drawing up, submitting and monitoring bids is subject to different levels of authorisation within the organisation, and the main tasks in this field are allocated to specific departments made up by highly qualified technical staff.

Also, on some occasions FCC Group needs to obtain or renew various legal permits or authorisations. On the other hand, the authorisation processes for environmental activities come up against similar difficulties, and they are often, increasingly over recent years, preceded by complex studies and public consultation. FCC Group might have to abandon certain projects in which, having been awarded the works, it is not capable of generating enough compensation to cover the investment costs, if it does not manage to obtain the necessary permits to develop the activity or if it does not manage to obtain the necessary authorisation from the competition authorities.

All of these aspects may increase the cost of the Group's activities and in some cases it may lead to its abandoning certain projects, which may negatively affect FCC Group's results and financial situation.

***m) FCC Group develops its activities in competitive markets***

There is intense competition in many of the business areas developed by FCC Group. When seeking new business, FCC Group competes with a number of groups and companies, including large construction groups and engineering companies, which may have more experience or a stronger local presence in the corresponding market than FCC Group. Additionally, these groups and companies may have greater resources, both material and technical or financial resources, and they may require lower returns on their investment and be able to present better technical and economic offers compared to those of FCC Group.

In the Environmental Services, Water and Construction areas, FCC Group competes mainly in domestic and international markets in the areas of large, complex civil works, water infrastructures and distribution and municipal services for solid urban waste collection and street cleaning. Competition in these markets is based mainly on the price, technical experience, delivery time and local presence. In this respect, FCC Group faces the risk that, for certain public tenders related to these areas of activity, competitors may present prices that are technically and economically unrealistic, such that it is not feasible for FCC Group to compete in certain specific scenarios.

In the Cement area, FCC Group competes in the market with cement, concrete and other construction materials. Competition in these markets is based firstly on price and then, to a lesser extent, on quality and service. Also, local presence is an important factor because transport costs are significant. The prices that FCC Group can charge its clients are not substantially different from the prices charged by its competitors in the same markets.

As a consequence, returns in this business area general depend on the level of demand, which is subject to changes as a consequence of market conditions that are beyond the control of FCC Group and of its capacity to control efficiency and operating costs.

***n) Public opinion may react negatively to certain FCC Group facilities***

FCC Group may have to face adverse public opinion because of its business activities, the growth of existing facilities or the construction of new facilities near towns or inhabited areas. In response to public pressure, governments or the relevant authorities may restrict, amend or rescind FCC Group's current activities, or its future growth plans, reducing FCC Group's capacity to implement its growth strategy.

***o) FCC Group uses large volumes of energy in its business, therefore it is exposed to the risk of fluctuations in energy prices***

FCC Group, particularly in the Environmental Services, Water and Cement areas, consumes large volumes of energy. The main items of the Group's energy costs are electric power, fuel and the acquisition of raw materials. This means that FCC Group's results are significantly affected by fluctuations in energy prices.

In some of the jurisdictions in which the Group operates, energy prices have risen significantly over recent years and they could vary substantially in the future. Fluctuations in energy prices are mainly caused by market forces and other factors that are beyond the control of FCC Group.

FCC Group cannot ensure that the measures adopted to mitigate inflation risk in the price of energy, which include diversifying fuel sources, using alternative fuels, including provisions in contracts that pass cost increases on to clients and negotiating fixed prices for long-term supply contracts, will be effective to protect itself from variations in energy costs. High energy prices during prolonged periods could substantially increase FCC Group's costs and reduce its margins to the extent that it is not able to adjust the prices of its products to compensate increases in energy prices.

***p) 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. Competition with other companies over qualified technical and management staff in the sectors where FCC Group operates is intense. Some of these companies may be able to dedicate greater financial and other resources to hire key staff.

If FCC Group loses part or all of its key staff it might be hard to replace them. If the Group cannot hire and maintain the key staff it needs, it will be more difficult, or maybe impossible, for it to successfully manage its business.

Also, some of the Group's employees have degrees, licences, special certificates and other professional expertise recognised by the public administration. FCC Group may need to employ staff with these qualifications and experience to be a candidate in certain public projects. If FCC Group does not manage to hire and maintain staff with the necessary professional experience and credentials, its capacity to successfully complete current projects and to compete for new ones would be negatively affected.

In relation to the human resources management carried out by FCC Group, it has implemented in Spain and in some of its affiliates training processes, consisting of training plans structured on the basis of programmed periodic training, whether basic or for updating knowledge, or specific training to address concrete needs at any given time. In particular, FCC Group develops training plans for all the staff involved in drawing up the Group's financial statements. This Plan includes permanent updating of the evolution of the business and regulatory environment of the activities developed by the different companies in the Group, as well as updating knowledge of the International Financial Reporting Standards and the regulations and evolution of the financial reporting internal control principles.

***q) FCC Group increasingly depends on IT systems***

FCC Group increasingly depends on highly sophisticated information technology or IT systems. These IT systems are vulnerable to several issues, such as software or hardware malfunction, piracy, physical damage to vital IT centres (DPC – Data Processing Centres) and computer viruses.

IT systems require regular updates and the Group may not be able to implement the necessary updates at the right time, or said updates may not work as was planned. This updating service is outsourced, with service level agreements established in the contracts to check compliance.

On the other hand, if FCC Group does not protect its operations from cyberattacks it could lose data on clients or projects or any other information that is important for its business performance. Threats are increasingly more sophisticated and FCC Group cannot guarantee that it will be protected from all of them. FCC Group may have to incur significant expenses as a result of failures in its IT systems. FCC Group cannot guarantee that the backup systems to provide high service quality and ensure the continuation of business will be capable of preventing all the threats. Backup copies are outsourced, and service level agreements have been established. If these systems fail or are inadequate, FCC Group might experience important business interruptions and might lose or jeopardise important data.

***r) FCC Group is subject to litigation risk***

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. These proceedings may have to do with claims because of defects in construction projects executed or in services provided, labour, environmental or tax claims. Unfavourable outcomes of such proceedings could represent significant liabilities for FCC Group, such as damages, the cost of cleaning and penalties in the event of spills, discharges or environmental pollution, non-compliance with comprehensive environmental authorisation requirements at its facilities or plants, and they could also interfere in the management of FCC Group's business. Even in the event of a favourable decision for FCC Group, said proceedings may be costly, time-consuming and require lots of attention from management. Also, the liability insurance taken out by FCC Group may not be sufficient, or it may not apply to the claims to which it is exposed. Notwithstanding the foregoing, FCC Group records contingent liability provisions, acting in conformity with the applicable law.

FCC Group is the defendant in certain lawsuits due to liabilities pertaining to several activities in the development of the awarded contracts. The relevant provisions have been recorded and it is expected that the lawsuits will not have an impact on the Group's equity.

In particular, the Group currently has certain ongoing litigation or against companies belonging thereto in relation to the bankruptcy proceedings of Alpine Bau GmbH ("Alpine Bau") and Alpine Holding GmbH ("Alpine Holding"). If the outcome of such litigation is unfavourable, the Group might have to face considerable liabilities. And there is also uncertainty regarding whether other claims will be filed directly against FCC Group, against Alpine Bau or against Alpine Holding, and, if they are filed and the outcome is unfavourable, whether they will negatively affect FCC Group.

***s) The industries in which FCC Group operates are closely scrutinised by the competition authorities***

In recent years, in various jurisdictions the competition authorities have submitted the business areas in which FCC Group operates, particularly the Cement and Environmental Services areas, to close scrutiny and they have imposed fines on companies because of their involvement in illegal cartels and other anti-competitive practices.

FCC Group cannot predict the outcome of the investigations or legal procedures underway in connection with competition issues. Also, FCC Group cannot guarantee that it will not be investigated in the future by competition authorities.

On the other hand, FCC Group may undergo restrictions in its capacity to carry out acquisitions in certain jurisdictions due to regulations to control business concentrations.

***t) If FCC Group does not obtain government approval for its projects, or if it is delayed in obtaining them, its financial situation and results could be affected negatively***

FCC Group operates in jurisdictions where its activities may be regulated and subject to authorisations by public authorities. Although FCC Group is subject to these requirements in many of its activities, they especially affect the Environmental Services and Construction areas and, in particular, the activities related to public services. With the purpose of developing and completing a project, the developer may need to obtain permits, licences, certificates and other approvals from the corresponding administrative authorities throughout several stages of the project. The process for obtaining these approvals is often long and complex. FCC Group cannot guarantee that it will obtain the necessary government approvals or the compliance with the conditions required to obtain the approvals or that it is adapted to the new laws, regulations and policies that may enter into force at any given time. If FCC Group does not manage to obtain the corresponding approvals or comply with the conditions for those approvals in certain projects, they could be delayed, FCC Group's reputation among its clients could suffer and its capacity to generate income would be in jeopardy.

***u) FCC Group's activities are subject to laws and regulations against bribery and corruption, which affects where and how FCC Group carries out its activities***

FCC Group's activities are subject to a number of laws and regulations, such as the Foreign Corrupt Practices Act of 1977 (FCPA) in USA, the Bribery Act 2010 in the UK, the rules enacted by the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury, anti-corruption laws in other jurisdictions and the Spanish Criminal Code, amended in 2015 by Organic Law 1/2015, of 30 March. This reform carries out a technical improvement in the regulation of the criminal liability of legal persons, introduced in the Spanish legal system by Organic Law 5/2010, of 22 June, with the purpose of adequately specifying the contents of "due control", the infringement of which allows criminal liability to be grounded.

FCC Group has established systems to facilitate compliance with the applicable laws and regulations and has provided its employees with training programmes to facilitate compliance with those rules. As of the date of this Registry Document, FCC Group has not been sanctioned for any breaches of anti-corruption or anti-bribery laws.

Regarding the recent reform of the Criminal Code in relation to the criminal liability of legal entities, FCC Group has drafted a Crime Prevention and Response Manual which has two clearly differentiated parts:

- The first part corresponds to the prevention stage and it consists of identifying and updating the behaviours entailing the risk of committing the offences that might occur in the Group, as well as planning and implementing the controls to mitigate them. To do so, the Group has set up certain bodies and mandatory procedures.
- The second part deals with the bodies and procedures implemented to respond to behaviours which could constitute the committing of a violation within FCC Group, especially behaviour which could be interpreted as illegal.

It cannot be assured, however, that FCC Group policies and procedures are followed at all times, or that they are able to effectively detect and prevent all breaches of the applicable laws and regulations, always identifying every instance of fraud, bribery or corruption in all the jurisdictions where one or more of its employees, advisors, agents, trade partners, contractors, subcontractors or joint venture partners are. As a consequence, FCC Group could suffer sanctions or reputational damage if its employees, consultants, agents, suppliers or partners do not comply with the corresponding anti-corruption or anti-bribery laws.

***v) FCC Group may be affected by accidents at its works***

FCC Group may be affected in the event there are accidents at the worksites of FCC Group projects, particularly in the Construction Area. These accidents may interfere in the operations and cause delays in project completions, which might in turn entail subsequent delays in payments by clients, as well as potential client claims, who would seek compensation and possibly terminate the contracts. Besides this, FCC Group could be liable for the damages caused in the accidents and it cannot guarantee that its insurance policies will be sufficient to cover these claims.

***w) Risks associated to the Environmental Services Area***

**(i) The landfill business in the UK has been and continues to be exposed to a highly adverse market situation, and things could worsen in the**

**future, with a negative impact on FCC Group**

During 2014, the main cause of the impairment of FCC's landfill business in the UK was the application of the European regulations that drastically reduce the waste to be eliminated at landfills, with the introduction and subsequent gradual increase of the Landfill Tax, as well as the institutional support for alternative recycling, treatment and elimination means (mainly incineration) to the detriment of landfills. Also, there has been a reduction of the total volumes of waste generated as a result of the economic crisis.

If the circumstances that generated the current situation continue or worsen and the decline continues, there would be an additional negative impact on FCC's business and accounts.

FCC Group's strategy in this respect in 2016 is to continue to move away from the management of unprofitable landfills that began in 2015, focusing instead on the waste recycling, recovery and treatment activities, with the goal of improving the overall profitability of its operations in the longer term.

**(ii) Reductions in waste gathering volumes would cause a reduction of the fees collected**

The fees collected by FCC Group under waste gathering service contracts are calculated based on the weight in tonnes of the waste that is gathered. As a consequence, a decrease in waste gathering would necessarily cause a reduction of those fees. The cause of the decrease in the production of waste is the reduction of consumption by individuals, which in turn is caused mainly by general macroeconomic developments.

Despite the fact that in 2015 there was an increase in waste gathering volumes, reductions could occur in the future, and this would have a negative effect on FCC Group's business.

***x) Risks associated to the Water Area***

**(i) Activities in the Water business are sensitive to changes in consumption models.**

There has been a decline in the volume of drinking water that is supplied in some developed countries, mainly due to the water saving programmes established by public authorities and the industry and due to the extended idea that water is a resource that must be preserved. In Spain, FCC Group estimates that the volume of water bills has declined by approximately 1% per year over the last 15 years. Thus far FCC Group has managed to offset the effect of these reduced volumes by means of production benefits and by negotiating contracts where part of FCC Group's revenues are independent of volumes. If the volume reduction increases those efforts might not be sufficient to fully offset said reduction.

**(ii) The Water business is sensitive to weather conditions**

FCC Group's results in the water business may be affected by significant changes in weather conditions. Thus exceptional rainfall levels could have a negative impact on FCC Group's results. For instance, in Spain during the 2003-2005 three-year period rainfall was lower than the average for the previous ten years, and 2005 was the driest year since 1947, leading, among other things, to water saving campaigns among consumers and plans to optimise water use in farming. Also, exceptional rainfall levels were the cause of the reduction of water consumption in France in 2007, whereas certain episodes of hot weather generated greater water consumption in 2003 in that country; in 2012, seven water authorities in southern and eastern England imposed the hose pipe ban due to severe drought, which affected 20 million consumers.

**(iii) When supplying drinking water FCC Group must ensure that the water is fit for human consumption**

The most significant risk associated to the management of drinking water facilities is the supply of water that might cause health issues among end consumers. For instance, if there are any errors in the water treatment process affecting water quality, or if there are any acts of sabotage altering the nature or quality of drinking water, FCC Group could suffer loss of business and revenues, reputational risk, and incur liability and have to pay damages or cleaning costs.

**(iv) Contaminated water spills could have a negative impact on FCC Group**

FCC Group manages waste water treatment plants and the main risk related to this activity is that of spilling contaminated water due to errors in the management of the facilities. Besides being caused by errors or negligence in facilities management, contaminated water spillages may take place as a result of acts beyond the control of FCC Group, including third-party acts, such as those of industrial users of sewage systems. In the latter case, FCC Group might be liable for damages and have to bear cleaning costs and suffer reputational damage.

***y) Risks related to the Construction Area***

**(i) FCC Group is subject to risks related to construction**

The time and the costs involved in the execution of FCC Group's construction projects may be affected negatively by several factors, including fluctuations in the costs of construction materials, equipment or labour, accidents, delays in obtaining approval by the relevant authorities, for project management, adverse weather conditions and land in poor condition, construction limitations and other unforeseen circumstances. Any of these factors might delay the complete execution of projects and lead to additional costs and subsequent losses. Delays in project completions could in turn lead to a loss of revenues or termination of contracts, as well as potential claims by clients, who would seek compensation or termination of contracts, and this could negatively affect the results and the financial situation of FCC Group.

**(ii) The construction industry is highly cyclical**

The construction industry is of a cyclical nature and is significantly dependent on public and private investment. Investment levels in the public and private sectors are in turn related to the general economic conditions. Investment generally increases in times of economic growth and it declines in times of recession. In Spain, in particular, the construction industry has been seriously affected by tough economic conditions over the last few years.

Current economic conditions have led to a sharp reduction in tenders for civil engineering works, including public sector projects in Spain and other OECD countries. Civil engineering investments included in the annual budget of countries where FCC Group is or intends to be present depend mainly on two factors: the budget policies of the corresponding governments and the existing economic conditions at the time.

**(iii) FCC Group's construction projects may be delayed or the budget may be exceeded, generating lower profits than expected or even losses**

Large-scale construction projects entail certain risks, for instance shortage of materials, machinery and labour or an increase of their costs. If contractors or subcontractors do not comply with the agreed deadlines and budgets and if there are any interruptions due to adverse weather conditions or unexpected technical or environmental difficulties, there could be delays and increases in the construction costs. The contractual liability clauses to which FCC Group might resort to in these situations in respect of contractors and subcontractors might not fully or partially cover the losses, especially in cases of contractor or subcontractor insolvency. If there are delays in the construction, FCC Group may receive the income later than expected and may face penalties and even the termination of the corresponding contract. These factors could increase FCC Group's expenses and reduce its revenues, in particular if FCC Group does not manage to recover those expenses through the operation of its concessions. Delays and cost increases may cause the projects to be less profitable than what FCC Group expects and even generate losses that could be significant. Several factors may prevent FCC Group from withdrawing from those projects, for instance performance bonds or other financial guarantees it may have granted; long-term contracts with local suppliers; local clients and partners that are not willing to withdraw from the project or joint venture, or employment contracts with local personnel. In this regard, on certain occasions it could be more costly for FCC Group to abandon non-profitable projects or projects generating long-term losses than seeing them through to completion.

