Fomento de Construcciones y Contratas, S.A.

Cuentas Anuales del ejercicio terminado el 31 de diciembre de 2016 e Informe de Gestión, junto con el Informe de Auditoría Independiente

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INFORME DE AUDITORÍA INDEPENDIENTE DE CUENTAS ANUALES

A los Accionistas de Fomento de Construcciones y Contratas, S.A.,

Informe sobre las cuentas anuales

Hemos auditado las cuentas anuales adjuntas de la sociedad Fomento de Construcciones y Contratas, S.A., que comprenden el balance a 31 de diciembre de 2016, la cuenta de pérdidas y ganancias, el estado de cambios en el patrimonio neto, el estado de flujos de efectivo y la memoria correspondientes al ejercicio anual terminado en dicha fecha.

Responsabilidad de los administradores en relación con las cuentas anuales

Los administradores son responsables de formular las cuentas anuales adjuntas, de forma que expresen la imagen fiel del patrimonio, de la situación financiera y de los resultados de Fomento de Construcciones y Contratas, S.A., de conformidad con el marco normativo de información financiera aplicable a la entidad en España, que se identifica en la Nota 2 de la memoria adjunta, y del control interno que consideren necesario para permitir la preparación de cuentas anuales libres de incorrección material, debida a fraude o error.

Responsabilidad del auditor

Nuestra responsabilidad es expresar una opinión sobre las cuentas anuales adjuntas basada en nuestra auditoría. Hemos llevado a cabo nuestra auditoría de conformidad con la normativa reguladora de la auditoría de cuentas vigente en España. Dicha normativa exige que cumplamos los requerimientos de ética, así como que planifiquemos y ejecutemos la auditoría con el fin de obtener una seguridad razonable de que las cuentas anuales están libres de incorrecciones materiales.

Una auditoría requiere la aplicación de procedimientos para obtener evidencia de auditoría sobre los importes y la información revelada en las cuentas anuales. Los procedimientos seleccionados dependen del juicio del auditor, incluida la valoración de los riesgos de incorrección material en las cuentas anuales, debida a fraude o error. Al efectuar dichas valoraciones del riesgo, el auditor tiene en cuenta el control interno relevante para la formulación por parte de la entidad de las cuentas anuales, con el fin de diseñar los procedimientos de auditoría que sean adecuados en función de las circunstancias, y no con la finalidad de expresar una opinión sobre la eficacia del control interno de la entidad. Una auditoría también incluye la evaluación de la adecuación de las políticas contables aplicadas y de la razonabilidad de las estimaciones contables realizadas por la dirección, así como la evaluación de la presentación de las cuentas anuales tomadas en su conjunto.

Consideramos que la evidencia de auditoría que hemos obtenido proporciona una base suficiente y adecuada para nuestra opinión de auditoría.

Opinión

En nuestra opinión, las cuentas anuales adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera de la sociedad Fomento de Construcciones y Contratas, S.A. a 31 de diciembre de 2016, así como de sus resultados y flujos de efectivo correspondientes al ejercicio anual terminado en dicha fecha, de conformidad con el marco normativo de información financiera que resulta de aplicación y, en particular, con los principios y criterios contables contenidos en el mismo.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Informe sobre otros requerimientos legales y reglamentarios

El informe de gestión adjunto del ejercicio 2016 contiene las explicaciones que los administradores consideran oportunas sobre la situación de la sociedad, la evolución de sus negocios y sobre otros asuntos y no forma parte integrante de las cuentas anuales. Hemos verificado que la información contable que contiene el citado informe de gestión concuerda con la de las cuentas anuales del ejercicio 2016. Nuestro trabajo como auditores se limita a la verificación del informe de gestión con el alcance mencionado en este mismo párrafo y no incluye la revisión de información distinta de la obtenida a partir de los registros contables de la sociedad.

