



FTSE4Good



1H2019 EARNINGS REPORT



Environmental



Water



Infrastructures

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FCC Environment presents the development of an energy-from-waste plant in Drumgray (Scotland)

1. SIGNIFICANT EVENTS

FCC Environment presents 'Zero Waste' masterplan in the United Kingdom

FCC Environment, the company that heads the environment business in the UK, has presented a new masterplan linked to its Greengairs landfill in direct response to the Scottish Government's 'Zero Waste' strategy. Under the strategy, the disposal of biodegradable waste in landfills will be prohibited from 1 January 2021, creating a significant shortage of treatment facilities. The construction of the Drumgray complex will cost approximately €400 million and will include an energy-from-waste plant for biodegradable waste that would otherwise be disposed of in the landfill. The facility will be able to process up to 300,000 tons of waste per year, and its 25.5 MW electricity generator will supply power and heat to local homes and businesses.

Aqualia enters France and expands its footprint in the UAE with two new contracts worth €100 million

In June, FCC Aqualia acquired Services Publics et Industries Environnement (SPIE), a French end-to-end water management company. Additionally, in Spain it acquired Agua y Gestión and a stake in Codeur. These acquisitions amounted to a total of €38 million.

This area also obtained a €40 million contract for operation and maintenance (O&M) of the wastewater system in the city of Abu Dhabi and in the adjacent islands of Al Reem, Al Maryah and Al Saadiyat. Additionally, the client administration has renewed the sanitation contract for the city of Al Ain, in the east of the Emirates, for seven years, representing more than €60 million in revenues.

As a result, Aqualia's contracts in the Arabian Peninsula (Saudi Arabia, UAE, Qatar and Oman) amount to over €600 million. The projects, which are mostly medium- and long-term concessions, reflect the growing success and acceptance of the public-private partnership (P3) model for developing and operating essential infrastructure in the region, where the company serves a total of 6 million people.

FCC Environment advancing with the development of its new EfW plant in the United Kingdom

In the first quarter, FCC Environment signed a deal to develop and operate a new energy-from-waste plant in Lostock, in partnership with Copenhagen Infrastructure Partners (CIP) fund, owning 60% and 40%, respectively. The project represents a total investment of £480 million. Once operational, it will be one of the largest energy-from-waste facilities in Europe, with an initial capacity to process 600,000 tons per year.

Also in the United Kingdom, the company obtained a contract worth over £26 million to operate 11 recycling centres in Suffolk. It already operates close to 100 household recycling centres in the UK, recycling and recovering 1.6 million tons of waste each year.

Stronger position in the US, supported by Environmental Services

Palm Beach County (Florida) has awarded FCC Environmental Services, the parent company of the Environment division in the United States, a municipal solid waste collection contract worth \$215 million which runs for 7 years from 1 October 2019. FCC will deliver the service using a fleet of 108 vehicles, including 90 garbage trucks and a range of light vehicles.

This fourth contract in Florida, alongside the existing contracts in Orlando (Orange County) and Lakeland (Polk County), enhances FCC's position in the US. FCC's backlog in municipal services in the US, which also includes ten contracts in Texas, amounts to \$1,100 million, and it serves a total population of 8 million.

FCC distributes €0.4/share flexible dividend. Over 99% of the shareholders chose shares.

At FCC's Shareholders' Meeting on 8 May, the shareholders approved all the items on the agenda, including a flexible (scrip) dividend. As a result, FCC paid €0.4 per share to the shareholders who opted for cash, and the equivalent amount in shares to the remainder. Over 99% of the shareholders opted for shares. This is the first time that the FCC Group has used a flexible dividend formula of this type.

2. EXECUTIVE SUMMARY

- ◊ Attributable net profit of €128.9 million reflects good performance in all areas, although it is lower than the €151.7 booked in the same period of 2018, mainly because of the €27.8 increase in non-controlling interests, concentrated in the Water division.
- ◊ Group revenues amounted to €2,993.8 million, 5.5% more than in the same period of 2018. This increase took place in all business areas, including stronger performance by Environmental Services in the second quarter and sustained performance by Water and Cement due to new projects and higher demand volumes in Spain.
- ◊ EBITDA increased by 9.3% to €461.3 million, raising the EBITDA margin to 15.4% as a result of a higher contribution by the business areas. The utility-type areas — Environmental Services and Water — generated 76.3% of consolidated EBITDA in the period.
- ◊ Contributions by equity-accounted affiliates increased to €46.2 million, including notably €14.5 million at parent company level, mainly from the Energy business.
- ◊ Consolidated net interest-bearing debt amounted to €2,972.2 million at the end of June 2019, up €280.8 million with respect to December 2018, due to an increase in working capital and ongoing investments, though it was significantly lower (down €866.4 million) in year-on-year terms.
- ◊ The Group's backlog stood at €30,690.8 million at the end of June 2019, 5.9% higher than at 2018 year-end.

KEY FIGURES

(M€)	Jun. 19	Jun. 18	Chg. (%)
Net sales	2,993.8	2,838.1	5.5%
EBITDA	461.3	422.1	9.3%
<i>EBITDA margin</i>	15.4%	14.9%	0.5 p.p.
EBIT	244.8	237.7	3.0%
<i>EBIT margin</i>	8.2%	8.4%	-0.2 p.p.
Income attributable to equity holders of the parent company	128.9	151.7	-15.0%

(M€)	Jun. 19	Dec. 18	Chg. (%)
Equity	2,124.8	1,958.8	8.5%
NET FINANCIAL DEBT	2,972.2	2,691.4	10.4%
BACKLOG	30,690.8	28,990.8	5.9%

3. SUMMARY BY BUSINESS AREA

Area	Jun. 19	Jun. 18	Chg. (%)	% of 2019 total	% of 2018 total
(M€)					
REVENUES BY BUSINESS AREA					
Environment	1,461.1	1,388.4	5.2%	48.8%	48.9%
Water	559.4	519.4	7.7%	18.7%	18.3%
Construction	769.6	740.0	4.0%	25.7%	26.1%
Cement	207.5	183.6	13.0%	6.9%	6.5%
Corporate serv., etc.	(3.8)	6.7	N/A	-0.1%	0.2%
Total	2,993.8	2,838.1	5.5%	100.0%	100.0%
REVENUES BY GEOGRAPHIC AREA					
Spain	1,647.6	1,554.2	6.0%	55.0%	54.8%
United Kingdom	383.2	375.8	2.0%	12.8%	13.2%
Rest of Europe & Others	307.6	240.5	27.9%	10.3%	8.5%
Middle East and Africa	283.5	305.3	-7.1%	9.5%	10.8%
Latin America	187.7	181.7	3.3%	6.3%	6.4%
Czech Republic	143.3	139.5	2.7%	4.8%	4.9%
US and Canada	40.9	41.1	-0.5%	1.4%	1.4%
Total	2,993.8	2,838.1	5.5%	100.0%	100.0%
EBITDA*					
Environment	225.4	212.0	6.3%	48.9%	50.2%
Water	126.2	113.7	11.0%	27.4%	26.9%
Construction	46.8	37.8	23.8%	10.1%	9.0%
Cement	41.7	39.1	6.6%	9.0%	9.3%
Corporate serv., etc.	21.2	19.5	8.7%	4.6%	4.6%
Total	461.3	422.1	9.3%	100.0%	100.0%
EBIT					
Environment	106.0	103.5	2.4%	43.3%	43.5%
Water	77.4	70.0	10.6%	31.6%	29.4%
Construction	35.1	33.5	4.8%	14.3%	14.1%
Cement	23.3	20.4	14.2%	9.5%	8.6%
Corporate serv., etc.	3.0	10.3	-70.9%	1.2%	4.3%
Total	244.8	237.7	3.0%	100.0%	100.0%
Area	Jun. 19	Dec. 18	Chg. (%)	% of 2019 total	% of 2018 total
NET FINANCIAL DEBT*					
With recourse	977.6	741.4	31.9%	32.9%	27.5%
Without recourse					
Environment	380.3	361.8	5.1%	12.8%	13.4%
Water	1,249.1	1,197.6	4.3%	42.0%	44.5%
Construction	0.0	0.0	N/A	0.0%	0.0%
Cement	316.5	337.9	-6.3%	10.6%	12.6%
Corporate	48.7	52.7	-7.6%	1.6%	2.0%
Total	2,972.2	2,691.4	10.4%	100.0%	100.0%
BACKLOG*					
Environment	10,258.1	9,804.1	4.6%	33.4%	33.8%
Water	15,370.4	14,651.4	4.9%	50.1%	50.5%
Construction	5,024.8	4,516.4	11.3%	16.4%	15.6%
Real Estate	37.5	18.9	98.4%	0.1%	0.1%
Total	30,690.8	28,990.8	5.9%	100.0%	100.0%

* See page 26 for a definition of the calculation in accordance with ESMA rules (2015/1415en).