***z) Risks associated to the Cement Area***

**(i) Operations in the cement business are subject to emissions control rules**

Cement production requires extremely high temperatures and it consumes important amounts of energy derived from fossil fuels, which in turn increase emissions of greenhouse gases. FCC Group's operations in the cement business in Spain are subject to the Kyoto Protocol. According to Kyoto, companies have a limited number of emission rights at their disposal and must acquire additional rights from other companies that do not use all of the ones they were granted. Considering that the emissions created by cement production cannot be reduced, emission rights must be managed carefully. If FCC Group does not properly monitor its emissions and emission rights it could face penalties and other liabilities.

FCC Group is exposed to the risks inherent to the emissions trading system (ETS) introduced by the European Union in 2005. Phase III of this system, which covers the period from 2013 to 2020, particularly stresses the elimination of the allocation free of charge of emission rights in respect of the generation of electricity, effective as from 1 January 2013, with exceptions for certain European countries, which significantly reduces the free allocation for heat generation. The overall goal is to achieve, by 2020, a 20% reduction of greenhouse gas emissions (compared to 1990 levels).

Regulations on emissions control and the obligation of operating within an ETS expose FCC Group to two risk categories. On the one hand, it might occur that FCC Group produces a higher level of emissions than expected, both for technical reasons and for business related reasons, and this might entail additional costs for the Group. On the other hand, FCC Group might not be able to adjust its price policies so as to pass on the overall impact of the extra cost of acquiring emission rights.

**(ii) The construction materials market depends to a great extent on the cyclical nature of the construction industry**

The construction material industry depends on the level of activity in the construction sector. The industry goes through cyclical trends and depends on the expenditure level in relation to construction in the residential, commercial premises and infrastructure sectors. Political instability or changes in government policies may also influence the construction industry, which is sensitive to factors such as GDP growth, population increase, interest rates and inflation. The worsening of the economy could lead to recession in the construction industry.

**Regulatory and compliance risks**

Regulatory or compliance risks are those arising from the breach of requirements and limitations established by Law and by the specific regulations applying to each business sector, as well as the breach of professional obligations or codes of conduct and contractual obligations.

***a) The industries in which FCC Group operates are subject to comprehensive regulations which are in turn susceptible of being amended***

In the execution of its business operations, FCC Group must respect several laws and local, province, national and international regulations. The laws and regulations applicable to the Group's business vary from one jurisdiction to the next and even between different towns and they may be subject to amendments, which may or may not be favourable. A change in the legal framework could lead to different or more restrictive regulations, and this could be the cause of changes in FCC Group's operating conditions; this could increase FCC Group's capital expenditure (for instance, the requirements for amending the configuration of existing facilities) or its operating expenses (for instance, the implementation of additional inspections and monitoring procedures), affect its results and financial situation or in any other way hinder the Group's development plans. Among these possible new regulations, new tax regulations, such as the one applicable to waste dumping and treatment services, could affect FCC Group's revenues if it is not capable of sharing those increases with end users.

Also, and as an example of regulations that have required FCC Group to adapt its activities, the Landfill Tax in the UK imposes charges according to the type and amount of waste deposited at landfills in an attempt to promote recycling, composting and extraction of value from waste.

FCC Group has implemented procedures that guarantee compliance with the laws regulating each one of the different economic activities developed in the Group. The different specialised departments stay abreast of regulatory changes, advising the Group's units accordingly and issuing standards as needed to standardise the Group's criteria and guarantee compliance with the law.

For activities developed outside Spain, the FCC Group seeks legal advice from local professionals in relation to the specific laws and regulations that affect the Group's business in each country.

***b) Past and present activities may expose FCC Group to cost increases and to liability risk, particularly regarding health and environmental risks***

The increasingly comprehensive laws and regulations under which FCC Group operates expose it to higher liability risks, particularly in environmental matters. The local, regional, national and EU entities of the countries where the Group operates regulate their activities and establish the applicable environmental regulations. The technical requirements imposed by the environmental regulations are increasingly costly, complex and strict.

These laws may impose strict liability in the event of damages to natural resources or threats to public healthcare and safety. This means that FCC Group may even be liable for assets no longer in its possession and for activities it no longer performs.

Besides this, FCC Group may be obliged to pay penalties, repair damages and perform improvement works even if has carried out its activities with due care and fully complying with operating permits. FCC Group may be considered jointly and severally liable together with other parties. The relevant authorities may impose sanctions and penalties or they may revoke and reject the grant of authorisations and permits based on non-compliance with current regulations.

Some of FCC Group's activities could cause disease, damages and even death, the interruption of the business or damages to the assets or to the environment. The measures established by FCC Group to mitigate these risks, including contractual limitations to the liability of FCC Group, the preventive and protective measures and the insurance policies covering what FCC Group considers its critical operational risks, may be insufficient, which could lead to it incurring substantial costs. A stricter application of the existing regulations, the entry into force of new laws, the discovery of previously unknown sources of contamination or the imposition of new, more demanding requirements may increase costs or impose new liabilities on FCC Group, leading to lower revenues and reducing the liquidity available for its activities.

In addition, by means of contracts for the outsourcing of environmental services, FCC Group companies may develop activities in certain places that are environmentally sensitive and qualifying as 'Seveso sites' with a high or low threshold (or their equivalent abroad) operated by industrial clients, particularly petrochemical industrial facilities. In these cases, the dangerous natures of the products, waste, spillage and emissions treated by FCC Group, as well as the nearness of the facilities that are managed to other potentially dangerous sites, require that FCC Group manage the performance of services with utmost care and expose it to significant potential costs and liabilities in the event of an accident. The regulatory regime governing 'Seveso sites' applies only in the European Union, but FCC Group can also operate at sites outside the EU, for instance the United States, which are subject to comparably strict regulations.

In this respect, FCC Group has implemented environmental management systems in the different business areas, which highlight the following:

a) Compliance with the environmental regulations applicable to the activities of each area.
b) Establishing and achieving continuous improvement targets beyond those required by prevailing legislation or contracts.
c) Minimising environmental impacts through proper operational control.
d) An ongoing analysis of risks and possible improvements.

These management systems have been implemented in the different business areas according to UNE-EN standards and the Group has obtained ISO 14001 certification for its Environmental Management System.

***c) FCC Group is subject to significant environmental and hygiene regulations that may be potentially costly***

FCC Group incurs and shall continue to incur significant costs and other expenses in order to meet its obligations in the field of the environment, safety and healthcare and to manage its risks regarding hygiene. In particular, these risks are related to water spillages, drinking water quality, waste processing, the contamination of the soil and ground waters and the quality of smoke and gas emissions. FCC Group may be unable to recover this expenditure via higher prices. Environmental laws and regulations are frequently amended, often leaning towards greater strictness. These changes in the laws and regulations may oblige

FCC Group to incur expenses or make investments in order to comply.

Legal requirements, including specific precaution and prevention measures, may oblige FCC Group to make investments and incur other expenses to guarantee that the facilities in which it operates comply with the applicable regulations. In cases where there is no investment obligation, FCC Group may have to notify its clients of their obligation to carry out the necessary works. If a client does not comply with these obligations, it could be detrimental for FCC Group as operators and it could negatively affect its reputation and growth capacity. Furthermore, regulatory entities have the power of filing procedures that could lead to the suspension or cancellation of the permits or authorisations that FCC Group has, or to the adoption of preventive measures requiring it to suspend or discontinue certain activities. These measures may be accompanied by penalties and civil or criminal sanctions that could have a significant negative impact on FCC Group's results and on its financial situation.

***d) Tax regulations***

Within the context of the delegation of powers agreed by the Board of Directors and the Chairperson, as well as the business model established in the FCC General Guidelines and the Financial-Economic Manual, in addition to the specific powers vested in the person responsible for the Tax Division, the functions of this Division include: proposing criteria relative to the Group's tax policies as well as advising on and coordinating their application, with fiscal efficiency, in corporate acquisitions and reorganisation operations and for those presented by the different business areas in connection with their activities.

Additionally, with the purpose of minimising and ensuring reasonable control and suitable information on fiscal risks, FCC has adhered to the Code of Good Tax Practice (a body in which large Spanish companies participate alongside the State Tax Administration), approved at the *Foro de Grandes Empresas* [Large Enterprises Forum], and it complies with its contents. In compliance with the terms of the Code, the Tax Division reports to the Audit and Control Committee on the Group's tax policies through the General Administration Management.

Since tax payments by FCC Group are a key item that must be considered in achieving the goals set within FCC Group, the tax function is involved in the entire value chain of the Group, from the initial assessment of a given operation or product to the subsequent execution and development thereof. Insofar as FCC Group's fiscal policy must always remain aligned with the Group's corporate principles, its mission and vision and its corporate social responsibility, FCC Group's Fiscal Area works as a strategic partner alongside the business and corporate areas, providing them with the advice they need in a clear, timely and focused manner in respect of any tax matters.

In September 2014 the Fiscal Code of Conduct was approved by FCC Group, which is applicable to all the employees of FCC Group and establishes the obligations that should be met by employees who work in the tax departments, so as to:

a. Follow the applicable tax regulations in each jurisdiction, based on sufficiently reasoned and reasonable interpretations and sufficiently verified facts.

b. Respect FCC Group's "Tax Area Control Framework Regulations", as well as the specific procedures for communication, action and review in the tax area.

c. Ensure that the relevant decisions in the field of taxation are supervised by the Group's senior management and are duly supported, based on a global, integrating approach that takes into account the various business variables and the possible risks that are assumed.

d. Develop and foster a relationship of transparency and mutual trust with the tax authorities of each country.

e. Participate actively in the tax forums of the employer associations and international organisations to which FCC Group belongs, in order to propose specific tax measures geared to attaining a fairer and more harmonised tax system, both for the interests of the Group and for those of society at large.

The goal of the Tax Area Control Framework Regulation is to define: (i) the general policy for managing fiscal risks within FCC Group, in particular the policy on the management of the so-called 'technical fiscal risk'; and (ii) the various responsibilities allocated within the Group in relation to management of tax risk and the identification and reporting of positions representing a technical fiscal risk.

***e) 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 it is obligatory for all the individuals in the Group and for third parties that voluntary accept its application.

The FCC Group Code of Ethics is a tool to guide actions in corporate, environmental and ethical issues of particular importance.

During 2015 a campaign was conducted for adherence to the Code of ethics, whereby employees must declare that they are aware of, understand and assume the principles and guidelines included in the Code. 2,554 adherences were recorded during this period.

Additionally, as part of the Welcome Manual, all new employees are informed of the Code of Ethics and of the obligation of complying with it.

The people in connection with the Code of Ethics, are under the obligation to report any breaches thereof, and for said purpose they can use the established ethical channels and procedures confidentially, in good faith and without fearing retaliation. FCC Group has established a general communication procedure for matters related to the Code of Ethics.

As a result of the incorporation of criminal liability of legal persons to the Spanish Criminal Code in 2010, FCC Group carried out a comprehensive study of the identification of the controls needed to mitigate the risk of employees committing any of the offences or crimes incorporated following the reform. As a result of this process, FCC Group has:

- A catalogue of priority crimes which identifies risk behaviours related to crime, existing control environments, control failures, risk holders and controllers, risk materialisation indicators. The fundamental goal is to prevent any crimes related to the legal person from being committed, reducing the probability of occurrence.
- A Crime Prevention and Response Manual defining the response protocols when a crime is committed, establishing the Response Committee and structuring the Whistleblowing Channel.

In addition, and in response to the reform of the Spanish Criminal Code approved in July 2015, the General Internal Auditing and Risk Management Department has been working on strictly monitoring the evolution of the amendments contemplated in the reform and their repercussion on legal persons, with the purpose of adapting the Criminal Compliance Risk Map and improving FCC Group's control environment in light of the possible occurrence of offences or crimes. The following aspects have been analysed, among others:

- The changes it represents in respect of the liabilities of senior management, administrators and directors, in keeping with the reform of the Capital Companies Act.

- The growing importance of Compliance Programmes within the organisation and the consideration that the legal person and the administrators may be exempted from criminal liability due to the existence of those systems, if their efficacy is proven by an autonomous body within the organisation that is entrusted with the function of supervising the control environment.

- The need of supervising, monitoring and controlling these programmes by a body with autonomous powers to take the initiative and control the reviewed unit.

- The new types of offence or crime from which liability arises for the legal person.

- The extraterritorial nature of some types of offence or crime.

Accordingly, the Crime Prevention and Response Manual is being reviewed with the following goals:

- Adaptation to new international rules and standards on Governance, Risk and Compliance.
- Incorporation of new requirements based on the Reform of the Criminal Code.
- Adaptation to FCC Group's organisational model and the redefinition of functions.
- Incorporation of the entry into production of the Complaints Management System.

Considering the changes mentioned above, around the end of 2015 FCC Group's Internal Audit Committee established a work group for the project of updating the Group's new Code of Ethics and Conduct, with the participation of the General Internal Auditing and Risk Management Department, the General Organisation Department and the Secretary General. FCC Group considers that only the strict observance of this type of regulations may prevent substantial legal and economic risks for the organisation and all the parties involved: clients, suppliers, shareholders and society (protecting people and the environment). Only in this way will our economic activities continue to be socially accepted and we will be able to increase the value of the company in a long-lasting manner. This project considers the following, among other aspects:

- The adoption of the latest best practice established by various national and international agencies,
- The incorporation of conducts that employees must identify as prohibited and as risk conducts that when carried out may entail the commitment of offences or crimes from which criminal liability may arise for the legal person,
- The establishment of a new training and communication plan at all levels of the organisation,
- The establishment of new acceptance mechanisms and periodic compliance commitments by the risk holders and controllers identified in the risk maps,

- The establishment of specific liabilities for compliance with the Code of Ethics in respect of:
    - Board of Directors, senior management and specific committees
    - Senior executives
    - Middle managers and other employees
    - Suppliers
    - Other persons or groups involved
- The establishment of a compliance structure:
    - Preventive: the regulatory compliance function and the compliance committees in the business units.
    - Detection: Response Committee and Whistleblowing channel.

### *f) Internal Control over Financial Reporting (ICFR)*

Listed companies have the obligation of including, in their Annual Corporate Governance Report (IACG), information on the description of its Financial Reporting Internal Control System (FRICS). Also, the Audit Committees of publicly listed companies have assumed new internal control responsibilities.

In this regard and in connection with the good practices proposed in the report published by the CNMV (Spanish Securities Market Commission), FCC Group has prepared a FRICS Report for 2015 which is part of the Annual Corporate Governance Report and it has been subject to an external audit.

### *g) Personal data protection systems*

The processing of personal data, mainly to comply with the Personal Data Protection Act (LOPD), is specifically regulated in the environments in which FCC operates. To manage the risk of non-compliance, there is a programme that measures the impact on each business area and then establishes the necessary controls. This programme defines the legal, organisational and technical controls in each case. Additionally, there is a tool documenting the audits and the events related to the LOPD.

### *h) Quality assurance systems*

FCC Group has, in all of its business areas, quality management systems that are formally implemented and deeply rooted in the organisation, which has allowed it to obtain the organisation's Certificate of the Quality Management System, according to the UNE-EN ISO 9001 standard, and successfully pass the auditing appraisals done from time to time by external professionals.

The quality control committees in the different areas of the Group are the supreme executive bodies with the authority to establish guidelines, oversee compliance and review systems

### *i) Information security systems*

FCC Group has an operating unit entrusted with analysing and mitigating the factors relating to a security issues, such as intrusion, attacks, etc.

For each new project implying decisive changes in FCC Group's reporting systems, an analysis is carried out of the existing risks in order to identify the specific threats and define the adequate countermeasures. With regard to information processing risk, FCC Group has established a Corporate Information Security Policy laying down common information management criteria to mitigate those risks which could affect the confidentiality, availability and integrity of information. These criteria are based on the internationals standards of the International Standardisation Organisation (ISO) set out in the ISO 27000 family standards.

As a consequence of the above-mentioned policy, the Company has a Code on the use of technological resources and different action protocols for the management of incidents related to the use thereof. Controls have been implemented to guarantee user access to the resources for which they are authorised based on their need to know and their assigned roles.

FCC Group has a monitoring system known as 'Data Leak Prevention' to detect and prevent the risk of classified data leaks through information systems.

FCC Group has a Security Operation Centre (SOC) that operates 24/7 to address the growing threat of attacks from the Internet and possible information leaks.

***j) Occupational risks***

A priority goal for FCC Group is to carry out its activities with a high level of health and safety for its entire staff, as well as strictly complying with the legal regulations on this subject, as shown by the Occupational Risk Prevention Policy approved by the Board of Directors. To achieve this, occupational risk prevention systems have been implemented in all business areas and the Group companies was awarded OHSAS 18001 certification, successfully passing the periodic assessment audits conducted by external professionals.