DELOITTE, S.L.
Inscrita en el R.O.A.C. nº S0692

Javier Parada Pardo
10 de marzo de 2017

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Financial Statements and Directors' Report

2016

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Financial Statements

Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEET AS AT 31 DECEMBER 2016
(in thousands of euros)

A S S E T S	31-12-2016		31-12-2015	
CURRENT ASSETS		**4,398,490**		**4,527,606**
Intangible assets (Notes 5 and 8)		**76,802**		**108,498**
Property plant and equipment (Note 6)		**374,142**		**347,208**
Land and buildings	60,604		47,577	
Other items of property, plant and equipment	313,538		299,631	
Non-current investments in Group companies and associates (Notes 10 and 22.b)		**3,765,199**		**3.809.966**
Equity instruments	2,244,475		2,480,686	
Loans to companies	1,520,724		1,229,280	
Other financial assets	–		100,000	
Non-current financial investments (Note 9.a)		**52,802**		**66,138**
Deferred tax assets (Note 19)		**103,262**		**168,619**
Non-current trade receivables (Note 8)		**26,283**		**27,177**
CURRENT ASSETS		**844,057**		**1,210,627**
Non-current assets classified as held for sale (Note 11)		**–**		**220,000**
Inventories (Note 6)		**6,406**		**21,900**
Trade and other receivables		**382,619**		**592,409**
Trade receivables for sales and services (Note 12)	286,472		443,756	
Trade receivables from Group companies and associates (Note 22.b)	71,424		100,152	
Tax receivables (Note 19)	8.793		33,740	
Other receivables	15.930		14,761	
Current investments in Group companies and associates (Notes 10.b and 22.b)		**216,998**		**221,812**
Current financial investments (Note 9.b)		**143,734**		**8,060**
Cash and cash equivalents		**94,300**		**146,446**
TOTAL ASSETS		**5,242,547**		**5,738,233**

The accompanying Notes 1 to 25 and Appendices I to III are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2016.

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EQUITY AND LIABILITIES	31-12-2016		31-12-2015	
Equity (Note 14)		**618,523**		**210,682**
Shareholders' equity		**609,782**		**201,295**
Share capital		**378,826**		**260,572**
Registered share capital	378,826		260,572	
Share Premium		**1,673,477**		**1,083,882**
Reserves		**953,167**		**920,181**
Treasury shares		**(5,503)**		**(5,503)**
Prior years' losses		**(2,093,413)**		**(2,058,727)**
Profit (Loss) for the year		**(299,362)**		**(34,686)**
Other equity instruments		**2,590**		**35,576**
Valuation adjustments		**8,027**		**8,017**
Grants, donations and legacies received		**714**		**1,370**
NON-CURRENT LIABILITIES		**3,506,929**		**4,541,927**
Long-term provisions (Note 15)		**307,501**		**312,815**
Non-current payables (Note 16)		**3,139,649**		**4,059,158**
Debt instruments and other marketable securities	32,200		446,523	
Bank borrowings	3,082,785		3,585,225	
Other financial liabilities	24,664		27,410	
Non-current payables to Group companies and associates (Note 10.d)		**16,279**		**110,308**
Deferred tax liabilities (Note 19)		**43,500**		**52,715**
Non-current trade and other payables (Note 17)		**–**		**6,931**
CURRENT LIABILITIES		**1,117,095**		**985,624**
Short-term provisions (Note 15)		**6,686**		**9,522**
Current payables (Note 16)		**290,610**		**286,655**
Debt instruments and other marketable securities	348		4,873	
Bank borrowings	231,838		209,140	
Other financial liabilities	58,424		72,642	
Current payables to Group companies and associates (Notes 10.e and 22.b)		**584,201**		**379,630**
Trade and other payables		**235,598**		**309,817**
Payable to suppliers	74,495		77,899	
Payable to suppliers - Group companies and associates (Note 22.b)	14,341		15,758	
Other accounts payable to public authorities (Notes 17 and 19)	41,415		109,857	
Other payables	105,347		106,303	
TOTAL EQUITY AND LIABILITIES		**5,242,547**		**5,738,233**

The accompanying Notes 1 to 25 and Appendices I to III are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2016.

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STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of euros)