4. INCOME STATEMENT

(M€)	Jun. 19	Jun. 18	Chg. (%)
Net sales	2,993.8	2,838.1	5.5%
EBITDA	461.3	422.1	9.3%
<i>EBITDA margin</i>	<i>15.4%</i>	<i>14.9%</i>	<i>0.5 p.p.</i>
Depreciation and amortisation	(220.2)	(191.2)	15.2%
Other operating income	3.8	6.8	-44.1%
EBIT	244.8	237.7	3.0%
<i>EBIT margin</i>	<i>8.2%</i>	<i>8.4%</i>	<i>-0.2 p.p.</i>
Financial income	(76.6)	(82.5)	-7.2%
Other financial results	(2.0)	17.2	-111.6%
Equity-accounted affiliates	46.2	32.1	43.9%
Earnings before taxes (EBT) from continuing operations	212.4	204.5	3.9%
Corporate income tax expense	(52.1)	(49.2)	5.9%
Income from continuing operations	160.4	155.2	3.4%
Net income	160.4	155.2	3.4%
Non-controlling interests	(31.4)	(3.6)	N/A
Income attributable to equity holders of the parent company	128.9	151.7	-15.0%

4.1 Net sales

Group consolidated revenues increased by 5.5% in the first half of 2019, to €2,993.8 million, due to the increase in activity in all business areas, particularly in Cement and Water. The increase in Cement was due to higher demand in Spain, while growth in Water was due to good volume performance in Spain and the contribution by a number of overseas projects.

The largest contribution was from Environmental Services, where revenues increased by 5.2%, particularly in Spain, due to the development of new treatment plants and the entry into service of new contracts; in the UK, the practical completion of the development phase of the Edinburgh treatment and energy-from-waste plant at the end of last year prior to its commissioning had a negative impact.

The Water business, which increased revenues by 7.7%, experienced growth in the Technology and Networks business (design, engineering and equipment of water infrastructure) related to the development of plants for subsequent operation, particularly in the international arena, together with more moderate revenue growth in the end-to-end water distribution business.

Construction revenues experienced a moderate 4% increase in the first half, with growth more balanced between domestic and international business than in the previous year, and a higher contribution from projects such as three railways in Romania, new projects in Spain, and network installations in Riyadh (Saudi Arabia).

The Cement area expanded revenues by 13%, mainly as a result of growth in demand in Spain and a recovery in exports, particularly to the UK.

Revenue breakdown, by region			
(M€)	Jun. 19	Jun. 18	Chg. (%)
Spain	1,647.6	1,554.2	6.0%
United Kingdom	383.2	375.8	2.0%
Rest of Europe and Others	307.6	240.5	27.9%
Middle East and Africa	283.5	305.3	-7.1%
Latin America	187.7	181.7	3.3%
Czech Republic	143.3	139.5	2.7%
USA	40.9	41.1	-0.5%
Total	2,993.8	2,838.1	5.5%

Revenues in Spain increased by 6% to €1,647.6 million. Environmental Services obtained an 8.2% increase as a result of developing two treatment projects and a number of extensions and new contracts in municipal waste treatment and street cleaning. Water revenues increased by 2.1% due to a combination of moderate growth in tariffs and consumption in the concessions as well as a higher volume of network and technology work related to operational contracts. Construction revenues rose by 5.6%, boosted by the startup of new projects. Cement revenues increased by a notable 17.9% due to higher volumes and prices supported by good performance in the construction industry.

Revenues in the United Kingdom increased by 2% due to higher Cement exports, offset by a -0.3% decline in Environmental Services due to completion of a new energy-from-waste plant late last year, as its development phase prior to entry into operation contributed revenues in 2018. Additionally, the scheduled shutdown of one of the largest energy-from-waste in the first quarter of this year also had a significant impact.

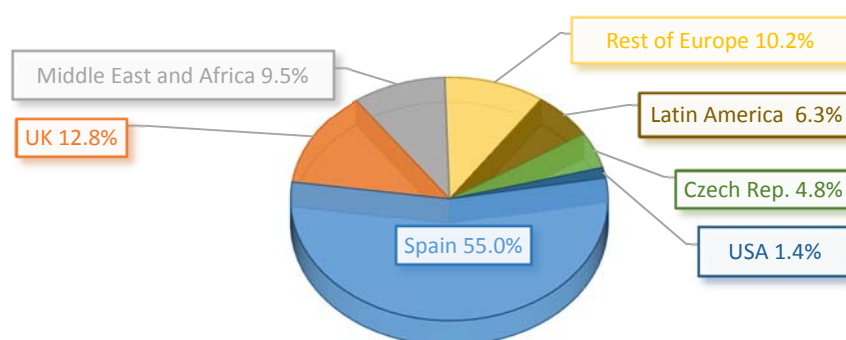
Elsewhere in the EU, revenues increased by 27.9% in the Rest of Europe-Other area due to the startup of new contracts in Belgium and Portugal plus the faster pace of progress with contracts in Romania in the Construction area, as well as sustained performance in Environmental Services in all the countries where the Group operates. The 2.7% increase in the Czech Republic in the period is due to higher tariffs in the Water business and more moderate growth in Environmental Services.

The Middle East and Africa saw revenues decline by 7.1% due to a number of factors. On the one hand, Saudi Arabia increased its contribution due to progress with executing extensions to the Riyadh Metro contract in Saudi Arabia, while Egypt and Algeria made a larger contribution from water plant development and operation; in contrast, the completion of the Doha (Qatar) railway contract in the Construction division had a negative impact.

Latin America increased revenues by 3.3% in the first half, mostly as a result of the commencement of two Technology and Networks projects in the Water area in Colombia and Ecuador. This offset the lower contribution from projects in Panama and the impact of the completion of construction projects in Chile.

Revenues in the United States declined slightly, by 0.5%, due to the advanced status of the Gerald Desmond bridge in the Construction area, which offset the impact of starting up waste collection and treatment contracts (Florida and Texas) in the Environmental Services area, plus higher exports by Cement.

% Revenues by region



4.2 EBITDA

EBITDA increased 9.3% year-on-year to €461.3 million. That performance was supported by revenue growth in all business areas and also reflects the entry into force on 1 January 2019 of IFRS 16 "Leases", under which operating leases are now capitalised and their payment is recognised mainly as period depreciation as a function of the remaining time over which they will contribute to producing revenues. Additionally, there was a one-off impact in the United Kingdom due to reduction in revenues and to the expenses incurred in a scheduled overhaul of the Group's largest energy-from-waste plant in the first quarter.

