



**REPORT BY THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y
CONTRATAS, S.A. REGARDING ITEM 10 OF THE AGENDA OF THE GENERAL MEETING
OF SHAREHOLDERS ON 18 JUNE 2008**

(DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE SECURITIES
EXCHANGEABLE FOR COMPANY SHARES)

The Board of Directors unanimously agrees, subject to articles 144, 153, 159, and 282 et seq. of the Consolidated Text of the Public Corporations Act and article 319 of Mercantile Register Regulation, to draft the following report, which refers to the proposal for delegation to the Board of Directors of the power to issue fixed-income securities such as warrants and similar securities that provide the direct or indirect right to exchange them for company shares, already issued and outstanding prior to the issue of the securities, and set the criteria to determine the basis and methods of the exchange.

a) Purpose of this report

This report seeks to justify, to the General Meeting of Shareholders, the proposal to confer powers to the Board of Directors to issue securities exchangeable for shares of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. in accordance with the general rules on the issuance of debt securities in articles 282 et seq. of the Public Corporations Act, and under article 319 of the Mercantile Register Regulation.

b) Provisions applicable to the proposal.

This proposal is in accordance with article 282 et seq. of the Public Corporations Act and with the possibility of delegating to the Board of Directors the power to issue debt securities under article 319 of the Mercantile Register Regulation.

Considering the specialisation and advanced stage of the issue and constant evolution of securities in different financial markets, the resolution distinguishes between exchangeable debt securities, specifically regulated in our Public Corporations Act, and warrants or any other security which inherently implies a right for the subscriber to convert or exchange it for company shares. This distinction clarifies possible interpretations arising from the fact that neither type of security is regulated specifically in the Public Corporations Act.

Apart from specific features, the resolution will treat both types of securities as equivalent, obligating the Board of Directors, in issuing those securities, to ensure strict compliance with the applicable regulation for issues that are specifically regulated in our Public Corporations Act, and thereby avoiding the interpretation that the lack of specific regulation means that there is no need to fulfil the requirements established by that regulation regarding convertible debt securities. The conditions of the resolution will in practice treat all kinds of securities which inherently imply the right to be exchanged for company shares as being equivalent, and this principle is established by application of Chapter X of the Public Corporations Act, which establishes a series of requirements for the issuance of debt securities and for any other security that acknowledges or creates a debt claim.

This resolution proposal also delegates to the Board of Directors the power to establish the basis and methods of the exchange.

c) Justification of the proposal

The purpose of the delegation is to provide the Board of Directors of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. with the margin for manoeuvre and the power to react that is required in the competitive environment in which it operates, where the success of a transaction or a strategic initiative often depends on the possibility of carrying it out rapidly, without the delay and costs that inevitably are entailed in convening and holding a General Meeting of Shareholders, especially when funding is being sourced in the international markets.

d) Full text of resolution for which approval is proposed.

One.- To delegate to the Board of Directors, under article 319 of the Mercantile Register Regulation and the general rules on the issuance of bonds, the power to issue securities exchangeable for Company shares, already issued and outstanding, in accordance with the following conditions:

1. The issuance of securities exchangeable for Company shares may be made one or several times within a maximum term of five (5) years from the date when this decision is approved.

2. The maximum amount of the issue or issues of securities exchangeable for Company shares under this delegation will be six hundred million euro (€600,000,000), or the equivalent in any other currency.

3. The power to issue securities exchangeable for Company shares which are already issued and outstanding will include the following aspects and powers:

i) The establishment of the various characteristics and conditions of each issue, including, but not limited to: determining the amount, for each issue or tranche, within the aforementioned overall quantitative limit; the type: bonds, debt securities (subordinated or otherwise), warrants or any other allowed by law; the date or dates of issue; the number of securities and their nominal value, which in the case of bonds and debt securities will not be less than the par value of the shares; in the case of warrants and similar securities, the issue price and/or issue premium, the strike price (fixed or variable), and the procedure, term, and other conditions applicable to the exercise of the right to subscribe or acquire the underlying shares; the interest rate (fixed or variable), the dates and procedures for paying the coupon; whether the issue is perpetual or amortisable and, thus, in the latter case, the amortisation period and maturity date; the reimbursement rate, premiums and batches, and collateral; the method of representation, whether by certificates or book-entries; the preemptive right or overriding of such right (as is provided in the resolution), and the rules regarding subscription; anti-dilution clauses; applicable legislation, and generally any other condition of the issue, and, as appropriate, appointment of the bondholders' representative and approval of the basic rules governing legal relations between the Company and the association of the holders of the securities that are issued if it is necessary to establish such an association.

ii) The power to determine the exchange ratio, which may be fixed or variable, within the limits set forth below, and the time of conversion, which may be confined to a pre-set period within a period of at most 20 years; whether exchange is voluntary or obligatory and whether it is at the election of the Company or the security holders, or both, and generally any details and conditions that may be necessary or advisable for the issue.

In the event that the exchange ratio is fixed, the price of the shares for the purposes of the exchange may not be less than the higher of: (i) the arithmetic mean of the share's closing price on the Electronic Market in a period to be determined by the Board of Directors, which may not be greater than three months, nor less than fifteen days, prior to the date of the Board meeting which, making use of this delegation, decides to issue exchangeable securities, and (ii) the closing price of the shares on that same Electronic Market on the day before the Board meeting which, making use of this delegation, decides to issue exchangeable securities.

In the event that the exchange ratio is variable, the price of the shares for the purposes of exchange must be the arithmetic mean of the closing prices of the Company's shares on the

Electronic Market during a period to be determined by the Board of Directors, which may not be more than three months nor less than five days prior to the exchange date, with a premium or discount, as the case may be, upon that share price. The premium or discount may differ for each date of exchange for each of the issues; however, discounts may not exceed 30% of that share price.

In no event may the value of the share for the purposes of the exchange be less than its par value.

For exchange purposes, securities will be valued at their nominal value, and may or may include interest accrued and outstanding at the exchange date.

At successive General Meetings of Shareholders, the Board of Directors will inform shareholders of any use it has made of the delegation.

Two.- To request, if appropriate, admission to trading, on official or unofficial secondary markets, be they organised or otherwise, whether domestic or foreign, of the exchangeable securities issued by the Company by virtue of this delegation, empowering the Board to complete the paperwork and actions necessary for listing before the competent authorities of the various domestic and foreign securities markets.

In accordance with article 27 of the Stock Exchange Regulation, it is hereby expressly stated that, in the event of a subsequent application for delisting of the exchangeable securities issued by virtue of this delegation, this decision will be adopted subject to the same formalities as referred to in that article and, in that case, the interests of the shareholders or holders of securities that oppose or do not vote in favour of the decision will be guaranteed, in compliance with the requirements established in the Public Corporations Act and matching provisions, all in accordance with the Stock Exchange Regulation, the Securities Market Law, and their implementing provisions.

Three.- To empower the Board of Directors, in accordance with article 141 of the Public Corporations Act, to delegate the powers it has been granted by the General Meeting of Shareholders regarding the foregoing resolutions to the Executive Committee, with express powers to delegate to the Managing Director."