	31-12-2016	31-12-2015
CONTINUING OPERATIONS		
Revenue (Note 21)	**1,256,292**	**1,342,924**
Sales and services	1,179,068	1,195,304
Revenue from investments in Group companies and associates (Notes 21 and 22.a)	13,222	74,966
Financial revenue from marketable securities and other financial instruments of Group companies and associates (Notes 10, 21 and 22.a)	64,002	72,654
Procurements	**(154,045)**	**(168,929)**
Other operating income	**93,056**	**88,836**
Staff costs (Note 21)	**(761,749)**	**(752,676)**
Other operating expenses	**(176,609)**	**(189,328)**
Depreciation and amortisation charge and allocation to profit or loss of grants (Notes 5, 6 and 14.g)	**(72,623)**	**(76,377)**
Excessive provisions (Note15)	**19,870**	**5,499**
Impairment and gains or losses on disposals of non-current assets and other gains or losses (Note 21)	**10,194**	**4,615**
PROFIT (LOSS) FROM OPERATIONS	**214,386**	**254,564**
Finance income (Note 21)	**58,506**	**3,890**
Finance costs	**(199,897)**	**(204,590)**
On debts to Group companies and associates (Note 22.a)	(9,406)	(4,756)
On debts to third parties	(186,384)	(199,029)
Interest cost relating to provisions	(4,107)	(805)
Changes in fair value of financial instruments (Note 13)	**(22,775)**	**2,014**
Exchange rate differences (Note 21)	**(31,187)**	**11,460**
Impairment and gains or losses on disposals of financial instruments (Notes 9, 10 and 11)	**(278,963)**	**(90,949)**
FINANCIAL PROFIT (LOSS)	**(474,316)**	**(278,175)**
PROFIT (LOSS) BEFORE TAX	**(259,930)**	**(23,611)**
INCOME TAX (Note 19)	**(39,432)**	**(11,075)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(299,362)**	**(34,686)**
PROFIT (LOSS) FOR THE YEAR	**(299,362)**	**(34,686)**

The accompanying Notes 1 to 25 and Appendices I to III are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2016.

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

(in thousands of euros)

	31-12-2016	31-12-2015
Profit (Loss) per statement of profit or loss	**(299,362)**	**(34,686)**
Income and expense recognised directly in equity		
Arising from available-for-sale financial assets	(39)	1.690
Arising from cash flow hedges	66	299
Grants, donations and legacies received	181	–
Tax effect	(56)	(90)
Income and expense recognised directly in equity	**152**	**1,899**
Transfers to profit or loss		
Arising from cash flow hedges	–	–
Grants, donations and legacies received	(129)	(308)
Tax effect	11	59
Total transfers to the statement of profit or loss	**(118)**	**(249)**
TOTAL RECOGNISED INCOME AND EXPENSE	**(299,328)**	**(33,036)**

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B) STATEMENT OF CHANGES IN TOTAL EQUITY
(in thousands of euros)

	Share capital (Note 14.a)	Share Premium (Note 14.b)	Reserves (Note 14.c)	Treasury Shares (Note 14.d)	Prior years' losses	Profit (loss) for the year	Other equity instruments (Note 14-e)	Valuation adjustments (Notes 13 and 14.f)	Grants (Note 14.g)	Equity
Equity at 31 December 2014	**260,572**	**1,083,882**	**922,199**	**(5,278)**	**(1,152,254)**	**(906,473)**	**35,576**	**6,118**	**1,619**	**245,961**
Total recognised income and expense						**(34,686)**		**1,899**	**(249)**	**(33,036)**
Transactions with shareholders and owners			**(2,018)**	**(225)**						**(2,243)**
Treasury share transactions (net)			(2,018)	(225)						(2,243)
Other changes in equity					**(906,473)**	**906,473**				
Equity at 31 December 2015	**260,572**	**1,083,882**	**920,181**	**(5,503)**	**(2,058,727)**	**(34,686)**	**35,576**	**8,017**	**1,370**	**210,682**
Total recognised income and expense						**(299,362)**		**10**	**24**	**(299,328)**
Transactions with shareholders and owners	**118,253**	**589,595**								**707,849**
Capital increase	118,253	589,595								707,849
Other changes in equity	**–**	**–**	**32,986**		**(34,686)**	**34,686**	**(32,986)**		**(680)**	**(680)**
Equity at 31 December 2016	**378,826**	**1,673,477**	**953,167**	**(5,503)**	**(2,093,413)**	**(299,362)**	**2,590**	**8,027**	**714**	**618,523**

The accompanying Notes 1 to 25 and Appendices I to III are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2016. In particular, Note 14, "Equity" explains this statement.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of euros)