As a guarantee of homogeneity and as an instrument of global management and adaptation to the organisation's standards on this subject, FCC Group has a Corporate Manual on Occupational Health and Safety that entered into force in 2012, the guidelines of which are being incorporated to the management systems that are implemented. This is aimed at permanently reducing occupational accidents with an objective of 'Zero Accidents'.

The certification of the occupational risk prevention management systems has been incorporated as a global strategic objective in Human Resources.

**Financial risks**

The concept of financial risk refers to the variations, due to political, market and other factors, in the financial instruments contracted by FCC Group and their repercussion on the financial statements. FCC Group's risk management approach is consistent with its business strategy, seeking the maximum efficiency and solvency at all times, for which purpose it has established strict criteria for the control and management of financial risks, consisting of identifying, measuring, analysing and controlling the risks incurred in FCC Group's operations, and the risk policy is appropriately integrated within the Group's organisation.

Given the Group's activities and the operations through which it executes these activities, it is currently exposed to the following financial risks:

***a) Capital risk***

For capital management purposes, FCC Group controls its equity, both in the Group and in its parent company, FCC, S.A.

Given the sector in which it operates, the Group is not subject to external capital requirements, although this does not prevent it from monitoring the equity from time to time to guarantee a financial structure based on compliance with the regulations in force in the countries in which it operates, also analysing the capital structure of each one of the affiliates in order to allow a satisfactory distribution between debt and capital.

Proof of the above is shown by the capital increase carried out at the end of 2014 and the recently announced capital increase, both aiming to strengthen the Company's capital structure.

The permanent analysis of this capital is done for the major goal of maximising returns for shareholders.

The General Finance Department, which is responsible for managing financial risks, reviews from time to time the financial debt ratio and the compliance with the financing covenants, as well as the capital structure of the affiliates.

***b) FCC Group is exposed to foreign exchange risk***

A noteworthy consequence of FCC Group's positioning in international markets is the exposure resulting from net positions in foreign currencies against the euro or in one foreign currency against another when the investment and financing of an activity cannot be made in the same currency.

Although the basic currency in which FCC Group fundamentally operates is the euro, FCC Group also has financial assets and liabilities booked in other currencies besides the euro. The exchange rate risk lies mainly in debt denominated in a foreign currency, in investments in international markets and in collections made in currencies other than the euro.

FCC Group's general policy is to reduce, to the extent possible, the negative effect that the exposure to different currencies has on its financial statements, both in transactions and in equity-related movements. Because of this, FCC Group manages the exchange rate risks that may affect both the balance sheet and the income statement.

However, any important fluctuations in the value of these currencies against the euro could entail negative effects for FCC Group's business, financial position and results.

***c) FCC Group is exposed to interest rate risk***

FCC Group is exposed to the risk arising from variations in interest rates because the Group's financial policy seeks to guarantee that its current financial assets and its debt are partially linked to variable interest rates. The reference interest rate of FCC Group's debt with credit entities contracted in euros is basically the Euribor.

A hike in interest rates could cause an increase of FCC Group's finance costs linked to its borrowing associated to variable interest rates and it could also increase the cost of refinancing FCC Group's borrowing and the issuance of new debt.

With the purpose of being in the most suitable position for the interests of FCC Group, an active interest rate risk management policy is followed, continuously monitoring the market and taking different positions mainly according to the assets that are financed.

***d) Solvency risk***

The most representative ratio to measure the solvency and capacity to pay back debt is: Net debt/EBITDA.

***e) FCC Group is exposed to liquidity risk***

The Group carries out its operations in industrial sectors requiring a high level of financing; thus far it has obtained adequate financing for its operations. However, FCC Group cannot guarantee that the circumstances regarding how it obtains financing will continue in the future.

FCC Group's capacity to obtain financing depends on many factors, many of which are beyond its reach, such as overall economic conditions, the availability of funds at financial institutions and the monetary policy of the markets where FCC Group operates. Adverse effects in debt and capital markets may hinder or prevent FCC Group from obtaining adequate financing to develop its activities.

Aside from seeking new sources of financing, FCC Group may need to refinance part of its existing debt via bank loans and debt issuance due to the fact that an important part of FCC Group's financing becomes due in 2018. Historically, FCC Group has always been capable of renewing its loan agreements and expects to continue to do so over the next 12 months. However, its capacity to renew its loan agreements depends on several factors, many of which do not depend on FCC Group, such as general market conditions, the availability of funds for loans by private investors and financial institutions and the monetary policy of the markets where FCC Group operates. Negative conditions in debt markets could hinder or prevent FCC Group from renewing its financing. Therefore, FCC Group cannot guarantee that it will have the capacity to renew the loan agreements in economically attractive terms. The inability to renew those loans or to ensure adequate financing under acceptable terms could have a negative impact on FCC Group's liquidity and on its capacity to meet working capital requirements.

To properly manage this risk, FCC monitors the maturity dates on all the policies and financing agreements of all Group companies very closely, in order to negotiate the renewals in a timely manner under the best conditions the market has to offer; analysing for each case the suitability of the financing and studying other alternatives should the conditions be unfavourable. In order to mitigate liquidity risk, the FCC Group is present in various markets, to enable to it obtain financing facilities.

On 17 December 2015 the Board of Directors resolved to carry out a new capital increase, which had been approved by the General Meeting in June 2015. The goal of this increase is to reinforce the Company's equity structure and to reduce its debt level.

***f) Concentration risk***

This risk arises from the concentration of financing transactions with common characteristics and is broken down as follows:

- Sources of financing: In order to diversify this risk, FCC Group works with a great number of domestic and international financial institutions to obtain financing.

- Markets/Territory (Spain, abroad): FCC Group operates in a wide variety of markets in Spain and other countries; the Group's debt is denominated primarily in euros and the remainder in different international markets with other currencies.

- Products: FCC Group uses diverse financial products: loans, credit facilities, debentures, syndicated operations, assignments, discounts, etc.

- Currency: FCC Group finances its operations using a number of different currencies depending on the country where the investment is being made.

FCC Group's strategic planning process identifies the objectives to be reached in each of the areas of activity according to the improvements that are to be implemented, the market opportunities and the risk level that is considered acceptable. On the basis of this process, the Group designs operating plans specifying the targets to be achieved each year.

In order to mitigate the market risks inherent to each business line, the Group maintains a diversified position across activities related to construction and infrastructure management, provision of environmental services, energy and others. In the field of geographic diversification, in 2015 foreign activity accounted for 47% of total sales, and it was particularly important in the Group's most significant areas, infrastructure construction and environmental services.

***g) Credit risk***

Rendering services to or accepting orders from clients whose financial soundness is not guaranteed at the time of acceptance or which cannot be evaluated by FCC Group, as well as situations that may occur during the rendering of the service or fulfilment of the order that can affect a client's financial situation, can give rise to the risk of outstanding balances not being paid.

The Group takes care of requesting trade reports and assessing the financial solvency of customers prior to entering into contracts and it also monitors them permanently, with a procedure already enabled in the event of insolvency. For public sector clients, FCC Group has a policy of not accepting work that does not have an assigned budget and prior financial approval. Proposals for work that exceed a particular payment deadline must be authorised by the Director of Finance. Defaults are also monitored continuously with specific agencies such as Risk Committees.

***h) Risk-hedging financial derivatives***

In general, the financial derivatives contracted by FCC Group are accounted for according to the regulations on accounting hedges established in the Notes to the annual financial statements. The main financial risk hedged by the FCC Group using derivatives is the variability of the floating interest rates to which the various FCC Group companies' borrowings are indexed. The valuation of the financial derivatives is carried out using generally accepted methods and techniques by experts in the field that are independent from the Group and from its financing entities.

**Reporting risks**

***a) Organisational and corporate complexity***

Given FCC Group's organisational and corporate complexity, there could be a risk of inadequate comprehensive information reporting within the organisation.

The fact of not reporting adequately on the achievement of strategic goals by identifying critical risks that have materialised, regarding which Management could still carry out specific action plans to correct negative deviations to achieve such goals could entail significant deviation in terms of compliance with the FCC Group strategy.

Also, the identification of key performance indicators for business, in relation to compliance with the goals of each business unit, would make it possible to make decisions before there are any deviations in relation to the quality of the financial information that is reported.

Accordingly, and as part of the implementation process of the Integrated Risk Management Model, the Group is working on improving the existing information flow in respect of compliance with the Group's strategy according to the identification and evaluation of the risks hindering the achievement of the goals of each of the business units in FCC Group and the identification of the adequate KPIs for those goals.

***b) Reputation management / Corporate governance***

Reputation management is part of FCC Group's Code of Ethics and of the work developed in matters related to Corporate Responsibility and Ethics. Social responsibility policies are an inherent part of FCC Group, for which conducting business requires a comprehensive commitment to the society it is part of.

E.4 Identify whether the company has a risk tolerance level.

As the basis for the implementation process of the Integrated Risk Management Model that the Group is currently working on, the accepted risk levels shall be established for each Business Unit.

For risks exceeding the accepted risk for each sector of activity, the necessary action plans are established with corrective measures to keep their critical levels within the accepted risk area. These action plans include the necessary actions to reinforce existing controls and they may even incorporate new controls.

E.5 State what risks, including tax risks, materialised during the year:

- **Risk that materialised in the year:** Limitations on access and refinancing in financial markets.

**Underlying circumstances:**
The current financial and economic crisis has caused difficulties in terms of access to financing sources for the Group, as well as for refinancing existing loans in the best possible conditions, with the subsequent negative effect on the Group's financial statements.

**How the control systems operated and response plans:**
After presenting the new Strategic Plan on 20 March 2013, the Company embarked on a global refinancing process involving all of the parent company's syndicated loans and a significant part of the bilateral financing, which contemplates obtaining liquidity lines and extending the current maturities.

With the entry into force of the refinancing and the capital increase in the year 2014, plus the announcement of the new capital increase that will take place in 2016, the Group considers that it will be able to finance its activities.

- **Risk that materialised in the year:** Adaptation of FCC Group's personnel to planned operations/flexibility of personnel costs.

**Underlying circumstances:**
The current financial and economic crisis has caused a decline in the Group's turnover, equally affecting the rest of the operators in the market. This circumstance has led to a loss of efficiency per production unit, which has been shown on the Group's financial statements over the last few years.

**How the control systems operated and response plans:**
Over the last few years FCC Group has adjusted its Group structure to current demand

in the market, via several staff restructuring measures, and it managed to effectively adjust the headcount to the expected production requirements. These adjustments have continued in 2015, which has led to production efficiency improvements that will be more evident in the future.

- **Risk that materialised in the year:** Reprogramming of construction works.

**Underlying circumstances:**
The current financial and economic crisis has caused a delay in public-sector investment, leading to reprogramming of several construction works in Spain and abroad, with substantial effects on the outcome thereof due to clients' non-fulfilment of their commitments and FCC Group's continuous efforts to meet those commitments.

**How the control systems operated and response plans:**
In this situation, FCC Group carried out several actions to optimise the costs to a maximum at each of the facilities, in an effort to adapt to the new deadline commitments, claiming whatever was required from each one of the clients in every case. On the other hand, our trade relationship with our clients made it possible to reach an understanding.

- **Risk that materialised in the year:** Delayed payments by certain public-sector clients for the provision of urban environmental services and for construction works executed in Spain.

**Underlying circumstances:**
Both the entry into force of the Organic Law on the control of trade debts in the Public Sector, so that invoices are paid meeting the legal payment terms, and the new financing plan, allowing the Group to pay suppliers and cancel due liabilities yet to be paid, made it possible to bring down the effects of this risk.

**How the control systems operated and response plans:**
The permanent monitoring and control committees remain in place in order to minimise the volume of generated assets, thereby reducing the associated financial cost and consolidating the gradual reduction in the future. All of this has allowed a substantial reduction of the average payment period by those clients in Spain during 2015.

- **Risk that materialised in the year:** Cut-backs in investments forecast by Public Administration agencies.

**Underlying circumstances:**
As a consequence of the current economic and financial crisis, there have been cuts and investment restrictions for the construction of infrastructures in Spain.

Budget adjustments required due to the implementation of the Budget Stability Act have led to reviews of services rendered to levels sustainable according to clients' budget availability.

This has also led to a lower demand for cement, with a significant decline of sales and EBITDA, although over the last few months' demand seems to be increasing.

**How the control systems operated and response plans:**
This situation has been mitigated by selective increased presence abroad and by incorporating new contracts, focusing on a few select territories and complex civil works with high added value, with a growth of the portfolio of works abroad.

The continuing sales relationship with clients involved has allowed for the modulation of the services rendered without losing orders, and market share in Spain has been maintained.

Also, a new restructuring plan was implemented in 2015 in the cement area that is managing to adjust the operating and production capacity.

- **Risk that materialised in the year:** Country risk. Existence of certain unstable geographic markets.

**Underlying circumstances:**
The existence of certain unstable geographic markets in which FCC Group operated led to an ongoing re-planning of works abroad, with a negative impact on the Group's financial statements.

**How the control systems operated and response plans:**
During the last few years FCC Group has been developing a thorough strategic, operational and financial reorganisation in the markets where these risks materialised, aimed at mitigating those risks.

In this way and as part of the Group's strategy that started in 2013, a selective increase of the Group's presence abroad is being carried out, incorporating new contracts and focusing on a few select territories and in complex civil works with high added value.

- **Risk that materialised in the year:** General decline of activity.

**Underlying circumstances:**
The current financial and economic crisis has caused a widespread decline of economic activity, which has reduced the turnover but has not affected the market share in the sectors where the Group operates.

**How the control systems operated and response plans:**
In light of this situation, FCC Group took several measures to adapt its production capacity to the market situation, getting ahead of possible greater adverse effects on its financial statements. These measures had to do with personnel and with the restructuring of assets and divestments.

- **Risk that materialised in the year:** Impairment of intangible assets.

**Underlying circumstances:**
The current financial and economic crisis has caused a loss of value of some of FCC Group's investments.

**How the control systems operated and response plans:**
FCC Group recognised in the last few years' significant impairments of certain goodwill, adapting the Group's assets to its true recovery capacity.

- **Risk that materialised in the year:** Delays in the approval of dossiers.

**Underlying circumstances:**
The acceptance of the amendments requested by clients during the provision of services or the execution of works that cannot have the relevant budget item approved, together with the current financial and economic crisis, have caused an

increase in the delay in the approval of dossiers.

**How the control systems operated and response plans:**
In light of this situation, FCC Group is permanently monitoring the dossiers and contacts with every client to solve any doubts that may arise. For public sector clients, FCC Group has a policy of not accepting work that does not have an assigned budget and prior economic approval. Proposals for work that exceed a particular payment deadline must be authorised by the Director of Finance. There is also a permanent monitoring of defaults.

- **Risk that materialised in the year:** Delays in the new contracts that are scheduled.

**Underlying circumstances:**
The current economic crisis, the changes in local administrations and strong competition, especially in the service sector, have led to delays in the commencement of the provisions of some previously awarded services, causing slight adjustments in future forecasts.

**How the control systems operated and response plans:**
FCC Group monitors and analyses the contracts involved on an individual basis, adjusting its forecasts wherever necessary.

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

One of the major risks for FCC Group over recent years is the inherent risk related to the construction business both in Spain and abroad. In this respect the response plans established by the Group are continuing this year and they are part of a global restructuring process for the construction business. They were as follows:

- National construction: adjustments of the production means to the actual needs of the market, preventing the impairment of returns:
  - Adaptation of headcount to the current market situation.
  - Reduction of the sales structure, adapting it to the current market situation.

- International construction: returns are boosted by focusing on specific territories, selecting the most profitable works and markets, as well as building up the industrial business in select territories. In addition to this, just like in Spain, the sales structure is being reduced, adapting it to the current market situation.

Regarding the risks affecting the Environmental business unit:

- Headcount for the contracts have been fully adapted to the new service requirements.

- With the completion of the last supplier payment plan, low and stable trade debt levels have been attained and it is even expected that they may be improved with the entry into operation of the electronic invoice and the entry into force of Royal Decree 635/2014, developing the method for calculating the average payment terms of public administrations to suppliers and the conditions and procedure for retaining funds from financing systems.

- Local administration and town council budgets have stabilised, which will undoubtedly enhance the stability of the contracted services. Further cuts are no longer expected.

- Improvements are expected in terms of the decline in consumption due to the slight recovery of the economy, which will prevent loss of business in waste collection contracts where the fee is established according to the volume of waste that is generated—this is directly linked to consumption.

- In relation to the risk of delays in the approval of dossiers and successive regulatory changes in respect of price revisions, the Group is permanently monitoring the dossiers and contacting each client to solve any doubts that may arise.

In relation to the risks that have affected the Water business unit:

- In order to mitigate the potential stagnation of the domestic market, steps have been taken in order to intensify our presence in the international market, to which end the target markets have been identified and human resources have been restructured (support, sales development and production staff) according to the needs of the identified markets. The selected target markets try to mitigate the problems that have arisen in connection with social opposition to the privatisation of the management of municipal water services, aside from valuing the competitive advantages, basically as a result of FCC Aqualia's capacity to cover all the activities included in the integrated water cycle (design, construction, maintenance and operation).