The main developments in the business areas were as follows:

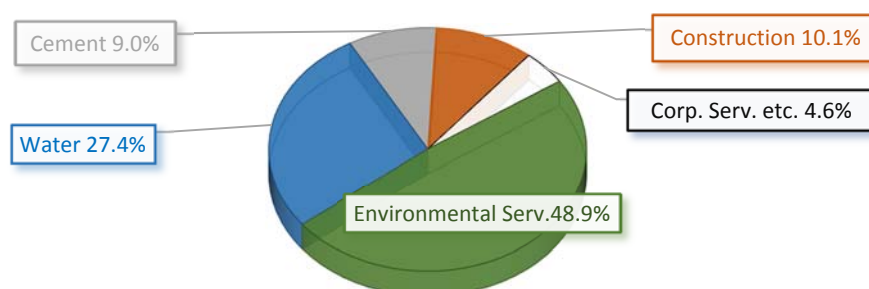
Environmental Services increased EBITDA by 6.3% to €225.4 million. This substantial recovery, concentrated in the second quarter, was due to the aforementioned scheduled overhaul of one of the big energy-from-waste plants (Allington) in the United Kingdom, whose impact in the period amounted to €5.5 million.

The Water area registered €126.2 million in EBITDA, an 11% increase, supported in particular by the higher contribution from BOT concessions and the substantial increase in Technology and Networks business. Their combined contribution boosted the EBITDA margin to 22.6%, from 21.9% in the same period of 2018.

The Construction area reported €46.8 million in EBITDA, 23.8% more than in 2018, and a stable EBITDA margin of 6.1%, shaped by performance of contracts under execution, including notably Riyadh Metro, which is very advanced in terms of both infrastructure and installations.

Cement EBITDA increased by 6.6% to €41.7 million, supported by good demand performance, particularly in Spain, and despite a €4.7 year-on-year million reduction from the sale of CO2 emission rights.

% EBITDA by Business Area



The utilities-like areas — Environmental Services and Water — continued to account for a large percentage of EBITDA (76.3% in the first half) while the areas linked to demand for infrastructure construction and building accounted for 19.1%. The other 4.6% relates to the parent company and other lesser businesses (basically transport concessions).

4.3 EBIT

EBIT amounted to €244.8 million, a 3% year-on-year increase. EBIT increased by less than EBITDA in year-on-year terms due to the 15.2% increase in period depreciation recognised in 2019, largely as a result of the application from 1 January of IFRS 16, under which operating leases are capitalised on the balance sheet and their contribution to the generation of revenues is recognised as depreciation over the years of the contract.

4.4 Earnings before taxes (EBT) from continuing operations

Earnings before taxes from continuing operations amounted to €212.4 million, a 3.9% increase on the €204.5 million reported in the same period of 2018, due particularly to better operating performance and a higher contribution from affiliates, plus non-recurring financial expenses:

4.4.1 *Financial income*

Net financial income amounted to €-76.6 million, i.e. 7.2% less than in the first half of 2018. The decline in this item slowed with respect to the first quarter due to booking €18.8 million in extraordinary default interest expenses in connection with a tax issue in Spain. In June 2017, the Spanish tax authorities commenced a proceeding to recover State aid as a result of European Commission Decision 2015/314/EU (of 15 October 2014) in connection with tax amortisation of financial goodwill for foreign shareholding acquisitions. The purpose of that proceeding was to regularise the tax incentives applied by the FCC Group in previous years as a result of acquiring Alpine, FCC Environment (formerly WRG) and FCC CEE (formerly ASA) in the last decade. As a result, in May 2019 the Spanish tax authorities issued an assessment for €110.9 million, which the Group paid. In parallel, the Administration recognised tax losses amounting to €63.2 million.

The Group parent company filed an appeal against this tax settlement and believes that the courts will eventually uphold the appeal, at least in part.

Adjusting for this extraordinary effect, net financial income would have declined by 29.9%, in line with the trend in the first quarter.

4.4.2 *Other financial results*

This item amounted to €-2 million, contrasting with €17.2 million in the same period of the previous year. This difference is due mainly to the fact that this year saw positive exchange differences offset by the adjustment to the sale price of a company disposed of in 2009, for a similar amount. Exchange differences amounted to €13.6 million in the same period of 2018.

4.4.3 *Equity-accounted affiliates*

The contribution by jointly-managed companies and affiliates increased to €46.2 million, up sharply from the €32.1 million registered in the same period of 2018. In particular, renewable energy affiliates contributed €14.5 million, with lesser recurring contributions by transport concessions (€13.7 million) and affiliates in the Environmental Services area (€9.2 million).

4.5 Income attributable to the parent company

Net attributable income amounted to €128.9 million in the first half of 2019, 15% less than the €151.7 million reported in the same period of 2018, and was due to the items referred to above plus the following factors:

The corporate income tax expense was €52.1 million, up 5.9% from €49.2 million in the same period of 2018, in line with the increase in income before taxes.

There was a sizeable increase in profit attributable to non-controlling interests, to €31.4 million, from €3.6 million in the same period of 2018. This substantial increase is due broadly to the disclosure of a minority interest in the Water division from September 2018, with the result that this area accounts for €28.8 million attributable to non-controlling interests.

5. BALANCE SHEET

(M€)	Jun. 19	Dec. 18	Change (M€)
Intangible assets	2,451.0	2,426.4	24.6
Property, plant and equipment	2,806.4	2,426.8	379.6
Equity-accounted affiliates	720.0	763.0	(43.0)
Non-current financial assets	607.9	380.6	227.3
Deferred tax assets and other non-current assets	674.1	610.4	63.7
Non-current assets	7,259.4	6,607.2	652.2
Inventories	716.1	691.0	25.1
Trade and other accounts receivable	1,915.0	1,780.8	134.2
Other current financial assets	191.9	178.8	13.1
Cash and cash equivalents	1,090.3	1,266.2	(175.9)
Current assets	3,913.2	3,916.8	(3.6)
TOTAL ASSETS	11,172.6	10,524.0	648.6
Equity attributable to equity holders of the parent company	1,754.8	1,684.0	70.8
Non-controlling interests	369.9	274.8	95.1
Equity	2,124.8	1,958.8	166.0
Grants	229.1	211.3	17.8
Non-current provisions	1,108.1	1,162.0	(53.9)
Long-term interest-bearing debt	3,721.3	3,839.1	(117.8)
Other non-current financial liabilities	445.2	61.3	383.9
Deferred tax liabilities and other non-current liabilities	302.0	301.0	1.0
Non-current liabilities	5,805.7	5,574.7	231.0
Non-current provisions	204.4	209.3	(4.9)
Short-term interest-bearing debt	533.1	297.3	235.8
Other current financial liabilities	172.5	83.6	88.9
Trade and other accounts payable	2,332.1	2,400.3	(68.2)
Current liabilities	3,242.1	2,990.5	251.6
TOTAL LIABILITIES	11,172.6	10,524.0	648.6

5.1 Equity-accounted affiliates

The investment in equity-accounted companies (€720 million) comprised the following at the end of June 2019:

- 1) €276.2 million for the 36.9% holding in Realia after subscribing for the equity issue by this investee in December.
- 2) €32.3 million for investments in companies in the Water area, mainly service concession companies in other countries (North Africa and Mexico).
- 3) €83.5 million for holdings in companies in the Environmental Services area (recycling and municipal services, mainly in Spain and the UK).
- 4) €16.7 million for the 44.6% stake in Giant Cement Holding, the parent company of the Cement division in the US, and €22.1 million for other companies in which the Cement area's parent company has a stake.
- 5) €91.7 million corresponding to stakes in a number of transport and service infrastructure concessions.
- 6) €197.5 million for all other stakes in, and loans to, equity-accounted undertakings.

5.2 Cash and cash equivalents

Cash and cash equivalents amounted to €1,090.3 million at the end of the first half, 13.9% less than at end-December 2018 because of changes in cash flow in the period. Of that amount, 42.8% corresponds to the parent company and consolidated subsidiaries, and the other 57.2% to other undertakings without recourse.