	31-12-2016		31-12-2015	
Profit (Loss) for the year before tax		**(259,930)**		**(23,611)**
Adjustments to profit (loss)		**455,653**		**203,592**
Depreciation and amortisation charge (Notes 5 and 6)	72,752		76,685	
Impairment losses (Note 10)	278,817		89,442	
Changes in provisions (Note 15)	(20,597)		(3,280)	
Gains on derecognition and disposal of fixed assets (Note 21)	6,677		269	
Gains on derecognition and disposal of financial instruments (Note 10.a)	–		1,082	
Finance income (Note 21)	(135,729)		(151,510)	
Finance costs	199,898		204,589	
Exchange rates differences	31,187		(11,460)	
Changes in fair value of financial instruments	22,775		(2,014)	
Other income and expenses	(127)		(211)	
Changes in working capital		**118,123**		**(195,184)**
Trade and other receivables	173,421		(47,575)	
Trade and other payables	(55,058)		(145,811)	
Other current assets and liabilities	(240)		(1,798)	
Other cash flows from operating activities		**(139,029)**		**(7,216)**
Interest paid	(177,309)		(109,955)	
Interest and dividends received	56,419		117,125	
Income tax recovered/(paid) (Note 19)	(12,326)		(11,138)	
Other amounts received (paid)	(5,813)		(3,248)	
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**174,817**		**(22,419)**
Payments due to investments		**(458,712)**		**(258,635)**
Group companies and associates (Note 10)	(371,187)		(188,810)	
Intangible assets and property, plant and equipment (Notes 5 and 6)	(77,637)		(65,972)	
Other financial assets	(9,888)		(3,853)	
Proceeds from disposals		**164,206**		**312,075**
Group companies and associates (Note 10)	56,698		268,405	
Intangible assets and property, plant and equipment (Notes 5 and 6)	1,199		31,042	
Non-current assets classified as held for sale (Note 11)	103,322		4,750	
Other financial assets	2,987		7,878	
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		**(294,506)**		**53,440**
Proceeds and payments relating to equity instruments		**705,329**		**(19,378)**
Proceeds from issue of equity instruments (Note 14.a)	707,848		—	
Disposal of treasury shares	–		177,202	
Purchase of treasury shares	–		(179,445)	
Grants, donations and legacies received	181		—	
Other proceeds and/or payments relating to equity instruments	(2,700)		(17,135)	
Proceeds and payments relating to financial liability instruments (Note 16)		**(635,220)**		**(257,434)**
Proceeds from issue of:				
Bank borrowings	8,956		8,658	
Borrowings from Group companies and associates	297,024		63,694	
Other payables	1,844		12,546	
Repayment and redemption of:				
Debt instruments and other marketable securities	(417,600)		—	
Bank borrowings (Note 16)	(497,141)		(75,678)	
Borrowings from Group companies and associates	(15,549)		(266,620)	
Other payables	(12,754)		(34)	
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		**70,109**		**(276,812)**
Effect of exchange-rate variations		**(2,566)**		**–**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(52,146)**		**(245,791)**
Cash and cash equivalents at beginning of year		**146,446**		**392,237**
Cash and cash equivalents at end of year		**94,300**		**146,446**

The accompanying Notes 1 to 25 and Appendices I to III are an integral part of the financial statements and, together with the latter, make up the statutory financial statements for 2016.

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

CONTENTS

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1. COMPANY ACTIVITIES

Fomento de Construcciones y Contratas S.A. is a company incorporated in Spain in accordance with the Spanish Limited Liability Companies Law, the core business of which is to provide Environmental Services, which include the collection and treatment of solid waste and the cleaning of public streets and sewer systems, and Integral Water Management, which includes water treatment and distribution and other complementary services. The Company's registered office is at c/ Balmes, 36 (Barcelona) and it carries on its activities basically in Spain.

Fomento de Construcciones y Contratas S.A. is in turn Parent of the FCC Group, which comprises a broad spectrum of Spanish and foreign subsidiaries and associates that carry on various business activities grouped together in the following areas:

- Environmental Services. Services related to urban water treatment, treatment of industrial waste and waste-to-energy (waste recovery).

- Integral Water Management. Services related to the integral water cycle: collection, treatment and distribution of water for human consumption; wastewater collection, filtering and treatment; design, construction, operation and maintenance of water infrastructure for municipal, industrial, agricultural and other services.

- Construction. This area specialises in infrastructure construction projects, building construction and related activities, such as motorways, dual carriageways and other roads, tunnels, bridges, hydraulic construction works, ports, airports, residential property developments, housing units, non-residential building construction, lighting, industrial air conditioning and heating systems, environmental restoration, etc.