  In addition, technology development lines have been strengthened through the R&D+innovation Department in the areas of sustainability, quality and smart management, with the goal of improving the Company's competitiveness in the local and international markets.

  At the same time, the presence in Spain of (domestic and international) employers' organisations and media has been strengthened in order to communicate the (technical and economic) advantages of having a private-sector company take part in water management.

- With the goal of not worsening the returns on our projects, in terms of sales, the new offer criteria require greater safety margins in terms of guaranteeing the project's IRR. In this respect, projections of annual demand, both in terms of provisions and population serviced, are considered as having a flat growth rate.

  As far as costs are concerned, the following initiatives have been implemented, among others:

  - Cost-reduction programme in the supply of electric power, including a revision of contracting conditions, implementation of a new software application and of new developments generated by the R&D&I Department.

  - Programme to reduce absenteeism by implementing a software application and developing preventive culture projects and the occupational Health Charter. At the same time there will be a revision of hiring methods and of the production structure domestically.

  - Programme to optimise operations by establishing central warehouses, reducing materials left in deposit and costly parts with low turnover rates.

- Programme to reduce the cost of managing the fleet of vehicles by implementing a software solution contemplating geolocation and control of the associated maintenance costs.

- With the goal of mitigating possible risks in the operation of water supplies for human consumption, work has commenced to identify critical infrastructures according to the criteria established by the Public Administration, in collaboration with the Spanish Water Operators Business Association.

There is a programme to restructure the activity of accredited and certified laboratories in quality control of water, adapting their performance to the new demands of EU directives, optimising the equipment replacement investments and increasing the capacity to conduct analyses.

Additionally, and with a bearing on all the areas in FCC Group:

- FCC Group is in the midst of a process to improve the Integrated Risk Management Model that will allow it, once it is fully operative, to react in anticipation of the materialisation of major risks, mitigating their effect. This model will make it possible to establish specific response plans whenever there are foreseeable deviations in the compliance with the strategy, classified by risk materialised, studying the cause of the materialisation of each one of the risks and the existing control environment in each case. This process is being coordinated by FCC Group's General Internal Auditing and Risk Management.

The remaining response plans carried out by FCC Group for each of the risks materialised in 2015 are set out in the preceding section E 5.

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

Describe the mechanisms in the control and risk management systems in relation to the financial reporting process (ICFR) 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 ICFR system; (ii) the implementation thereof; and (iii) supervision thereof.**

On 7 October 2015 FCC Group's Board of Directors approved its new Rules of the Board of Directors, adapting them to the new regulatory environment and best practices. This has changed the responsibilities of the Board and of its Committees.

The agencies and functions that are responsible within FCC Group for the existence, maintenance, implementation and supervision of an adequate and effective ICFR, and the responsibilities attributed to these agencies, are the following:

**Board of Directors**

As set out in article 8 of the Rules of the Board of Directors of FCC, S.A., the Board is ultimately responsible for the approval of the Company's general policies and strategies and, in particular, for the risk management and control policy, identifying the main risks of the Company and implementing and monitoring the suitable internal control and reporting systems, with the purpose of ensuring its future feasibility and competitiveness by adopting the most relevant decisions for the better development thereof.

During the year 2015 the renewal of the Board of Directors was completed, following the capital increase carried out in November 2014. The Board is composed of a total of eleven members, three Independent and eight Proprietary Directors.

**Executive Committee**

As set out in article 36 of the Rules of the Board of Directors of FCC, S.A, the Board may permanently delegate to the Executive Committee all of the powers pertaining to the former, except those which are reserved to the Board by the Law, the Bylaws or the Rules of the Board of Directors. Like the plenary Board, the Committee ensures that FCC Group's organisation structure, planning systems and management processes are designed to deal effectively with the different risks to which its business is exposed.

The Board of Directors designates the Directors that are to form part of the Executive Committee, ensuring that its structure is similar to that of the Board itself in terms of the various categories of Directors. In the year 2015 the Committee was made up of four proprietary directors and the held meetings on seven occasions. The functioning of the Executive Committee is determined in article 36 of the Bylaws of FCC.

**Audit and Control Committee**

The new Rules of the Board of Directors of FCC, S.A. establish, in article 37, that the Board of Directors of FCC Group will set up a permanent Audit and Control Committee, without executive duties and with powers to inform, advise and make proposals within its scope of activity. The Committee will comprise a minimum of three and a maximum of six Directors, appointed by the Board of Directors, taking into account their knowledge and experience in the field of accounting, auditing or risk management. All members will be non-executive Directors and the majority of them independent, and the Committee will name a Chairperson among the independent directors, and they may also choose a Vice-Chairperson. During 2015 the Audit and Control Committee was made up by five Directors, three of them being independent, including the new Chairperson, and two proprietary directors. The Committee met eight times.

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, notwithstanding other tasks that the Board of Directors may entrust to the Audit and Control Committee, it will be responsible for:

- Supervising the Company's internal audits that overseeing 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 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; and

  – 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.

- 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, informing the Board of Directors about:

  – 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;

- 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.

- With respect to internal control and reporting systems:
  - 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 from time to time the internal control and risk management systems, including tax risks, so that the main risks are identified, managed and adequately disclosed, as well as 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, monitoring the risk maps and the action plans that are necessary to mitigate the most relevant risks that are identified, among which are those arising from the internal control of financial reporting.
  - 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.

**Management Committee**

There is a Management Committee for each business unit.

**General Administration and Finance Department**

In February 2015, as part of the restructuring of FCC Group, the General Administration and General Finance Departments were joined together, forming the General Administration and Finance Department and a new general manager was appointed for the unified department. The details and description of this person's functions are the following, by way of illustration only:

- Coordinating the administration of the different areas, establishing the administrative processes and procedures generally applied in the Group and promoting the uniform application of the accounting and tax policies.
- Defining and issuing the accounting standards applied in the Group.
- Drawing up and supervising the consolidated accounts and management reporting.
- Performing the accounting and tax management of FCC, S.A. and its subsidiaries that are not allocated to the operating areas.
- Drawing up the Group's consolidated financial statements.
- Defining and publishing the tax criteria that are generally applied to FCC Group, both individually and at the consolidated group level.
- Advising the different areas in tax matters and taking part in solving any matters brought up by them.

- Preparing the Tax Group’s consolidated corporate income tax statement.
- Designing and publishing the procedures, documents and software applications generally used in FCC Group, for accounting and tax purposes.
- Advising the different areas in terms of procedures and taking part in solving any matters brought up by them.
- Coordinating the divisions of the Administration area of the Group's Central Services.
- Centralised financial management of the Group's activities, managing the Group’s debt and financial risks, optimising the cash and financial asset management, the financial control and management of the Group, relations with investors, the Stock Exchange and the CNMV, analysing and financing investments, monitoring and controlling bonds, guarantees and insurance.
- Coordinating the administration in the operational and functional areas, establishing the administrative processes and procedures to be applied generally within the Group and promoting the uniform implementation of the accounting and fiscal policies.

During 2015 there was an internal reorganisation of the General Finance Dept, whereby:

- The Models and Valuations area was established, reporting directly to the Managing Director of Finance, as a consequence of the unification and homogeneity of reporting for analysing and valuing projects, both those in the order book and those under development, for which the Group departments wish to submit bids in order to trace and ensure the financing thereof.
- Cash and Financial Control make up a new area, spinning off from the Domestic Financing area and assuming the following basic responsibilities: preparing the Group’s cash budget, drawing up the financial reports resulting from the Group’s balance sheet and its financial transactions, monitoring both the debt and the business contributed to the various financial entities with which Group companies work, and controlling fund contributions to joint ventures (UTEs).
- Since July 2015, the Management Control Dept. is ascribed to the General Administration and Finance Department. This department includes the functions of Management Control, Budget and Financial Planning Control, which is in charge of the following: (i) coordination and preparation of the annual budget; (ii) definition and implementation of various scorecards and key indicators to support the Group Management in its decision-making; and (iii) review and validation from time to time of the contract portfolio and the current offers to ensure that, in both cases, the criteria established by the Executive Committee in terms of margin, cash generation, return on investment and risks are fulfilled.

**General Internal Auditing and Risk Management Department**

The purpose of the General Internal Auditing and Risk Management Department is to provide the Board of Directors, via the Audit and Control Committee, and the Senior Executives of FCC Group, with whom it actively collaborates, with the effective supervision of the Internal Control System, by exercising a unique and independent supervision function aligned with professional standards, contributing to Good Corporate Governance, verifying the proper compliance with applicable regulations, both internal and external, and reducing to reasonable levels the possible impact of the risks attached to achieving FCC Group's objectives *(additional information included in section F.5.1)*.

In this respect and with the goal of strengthening FCC Group's Internal Control System and hence of being more efficient in the performance of these functions, during the year 2015 funds were allocated to the Risk Management Department within the General Internal Auditing and Risk Management Department, such that this Department is currently divided into two separate areas with independent functions:

- **General Internal Auditing.** The main functions are:

- Reviewing the financial information. Supervising the process of drawing up and presenting financial information and other information provided to third parties.

- Review of the internal control. Supervising the policies, standards, procedures and activities making up the control system established by the Group to ensure the proper management and reduction of risks.

- Supervising the External Audit. Analysis and proposal of the appointment and supervision of the external auditor, being the liaison for monitoring the audit.

- **Risk Management and Compliance Department**

- Management of business risks. Establishing a risk management system allowing Management to maintain an adequate internal control system by identifying, evaluating and establishing plans to respond to the potential risks that might prevent the fulfilment of the goals included in the Strategic Plan.

- Internal control. Performing internal control by reviewing the procedures and including new key controls. Establishing a management system for compliance with internal control together with an architecture of responsibilities to ensure that an acceptable level of risk is maintained by the Board of Directors.

- Criminal prevention. Establishing a management system for criminal compliance together with an architecture of responsibilities that mitigate the criminal responsibility of the legal person.

During 2015, the Risk Management Department prepared and delivered for approval to the Audit and Control Committee a new regulatory block related to FCC Group's Governance, Risk and Regulatory Compliance. This group comprises the following regulatory documents related to the Financial Reporting Internal Control System, which are expected to be approved by the Board of Directors in 2016:

- Corporate Governance and Internal Control System.
- Zero Standard.
- Risk Management Policy and System.
- Standards Compliance Policy and System.
- Criminal Compliance Policy and System.

These documents define FCC Group's Corporate Governance and Internal Control strategy, providing guidance to assist in achieving the sustained success of the organisation, positioning the Group as a stronger organisation in the face of internal and external pressure, by creating a solid internal control environment suited to market circumstances at any given moment.

The Zero Standard homogenises the creation and updating of new rules, policies, procedures and systems, contributing a series of guidelines that ensure a suitable and sufficient level of internal control. The purpose of this rule is to assist in the task of evaluating and perfecting the legal, institutional and regulatory settings applicable to FCC Group's Corporate Governance, developing and improving its contents based on the best market practice in the field of Corporate Governance, with the goal of meeting the expectations of FCC Group's stakeholders in the present economic environment.

The Risk Management regulations are meant to implement, develop and continuously improve a work setting or common structure, with the goal of integrating the risk management process within corporate governance in relation to the organisation, planning and strategy, management, reporting processes, policies, values and culture. They specifically seek the following:

- Integrating the risk-opportunity vision in the management of FCC Group, by defining the strategy and risk appetite, as well as incorporating this variable to strategic and operating decisions.

- Separating functions, at an operating level, between the management or risk-taking areas and the areas responsible for analysing, controlling and supervising those risks, guaranteeing an adequate level of independence.

- Reporting, in a transparent manner, the Group's risks and the operation of the systems developed to control those risks to the Board of Directors, maintaining adequate channels to favour that communication.

- Supervising the implementation of suitable action plans for hedging risks.

- Acting at all times pursuant to the Law and the Company's Corporate Governance System, in particular according to the values and behavioural standards included in the Code of Ethics and under the principle of 'zero tolerance' of illegal doings and situations of fraud.

- Supervising the suitable compliance with the rules of corporate governance established by FCC Group, via its Corporate Governance System, guaranteeing the updating and permanent improvement of the system within the scope of the best international practice in terms of transparency and governance, thereby allowing the monitoring and measuring of that compliance.

Just like the creation of a culture of internal control, the creation of a risk management culture represents one of the fundamental pillars of good governance, guaranteeing the early detection of defective and/or insufficient control environments when it comes to reaching the organisation goals that can still be acted on by Management, to protect the organisation against the possible materialisation of risks associated to those control environments.

To reach these goals, the Risk Management Policy proposes the operation of homogeneous risk management system throughout the Group, ensuring that risks are treated uniformly and thoroughly analysing the causes of the materialisation of present and future risks affecting the attainment of our goals. All of the foregoing must be done according to generally accepted basic principles in the risk management best practices, ensuring that the acceptable risk level established beforehand by the Board of Directors is always present in the decisions made by any executives in our Group.

The new regulatory compliance rules are meant to lay the foundations of general compliance with internal control in FCC Group, by creating an internal control culture allowing the understanding and the suitable assumption of responsibilities arising from non-compliance. Legal compliance is an especially important matter for FCC Group, meaning that integrity determines the way we act and that without exceptions we abide by ethical and legal demands.

In addition, following the reform of the Spanish Criminal code, which entered into force on 1 July 2015, it is necessary for the Board of Directors to approve a Criminal Compliance Policy to ensure the permanent and efficient operation of the organisation and management model to prevent the occurrence of crimes or offences within the organisation, so that FCC's internal control mechanisms operate continuously and permanently, including the monitoring and surveillance thereof, regarding the risk behaviours of its employees, which also allows the traceability and documentation thereof so that Court authorities may evaluate and consider such behaviour if necessary so that the legal person may prove that the Group's governance bodies have observed due diligence, rendering the legal person free of any criminal liability.

In this regard, in 2012 the Crime Prevention and Response Manual approved by FCC Group's Board of Directors laid the foundations for the preparation of that model, establishing both the criminal compliance function, which is geared to preventing offences or crime, and the suitable response channels to carry out the investigation of offence/crime claims within the Company, geared to diligently responding thereto.

The approval of this new regulatory block in 2016 will ensure the definitive implementation of the model and compliance therewith, as well as the active consideration of the model in any decision-making processes within the organisation.

**General Organisation Management**

The General Organisation Management takes on the remit of Human Resources, Corporate Security, Information Systems and Technology and Purchases Areas. HR's mission at FCC is to favour and boost the development of individuals, communication and a good working environment climate, in line with the Company's strategic goals and policies, via the efficient management of HR specialised services, in a context of diversity and internationalisation. Its functions include establishing the policies, strategies, rules and general grounds for selecting, hiring, training, employing, developing and empowering people in our organisation, all aligned with the Company's general strategy and that of its different business areas. The basic goal of this function is to create the necessary environment to attract, manage, motivate and develop the best professionals. To do so, the HR division is divided into three areas:

- Legal counsel, labour relations and occupational safety.
- Organisation, compensation, administration and reporting.
- Training, selection and development.

The Information Technologies and Systems Division, hereinafter the ITS, guarantees suitable technology support for the Group's management processes, optimising the management of the necessary resources and service level for users, ensuring the confidentiality and integrity of information systems. The action model is geared to FCC Group achieving its strategic goals via two means:

- Operating efficiency in the performance of all of its activities.
- Support for FCC Group's internationalisation, deploying the necessary IT applications and services based on solid infrastructure, in the countries where FCC has a productive presence.

The main functions of ITS are:

- Managing the Group's technological resources and keeping them updated.
- Defining the business process information needs and setting priorities with users.
- Guaranteeing that systems are suited to the management information needs.
- Supporting projects for improving the business processes for which the division is responsible.
- Guaranteeing that users have adequate technological support.
- Implementing the proposed safety measures to guarantee the confidentiality, integrity and availability of information systems.
- Managing the area's suppliers.

Additionally, Information Security and Technological Risk Management is responsible for Information security and for managing risks related to the processing of FCC Group's information assets. Its function is to foster Information Security, promoting good corporate governance by means of adopting the most highly accredited international security standards. This goal will be sought by implementing an Information Security Management System (ISMS) according to ISO 27001. In this model, the risk analysis of the information assets administered by FCC Group assumes a relevant position, as an evaluation item prior to the deployment and management of risk mitigating measures. Information Security and Technological Risks Management is integrated in the ITS organisation chart with the following functions:

– Preparing on a triennial basis FCC Group's Information Security Strategy Plan and following up on compliance therewith from time to time.
– Coordinating with the FCC Information Security Committee and supporting it in the performance of its functions, as well as setting the common strategies on the security of assets for all the Group's business division committees.
– Defining the corporate information security policies and checking from time to time that they are being met.
– Establishing the risk analysis and management guidelines and defining the method to be applied.
– Coordinating with the different business areas to ensure regulatory compliance in the field of personal data protection.
– Defining and implementing internal controls to verify the proper compliance with the corporate information security policies.

– Reviewing from time to time the efficacy of the Information Security Management System, as well as measuring the efficiency of the internal controls that are implemented.

– Performing internal audits of the Information Security Management System according to planned intervals.