5.3 Equity

Equity amounted to €2,124.8 million at the end of the quarter, 8.5% more than at the end of December 2018. This increase is due broadly to the €160.4 million net profit booked in the period.

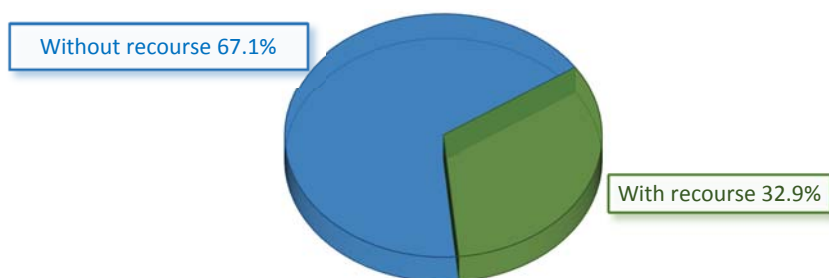
5.4 Net interest-bearing debt

(M€)	Jun. 19	Dec. 18	Change (M€)
Bank borrowings	2,357.9	2,200.0	157.9
Debt instruments and other loans	1,714.6	1,726.0	(11.4)
Accounts payable due to finance leases	49.7	51.5	(1.8)
Derivatives and other financial liabilities	132.2	158.9	(26.7)
Gross interest-bearing debt	4,254.4	4,136.4	118.0
Cash and other current financial assets	(1,282.2)	(1,445.0)	162.8
NET FINANCIAL DEBT	2,972.2	2,691.4	280.8
<i>With recourse</i>	<i>977.6</i>	<i>741.4</i>	<i>236.2</i>
<i>Without recourse</i>	<i>1,994.6</i>	<i>1,950.0</i>	<i>44.6</i>

Net interest-bearing debt amounted to €2,972.2 million at the end of the first half of 2019, €280.8 million more than at the end of December 2018. This variation is due broadly to the combined impact of the trend in working capital as a result of the degree of progress with ongoing projects, the tax payment (see section 4.4.1) and a number of investments in growth, concentrated in Water companies and in the development of waste treatment and recycling plants in the Environmental Services area.

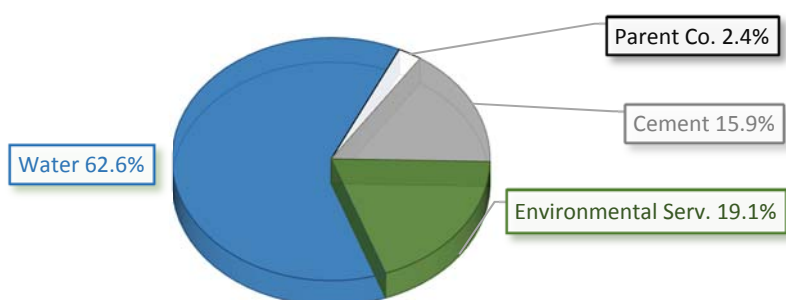
Gross interest-bearing debt remained practically unchanged at €4,254.4 million at the end of the first half.

Debt with and without recourse



Net interest-bearing debt is divided between corporate debt (32.9%) and project debt, which is without recourse (67.1%). Net debt with recourse, which represents a minority proportion of the Group's debt, is related mainly to Environmental Services contracts. It is structured as a syndicated loan arranged by FCC, S.A. that came into force in September 2018, plus a smaller European commercial paper (ECP) programme with €300 million outstanding at the end of the first half of 2019.

Net debt without recourse, by area



Net interest-bearing debt without recourse to the Group parent company amounted to €1,994.6 million at 30 June 2019. The Water division has €1,249.1 million in debt, including not only the bonds issued by the area parent company but also €195.9 million attributable to the business in the Czech Republic and the remainder to end-to-end water concessions, mainly in Spain. The Cement area accounts for €316.5 million, and Environmental Services for €380.3 million (€303 million in connection with UK activities, €51.9 million with Central Europe, and the remainder with three waste treatment and recycling plants in Spain). The other €48.7 million at parent company level is the project debt of the Conquense highway concession company in Spain and, to a lesser extent, the Coatzacoalcas tunnel concession company in Mexico.

5.5 Other current and non-current financial liabilities

The balance of other current and non-current financial liabilities was €617.7 million at the end of June. The increase with respect to 2018 year-end reflects mainly the liability of €421.0 million associated with capitalising operating leases under the new accounting standards. It also includes other financial liabilities that do not qualify as interest-bearing debt, such as those associated with hedging derivatives, suppliers of fixed assets, and deposits and guarantees received.

6. CASH FLOW

(M€)	Jun. 19	Jun. 18	Chg. (%)
EBITDA	461.3	422.1	9.3%
(Increase)/decrease in working capital	(269.2)	(448.4)	-40.0%
Income tax (paid)/received	(99.1)	(36.5)	171.5%
Other operating cash flow	(50.6)	28.7	N/A
Operating cash flow	42.4	(34.1)	N/A
Investment payments	(228.8)	(160.6)	42.5%
Divestment receipts	13.8	32.2	-57.1%
Other investing cash flow	72.8	10.4	N/A
Investing cash flow	(142.2)	(118.0)	20.5%
Interest paid	(82.7)	(78.3)	5.6%
(Payment)/receipt of financial liabilities	36.6	68.4	-46.5%
Other financing cash flow	(44.5)	(93.6)	-52.5%
Financing cash flow	(90.6)	(103.5)	-12.5%
Exchange differences, change in consolidation scope, etc.	14.5	7.7	88.3%
Increase/(decrease) in cash and cash equivalents	(175.9)	(247.8)	-29.0%

6.1 Operating cash flow

Operating cash flow amounted to €42.4 million in the period, compared with a negative €34.1 million in the same period of 2018. This positive change was driven by working capital, which declined to €269.2 million in the period, 40% less than in the same period of 2018, due to the slower pace of consumption of advances on a number of Construction contracts that are at an advanced stage and the slower pace required for the development of other projects in the Environmental Services area.

There was a net outflow of €99.1 million under the heading of income tax due to €92.1 million relating mainly to the payment to the tax authorities to regularise the tax incentives used by the Group in previous years, as detailed in section 4.4.1.

Other operating cash flow represented an outflow of €50.6 million, mainly from a year-on-year increase in the use of provisions, particularly in the Construction area.

6.2 Investing cash flow

Investing cash flow amounted to €-142.2 million, compared with an increase of €24.2 million in the same period of the previous year. The increase in investment payments refers to a number of growth capex payments, including notably: the acquisition in June of SPIE, a French group engaged in water supply and sanitation, by the Water division for €31.7 million, as well as payments for investments in the Environmental Services area to develop and complete a number of treatment plants, for a combined amount of more than €46 million, including those linked to the completion of the recycling and energy-from-waste plant in Edinburgh and the Alcalá de Henares and Guipúzcoa plants in Spain.

Divestment receipts declined to €13.8 million, from €32.2 million in 2018: €4.2 million in Construction, €7.5 million in Environmental Services, and €6.9 million in Water.

The breakdown of net investments by area, in terms of investment payments and divestment receipts, is as follows:

(M€)	Jun. 19	Jun. 18	Change (M€)
Environment	(124.6)	(101.9)	(22.7)
Water	(74.7)	(31.5)	(43.2)
Construction	(6.5)	5.3	(11.8)
Cement	(3.7)	(2.0)	(1.7)
Corporate serv., etc. & adjustments	(5.5)	1.7	(7.2)
Net investments (Payments - Receipts)	(215.0)	(128.4)	(86.6)

Other investing cash flow amounted to an inflow of €72.8 million in the first half of 2019, including notably €43.3 million due mainly to the consolidation of a water concession in Algeria. Other lesser cash flows were due to loans to third parties and associated companies.