- Cement. This area engages in the operation of quarries and mineral deposits, the manufacture of cement, lime, plaster and related pre-manufactured products and the production of concrete

As part of the disinvestment process launched in prior years by the FCC for non-strategic assets, on 17 March 2016, once the suspension conditions stipulated in the contract for the sale of the shares of Globalvia Infraestructuras S.A. entered into on 23 October 2015 and amended on 17 November 2015 had been met, the "Operation Closure Agreement" was signed between the Company, FCC Construcción S.A. and Corporación Industrial Bankia S.A.U (vendors); and Optrust Infrastructure Europe I S.a.r.l., Stichting Depositary PGGM Infrastructure Funds and USS Nero Limited (purchasers). As at 31 December 2016 the contingent portion of the price pending remained to be determined and collected. As of the date of preparation of these statements, the "Agreement on the Contingent Price Pending" has been signed, with the agreed sum subsequently having been received (Note 11).

On 5 October 2016 the operation was formalised for the sale of shares of Xfera Móviles S.A., and the Contract of Debt Takeover Undertaking and y Capitalisation between Fomento de Construcciones y Contratas S.A. and Masmóvil Phone & Internet S.A.U. (debtor) and Masmóvil Ibercom S.A. (bound party) came into effect. This contract was still in effect as of 31 December 2016 and had concluded by the date of preparation of these annual statements. In this regard, by the date of preparation the assignment of the contractual position of Fomento de Construcciones y Contratas S.A. to Masmóvil Phone & Internet S.A.U. had been completed, resulting in receipts of EUR 29,139 thousand (Note 9.a).

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements, which were prepared from the accounting records of Fomento de Construcciones y Contratas S.A. and the joint ventures in which it has interests, were prepared in accordance with the Spanish Commercial Code, Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law, amended by Law 31/2014, of 3 December, and Royal Decree 1514/2007 which introduced the Spanish National Chart of Accounts, together with the amendment introduced under Royal Decree 602/2016, of 2 December. Also included were all the accounting principles and rules contained in the legislative amendments established by Royal Decree 1159/2010, of 17 September, on industry plans, including Order EHA/3362/2010 implementing the Spanish National Chart of Accounts adapted for public infrastructure concession operators, and the applicable mandatory rules, resolutions and recommendations of the Spanish Accounting and Audit Institute (ICAC) and, accordingly, they present fairly the Company's equity, financial position, results and cash flows for 2015. It should be noted in particular that, as a result of the publication in 2009 by the ICAC of a request for a ruling regarding the presentation for accounting purposes of the income of holding companies, "Revenue from Investments in Group Companies and Associates" and "Finance Income - From Marketable Securities and Other Financial Instruments - Group Companies and Associates" were classified as "Revenue" in the accompanying statement of profit or loss.

These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes. The financial statements for 2015 were approved by the shareholders at the Annual General Meeting held on 28 June 2016.

The financial statements are expressed in thousands of euros.

Unincorporated temporary joint ventures and similar entities

The balance sheets, statements of profit or loss, statements of changes in equity and statements of cash flows of the unincorporated temporary joint ventures in which the Company has interests were proportionately consolidated on the basis of the Company's percentage of ownership of each joint venture.

The joint ventures were included by making the required timing and measurement uniformity adjustments, reconciliations and reclassifications and by eliminating reciprocal asset and liability balances and income and expenses. Any material amounts relating to the joint ventures are detailed in these notes to the financial statements.

The accompanying balance sheet and statement of profit or loss include the related items in proportion to the percentages of ownership of the joint ventures, the detail being as follows:

	2016	2015
Revenue	193,765	213,632
Profit from operations	21,663	24,246
Non-current assets	107,351	125,130
Current assets	210,673	233,695
Non-current liabilities	35,351	46,059
Current liabilities	266,714	279,918

The contributions made by joint ventures is lower than last year, mostly because in 2016 participating interests of the Water division in various JVs were assigned to subsidiaries, mostly to FCC Aqualia S.A., with Fomento de Construcciones y Contratas S.A. continuing to hold a residual stake of 1%.

Appendix II lists the joint ventures and indicates the percentage share of their results.

Grouping of items

Certain line items in the balance sheet, statement of profit or loss and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

Going concern

As at 31 December 2016 the Company presents negative goodwill of EUR 273,038 thousand. Despite this, the directors of Fomento de Construcciones y Contratas S.A. have prepared these statements on the principle of a going concern, as it was its debt with its subsidiaries (EUR 584,201 thousand) that gave rise to its negative goodwill, and there are no doubts as to the capacity of the Company and its group to generate resources through their operations, or the capacity for self-financing in the case of need for working capital, by means of credits assigned to banks by clients, with no possibility of recourse against Fomento de Construcciones y Contratas S.A., and also considering that the Company enjoys its shareholder's asset and financial support.