The goal of the Purchase Department is to provide a purchase service that satisfies internal customers and contributes to increase FCC's negotiating capacity, in keeping with principles of the Strategic Plan and the Group's general policies. In February 2015 FCC Group's Board of Directors approved the creation of a Group Purchase Centre, acting as the parent for the different activities to carry out negotiations, procurement and control of the purchase of materials and services, always seeking the best conditions for the company and optimising the planning of works and/or subcontractors, resources and controlling budgets and results. The Purchasing Department works together with the business units to:

– Identify and establish the Group's value creation levers, contributing to business returns.

– Collaborate in establishing policies and procedures enabling the integrated management of the Group, creating synergies and building up a corporate culture based on FCC's historical values.

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

- **Departments and/or mechanisms entrusted with: (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.**

As defined in the new Rules of FCC's Board of Directors, the highest level of responsibility for the design and review of the organisational structure and the definition of the lines of authority and responsibility is done by the CEO supported by the Executive Committee, and ratified by the Board of Directors. These Rules define the responsibilities attributed to each of the Board Committees, together with the organisational structure of each Committee.

The CEO and the Executive Committees determine the distribution of tasks and functions, ensuring that everyone's powers are adequately known, in order to ensure that there is a proper separation of functions and efficient communication between them, including those related to personnel involved in the drawing up of the Group's financial reports.

The Appointment and Remunerations Committee proposes the appointment of senior executives with the most suitable profile for their duties and functions. Additionally, it is in charge of overseeing the remuneration policy established by the Company is observed and, in particular, it proposes the remuneration policy for Directors and senior executives to the Board of Directors. In 2015 this Committee was composed of four non-executive directors, two independents and two proprietary directors, and it met on eleven occasions.

The CEO is entrusted with defining the lines of responsibility and authority and each Corporate Department must define its organisational structure and its lines of responsibility. The process to determine the organisational structure is regulated by the Group's General Standards Manual in section 10, which regulates the bodies directly reporting to the Board of Directors, the distribution of the Group's management functions and the appointment of senior executives.

Furthermore, the Human Resources area has been taken up by the General Organisation Management and is in charge of updating and reviewing, with the support of the relevant departments, both the Group's organisational structure and its organisation chart. The detailed organisation chart of all the Group functions is published on the Company intranet. Accordingly, the HR area launched a project to modernise the reporting and HR management system; implementation was completed in Spain in 2014 and there are plans to re-boost the project in 2016 so that it may be implemented internationally. Among other goals, this project is meant to clearly define the organisational structure and the lines of responsibility in order to optimise the distribution of tasks and functions.

Additionally, within the new regulatory block which is due to be approved by the Board of Directors in 2016, the Regulatory Compliance Policy includes a specific section related to responsibilities in the Financial Reporting Internal Control System (FRICS), as described below:

The Financial Reporting Internal Control System must provide Management and the Audit Committee 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. To ensure this, this policy and system are established, based on the existence of different assurance levels. To this end, the main activities of the third level of internal control related to Financial Reporting Internal Control and the compliance or assurance thereof are the following:

**1. Responsibilities of the General Administration and Finance Department**

- Assuming high level executive functions in the management of the Financial Reporting Internal Control System.
- Executing control activities related to the preparation of local financial reports.
- Executing control activities in relation to the consolidation sub-process.

**2. Responsibilities of the Risk Management Department**

- Methodological support for the identification and evaluation of risks in the financial reporting process.
- Support in the identification of controls and the design thereof.
- Annual evaluation of the operation and global effectivity of FRICS, analysing whether the system is capable of detecting or preventing risks with a significant impact on the reliability of financial reporting.

**3. Responsibilities of the Internal Auditing Department**

- Reviewing the internal and external financial reporting.
- Control activities related to the monitoring of external auditing.
- Review from time to time of the operation and effectiveness of controls on the FRICS.

**4. Responsibilities of the General Finance Department (Stock Markets and Investor Relations)**

- Executing control activities related to the disclosure to the markets of the relevant financial and non-financial information established by Law.

**5. Responsibilities of the General Communication and Corporate Social Responsibility Department**

- Executing control activities related to the Group's external and internal communications, both in Spain and in the international companies, institutional relations, brand and corporate image management, advertising and social corporate responsibility policies. It is responsible for establishing the corporate social responsibility procedures for the proper dissemination of the organisational structure and lines of responsibility.

- **Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether there are specific references to the recording of operations and the preparation of financial reports), body in charge of analysing breaches and proposing corrective actions and penalties.**

  FCC Group has a Code of Ethics, the latest version of which was approved by the Board of Directors on the 27 February 2012, regulating the principles that must guide the Group's conduct and is compulsory for all employees and third parties who voluntarily accept its application.

  The Audit and Control Committee, according to article 37 of the Rules of the Board of Directors, has among its powers that of ensuring that the internal codes of conduct and the rules of corporate governance comply with the regulatory demands and are appropriate for the Company, as well as reviewing compliance with reporting obligations by the persons subject to those codes and rules of governance.

  In this respect, at the end of 2015 FCC Group's Internal Audit Committee established a workgroup for the project of updating a new Code of Ethics and Conduct for the Group, with the involvement of the General Internal Audit and Risk Management Department, the General Organisation Department and the Secretary General. FCC Group considers that only the strict observance of these types of regulations can prevent significant legal and economic risks for the organisation and all the parties involved: Clients, suppliers, shareholders and the Company itself (protection of people and the environment). Only in this way can we safeguard the social acceptance of our economic activities and we can increase the value of the Company in a durable manner. This project contemplates the following measures, among others:

- The adoption of the latest best practices established by various domestic and international agencies.
- The incorporation of conducts that the employees must identify as being prohibited and risk conducts that if carried out may entail committing offences or crimes that could lead to criminal liability of the legal person.
- The establishment of a new training and communication plan at all the levels of the organisation.
- The establishment of new acceptance mechanisms and periodic compliance commitments for the risk holders and controls identified in the risk maps.
- The establishment of specific Code of Ethics compliance responsibilities in respect of:
  - The Board of Directors, senior management and specific committees.
  - Senior executives.

  - Middle managers and the rest of the employees.
  - Suppliers
  - Other stakeholders or parties involved.
- The establishment of the compliance structure:
  - Preventive: regulatory compliance function and compliance committees in the business units.
  - Detective: Response Committee and Whistleblowing Channel

The FCC Group Code of Ethics is a tool to guide actions in corporate, environmental and ethical issues of particular importance.

The guidelines for conduct set down in the Code of Ethics refer to basic behaviour principles, relations with and between employees, internal control and fraud prevention, commitment with the market, the Company and the community.

The FCC Group Code of Ethics includes a chapter that is closely related to control over the preparation of financial reports called "Internal control and fraud prevention," which deals with the following topics: "Manipulation of information", "Use and protection of assets", "Protection of Intellectual Property", "Bribery and Corruption" and "Money laundering and irregular payments".

FCC Group communicates and disseminates the Code in the Company so that it may be known by all the employees, and there is even an online training tool. During 2015 an adherence to the Code of Ethics campaign was conducted whereby employees have declared that they are aware of, understand and assume the principles and guidelines included in the Code. 2,554 adherences were recorded during this period.

Additionally, as part of the Welcome Manual, all new employees are informed of the Code of Ethics and of the obligation of complying with it, and they are furnished with a copy of the code together with their contract. New employees sign a receipt, which includes the commitment of complying with the principles set out in the Code.

The Code of Ethics is also published on the Group's corporate website so that anyone can access it.

As a result of the incorporation of criminal liability of legal persons to the Spanish Criminal Code in 2010, FCC Group carried out a comprehensive study of the identification of the controls needed to mitigate the risk of employees committing any of the crimes incorporated following the reform. As a result of this process, FCC Group has:

- A priority offence or crime catalogue identifying risk conducts related to offence or crime, the existing control environments, control failures, risk holders and controls, risk materialisation indicators, the purpose of which is to prevent the risk of committing any offence or crime related to the legal person, reducing the likelihood of occurrence.

- A Crime Prevention and Response Manual that defines the response protocols if an offence or crime is committed, creating the Response Committee and structuring the Whistleblowing Channel.

In addition, and in response to the reform of the Spanish Criminal Code approved in July 2015, the General Internal Auditing and Risk Management Department has been working on strictly monitoring the evolution of the amendments contemplated in the reform and their repercussion on legal persons, with the purpose of adapting the Criminal Compliance Risk Map and improving FCC Group's control environment in light of the possible occurrence of offences or crimes. The following aspects have been analysed, among others:

- The changes it represents in respect of the liabilities of senior management, administrators and directors, in keeping with the reform of the Capital Companies Act.

- The growing importance of Compliance Programmes within the organisation and the consideration that the legal person and the administrators may be exempted from criminal liability due to the existence of those systems, if their efficacy is proven by an autonomous body within the organisation that is entrusted with the function of supervising the control environment.

- The need of supervising, monitoring and controlling these programmes by a body with autonomous powers to take the initiative and control the reviewed unit.

- The new types of offence or crime from which liability arises for the legal person.

- The extraterritorial nature of some types of offence or crime.

In addition, the international nature of FCC Group has required the analysis of requirements regarding corruption, bribery and money laundering established by international bodies and by some of the main countries where FCC Group performs its activities.

On the other hand, in September 2014 the Fiscal Code of Conduct was approved by FCC Group, which is applicable to all the employees of FCC Group and has the goal of establishing the policies, principles and values that should guide tax behaviour within FCC Group. Said code shows the obligations that are to be met by employees with responsibilities in FCC Group's tax area:

- Follow the applicable tax regulations in each jurisdiction, based on sufficiently reasoned and reasonable interpretations and sufficiently verified facts.

- Respect FCC Group's "Tax Area Control Framework rule", as well as the specific procedures for communication, action and review in the tax area.

- Ensure that the relevant decisions in the field of taxation are supervised by the Group's senior management and are duly supported, based on a global, integrating approach that takes into account the various business variables and the possible risks that are implicit.

- Develop and foster a relationship of transparency and mutual trust with the tax authorities of each country.

- Participate actively in the tax forums of the employer associations and international organisations to which FCC Group belongs, in order to propose specific tax measures geared to attaining a fairer and more harmonised tax system, both for the interests of the Group and for those of society at large.

- **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 people in connection with the Code of Ethics are under the obligation to report any breaches thereof, and for said purpose they can use the established ethical channels and procedures confidentially, in good faith and without fearing retaliation. FCC Group has established a general communication procedure for matters related to the Code of Ethics which is described here in this Whistleblowing Channel section, which allows the reporting, confidentially, in good faith and preferably named, of any behaviours contrary to the Code of Ethics that may be observed. The communication routes forming the basis of the Whistleblowing Channel are:

- An html page in the Group's Intranet: internal communication channel.
- Mail sent to Apdo. de Correos 19312, 28080-Madrid, managed by the Chairperson of the Response Committee.
- Email addressed to comitederespuesta@fcc.es, managed by the Response Committee.

The body in charge of analysing possible breaches is the Response Committee, which also establishes the system to propose corrective measures and, if it considers it necessary, penalties.

The Audit and Control Committee, according to article 37 of the Rules of the Board of Directors, has among its powers the reception from time to time of information from the Response Committee on the performance of its activities and the operation of internal controls. This committee reports to the Audit and Control Committee via its Chairperson, the General Manager of Internal Audits. The functions of this committee are to ensure the proper operation of the communication channel that has been established, valuing possible improvements of the controls and systems established by the Company, processing communications so that they can be solved, promoting the awareness of the Code of Ethics, and regularly preparing reports on the level of compliance therewith. In order to guarantee confidentiality, communications are received centrally by the General Manager of Internal Auditing and Risk Management, the General Manager of Organisation, the General Manager of Legal Counsel and the CSR manager, who are the members of the Response Committee, the body in charge of this procedure.

The Response Committee values the admissibility of the communication that is received, according to a preliminary review of its contents, placing on record the reasoned decision it makes. In any case the documentation that is generated shall be filed, pursuant to both the internal regulations for its functioning and the Spanish Data Protection Act, and if the case is accepted, a file will be opened, the contents of which will be included in the Whistleblowing Management System. Accordingly, the Crime Prevention and Response Manual is being reviewed with a triple objective:

- The incorporation of new requirements based on the reform of the current Criminal Code.
- The adaptation to FCC Group's organisational model and the redefinition of functions.
- The incorporation of the changes resulting from the future entry into force of the Whistleblowing Management System.

In respect of the last item, during 2015 progress has been made in the definition, development and implementation of a tool to support the Whistleblowing Management System, which makes it possible to guarantee that the reports received through the channels established in the Crime Prevention and Response Manual are managed according to what is established in the manual, guaranteeing confidentiality and the traceability of information and that all actions carried out are documented, in turn guaranteeing that the legal requirements established in the Spanish Data Protection Act (LOPD) are met.

Additionally, during 2015 a single evaluation model was established from the preliminary inquiry of the complaints received, homogenising both the aspects that are to be evaluated and their scale of valuation, with the goal of ensuring the coincidence of criteria among the corporate areas receiving complaints when it comes to opening an inquiry process, allowing responsible and diligent decision-making in respect of the objectives to be met by the Whistleblowing Channel.

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

Training at FCC is not a social benefit but rather it is a tool to help the Company grow, and enables employees to grow with it. The main goals of training at FCC are:

– To obtain better performance and efficiency from personnel in the performance of their functions and the functioning of the Company.

– To achieve personnel career development goals.

Work has been done during 2015 on the definition and implementation of a simple competence model, enabling the integrated management of all the key people development processes.

During the year 2015, the Risk Management Department and the General Manager of Internal Audit and Risk Management provided training in relation to Internal Control in Management Committees of the various business units, on aspects related both to managing business risks and to managing criminal compliance by virtue of the latest reform of the Spanish Criminal Code. Specifically, the Risk Management Department was present at several Management Committee meetings in the year 2015. During 2016 courses related to the updating of FCC Group’s Code of Ethics are scheduled.

In addition, FCC Group’s General Administration Department and the Human Resources area jointly develop training plans for all the personnel involved in the preparation of the Group’s financial statements. This Plan includes the permanent updating of the regulations affecting financial reporting and internal control in order to guarantee the reliability of financial reporting, providing professionals at FCC with the necessary know-how and tools to optimise financial decision-making at all levels and in all the departments, developing their analytic capacity and their understanding of the impact of business decisions on the Company’s financial statements.

In 2015, as part of the Crosscutting Training Plan, the Management School included training for the management team in Corporate Finance, Economic Environment, Financial Management, Business Law, Sales and Marketing Management, Financial

Management, Analytical Accounting, Technology and Innovation, Human Resources Management, Operations Management, Planning and Control Management, Taxation, Business Strategy, International Management and Mergers and Acquisitions.

Also the Corporate Processes School includes training in Finance for non-financial staff, Self-training in Accounts and Financial Excel spreadsheets, International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), Headquarter Quality Systems, Adaptation to the new ISO 9001:2015 Standard, Support in preparing the Certified Internal Auditor Exam, Advanced Secretarial Techniques, Archive and Documentary Management Techniques, Promotion and Management of Equality and Non-discrimination, Analysis and Decision-making, Efficient Communication, Team Development, Management by Objectives, Change Management, Leadership, Motivating Others, Negotiating, Negotiating according to the Harvard Method, Management focused on Result, Planning and Organisation, Decision-making, Teamwork, Strategic Vision, Train the Trainers, International Business Relations, Office skills, Microsoft Access, Excel, PowerPoint, Excel and Word.

Additionally, in 2015 Senior Executive Leadership courses were provided, conveying the major values that must be present in the daily work of any management team in FCC Group: leadership, teamwork, developing potential, negotiating and integrity.

During the year 2015, 359,077 training hours were provided, the majority externally, of which 12.163 hours (3,39%) were for acquiring, updating and recycling economic and financial knowledge including accounting and auditing standards, internal control and risk management and control, as well as other regulatory and business aspects that must be known for the suitable preparation of the Group's financial reports, benefiting approximately 1,298 people.

**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:**

- **Whether the process exists and is documented.**

As part of the new regulatory block that is to be approved by the Board of Directors, the Risk Management Policy defines a risk management and control model based on the existence of three levels of risk management.

The first and second level of risk management is located in the business unit itself, which as part of its activity originates FCC Group's risk exposure.

The first risk management level is carried out by the business unit's operating lines, which are responsible for managing, monitoring and adequately reporting the risk that is generated, which must be adjusted to the authorised risk appetite and risk ceilings. To meet this function, this first risk management level must have the means to identify, measure, manage and report the risks that are adequately assumed. Below are some of the first level activities related to Risk Management:

- Drafting of Risk Materialisation Reports every four months.
- Assuming executive functions in the assurance of vertical or individual risks in projects or the response thereto.
- Assuming responsibilities in its management of vertical or individual risks in projects.
- Implementing responses to risks on behalf of Management.