6.3 Financing cash flow

Consolidated financing cash flow amounted to an outflow of €90.6 million in the period, compared with €103.5 million in the same period of the previous year. Interest payments amounted to €82.7 million, a 5.6% increase year-on-year due entirely to the payment of €18.8 million in default interest on taxes in connection with the tax assessment to recover State aid discussed above.

The (Payment)/receipt of financial liabilities item registered an increase of €36.6 million in the period, including notably the issuance in the first half of 2019 of a commercial paper programme on the Irish Stock Exchange with an outstanding balance of €300 million on 30 June 2019, maturing in between 3 and 9 months.

Other financing cash flow refers mainly to the payment of €28.9 million to acquire 49% of Aquajerez in the Water area from minority shareholders, as well as €9.6 million paid to shareholders of the Group parent company under the flexible dividend in the second quarter.

6.4 Exchange differences, change in consolidation scope, etc.

This item increased by €14.5 million in the first half of 2019, compared with a €7.7 million increase in the same period of 2018. This increase was due to the effect of exchange rate variations on cash as a result of the changes in the euro exchange rate, which were concentrated in the Construction area.

6.5 Variation in cash and cash equivalents

As a result of performance by the various components of cash flow, the Group's cash position declined by €175.9 million with respect to 2018 year-end, to €1,090.3 million at 30 June 2019.

7. BUSINESS PERFORMANCE

7.1. Environment

The Environmental Services area accounted for 48.9% of Group EBITDA in the period. A total of 79.8% of its activities involve municipal solid waste collection, treatment and disposal, along with street cleaning. The other 20.2% relates to industrial waste collection and management and to other activities such as garden upkeep and sewer maintenance.

FCC's business in Spain focuses on municipal waste management and street cleaning; in the UK, it is involved principally in municipal waste treatment, recovery and disposal; in Central Europe, mainly Austria and the Czech Republic, FCC is present throughout the waste management chain (collection, processing and disposal). In the United States, FCC focuses on end-to-end management of municipal waste (collection and recovery).

7.1.1. Results

(M€)	Jun. 19	Jun. 18	Chg. (%)
Revenues	1,461.1	1,388.4	5.2%
<i>Waste collection and street cleaning</i>	667.6	642.7	3.9%
<i>Waste treatment</i>	498.3	459.8	8.4%
<i>Other services</i>	295.2	285.8	3.3%
EBITDA	225.4	212.0	6.3%
<i>EBITDA margin</i>	15.4%	15.3%	0.2 p.p.
EBIT	106.0	103.5	2.4%
<i>EBIT margin</i>	7.3%	7.5%	-0.2 p.p.

The Environmental Services area obtained €1,461.1 million in revenues in the first half, up 5.2% year-on-year, due to positive performance by all business areas, particularly in Spain, because of new contracts and the expansion of some existing contracts that are already operational.

Revenue breakdown, by region			
(M€)	Jun. 19	Jun. 18	Chg. (%)
Spain	846.3	782.4	8.2%
United Kingdom	357.6	358.7	-0.3%
Central Europe	230.8	219.5	5.1%
USA and others	26.4	27.8	-5.0%
Total	1,461.1	1,388.4	5.2%

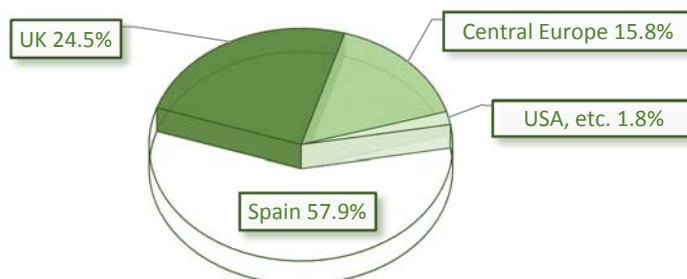
Revenues increased by 8.2% in Spain to €846.3 million due not only to the development of new treatment plants in Alcalá de Henares (Madrid) and Guipúzcoa but also to new contracts and scope expansions of existing contracts, including notably the organic expansion of the Madrid and Prat de Llobregat contracts.

Revenues in the UK declined by 0.3% to €357.6 million due to the scheduled maintenance shutdown in the first quarter of the Allington energy-from-waste plant (which does not take place every year) and to the lower contribution from the Edinburgh recycling and waste-to-energy plant after the construction concluded and commissioning commenced in May.

Revenues in Central Europe increased by 5.1% to €230.8 million, supported by good performance in all the countries in this region, including notably the contribution from new decontamination projects in the Czech Republic, higher volumes in the industrial business in Austria and Hungary, and good business performance in Poland.

Revenues in the US and other markets declined by 5% due to the scheduled completion of the waste collection contract in Egypt at the end of last year. Revenues in the US alone expanded by 14% year-on-year because of the larger contribution from the Rowlett (Texas) contract and the entry into service of the Houston recyclable waste plant.

Revenue breakdown, by region



EBITDA increased to €225.4 million, 6.3% more than in the first half of 2018. This was due basically to good performance in all activities and to the reclassification of operating leases under the new accounting standard, which offset the higher fuel costs, adverse trends in the prices of recycled subproducts and the lower contribution margin from the treatment plants during their current development phase.

EBIT increased by 2.4% to €106 million due to the performance of the various components of EBITDA.

Backlog breakdown, by region

(M€)	Jun. 19	Dec. 18	Chg. (%)
Spain	5,551.9	5,606.5	-1.0%
International	4,706.2	4,197.6	12.1%
Total	10,258.1	9,804.1	4.6%

This area's backlog increased by 4.6% with respect to 2018 year-end, to €10,258.1 million at the end of June 2019. The backlog in Spain was basically stable (-1%) because of the low volume of new tenders, as the predominant trend is to extend contracts rather than re-tender. The international backlog increased by 12.1% due to new contracts, notably a new waste collection contract in Palm Beach (Florida) and waste collection and disposal contracts in several locations in the United Kingdom and Central Europe.

7.1.2. Financial debt

(M€)	Jun. 19	Dec. 18	Change (M€)
Without recourse	380.3	361.8	18.5

Net interest-bearing debt without recourse to the parent company amounted to €380.3 million at the end of the period. The bulk of that amount (€303 million) corresponds to the UK, while €51.9 million relates to the parent company of the business in Central Europe, and the remaining €25.4 million to three waste treatment and recycling plants in Spain.

7.2. End-to-End Water Management

The Water area contributed 27.4% of FCC Group EBITDA in the first half of 2019. Public end-to-end water management concessions (capture, treatment and distribution) accounted for 82.5% of this division's total revenues, and the other 17.5% was in Technology and Networks, which handles water infrastructure design, engineering and equipment, mainly for the development of new concessions or ancillary work at operational concessions.

This area serves more than 13 million people in over 850 municipalities in Spain. In Central Europe, it serves 1.3 million users, mainly in the Czech Republic, and it also operates in Italy, Portugal and France (following the acquisition in June). FCC designs, equips and operates water treatment plants in Latin America, the Middle East and Africa. Overall, the Water division supplies water and/or sewage treatment services to more than 23.6 million people.

7.2.1 Earnings

(M€)	Jun. 19	Jun. 18	Chg. (%)
Revenues	559.4	519.4	7.7%
<i>Concessions and services</i>	461.6	449.2	2.8%
<i>Technology and networks</i>	97.8	70.2	39.3%
EBITDA	126.2	113.7	11.0%
<i>EBITDA margin</i>	22.6%	21.9%	0.7 p.p.
EBIT	77.4	70.0	10.6%
<i>EBIT margin</i>	13.8%	13.5%	0.4 p.p.