Consolidated financial statements

Since Fomento de Construcciones y Contratas S.A. is the head of the FCC Group, its Directors are obliged under current legislation to prepare consolidated financial statements separately. The aforementioned consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, as well as all the provisions and interpretations implementing it. The consolidated financial statements of the FCC Group for 2016, which were prepared by the Directors, will also be submitted for approval by the shareholders at the Annual General Meeting.

The consolidated financial statements of Fomento de Construcciones y Contratas S.A. prepared in conformity with International Financial Reporting Standards (IFRSs) present total assets of EUR 10,770 million (31 December 2015: EUR 12,862 million) and equity attributable to the Company’s shareholders of EUR 791 million (31 December 2015: EUR 281 million). In addition, consolidated sales amounted to EUR 5,952 million (31 December 2015: EUR 6,476 million). Lastly, the consolidated loss attributable to the Parent amounted to EUR 162 million (31 December 2015: a loss of EUR 46 million).

3. DISTRIBUTION OF PROFIT OR LOSS

The Directors of Fomento de Construcciones y Contratas S.A. will submit for approval by the shareholders at the Annual General Meeting the allocation of the loss for 2016, amounting to EUR 299,362 thousand, to "Prior Years' Losses".

In addition, in 2015 the Company incurred a loss of EUR 34,686 thousand, which was also allocated to "Prior Years' Losses".

4. ACCOUNTING POLICIES

The principal accounting policies and measurement bases used by the Company in preparing its financial statements for 2016, in accordance with the Spanish National Chart of Accounts, were as follows:

a) Intangible assets

The concession arrangements are recognised in accordance with Ministry of Economy and Finance Order EHA/3362/2010 approving the rules for adapting the Spanish National Chart of Accounts for public infrastructure concession operators. In general, there are two clearly different phases:

- The first in which the concession operator provides construction or upgrade services which are recognised as intangible or financial assets in accordance with recognition and measurement standard 14, Income from Sales and Services of the Spanish National Chart of Accounts and the rules on the percentage of completion method contained in measurement standard 18, Sales, Income from Completed Work and Other Income of the rules for adapting the Spanish National Chart of Accounts for construction companies;

- And a second phase in which the concession operator provides a series of maintenance or operation services for the related infrastructure, which are recognised in accordance with recognition and measurement standard 14, Income from Sales and Services of the Spanish National Chart of Accounts.

An intangible asset is recognised when the demand risk is borne by the concession operator and a financial asset is recognised when the demand risk is borne by the concession grantor since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. In certain bifurcated arrangements, the operator and the grantor may share the demand risk, although this is practically non-existent at the Company.

For concessions classified as intangible assets, provisions for dismantling, removal and restoration and any work to upgrade the infrastructure or increase its capacity, the revenue from which is envisaged in the initial contract, are capitalised at the start of the concession and the amortisation of these assets and the interest cost relating to the provisions are recognised in the statement of profit or loss. Also, provisions to replace and repair the infrastructure are systematically recognised in the statement of profit or loss as the obligation is incurred.

In addition, the borrowing costs arising from the financing of the infrastructure incurred from the construction until the entry into service of the infrastructure are included in the initial recognition of the intangible asset. When the infrastructure is ready to come into operation, the aforementioned costs are capitalised if they meet the requirements under the related rules, provided that there is reasonable evidence that future revenue will enable the capitalised amount to be recovered.

These intangible assets are amortised on the basis of the demand for, or the use of, the infrastructure, taken to be the changes in and best estimates of the production units of each activity.

Concessions classified as a financial asset are recognised at the fair value of the construction or upgrade services provided. In accordance with the amortised cost method, the related finance income is recognised as revenue in the statement of profit or loss based on the effective interest rate resulting from the expected cash inflows and outflows of the concession. The borrowing costs arising from the financing of these assets are classified under “Finance Costs” in the statement of profit or loss. As explained above, the income and expenses from the provision of maintenance and operation services are recognised in the statement of profit or loss in accordance with recognition and measurement standard 14, Income from Sales and Services, of the Spanish National Chart of Accounts.