The second internal control level is made up by support, risk control and supervision teams within the business unit. This second level oversees the effective control of risks and ensures that these are managed according to the defined risk appetite level. Below are some of the second level activities related to risk management:

- Drafting of the initial Risk Map at the time of bidding for a new project.
- Monitoring the Risk Materialisation Reports exceeding the materiality allocated to each business unit.
- Aggregate analysis of the risk level assumed by each business unit at every given moment to ensure that the risk level accepted and approved by the Board of Directors is not exceeded.
- Making decisions on risk treatment.
- Assuming executive functions in the assurance of crossover risks or those applying to the entire business unit or the response thereto.
- Assuming responsibilities regarding own management of crossover risks or those applying to the entire business unit.

The third risk management level includes the corporate functions located outside the business unit and hence independent from it. The most relevant corporate function in the risk management process is performed by the Internal Audit and Risk Management Department, which reports directly to the Audit Committee and assumed two distinct functions: the risk management function and the internal audit function.

The risk management function is responsible for carrying out the suitable coordination of the entire risk control and management process, reporting any incidents found and centralising and transmitting the best practice in this area. Below are some of the activities performed by the risk management function in the third level of Internal Control:

- Developing the risk management strategy so that it may be approved by the Board.
- Proposing the accepted risk level to the Board for approval.
- Leading the implementation of the Risk Management System.
- Assisting in the identification and evaluation of risks.
- Advising Management on the treatment of identified risks.
- Collaborating in the coordination of risk management.
- Collaborating in the implementation and maintenance of the framework for the business risk management and policy, supporting the Board through the Audit Committee.
- Preparing aggregate risk analyses and reports.
- Coordinating the risk management activities, ensuring that there are homogeneous criteria in each business unit.
- Providing assurance in respect of the risk management processes and the correct evaluation thereof.
- Evaluating the preparation of key risk reports by the business unit and reviewing the management thereof.

- Providing assurance in respect of the correct evaluation of key risks.

Subsequently, the internal audit function, as the last line of defence and acting as the last layer of control, evaluates from time to time the compliance with policies and procedures and checks that they are effectively implemented. Below are some of the activities of the third internal control level that are carried out by the internal audit function:

- Reviewing compliance with the risk management process.
- Reviewing the management of key risks.
- Reviewing the effectiveness, efficacy and efficiency of the controls.
- Evaluating the risk management processes, including the supervision of controls and procedures.
- Evaluating from time to time and independently the effective performance of the activities entrusted to the risk management function.
- Keeping the compliance function informed of any circumstances found within the internal audit function with regulatory implications.

Within each specific function, at each level there must be the sufficient and necessary independence to allow the adequate operation of the Risk Management Corporate Governance System.

Above the lines of defence, the Board committees and the executive committees of risks both in the corporation and in the business units, take care of the suitable management and control of risks from the highest levels of the organisation.

These risk maps take stock of the identification of the main risks of the business areas, together with the controls established by Management to mitigate the effect of said risks and the assessment, in terms of likelihood of occurrence and their impact on the financial statements of the area being analysed. Therefore, with support from the risk managers in the different business areas, the Group’s Management is being guided in a process of redefining and improving those risks, including the risks related to financial reporting and the preparation of those reports, both in terms of the definition and the allocation of responsibilities in risk management in the field of operations and in the preparation of procedures and methods, which include:

- Identifying the key risks for FCC Group according to the potential threat they represent for achieving the objectives of the organisation.
- Risk evaluation. The risk evaluation scales are defined in terms of the potential impact they could have if they were to materialise and the likelihood that they will occur.
- Identifying the key control activities to mitigate those risks.
- Identifying the risk holders.
- Allocating control responsibilities.
- Establishing key risk indicators.
- From time to time, the management of each business area analyses, together with the Risk Management Department, what risks have materialised in each of the Group areas, reporting it to the Audit and Control Committee.

Additionally, and once the model has been fully implemented, for risks exceeding the accepted risk level for each of the sectors of activity, the necessary action plans are established with the possible corrective measures to ensure their critical levels fall within the accepted risk level. These action plans include the necessary actions to reinforce existing controls and they may even incorporate new controls.

Each business unit fills in the Risk Materialisation Report (RMR), identifying the different types of risks that have materialised including:

- Identification and description of the risk that has materialised.
- Reason and cause of the materialisation of risks.
- Economic impact that has materialised, been incurred or accrued, the effect of which has already been recorded on the organisation's financial statements and regarding which Management cannot do too much.
- Economic impact that has materialised and is yet to be incurred or accrued, the effect of which on the Group's financial statements may be mitigated by the business area Management or by establishing specific action plans. Said impacts are identified as deviations from the strategic plan in the planning tools of each one of the business areas.
- General controls or procedures in force.
- Identification of failed controls.
- Risk materialisation indicators.
- Risk holders or people responsible for risks.

The risk materialisation reports are received and analysed by the General Internal Auditing and Risk Management Department, after which it will provide the necessary related guidelines, with the goal of collaborating with Management and carrying out the pertinent action. At present, the Group's General Internal Auditing and Risk Management is guiding the business units in the adequate identification of existing control activities under COSO, 2013 principles, as well as in the identification of the most effective risk materialisation indicators.

In respect of the risks arising from the criminal liability of the legal person:

1. At the time of including criminal liability of the legal person in the 2010 Criminal Code, the Board of Directors carried out an in-depth study on the identification of the necessary controls to mitigate the risk of an employee committing any of the crimes included in the reform. The following work was carried out:

   - Study of the FCC Group internal control general framework: components of the control environment, risk management, control, reporting, communication and supervision activities; especially focuses on all the existing protocols on the use of information technology at FCC and on its policy on the use of technological means and its IT security policies, among others.
   - Identification of the relevant crimes that may be applicable in FCC Group's business environment, especially in the fields of ethics and integrity, segregation of functions, and authorisations of payments, among others.
   - Assessment of the risk of each of the identified behaviours materialising, in terms of impact and probability.
   - Identification and setting priorities regarding the main controls and actions aimed at preventing, detecting, punishing and correcting said behaviours.

– Evaluation of the strength of the controls and key actions.

– Identification of areas of improvement for the management of the risk of crimes being committed and the establishment of specific action plans.

As a result of this process, FCC Group prepared a catalogue for crime prioritization and the Crime Prevention and Response Manual, which also defined the response protocols in the event of offences or crimes.

2. In addition, and in response to the reform of the Spanish Criminal Code approved in July 2015, the General Internal Auditing and Risk Management Dept. has been working on strictly monitoring the evolution of the amendments contemplated in the reform and their repercussion on legal persons, with the purpose of adapting the Criminal Compliance Risk Map and improving FCC Group's control environment in the light of the possible occurrence of offences or crimes. The following aspects have been analysed, among others:

   - The changes it represents in respect of the liabilities of senior management, administrators and directors, in keeping with the reform of the Capital Companies Act.

   - The growing importance of Compliance Programmes within the organisation and the consideration that the legal person and the administrators may be exempted from criminal liability due to the existence of those systems, if their efficacy is proven by an autonomous body within the organisation that is entrusted with the function of supervising the control environment.

   - The need for supervising, surveillance and control of these programmes by a body with autonomous powers to take the initiative and control the reviewed unit.

   - The new types of offence or crime from which liability arises for the legal person.

   - The extraterritorial nature of some types of offence or crime.

   In addition, the international nature of FCC Group has required the analysis of requirements regarding corruption, bribery and money laundering established by international bodies and by some of the main countries where FCC Group carries out its activities.

   The process, based on previously reported information, will lead to the Group's Consolidated Risk Map. In summary, the main characteristics that will define the Integrated Risk Management Model in FCC Group, once the new group of corporate governance standards, risk and compliance management are approved and it is fully implemented, will be the following:

   - Preventing and controlling the risks that may affect achieving the goals set by the Group;

   - Ensuring compliance with the legal regulations in force and with the Group's standards and internal procedures;

   - Guaranteeing the reliability and integrity of the accounting and financial reports.

- **Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.**

The operational risks identified in the risk map include the risk of reliability of the economic and financial reports affecting each one of the business areas. For the global assessment of this risk, the risk of errors in the financial reporting in each of the business areas analysed, to cover all the objectives of the financial reporting, mainly the registration, integrity, cut-off of operations, homogeneity of the reports, validity and assessment, are generally considered.

Given the singularity of the reporting risks and how important it is for FCC Group to adequately control this type of risks, the new Risk Management System incorporates reporting risk as an independent category in the risk maps, with reference to the risks associated to internal and external financial and non-financial reporting and covering aspects such as reliability, opportunity and transparency.

- **The existence of a process to identify the consolidated group, taking into account, among other aspects, the possible existence of complex corporate structures, shell companies or special purpose companies.**

  FCC Group has a register of companies that is permanently updated, which includes all of the Group's holdings, whatever their nature, whether they are direct or indirect, as well as any companies that the Group is able to control regardless of the legal form of said control, therefore including both shell companies and special purpose companies. This companies' register is managed and updated according to the procedures regulated by the Group's Economic and Financial Manual. The Corporate Intranet includes an individual file for each company with all the relevant information on each of the companies: shareholders, company purpose, governing body, etc.

  Each of the areas into which FCC Group is organised is responsible for maintaining and updating the scope of consolidation corresponding to its area of activity. The Consolidation and Accounting Standardisation Department keeps the database updated in the Corporate Intranet mentioned in the preceding paragraph, as well as the Economic and Financial Manual in relation to the list of the Group companies within the scope of consolidation, based on the data provided by the business areas. Additionally, controls are carried out from time to time on the proper accounting of the companies included in the scope of consolidation.

- **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.**

  FCC Group's global risk management system, following the best business practices in this field and applying the COSO method, has categorised risks as follows:

  - **Strategic.** These are risks considered to be key for the organisation and hence managed on a proactive and priority basis. Should these risks materialise, they seriously jeopardise the attainment of strategic goals.

  - **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 event 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.

- **Information or reporting.** These risks have to do with internal and external financial and non-financial reporting and cover aspects such as reliability, opportunity and transparency.

- **What company governance body supervises the process?**

The financial reporting risk identification process is supervised by the Audit and Control Committee via the General Internal Auditing and Risk Management, as part of its function of supervising FCC Group's internal control and risk management systems, as provided in Article 37 of the Rules of the Board of Directors.

**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 ICFR system, which are to be disclosed to securities markets, indicating who is responsible for these, as well as for the documentation describing all of 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.**

FCC Group is currently engaged in a process of implementing an Integrated Risk Management Model, which when fully operational will allows the Group to appropriately face the financial risks as well as other risks to which its activities are subject. This integrated risk management model is geared towards fulfilling the following:

- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Reliability of the financial reporting.
- Compliance with applicable laws and regulations.

The model relates the objectives to the risks that could prevent the execution thereof and to the control activities necessary to ensure that the response to these risks is suitable and that the proposed objectives are reached:

**OBJECTIVES => RISKS => CONTROL ACTIVITIES**

The controls and internal control activities are meant to verify that policies and procedures are met. The purpose of the internal controls and the procedures is to guarantee that FCC Group has sufficient elements of judgment to provide reasonable security regarding:

- The organisation's transactions are to be duly authorised.

- The Company assets must be safeguarded from unauthorised or fraudulent use.

- The Company's transactions are to be duly recorded and filed to enable the preparation of financial statements according to the accounting standards in force, laying the foundations for the development of a high level dynamic control system.

The internal control activities are developed through the organisation, at all levels and in all the functions. They include a range of varied activities including approvals, authorisations, verifications, reconcilements, reviews of operating functions, security of assets, separation of functions, etc. They are focused on preventing, detecting, penalising and correcting any possible risk behaviours that may take place in the various levels and areas of the organisation. One same control activity may be geared to preventing, detecting, penalising and correcting different risks within the same category, but may also be focused towards more than one risk category, given the synergies and interdependence between the various objectives of the Company. For each of the control activities, an individual function must be designated within the organisation to which the ownership of that control is allocated.

Control activities must be evaluated in terms of efficacy and efficiency. Because of this, the Integrated Corporate Risk Management Model, scheduled to be approved by FCC Group's Board of Directors in 2016, contemplates the attainment of internal control efficacy and efficiency objectives. This model is meant to mitigate the risks preventing the accomplishment of the Strategy defined by senior management by making better use of the resources at hand, in this way reaching the best specific internal control environment for each organisation. Set out below are the main types of controls or internal control activities according to the model:

1. **Preventive controls:** these provide reasonable security that only valid transactions are recognised and recorded:

   - Authorising or approval of transactions
   - Validating data prior to being processed.
   - Double checking data entered into the system.
   - Segregation and rotation of duties.
   - Incompatibilities.
   - Reporting systems.
   - Clearly defined standards and procedures.

2. **Detective control**: these provide reasonable security that errors and irregularities will be discovered.

   - Physical stock inventories.
   - Use of pre-numbered documents.
   - Comparing real data with estimates.
   - Bank reconcilements.
   - Internal and external audits.

Below are the main control categories and activities of Internal Control:

1. **Authorisation controls:** Procedures destined to the approval of the transactions that are executed and of accesses to assets and procedures according to management guidelines or with specific policies and procedures. Documents should be provided for the authorisation. A system should be developed to prohibit non-authorised processes.

2. **Controls based on the system configuration:** These include the filters established in the databases to protect information on inappropriate processes, according to the organisations rules and policies, thereby controlling the integrity of the processes for generating financial reports, allowing the detection and prevention of possible erroneous results in such reports. These controls may be standard (incorporated by default in the application) or tailor made (developed by FCC Group) and must be contrasted prior to their implementation and backed by other types of controls (authorisation, task diversification and internal auditing). Below are examples of these types of controls:

    - Limits on what is sent to process.
    - Limits to risk tolerance.
    - Agreement with established strategies.
    - Results fluctuation margins.
    - Validation and checking in respect of other data.
    - Design of entry fields.
    - Authorisation groups.
    - Use of user identification parameters.
    - Security configurations.
    - Configuration options (for instance, system blocking).

    After implementing this control category, a process should be developed to carry out its maintenance and prove its efficacy.

3. **Controls based on risk management reports:** These include the generation of reports addressed to the various managers designated following the supervision of a process from the start to the conclusion. Said reports usually include the infringements of the established rules occurring during the execution of the process, or on other occasions they are limited to providing information on the process (for instance, lists on how far back balances with clients go, etc.). For this control category to be effective, it is necessary to take into account how often it is put together and the monitoring of subsequent corrective actions.

4. **Controls on data dumping or interfaces:** This comprises the transfer of information data from one computer system to another, using manual and/or automated methods, and the data dumping controls should be designed to ensure the precision, exactness and integrity of the data transferred. These controls should be designed to reveal any errors. The dumping process can be in one or two stages, go back and forth between the two systems or just from one system to the other, and can relate a new system with old systems or old systems with the new ones.

5. **Controls on key performance indicators:** These are financial and non-financial measuring methods that are not chosen by FCC Group, applied from time to time or permanently, which are used by risk management to analyse progress towards achieving the set goals. The indicators that are relevant for the financial statements must be defined, and their level of precision should be suitable for detecting imbalances of a predefined amount or nature. Material fluctuations in the value of indicators must be documented, as well as monitoring the actions carried out as a result of certain fluctuations.

6. **Management supervision controls:** This supervision is carried out by someone other than the person who prepared the information. In many cases it is a manager controlling the work of a subordinate, but it will not be limited to this. The possibility of mutual controls and peer reviews by colleagues is also contemplated. This supervision should be

sufficiently documented with dates, review summaries and monitoring of actions carried out.

7. **Reconcilement controls:** A reconcilement is a control designed to be able to check whether matters are consistent.

8. **Task segregation controls:** These comprise the separation of duties and responsibilities to authorise transactions, keep assets in custody or to prevent individuals from being in a situation to be able to make or conceal any errors or irregularities.

9. **System access controls:** These limit the capacity of individual users or groups of users in a computerised data processing environment. These controls must be shown on the rights of access configured in the system.

During 2015, with the purpose of ensuring compliance with the best practices existing in this field (COSO III), FCC Group's General Internal Auditing and Risk Management supervised the work done by the different business areas in the suitable identification stage of the existing control activities. When the new group of standards related to Corporate Governance are approved and the implementation of the Integrated Risk Management Model is completed, it will be possible to improve the documentation and to adequately develop and allocate all of the control activities to each of the critical risks affecting the business, with the goal of detecting internal control shortfalls in which specific action plans must be established for risks exceeding the accepted residual risk. These action plans will include the measures needed to reinforce existing controls and even incorporate new controls thereto.

At present, as part of the auditing of accounts, the external auditor evaluates the internal control and there is also supervision by the Audit and Control Committee, via the General Internal Audit and Risk Management Department, such that any internal control weaknesses are transferred to the Audit and Control Committee via reports that include the recommendations considered necessary for correcting the weaknesses that are identified.

As part of the improvement process of the Integrated Risk Management Model, there are plans to develop a system providing traceability of goals, risks, controls, action plans and compliance officers in relation to financial information reporting risks. This system will contribute a report by the owners of the controls regarding the efficient functioning of those controls and it will also provide a report of the risk owner in relation to maintaining the risk within the threshold accepted beforehand by the Board of Directors.