This area's revenues increased by 7.7% year-on-year to €559.4 million. The Concessions and Services business attained €461.6 million due to higher sales of water in Spain and a larger contribution from business in Algeria (Mostaganem treatment plant). The Technology and Networks business was very dynamic, with €97.8 million in revenues, mainly from the startup and development of treatment plants outside Spain.

Revenue breakdown, by region			
(M€)	Jun. 19	Jun. 18	Chg. (%)
Spain	381.9	374.1	2.1%
Central Europe	54.6	52.4	4.2%
Rest of Europe (Portugal, France and Italy)	29.9	25.2	18.7%
Latin America	35.0	16.1	117.4%
Middle East, Africa and Others	58.0	51.6	12.4%
Total	559.4	519.4	7.7%

Revenues in Spain increased by 2.1% to €381.9 million. Demand rose because of favourable weather conditions in the first half of 2019, offset by a slight reduction in the treatment plant operation business. Technology and Networks revenues, which are linked to investments in operating concessions, remained stable.

Revenues in Central Europe increased by 4.2% to €54.6 million. This increase is mainly due to the higher contribution by concessions in the Czech Republic, where rates increased, and, to a lesser extent, the greater contribution by some technology and networks projects, offsetting the decrease in invoiced volumes caused by unfavourable weather conditions in the first half.

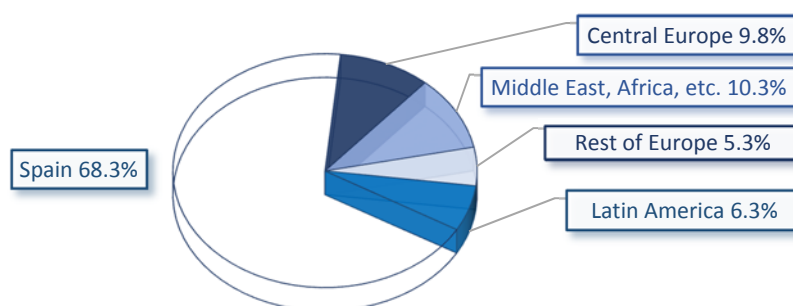
Revenues in the Rest of Europe (Portugal, France and Italy) increased by 18.7% to €29.9 million. This combines the contribution in the Concessions and Services area of Services Publics and Industries Environments (SPIE), which was acquired in June, and in the Technology and Networks business, due to a higher volume of work on

the Acque di Caltanissetta contract (Italy), and minor works associated with the investment plan at Cartagua in Portugal.

Revenues in Latin America more than doubled to €35 million due to the faster pace of execution projects in Colombia and Ecuador, and the new Guaymas BOT project in Mexico.

In the Middle East, Africa & Others, revenues increased by 12.4% to €58 million. In particular, the Mostaganem contract in Algeria made a higher contribution.

Revenue breakdown, by region



EBITDA increased by 11% with respect to the same period of 2018, to €126.2 million. This performance was due both to higher returns in the concessions and services business and also to the ongoing projects in the Technology and Networks area. Overall, the EBITDA margin increased to 22.6%, from 21.9% in the same period of 2018.

Backlog breakdown, by region

(M€)	Jun. 19	Dec. 18	Chg. (%)
Spain	8,052.8	8,078.8	-0.3%
International	7,317.6	6,572.6	11.3%
Total	15,370.4	14,651.4	4.9%

The backlog increased by 4.9% at end-June 2019 to €15,370.4 million. The backlog in Spain was practically unchanged in the period, during which local elections were held in May. The international backlog expanded by a notable 11.3% due to new contracts, such as those obtained with the acquisition of SPIE in France, and the East Area and Island Area sanitation contracts in Abu Dhabi.

7.2.2. Financial debt

(M€)	Jun. 19	Dec. 18	Change (M€)
Without recourse	1,249.1	1,197.6	51.5

Net interest-bearing debt, which is entirely without recourse to the Group parent company, amounted to €1,249.1 million at 30 June 2019, up €51.5 million with respect to 2018 year-end due to acquisitions such as the buyout of minority shareholders in the Jerez water concession company, the acquisition of SPIE in France and the addition of a BOT contract in Algeria. Most of the debt is in the form of long-term bonds issued by the division parent company.

7.3. Construction

The Construction area contributed 10.1% of FCC Group EBITDA in the first half of 2019. This area designs and constructs large civil and industrial engineering projects and complex building projects. Public works, such as railways, tunnels and bridges, account for the bulk of its activity.

(M€)	Jun. 19	Jun. 18	Chg. (%)
Revenues	769.6	740.0	4.0%
EBITDA	46.8	37.8	23.8%
<i>EBITDA margin</i>	<i>6.1%</i>	<i>5.1%</i>	<i>1.0 p.p.</i>
EBIT	35.1	33.5	4.8%
<i>EBIT margin</i>	<i>4.6%</i>	<i>4.5%</i>	<i>0.0 p.p.</i>

This area's revenues increased by 4.0% in the period to €769.6 million due to new contracts in Spain, which expanded faster than the overseas segment, plus the positive impact of exchange rates in the period, basically of the US dollar.

Revenue breakdown, by region			
(M€)	Jun. 19	Jun. 18	Chg. (%)
Spain	294.2	278.5	5.6%
Middle East and Africa	200.3	219.0	-8.5%
Latin America	150.7	163.0	-7.5%
Europe, US, etc.	124.4	79.5	56.5%
Total	769.6	740.0	4.0%

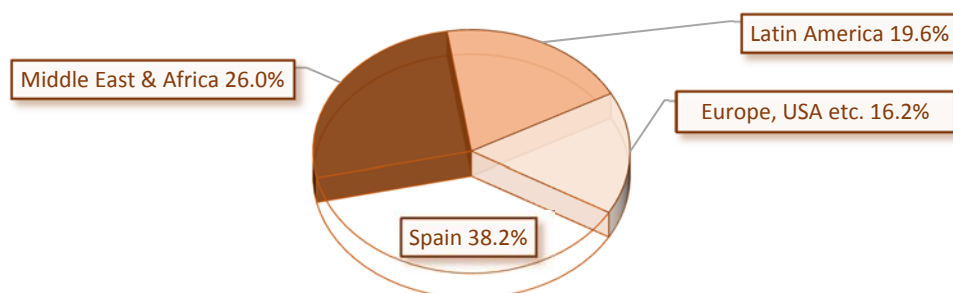
Revenues in Spain increased by 5.6% to €294.2 million due to the contribution by newly-commenced contracts in the first half in both building and civil engineering that offset the effect of projects that concluded in the previous year.

Revenues in the Middle East and Africa declined by 8.5%, mainly as a result of the completion of Doha Metro, which was not offset by progress on the construction and installations of Metro lines in Riyadh (Saudi Arabia).

In Latin America, revenues increased by 7.5% to €150.7 million due to the slower pace of execution of projects such as Panama Metro Line 2, an effect not yet offset by work on various infrastructures in Lima (Peru), which is incipient.

Revenues in Europe, the US and other markets increased by a notable 56.5% to €124.4 million as a result of greater activity on projects that have commenced in a number of EU countries, such as the Haren complex in Belgium and a number of railway lines in Romania.

Revenue breakdown, by region



EBITDA increased by 23.8% year-on-year to €46.8 million as a result of good progress with projects under way and the change in the method of recognising operating leases this year under IFRS 16, as discussed above. As a result, the EBITDA margin increased 1 percent.

EBIT improved by 4.8% year-on-year to €35.1 million due to the aforementioned increase in EBITDA.

Backlog breakdown, by region

(M€)	Jun. 19	Dec. 18	Chg. (%)
Spain	1,806.5	1,075.8	67.9%
International	3,218.3	3,440.6	-6.5%
Total	5,024.8	4,516.4	11.3%

The area's backlog expanded by 11.3% in the first half of 2019 to €5,024.8 million, including a notable 67.9% increase in Spain due to new contracts such as the Real Madrid football stadium remodelling and the project to build the Murcia-Almería leg of the Mediterranean high-speed railway, which more than offset the decline in the international backlog.