Other intangible assets, concessions and software, among other items, are recognised at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. At 2016 year-end there were no indications that any of the Company's intangible assets had suffered an impairment loss. The Company does not own any assets with indefinite useful lives.

Computer software maintenance costs are recognised in the statement of profit or loss for the year in which they are incurred.

As a general rule, intangible assets are amortised on a straight-line basis over their years of useful life.

b) Property, plant and equipment

Property, plant and equipment are carried at acquisition or production cost if the Company has performed in-house work thereon and are subsequently reduced by the related accumulated depreciation and by any impairment losses. At 31 December 2016, there was no indication that any of the items of the Company's property, plant and equipment had suffered a significant impairment loss, since the recoverable amount of the assets is not lower than their carrying amount.

Property, plant and equipment upkeep and maintenance expenses are recognised in the statement of profit or loss for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Non-current assets that necessarily take a period of more than twelve months to get ready for their intended use include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other funds borrowed specifically or generally directly attributable to the acquisition or production of the assets.

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labour and general manufacturing costs).

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Years of estimated useful life
Buildings and other structures	25 - 50
Plant and machinery	5 - 15
Other fixtures, tools and furniture	8 - 12
Other items of property, plant and equipment	4 - 10

However, certain contracts have terms shorter than the useful life of the related non-current assets, in which case they are depreciated over the contract term.

c) Impairment of intangible assets and property, plant and equipment

Whenever there are indications of impairment of assets with a finite useful life (i.e. all the Company's intangible assets and property, plant and equipment), the Company tests the tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. To determine the recoverable amount of the assets tested for impairment, an estimate is made of the present value of the net cash flows arising from the cash-generating units (CGUs) to which the assets belong, and to discount the cash flows, a pre-tax discount rate is applied that reflects current market assessments of the time value of money and the risks specific to each cash-generating unit.

Where an impairment loss on assets subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the value that would have been determined had no impairment loss been recognised for in prior years. The reversal of the impairment loss is recognised as income in the statement of profit or loss.

d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

d.1) Finance leases

In finance leases in which the Company acts as the lessee, the cost of the leased assets is presented in the balance sheet, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the statement of profit or loss for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

On expiry of the leases, the Company exercises the purchase option and the lease arrangements do not impose any restrictions concerning exercise of this option. Also, the lease agreements do not contain any renewal, review or escalation clauses.

The assets recognised for transactions of this nature are depreciated on the basis of their nature and useful lives using criteria similar to those applied to items of property, plant and equipment taken as a whole.

There are no finance leases in which the Company acts as lessor.

d.2) Operating leases

When the Company acts as the lessee, it charges the expenses from operating leases to income on an accrual basis.

When the Company acts as the lessor, lease income and expenses from operating leases are recognised in income on an accrual basis. Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the investments arising from the lease agreements directly attributable to the lease, which are recognised as an expense over the term of such agreements, applying the same method as that used to recognise lease income.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

e) Financial instruments

e.1) Financial assets

Classification

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

- Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Company has the positive intention and ability to hold to the date of maturity.

- Held-for-trading financial assets: assets acquired with the intention of selling them in the near term and assets that form part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. This category also includes financial derivatives that are not financial guarantees and that have not been designated as hedging instruments.

- Other financial assets at fair value through profit or loss: this category includes the financial assets thus designated by the Company upon initial recognition, because either their designation as such eliminates or significantly reduces accounting mismatches or those assets form part of a group whose performance is evaluated by Company management on a fair value basis, in accordance with an established and documented strategy.

- Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other investors.

- Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the aforementioned categories.

Initial recognition

These financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs, except for held-for-trading assets and investments in Group companies affording control, the costs of which are recognised directly in the statement of profit or loss.

Subsequent measurement

- Loans and receivables and held-to-maturity investments are measured at amortised cost.

- Held-for-trading financial assets and those classified as at fair value through profit or loss are measured at fair value and the gains and losses arising from changes in fair value are recognised in the statement of profit or loss for the year.

- Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity (consolidated, as the case may be) of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

- Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the statement of profit or loss for the year, or if it is determined that it has become impaired, once the pre-existing gains in equity have been derecognised, they are taken to the statement of profit or loss.

At least at each reporting date the Company makes valuation adjustments to financial assets not measured at fair value through profit or loss where there is objective evidence of impairment if the value is lower than the carrying amount, in which case the impairment loss is recognised in the statement of profit or loss. In particular, the Company calculates valuation adjustments relating to trade and other receivables by taking into account the specific insolvency risk of each account receivable.