On the other hand, 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 carried out by the General Administration 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. The main corporate procedures are included in the General Standards Manual and in the Group's Economic and Financial Manual. These procedures include the closing of accounts and the maintenance of the accounting plan. Also, the Group's accounting managers are given instructions on how to record operations that have not taken place previously in the Group, and these criteria are included in the next update of the Manual.

FCC Group furnishes financial reports to the securities market on a quarterly basis and from time to time whenever relevant events that must be reported occur, in accordance with the law in force. These reports are prepared 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. Once a financial report is consolidated in a software application running in SAP environment, it is reviewed by the Steering Committee, the General Internal Auditing and Risk Management and the external auditor.

On the other hand, the Group's Basic Standard for Internal Auditing establishes, among the functions and attributions of the General Internal Auditing Management, the "review of the (individual and consolidated) accounting information, the management reports, and the financial reports disclosed from time to time to the markets, evaluating that they are correct and reliable, their compliance with the law in force and the proper application of the generally accepted accounting principles" and "suggesting internal control measures enabling the compliance with the regulations in preparing and disclosing financial reports".

Last of all, the Audit and Control Committee informs the Board of Directors of its conclusions on the financial reports that are presented so that, once they are approved by the Board of Directors, they may be disclosed to the securities markets.

Article 10 of the Rules of the Board of Directors states the following with regard to the specific functions in relation to the Financial Statements and the Management Report:

- The Board of Directors shall draw up the individual and consolidated financial statements and the management report, so that they give a true and fair view of the net worth, the financial position and the results of FCC's operations, as provided by law, following the favourable report of the Audit and Control Committee. Those Financial Statements must first be certified for their integrity and accuracy by the Managing Director of Administration and Finance.

- The Board of Directors, after studying the reviews mentioned in the item above, may request any relevant clarifications from those who drafted them.
- The Board of Directors will particularly ensure that the above accounting documents are drafted in clear and precise terms enabling an adequate understanding of their contents. In particular, they must include any comments that facilitate such understanding.
- Each member of the Board of Directors shall place on record that, prior to undersigning the preparation of the financial statements required by law, he/she has reviewed the report thereon that must be drawn up by the Audit and Control Committee and, in general, the necessary information for this purpose, and such member may place on record any remarks that are considered relevant.
- On a quarterly basis, the Board will review FCC Group's accounts, following a report from the Audit and Control Committee.

Likewise, article 11 of those same Rules establishes the following with regard to the specific functions in relation to the Securities Market:

- The Board will perform the following specific functions in relation to the Securities Market in the way provided in these Rules:
  - The performance of any actions and the adoption of any measures required to ensure the transparency of FCC for the financial markets.
  - The performance of any actions and the adoption of any measures required to foster the proper price formation of FCC shares, particularly avoiding manipulations and the abuse of insider information.

- The approval and updating of the Internal Code of Conduct in matters related to Securities Markets.
- The approval of the Annual Corporate Governance Report, as well as drafting the Annual Report on Director Remunerations under the terms established by law.

Last of all, in Article 14, “Relations with Markets”, it is stated that the Board of Directors will adopt the necessary measures to ensure that the financial reports it discloses from time to time and any other information made available to markets is prepared according to the same principles, criteria and professional practices as the financial statements and is just as reliable as the latter.

**F.3.2. Internal control policies and procedures for IT systems (including, among others, security of access, control of changes, operation thereof, continuing operations, separation of functions) supporting the company’s relevant processes in relation to the preparation and disclosure of financial reports.**

The policies establish the patterns of behaviour that FCC Group wants in place and what the Board of Directors expects of those who are bound by them (employees and, ultimately, third parties). FCC Group’s regulatory documents make up a hierarchical tree structure. Each policy must have sufficient controls associated to guarantee from time to time the fulfilment of the Board of Director guidelines. The following policy categories are distinguished:

- **Global/local policies:** Global policies are generally applicable in the organisation regardless of geographical locations, whereas local policies are only for certain zones or countries.
- **Substantive or procedural policies:** The former define patterns and the latter establish the steps to be followed to meet those patterns.

FCC Group’s internal control model considers computer processes, which comprise the IT environment, architecture and infrastructures and the applications supporting business operations and the related financial accounting. The business processes are supported by automatic controls implemented in the applications and manuals. FCC Group applies an internal control model to the Reporting Systems and in particular to the control of the systems supporting the Group’s financial statements, focusing on guaranteeing the integrity, confidentiality, availability and reliability of the financial reporting in the closing of accounts process and therefore of the information disclosed to the markets. The following areas are considered to be a priority:

- Access to programs and data.
- Development and change management.
- Operations management.
- Documentation management.

Within these four areas, the following controls of the applications supporting the financial environment are considered particularly relevant:

- User management in the applications (registration-removal and modification).
- Information management policy.
- Information security policy.
- User role matrixes in the applications.

- Managing the demand for developments and functional changes.
- Managing the demand for infrastructure changes.
- Specification and approval of tests and acceptance by users.
- Specification of technical and functional requirements
- Managing incidents.
- Managing jobs
- Operating contingency plan.
- Infrastructure back-up policies.
- Service level agreements and management thereof with third parties.
- Physical security of the Data Processing Centres (DPC).

It should be noted that the Company has a certified information security management system, based on the ISO/IEC 27001 international standard, for the Construction, Water and FCC Industrial business areas. This standard defines and establishes the principles of functionality, security and responsibility, and it may be extrapolated to different areas within the organisation.

FCC Group, taking stock of the importance of the security of the information it processes, has developed a set of policies and standards allowing it to ensure the confidentiality, integrity and availability of its IT systems. The aspects related to the Internal Control over Financial Reporting are regulated in the Corporate Standard called "Information Security." This document defines the operating principles and the bodies that are responsible for information security:

The CEO and the Management Committee will be responsible for:

- Establishing the general criteria for classifying and managing information assets.
- Approving:
  - The Organisation and Security Management Model.
  - The Classification and Information Assets Management Model.

One of the fundamental principles governing the application of said standard is the Principle of Information Integrity. Information management will be governed by policies, standards, procedures and guides ensuring the confidentiality, integrity and availability thereof.

FCC Group has in place a security model with the following structure and allocation of roles and responsibilities:

- The Information Technology Committee is the highest body coordinating the information security in the Group. This Committee is made up by nine members and met weekly during 2015.

- Information Security:
  - Information Security defines the security requirements of the projects developing new applications and it successively validates the functionality of the mechanisms and controls implemented in the applications before they go on to the production stage.
  - Information Security is integrated within the Change Management Committee with the purpose of checking that the changes proposed for the IT infrastructure are compatible with the security requirements established in FCC Group's Information Security Policy.
  - Information Security uses a number of monitoring tools that analyse the operation of FCC Group's information systems, which are able to generate alerts in real time whenever they detect possible security incidents.

Information security is evaluated from time to time. In this respect, Information Security carries out the following audits:

- Regulatory compliance in the field of Personal Data Protection, every two years.
- Analysis of IT system vulnerability.
- IT systems intrusion tests.

Since 2011, FCC Group outsources the management of the technology infrastructures of its information systems. The contract with the external firm incorporates a clause ensuring the performance of services according to best market practices regarding IT. This contract was amended in 2014 and a new supplier provides the service.

**F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, together with evaluations, calculations or assessments entrusted to independent experts, which may materially affect the financial statements.**

FCC Group has not outsourced any relevant activities destined to execute or process transactions that are recorded in the Group's financial statements, with the exception of the assessment of financial derivatives, the performance of actuarial calculations, the performance of certain property appraisals from time to time, and technological infrastructure management.

There is an internal procedure for the hiring of external advisors which require certain levels of approval according to the sum involved, including, as the case may be, approval by the Company's CEO. The results or reports from contracting in the accounting, tax or legal areas are supervised by the heads of the General Administration Management, the General Legal Consultancy Management and the General Internal Auditing and Risk Management, or of other Departments if it is considered necessary.

As indicated under the preceding item, FCC Group has outsourced the management services for its IT and telecommunication infrastructures. As part of the contract, investments will be made with a view to standardising the architecture of FCC systems, so that there are not any differences in terms of availability and integrity in the environments managed by the companies making up the Group.

FCC Group has two Data Processing Centres in Madrid configured with high availability. It also has implemented a Service Desk through which any incidents involving the Information Systems are channelled. The following stand out among the projects carried out:

- Full renewal of workstations where key personnel will have an automatic backup to guarantee the availability of the information.

- Consolidation of global centres for operation services with standard tools.

- Implementation of a single telecommunications network (WAN) allowing the homogenisation of user access capacity to the Group's IT systems.

As an internal control procedure to supervise the management of these outsourced activities, a catalogue of services has been launched, managed with unified service quality and measures according to pre-arranged Service Level Agreements (SLAs).

Last of all, it should be noted that FCC Group has procedures in place for the supervision of businesses in which it operates via corporate structures in which either it does not have a controlling interest or they are not directly administrated by the Group, for instance Joint Ventures (UTEs).

**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 the General Administration Management, to which the Group's Consolidation and Accounting Standards Department belongs, and its functions, among others, are the following:

- Defining the accounting policies of the Group and including them in the Economic Finance Manual.
- Issuing the accounting standards 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 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.
- Monitoring the new draft regulations being considered by the IASB, and the new standards approved by said body, as well as the process of validation thereof by the European Union, determining the impact they will have on the Group's Consolidated Financial Statements.

The Group's Consolidation and Accounting Standards Department regularly informs all those in charge of preparing the financial statements at the various levels in the Group of the amendments in the regulations, clarifying any doubts that may arise, and it in turn gathers the information required from the Group companies to ensure the consistent application of the Group's Accounting Policies and to determine the impact of the application of new accounting regulations. This Economic Finance Manual is updated by the Administrative Coordination Division, according to the evolution of accounting standards, and it is available on the Group Intranet (FCCnet) in the chapter called "Regulations" and may be consulted by Group employees. Also, there is the possibility for users to create alerts that inform them of any updates of the manual. Throughout 2015 several updates were performed according to the needs identified by the Group.

In addition, FCC Group's General Internal Auditing and Risk Management details in its Internal Auditing Plan, among the various functions included within its responsibilities, that of providing, from an accounting regulation perspective, solutions to the technical enquiries received from any of the business areas in which the Group operates. In cases where the application of accounting regulations is subject to different interpretations, the General Internal Auditing and Risk

Management and/or the General Administration Management may take part in the explanation to the external auditor, stating the grounds on which the interpretation of FCC Group is based.

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**F.4.2. Mechanisms for gathering and preparing financial reports with standardised formats, to be applied and used by all of 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 ICFR.**

FCC Group has implemented a shared reporting system based on the application in a SAP environment, which is meant, on the one hand, to meet the reporting needs for the individual financial statements and, on the other hand, to standardise and systematise the consolidation process of economic and financial reporting in the Group. This application gathers, by reporting units, at a 'company-sector' level or as legal persons, according to what is required, the information needed to put together economic and financial reports, whatever their nature, whether internal or external, the latter involving disclosures to public bodies and institutions. 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 it uses a single accounting plan, and the information is automatically loaded into this consolidation system from SAP.

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

Additionally, for the annual close and in order to publish the annual financial report, the General Manager of Administration sends out by email the plan for closing the year, which includes a series of instructions for those responsible for providing the relevant financial information. The Administrative Coordination Division will establish, clarify or extend said instructions whenever it is required.

FCC Group is made up by a large number of companies operating in different countries and it is obliged to prepare its consolidated financial statements according to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) adopted by the European Union, as detailed in the Group's Economic and Financial Manual. This manual establishes, in its first chapter, the accounting basis that should apply for FCC Group, enabling the preparation of the Group's annual consolidated financial statements, together with any other financial statements and reports that are to be disclosed from time to time. In FCC Group's subsidiaries, joint ventures and associated companies, wherever what has been established cannot be applied, the necessary information must be available in order to homogenise the reporting by introducing the relevant adjustments, so that the resulting information complies with the established criteria. In order to homogenise FCC Group's economic and financial reporting according to international standards, financial statement models and a corporate accounting table have been developed, and these are also included in the Economic and Financial Manual.

Another one of the procedures for gathering financial information is the implementation of a tool in a SAP environment, which allows FCC Group's Corporate Finance division to compile the complete information of the entire FCC Group and its bank or non-bank relations, such as financial lease companies or insurance companies, for the issuance of guarantees for both domestic and international companies, provided that those companies are consolidated by global integration or by the equity method.

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

Disclose, identifying the main characteristics, whether you have:

**F.5.1 The ICFRS 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 ICFRS. Information will also be given on the scope of the ICFR system evaluation carried out during the year and on the procedure whereby the person in charge of performing the evaluation communicates the results, whether the company has an action plan detailing any corrective measures, and whether the impact on the financial reporting has been considered.**

FCC Group's Internal Auditing Basic Standards, in their third section, state that the purpose of the General Internal Auditing and Risk Management is to provide the Board of Directors, via the Audit and Control Committee, and the Senior Executives of FCC Group, with whom it actively collaborates, with the effective supervision of the Internal Control System, by exercising a unique and independent governance function aligned with professional standards, contributing to Good Corporate Governance, verifying the proper compliance with applicable regulations, both internal and external, and reducing to reasonable levels the possible impact of the risks in achieving the objectives of FCC Group.

The General Internal Auditing and Risk Management Department has the fundamental mission of enabling the Audit and Control Committee to fulfil its functions and responsibilities. To this end it is structured into two independent areas:

- o General Internal Auditing
- o Risk Management and Compliance Department

Through these it must:

- – Assist the members of the Group's Organisation, furnishing them with analyses, recommendations, advice and information on the activities reviewed. Report any incidents that are detected to Senior Management and recommend corrective actions.
- – Comply with the Annual Auditing Plan, reporting from time to time on the evolution thereof.
- – Fulfil any other functions entrusted by the Audit and Control Committee.

The Internal Auditing area, in order to evaluate and ensure that the financial information that is prepared is correct and suitable for FCC Group, has the entire FCC Group as its scope in respect of:

- Reviewing the reliability and integrity of the economic-financial information, both internal and external, by reviewing the (separate and consolidated) accounting information, the Management Reports and the financial information disseminated 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 correctly.

Suggesting internal control measures to enable compliance with standards for the preparation and disclosure of financial reports.

- Review of the systems and operations to check the compliance with the policies, procedures and regulations approved by the Management, aside from compliance with the laws in force, it must also check the sufficiency and effectivity of the internal control systems, issuing suggestions for improvement.

- Checking that assets really exist and the systems guaranteeing the integrity and safeguarding thereof.

- Reviewing the application and effectivity of the risk management and compliance procedures.

- Supervising the work of the external auditors, asking for and receiving information on any aspects related to the progress of the audits, acting as a communication channel between the external auditors and the Audit and Control Committee, submitting the conclusions of the review by the external auditors and, especially, any circumstances that might jeopardise their independence. They shall also make proposals on the appointment of the external auditors to enable the Audit and Control Committee to meet its obligations with the Board of Directors.

- Supporting the different areas in their technical relations, control and monitoring with external auditors.

On the other hand, the Risk Management and Compliance Department, in order to supervise the efficiency of the internal controls, evaluate their adequacy and effectiveness, ensure the fulfilment of legal requirements and the evaluation and improvement of risk management processes, has the entire FCC Group as its scope in respect of:

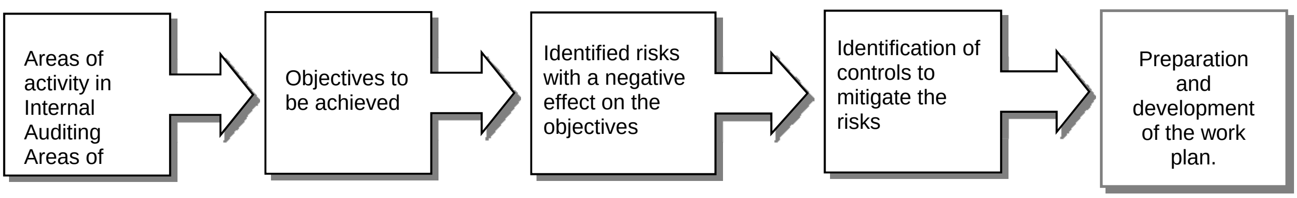
- Coordinating and managing the implementation process of the Integrated Risk Management Model in FCC Group, which will contribute to a significant improvement of the Group's internal control, aiming to comply with the strategy it defines from time to time.

- Reviewing the key procedures, ensuring the incorporation of sufficient controls to enable the attainment of the goals set by the Board.

- Establishing a management system for compliance of regulations, together with an architecture of responsibilities mitigating the criminal liability of the legal person.

The General Internal Auditing and Risk Management will act independently of the management areas. A resolution of the Board of Directors, passed on 26 October 2004, established that the General Internal Auditing and Risk Management is functionally dependent upon the Audit and Control Committee and organically dependent upon the Chairperson of FCC Group. The members of the General Internal Auditing and Risk Management perform their functions independently, without sharing their responsibilities with other management areas.