Backlog breakdown, by business segment

(M€)	Jun. 19	Dec. 18	Chg. (%)
Civil engineering	3,216.3	3,218.0	-0.1%
Building	1,345.5	888.6	51.4%
Industrial projects	463.0	409.9	13.0%
Total	5,024.8	4,516.4	11.3%

Civil engineering continued to be the dominant component of the backlog, accounting for 64% of the total, although order intake was higher in the building area because of the Real Madrid stadium contract. The industrial backlog also increased sharply in the first half due to projects such as development of a data centre in Spain and new networks contracts in Saudi Arabia.

7.4. Cement

The Cement area contributed 9% of the FCC Group's EBITDA in the first half of 2019. This division, headed by the CPV Group, produces mainly cement and derivatives; it has seven factories in Spain and one in Tunisia, as well as a minority (44.6%) stake in Giant Cement, which has three cement factories on the east coast of the United States.

7.4.1. Results

(M€)	Jun. 19	Jun. 18	Chg. (%)
Revenues	207.5	183.6	13.0%
<i>Cement</i>	187.8	168.0	11.8%
<i>Other</i>	19.7	15.6	26.3%
EBITDA	41.7	39.1	6.6%
<i>EBITDA margin</i>	20.1%	21.3%	-1.2 p.p.
EBIT	23.3	20.4	14.2%
<i>EBIT margin</i>	11.2%	11.1%	0.1 p.p.

This area's revenues increased by 13% year-on-year to €207.5 million, as a result mainly of higher volumes in Spain but also, to a lesser extent, of higher exports.

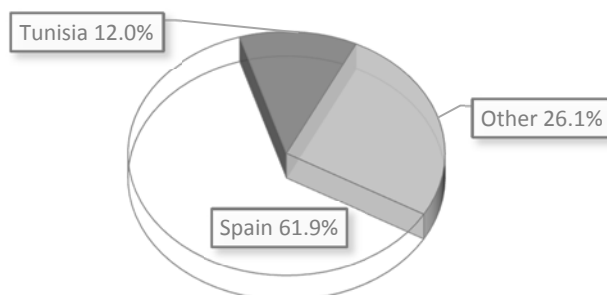
Revenue breakdown, by region			
(M€)	Jun. 19	Jun. 18	Chg. (%)
Spain	128.4	108.9	17.9%
Tunisia	24.9	27.3	-8.8%
Other (exports)	54.2	47.4	14.3%
Total	207.5	183.6	13.0%

Revenues in Spain increased by 17.9% to €128.4 million as a result of strong growth in volumes and a more moderate increase in prices, favoured by good demand performance in the building market.

Domestic revenues in Tunisia fell by 8.8%, as price increases were insufficient to offset the steady depreciation of the Tunisian dinar, by 12% in the period (revenues increased by 3.8% in local currency terms).

Revenues from exports to a number of markets increased by 14.3%, due to higher shipments from Spain, mainly to Europe (notably the UK), the US and Costa Rica, offsetting lower exports from Tunisia.

Revenue breakdown, by region



There was a moderate increase in EBITDA, by 6.6% to €41.7 million, due to higher electricity costs and the lower contribution from the sale of CO₂ emission rights (€3.1 million, vs. €7.8 million in the same period of the previous year). Excluding the impact of emission rights sales in both periods, EBITDA would have increased by 23.3%, outstripping growth in revenues.

EBIT increased by 14.2% to €23.3 million due to the trend in EBITDA described above.

7.4.2. Financial debt

(M€)	Jun. 19	Dec. 18	Change (M€)
Without recourse	316.5	337.9	(21.4)

Net interest-bearing debt, which is entirely without recourse to the Group parent company, decreased by €21.4 million with respect to 2018 year-end, to €316.5 million. Part of this reduction is due to early repayment of €10 million of the syndicated loan granted to the division parent company.

8. SHARE DATA

8.1. Share performance

	Jan. – Jun. 2019	Jan. – Jun. 2018
Closing price (€)	11.72	10.80
<i>Change in the period</i>	3.72%	25.20%
High (€)	13.20	11.16
Low (€)	10.84	8.63
Average daily trading (shares)	52,313	82,360
Average daily trading (M€)	0.6	0.8
Market capitalisation at end of period (M€)	4,597	4,091
No. of shares outstanding	392,264,826	378,825,506

8.2. Dividends

The Company's Board of Directors resolved to execute the decision adopted by FCC's Shareholders' Meeting on 8 May 2019, under item five on the agenda, to distribute a flexible (scrip) dividend. The main details of this scrip dividend were as follows: the rights were traded on 14-28 May; the cash dividend of €0.40 gross per share was paid on 30 May to the shareholders who had requested it; the capital increase of 13,439,320 shares was registered with the Barcelona Mercantile Registry on 12 June, with the result that the company's capital was increased to 392,264,826 shares.

8.3. Own shares

At 30 June 2019, the FCC Group held a total of 852,837 shares of FCC, S.A. directly and indirectly (0.217% of the company's capital).

9. RISKS AND PROSPECTS FOR 2H 2019

The inherent risks that the FCC Group must face as a global infrastructure and services operate are the consequence of both the range of countries in which it operates, which have a variety of socioeconomic contexts and regulatory environments, and the various industries in which it is active.

To address this diverse and changing environment, the FCC Group continues to develop its Risk Management Model, which is designed to identify and assess potential risks that may affect the businesses and to establish mechanisms built into the organisation's processes that enable it to manage risks. This model, which is aligned with the FCC Group's Corporate Governance and Compliance principles, seeks to achieve a reasonable degree of security about the attainment of its goals, information reliability and regulatory compliance.

The risks and opportunities facing the FCC Group during the second half of 2019 include notably:

Strategic risks

The World Economic Forum's Global Risks Report 2019 points to an increase in risks related to geopolitical problems and rising economic and trade tensions between blocs, plus an increase in protectionism. These uncertainties, together with slower-than-expected economic growth in the first quarter, resulted in a revision of world growth projections for 2019 to 2.6%.

Economic slowdown and financial difficulties in emerging markets affect the capacity for public spending and decrease business opportunities. In Europe, the possibility of a hard Brexit raises additional uncertainty and the economic and political consequences for the United Kingdom and for the European Union are unknown. Political instability in a number of countries, including Spain, might result in investments being rescheduled and a reduction in the volume of tenders. Meanwhile, rising demographic pressure, urbanisation, climate change, water stress and sustainable development plus the fourth industrial revolution pose risks for companies but also represent business opportunities for the FCC Group, as a leading international company in the area of Citizen Services that is capable of providing competitive, sustainable, technologically advanced solutions through specialisation in its synergistic business areas in the field of infrastructure design and execution and the delivery of municipal services.

Faced with these socio-political uncertainties and other strategic risks such as possible changes in contracting approaches and rising competitive tension, the FCC Group will continue to focus on strengthening its international position, maintaining its share in mature markets and seeking new public-private partnership formulas for water supply and end-to-end water management, and development of transport, infrastructure and environmental services, with integration into the circular economy, supported by technology and innovation.

As for FCC Environmental Services, the increase in revenues in the early months of the year will be enhanced in Spain by the strategy of maintaining competitiveness combined with the know-how developed over more than 100 years in business by developing innovative technologies that make it possible to offer clients Smart Human Environmental Services that cause minimal disruption to citizens, are more respectful in terms of resource consumption, and contribute to realising more sustainable and inclusive cities. Internationally, the group will continue working to improve efficiency, cut operating and structural costs, renew existing contracts and businesses, and develop large treatment, incineration and renewable energy projects, such as an energy-from-waste plant in north-west England.