The Auditing Plan (prepared pursuant to the Basic Auditing Standards) follows the plan given below:



The auditing plan does not include the tasks that may be carried out by the Internal Auditing Departments of the FCC Group listed companies Cementos Portland Valderrivas and Realia, notwithstanding the coordination tasks performed by the different Internal Auditing Departments, with the purpose of reporting to the FCC Group Audit and Control Committee the effect that the risks of said Groups may have on the consolidated financial statements of FCC Group.

According to the 2015 Auditing Plan communicated to the Audit and Control Committee on 27 February 2015, the General Internal Auditing and Risk Management has carried out the following tasks in relation to the review of the Group's internal control over financial reporting system in a number of different areas:

1. **Risk Management Department**. Development of internal control, risk management and coordination of compliance:

- Supervision and coordination of the risk maps of the business areas, with the goal of furthering their use as a tool to control the Board's compliance with FCC Group's strategy.
- Preparation and delivery for approval to the Audit and Control Committee of a new regulatory block related to FCC Group's governance, risk and regulatory compliance. Said block comprises the following regulatory documents in relation to the Financial Reporting Internal Control System that are scheduled to be approved by the Group's Board of Directors during 2016:

    - Corporate Governance and Internal Control System.
    - Zero Standard.
    - Risk Management Policy and System.
    - Regulatory Compliance Policy and System.
    - Criminal Compliance Policy and System.

- Introduction of the goals resulting from FCC Group's strategy in each of the business units, which are affected by the risks materialising in the risk maps.
- Incorporation of new control activities on risk maps.
- Incorporation of risk indicators allowing the business units to identify risk materialisations beforehand.
- Proposal of a liability structure in relation to compliance with internal control in each of the business units.
- Review and update of the risk holder as the person responsible for keeping risks within the levels accepted by the Board of Directors.
- Incorporation of the concept of control holder as the person responsible for the effective operation of each of the controls incorporated to the risk maps.
- Design of a compliance form including both the effective operation of control (control holder) and compliance with the accepted risk level (risk holder).
- Monitoring of the update of the risk maps in each business unit, based on the four-monthly risk materialisation reports, with the goal of ensuring at least the annual updating thereof.
- Relaunch of the business area risk committees.
- Performance and monitoring of the risk action plans: these will be developed jointly with the business areas, such that it will be possible to effectively implement action plans for the critical risks that have materialised, as recorded in the Risk Materialisation Reports. To this end there will first be a review and re-evaluation, together with the business areas, of the

procedures, controls and indicators associated to these critical risks, so that the action plans are correctly leveraged into the best possible analysis of how those risks are mitigated.

- Introduction of documentary evidence of each one of the controls incorporated to the Risk Map: related to the control activities, the identification, formalisation and documentation of the information on the control holder, control frequency, type of control (manual, automatic, semi-automatic), nature of the control (preventive, detective) and detailed information on the necessary information to subsequently check that activity. Incorporation of the concept of inherent risk.
- Development of reporting risks as an independent category in business risk maps.
- Monitoring of the production risk in process incorporated to the Materialisation of Construction Risks Report.
- Preparation of work on the minimum integrity of impacts included in the risk materialisation reports and risk maps.
- For the Construction area, monitoring of the amount incorporated as a production in process risk.
- Review of the Crime Prevention and Response Manual:

  - Adaptation to new international rules and standards on governance, risk and compliance.
  - Incorporation of new requirements based on the Reform of the Criminal Code.
  - Adaptation to FCC Group's current organisational model and to the redefinition of functions.
  - Incorporation of the entry into production of the Complaints Management System.

- Proposal for updating the FCC Group Code of Ethics.
- Leadership, coordination and development of the Offence or Crime Priority Catalogue in the business areas:

  - Evaluation and monitoring of the controls associated to unlawful criminal behaviours in the business areas.
  - Development of risk indicators associated to unlawful criminal behaviours in the business areas.
  - Design of the evaluation process and the monitoring of the control activities and procedures associated to unlawful criminal behaviours in the business areas.
  - Proposal of an internal control compliance structure, together with a liabilities structure in operation: establishment of a formal system for reporting or certifying the internal controls incorporated to the risk maps, such that each business risk takes responsibility for compliance with the accepted risk level.

- Managing the Whistleblowing Channel:

  - Preparation of a homogeneous preliminary investigation form for all the members of the Response Committee that investigates what is reported through the Channel, meeting the goal of ensuring the objectivity and equality of procedures.

- Other work:

  - Self-diagnosis and evaluation of internal control in FCC Group.
  - Establishment of procedures for detecting criminal risks.

2. **General Internal Auditing**. Review of Internal Control, review of financial reporting and monitoring of external auditing:

- Review of the information Systems supporting the Group and business area processes (SAP Integra, Incorpora, Interesa, etc.).

- IT auditing: There have been reviews of the security model defined in SAP/Integra (the Group's financial application) and Incorpora (the Payroll application), Auditing according to ISO 27001 in the FCC Construcción and FCC Industrial areas, half-yearly reviews of SAP Integra (the FCC Group financial system) and reviews of the sick-leave process implemented in the Employee and Identity Management Master Program.
- Review of the FCC Environment models for estimating environmental provisions.
- Whistleblowing Channel: receiving, conserving, investigating and solving, if applicable, the complaints received through the Whistleblowing Channel.
- Review of the internal control of the most significant provisions, judgments and estimates that are necessary to obtain financial reporting.
- Monitoring of the information disclosed to regulators, markets and analysts in 2015:
    - Annual financial report.
    - Management reports.
    - Half-yearly financial report.
    - Quarterly reports.
    - Corporate Governance Report
- Monitoring of the preparation and auditing of the individual and consolidated financial Statements of FCC, S.A., as well as of the half-yearly financial statements reviewed by the external auditor.
- Monitoring of the preparation of audited financial statements of the Group parent.
- Monitoring of the reporting requirements to financial entities resulting from the Group's refinancing process:

    - Audited annual consolidated financial statements of the financing perimeter.

    - Half-yearly consolidated financial statements subject to limited review of the financing perimeter.

    - Annual and half-yearly certificates of compliance with the financial ratios issued by the external auditor.

- Analysis and review of the goodwill of Group companies with indications of a loss of value of assets.
- Monitoring of the incidents and recommendations detected in the various audits of Group companies.
- Monitoring of the information provided by the external auditor and discussion of the weaknesses and significant conclusions identified in the course of their work.
- Monitoring of the external auditor's independence.

**F.5.2. 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**

Article 37 of the new rules of the Board of Directors of FCC establishes that the Audit and Control Committee will have the following powers:

- 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:

  - Making recommendations to the Board for the selection, appointment, re-appointment and replacement of the external auditor, and the terms and conditions of his engagement.

  - Receiving regular information from the external auditor on the progress and findings of the audit programme, also checking that senior management are acting on its recommendations;

  - Discussing with the external auditors any significant weaknesses found in the Internal Control System as a result of the audits conducted;

  - Establishing the relevant relations with the external auditor in order to receive information on matters that may jeopardise its independence, so that it may be examined by the Committee, and any others related to the process of carrying out the audit, as well as any other disclosures provided in the auditing laws and auditing standards.

  - Ensuring the independence of the external auditor, establishing, in particular, suitable measures: 1) so that contracting consultancy and advisory services with that auditor or companies of its group does not jeopardise its independence, to which end the Committee will request and will receive an annual report from the auditors confirming in writing their independence in respect of the Company or the entities directly or indirectly related to it and information on any additional services of any kind rendered to the companies by the external auditors or by persons or entities related to the auditors, as provided for in the Auditing Act; and 2) 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, should there be any; where the external auditor resigns, the Committee must examine the reasons.

  - Seeking to ensure that the Company's Auditor takes responsibility for auditing the companies comprising the Group.

- Issuing a report each year, prior to the publication of the audit report, expressing an opinion on the independence of the Company's Auditors.

The FCC Group Internal Auditing Basic Standards, in section seven, paragraph i), states that the Audit and Control Committee will be informed, via the General Internal Auditing and Risk Management and its relations with the external auditors, of the preparation process of the financial reports, of the proper application of generally accepted accounting principles, and of compliance with legal requirements and on the functioning of the internal control systems.

As stated in the preceding paragraph, the purpose of the General Internal Auditing and Risk Management is to provide the Board of Directors, via the Audit and Control Committee, and the Senior Executives of FCC Group, with the effective supervision of the Internal Control System. This objective consists of furnishing the senior management of FCC Group with an independent opinion on the organisation's ability to achieve its objectives, by means of a systematic and methodological approach towards the evaluation, management and enhancement of the effectiveness of these processes:

- Risk Management: Processes used by Management to identify, evaluate and respond to the potential risks that may affect whether the organisation fulfils its business plans set out in the Strategic Plan.
- Internal Control: The policies, standards, procedures and activities making up the control system established by FCC Group to ensure the proper management and risk reductions.

As detailed in the preceding section, heading 9 of the Group's Internal Auditing Basic standard establishes, among the functions and powers of Internal Auditing, that of assisting members of the Group's organisation, providing them with analyses, recommendations, advice and information on the activities reviewed. Any incidents that are detected are to be reported to management, also recommending 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 and Risk Management performs a number of processes for the review of the accounting information (both separate and consolidated), the management reports and the financial reports disclosed to the markets from time to time.

At present, FCC Group's General Internal Auditing and Risk Management reports to the Audit and Control Committee from time to time any significant internal control weaknesses identified during the performance of their tasks, giving recommendations to adequately correct them. In 2015, General Internal Audit and Risk Management attended all eight meetings of the Audit and Control Committee and issued twelve reports.

In addition, the Audit and Control Committee receives the explanations given by the General Manager of Finance and the General Manager of Administration.

Additionally, 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 at least three times a year, detailing the internal control weaknesses that have come up while reviewing the Group's financial statements, including any aspects they consider relevant.

**F.6 Other relevant information**

N/A

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

Report on:

**F.7.1 If the ICFRS information disclosed to the markets has been reviewed by the external auditor, the Company must include the relevant report as an Appendix. Otherwise, the reason why said report is not available must be explained.**

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.

## 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 Bylaws 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 X 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 X Not applicable 

Article 7.2 of the Rules of the Board of Directors of FCC states that *"In any event, through the passing of resolutions which must be approved in each case as stipulated by law and the Articles of Association, the plenary Board of Directors has exclusive powers over the following formal list of matters, which are established as a formal catalogue of matters reserved to the Board which may not be delegated:*

*m) Defining the structure of the Group of which the Company is the parent and coordinating, within the legal limits, the Group's general strategy in the interests of the Company and its subsidiaries with the support of the Strategy Committee and the CEO , and disclosing in the Annual Corporate Governance Report the respective areas of activity and any business relations between the Company and its listed subsidiaries that are part of the Group, and between those companies and the other Group companies, and the mechanisms established to resolve any conflicts of interest that may arise."*

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 Code of Governance and the alternative rules applied in this matter, if any.**

Compliant  Partially compliant  Explain X

The Company is considering the implementation of the recommendations of the Code of Good Governance of listed companies of February 2015, for the parts where it does not comply.

**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

Thus far the Board of Directors has not considered it necessary to set down in writing the relationship model and rules governing its communication policy with shareholders, which is based on the general rules in force for the prevention of market abuse and for equal treatment to shareholders according to their level.

**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**

Compliant X Partially compliant Explain 

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

Compliant ☐ Explain X

The Directors of FCC are considering a number of possibilities or solutions in this respect.

8. **The Audit Committee should see to it 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 direction 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 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 grounded 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 and Remuneration 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. **External Directors, both proprietary and independent, should occupy an ample majority of Board places, while the number of Executive Directors should be the minimum practical, bearing in mind the complexity of the corporate Group and the ownership interests they control.**

Compliant X Partially compliant ☐ Explain ☐

16. **Among external Directors, 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 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  Explain X

FCC has three independent directors among its eleven members, which represents 30% of total 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 as executive, proprietary or independent; 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, and;**

**e) Shares held in the Company and any options thereon.**

Compliant X Partially compliant  Explain 

**19. The Annual Corporate Governance Report should also disclose 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 appoint 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 of 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 relevant event, the reason 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 X Partially compliant  Explain 

26. **The Board should meet with the necessary frequency to properly perform its functions, 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 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 assistance 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 Partially compliant ☐ Explain ☐

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 on the minutes.**

Compliant ☐ Partially compliant X Explain ☐

*Article 34.3 of the Rules of the Board of Directors of FCC states that "the Chairperson shall decide the agenda for the meeting. The Directors and the Board Committees may ask the Chairperson to include items on the agenda in the terms envisaged in section 1 of this article, and the Chairperson will be obliged to include them. When a specific item is included on the meeting agenda as requested by the directors, then the directors who requested the inclusion of that item must forward the pertinent documentation along with their request or identify the pertinent documentation so that it can be forwarded to the rest of the Board members."*

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 X Partially compliant ☐ Explain ☐

33. **The chairperson, as the person in charge of the efficient operation of the Board of Directors, aside 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 CEO; 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 X Partially compliant ☐ Explain ☐

34. **When there is a coordinating Director, the Bylaws or the Rules of the Board of Directors, aside 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 X

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 CEO.**

**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 and Remuneration 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 seeing to 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. **Aside from those provided by Law, the Audit Committee has the following functions:**

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

        a) **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.**

        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 its quality or independence.**

**c) The Company should notify any change of auditor to the CNMV as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditor, should there be any, and the reasons for same.**

**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 

The Company is considering the implementation of the recommendations of the Code of Good Governance for listed companies where it is not compliant.

**45. The Control and risk management 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) Measures in place to mitigate the impact of identified risks should they occur.**

**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 adequately identified, managed and quantified.**

**b) Actively participating in the elaboration of a risk strategy and in the important decisions on managing that strategy.**

**c) Seeing to it the risk control and management systems adequately mitigate risks within the policy defined by the Board of Directors.**

Compliant □ Partially compliant □ Explain X

The Company is considering the implementation of the recommendations of the Code of Good Governance for listed companies where it is not compliant.

**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 adequate know-how, skills and experience for the functions they are to perform, and the majority of the members should be independent Directors.**

Compliant X Partially compliant □ Explain □

**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, aside 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) **Seeing to it 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 Chairperson and Chief Executive, especially on matters relating to Executive Directors and Senior Management.**

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 Chairpersons 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 Remuneration 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 of compliance with the Company's internal codes of conduct and rules of corporate governance.**

b) **Monitoring of 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 of the corporate social responsibility strategy and practices and evaluation of the degree of compliance therewith.**

f) **Monitoring and evaluation of relationships with the different stakeholders.**

g) **Evaluation of 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. This 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 said earnings 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 to be inexact.**

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 is obliged to furnish 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 governance, or international, industry or other codes. If applicable, identify the relevant code and the date of adherence. In particular, mention whether it has adhered to the Code of Good Tax Practice, of 20 July 2010.

Section A.6

**Note:**

Subsequently to 31 December 2015, separate Relevant Events were presented to the CNMV.

1) Relevant event of 5/02/2016, notifying that Ms. Esther Koplowitz Romero de Juseu and her related companies, Dominum Dirección y Gestión, S.A. and Nueva Samede 2016, S.L.U., signed with Inversora Carso S.A. de C.V. and its subsidiary Control Empresarial de Capitales, S.A. de C.V. a Novation Agreement Amending and Not Extinguishing the Investment Agreement signed on 27 November 2014.

   The main aspects of the Novation 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 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 on the maximum stake of the parties in the Company's share capital.

2) Relevant event of 9/02/2016, which states: "[for] the purpose of the provisions in article 228 of the consolidated text of the Securities Market Law approved by Legislative Royal Decree 4/2014, of 23 October, Fomento de Construcciones y Contratas ("FCC" or the "Company") communicates to the market the following relevant event: Approval of the securities note on the Capital Increase in relation to the Capital Increase with pre-emptive subscription rights for an effective amount of 709,518,762 euros approved by the Board of Directors of FCC at its meeting held on 17 December 2015, which was communicated to the market by means of a relevant event on that same date and with official registry number 232587, it is hereby informed that the National Securities Market Commission ("CNMV") today approved the Securities Note containing the terms and conditions of the Capital Increase, which is at the disposal of the public at FCC's registered office, and in electronic format both on the CNMV website (www.cnmv.es) and on the FCC corporate website (www.fcc.es). The official announcement of the Capital Increase

is scheduled to be published in the Official Gazette of the Mercantile Register (BORME) on 11 February 2016, therefore the pre-emptive subscription period will commence on 12 February 2016 and will last until 26 February 2016 (inclusive)."

Section C.1.15.
NOTE:
*"On 18 August 2015, Juan Béjar Ochoa resigned from his office as CEO and left the Company; he received severance pay amounting to 8,375,000 euros."*

Section C.1.16.
NOTE:
This amount includes severance pay for the termination of the contracts of two senior executives: José Manuel Velasco and Eduardo González. In addition, the amounts collected by individuals who during the course of the year lost their senior executive status have been added, up to the corresponding dates.

Section D.3
NOTE:
IR FCC section A.8

Section D.4.
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.

Section H.3.
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 respect of that 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 25 February 2016.

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

Yes ☐ No X

| **Name or company name of the Director who has not voted in favour of this report.** | **Reasons (against, abstention, not attended)** | **Explain the reasons** |
|---|---|---|
| | | |