Aqualia will continue pursuing greater efficiency in operational management and a strategy of selective profitable growth, increasing its international presence, as it did through the acquisition of French company Services Publics et Industries Environnement.

In the Infrastructure area, FCC Construction will leverage its design and technology capabilities to continue focusing on emblematic civil engineering contracts. In the Cement division, rising prices of CO2 emissions and electricity will be offset in the second half by finding alternative markets, via exports, plus greater efficiency in production plant operation through digitalisation and automation, as well as new digital tools for customers, suppliers and employees.

Operational risks

The complexity and diversity of the projects in which the FCC Group is involved requires a major effort to identify and assess risks, from the study phase up to completion, so as to ensure that contracts are fulfilled on time, to specifications and profitably.

Risks to the Group's operations include organisational inefficiency, contract termination or amendment, project rescheduling, commodity and energy price volatility, catastrophes and cyberattacks, security failings, health and safety deficiencies, quality deficiencies in services, and environmental damage.

Taking advantage of synergies between areas and the horizontal use of knowledge will continue to provide the capacity to eliminate duplication and optimise activities and processes, including those related to the supply chain and procurements.

FCC constantly tracks contractual, planning and budgetary contingencies in operations.

Additionally, to ensure safety, quality and respect for the environment in their activities and services, the FCC business units have quality assurance, environmental management and safety management systems that are certified to international standards. There are also specific plans, such as the Construction area's Special Plan for Addressing Accident Risk, which provides a set of measures applicable to projects with the potential for serious accidents or major social or economic repercussions due to defects in the design, execution or management of the contract.

In order to respond to their client's expectations, each of the FCC areas develops and implements initiatives in addition to the quality systems, including notably: Aqualia's omnicanal service, which combines customer care in-person, online, by phone and via mobile devices, all in real time, with an agent entrusted with taking suggestions, responding to requests for information, managing outside companies and communicating actions to be done or completed as a result

of suggestions, and the Environmental Services area's Citizen Services Management platform, a smart system for responding automatically to client needs. These initiatives are rounded out with quality surveys.

Additionally, to respond to the risk of cyberattack, the FCC Group has an operational unit whose function is to prevent, detect, analyse and mitigate the factors related to cyberattacks, such as: intrusions, attacks, etc.

To address vulnerability to catastrophe, in addition to preventive measures, it is FCC Group policy to arrange insurance for the risk to which its fixed assets and business activities are subject.

Financial risk

The FCC Group's ability to raise funding depends on a number of factors, many of them beyond its control, such as general economic conditions, the availability of funds from financial institutions, and monetary policy in the markets where it operates, although the FCC Group continues to take steps to address these uncertainties from position of strength.

In the first half of 2019, the group continued working to strengthen and optimise the capital structure so as to enable the FCC Group to enter the second half of 2019 with a sounder financial position by enhancing its capacity and operational flexibility. During the second half of 2019, the Group will continue addressing the risks arising from fluctuations in the interest rates to which the Group companies' debt is referenced, by seeking natural hedges where possible, and addressing exchange rate variations arising from its exposure to international markets. This risk is mitigated in the Euro area by the European Central Bank's announcement that it will maintain interest rates at current levels at least until the first half of 2020, and the fact that Euro area inflation is stable around 1.3%.

The FCC Group has sizeable goodwill on the balance sheet whose carrying amount is re-assessed from time to time but which might be affected by the geopolitical and macroeconomic uncertainties referred to above.

The approach to monitoring these and other financial risks that the FCC Group faces in the second half of 2019 does not differ significantly from the control systems described in detail in the FCC Group's Annual Corporate Governance report for 2018.

Compliance risks

The FCC Group's commitment to compliance with the law is materialised in its Compliance Model and a structure of internal regulations, whose primary documents are the Code of Ethics and Conduct. In the second half of 2019, work will continue on the development of the Compliance Model through the Compliance Committees at Group level and in the Business Areas, reinforcing the control environment for the various compliance risks. Those risks arise from the range of industries and geographies in which the Group operates, which are subject to a variety of regulations that are constantly changing, which requires the ability to adapt rapidly and integrate new regulations into production and operational processes.

Regarding other compliance risks, such as contractual disputes, the Group will continue to monitor and manage contracts and to identify legal risks with the aim of reducing litigation. As for the risks related to links with third parties, work will continue in the second half of 2019 on the development of a counterparty assessment system that covers agents, business partners, suppliers and third parties.

Reporting risks

Growing requirements, both internal and external, with regard to financial and non-financial disclosures that are agile, accurate and offer different levels of detail, pose a challenge for organisations, particularly one like the FCC Group which has a very complex organisation and corporate structure. During the second half of 2019, the Group will continue to advance in the area of governance and the modernisation of its information systems, by optimising the integration and management of information and the use of horizontal information systems, both in Spain and in other countries, and establishing advanced reporting models in projects undertaken in partnership with third parties.

Explanatory note

EBITDA

We define EBITDA as earnings from continuing operations before income tax, results of companies accounted for using the equity method, financial result, depreciation and amortization charges, impairment, gains or losses on disposals of non-current assets, grants, net changes in provisions and other non-recurring revenues and expenses.

BACKLOG

The FCC Group uses backlog as a non-IFRS measure to track performance in certain of our businesses. We calculate the backlog for our Environmental Services, Water and Construction business areas because these businesses are characterised by medium- and long-term contracts. Because of its typically short-term purchase cycle, we do not calculate backlog for our Cement business area.

As at any given date, the backlog reflects pending production, that is, amounts under contracts or customer orders, net of taxes on production, less any amounts under those contracts or orders that have already been recognised as revenue. We value pending production according to the expected number of units at current prices as at the date of calculation. We include in backlog only amounts to which customers are obligated by a signed contract or firm order.

In the Environmental Services area, we recognize the backlog for our waste management contracts only when the relevant contract grants us exclusivity in the geographical area where the plant, landfill or other facility is located.

In our Water business area, we calculate initial backlog on the basis of the same long-term volume estimates that serve as the basis for our contracts with customers and for the tariffs set in those contracts.

In our Construction business area, we recognize the backlog only when we have a signed contract with, or a firm order from, the end customer.

Once we have included a contract in our backlog, the value of pending production under that contract remains in backlog until fulfilled or cancelled. However, we do adjust the values of orders in the backlog as needed to reflect price and schedule changes that are agreed with customers. For example, after the date of calculation, a price may increase or decrease as a result of changes in contractual production due to additional works to be performed. Due to a number of possible factors, we could fail to realize as revenue part or all of our calculated backlog with respect to a given contract or order. Our backlog is subject to adjustments and project cancellations and is, therefore, an uncertain indicator of future earnings.

Real Estate backlog: Amount receivable in connection with home sales that were pending at the end of the period.

NET FINANCIAL DEBT

Net financial debt is defined as total gross financial debt (current and non-current) less current financial assets, cash and other current financial assets.

10. DISCLAIMER

The interim financial information contained in this document was obtained from the consolidated interim financial statements as of 30 June 2019, prepared in accordance with the International Financial Reporting Standards (IFRS) that had been adopted by the European Union at the end of the period, in conformity with Regulation (EC) no 1606/2002 of the European Parliament and of the Council of 19 July 2002.

No liability whatsoever is assumed by the Company, its advisors or representatives, whether for negligence or otherwise, with respect to any loss or damage arising from any use whatsoever of this document or its contents.

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11. CONTACT DETAILS

FINANCE AND ADMINISTRATION DEPARTMENT

CAPITAL MARKETS DEPARTMENT

- > Postal address: Avda. Camino de Santiago, 40 Edificio 2, Planta 5 - 28050- Madrid. Spain.
 - > Telephone: +34 91 757 47 51
 - > Web site: www.fcc.es
 - > E-mail: ir@fcc.es
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