The Company derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, "factoring" of trade receivables in which the Company does not retain any credit or interest rate risk, provide any kind of guarantee or assume any other kind of risk. These transactions bear interest at market rates and the factor assumes the risk of insolvency and late payment of the debtor. Fomento de Construcciones y Contratas S.A. continues to manage collection.

e.2) Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are recognised initially at the fair value of the consideration received. These liabilities are subsequently measured at amortised cost.

Borrowing costs are recognised on an accrual basis in the statement of profit or loss using the effective interest method and are added to the amount of the financial instrument to the extent that they are not settled in the year in which they arise.

Bank borrowings and other current and non-current financial liabilities maturing within no more than twelve months from the balance sheet date are classified as current liabilities and those maturing within more than twelve months as non-current liabilities.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

e.3) Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and the securities issued are recognised in equity at the proceeds received, after deducting issue costs net of taxes.

Treasury shares acquired by the Company during the year are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in the statement of profit or loss.

e.4) Derivative financial instruments

The Company uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed. Basically, these risks relate to changes in interest rates and the market prices of certain financial instruments. The Company arranges hedging financial instruments in this connection (see Note 13).

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

The Company uses cash flow hedges. In hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the statement of profit or loss in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of profit or loss for the year.

Although certain derivatives are not recognised as hedges, this is only for accounting purposes since for financial and management purposes all the hedges arranged by the Company have, at inception, an underlying financial transaction and the sole purpose of hedging such transaction.

Derivatives do not qualify for hedge accounting if the hedge fails the effectiveness test, which requires the changes in the fair value or in the cash flows of the hedged item directly attributable to the risk of the instrument to be offset by changes in the fair value or in the cash flows of the hedging instrument. When this does not occur, the changes in fair value of the instruments not classified as hedges are recognised in the statement of profit or loss.

The financial derivatives are measured by experts on the subject using generally accepted methods and techniques. These experts were independent from the Company and the entities financing it.

f) Inventories

Inventories are measured at the lower of acquisition or production cost and net realisable value. Trade discounts, rebates, other similar items and interest included in the face value of the related payables are deducted in determining the costs of purchase.

Assets received in payment of loans are measured at the lowest of the following three values: the amount at which the loan relating to the asset was recognised, production cost and net realisable value.

Production cost includes the costs of direct materials and, where applicable, direct labour and production overheads.

Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Company recognises the appropriate write-downs as an expense in the statement of profit or loss when the net realisable value of the inventories is lower than acquisition or production cost.

g) Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be “foreign currency transactions” and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the statement of profit or loss in the year in which they arise.

h) Income tax

The income tax expense is calculated on the basis of profit before tax, increased or decreased, as appropriate, by the permanent differences between taxable profit and accounting profit. Based on the legislation applicable to the Company, the corresponding tax rate is applied to this adjusted accounting profit. Any tax relief and tax credits earned in the year are then deducted and any positive or negative differences between the tax charge estimated for the previous year's accounting close and the amount of tax subsequently paid are added to or deducted from, respectively, the resulting tax charge. Also, the adjustment of the deferred tax assets and liabilities due to changes in the tax rate in force are similarly recognised as an income tax expense.

The temporary differences between the accounting profit and the taxable profit for income tax purposes, together with the differences between the carrying amounts of assets and liabilities recognised in the balance sheet and their tax bases give rise to deferred taxes which are recognised as non-current assets and liabilities. These amounts are measured at the tax rates that are expected to apply in the years in which they will foreseeably reverse, and in no circumstances are they discounted to present value.

The Company recognises the deferred tax assets arising from temporary differences and tax loss carryforwards, except for those with respect to which there are reasonable doubts as to their future recovery or those which are expected to be recovered in a period exceeding ten years.

i) Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

The Company recognises each year as the period result on its contracts the difference between period production (measured at the selling price of the service provided during the period, as specified in the principal contract or in approved amendments thereto, and the selling price of other as yet unapproved services for which there is reasonable assurance of collection) and the costs incurred. Additionally, late-payment interest is recognised as income when it is approved or finally collected.

The difference between the amount of production and the amount billed until the date of the financial statements is recorded as "Unbilled Production" under "Trade Receivables for Sales and Services". Pre-billings for various items are recognised under “Current Liabilities – Trade and Other Payables – Customer Advances”.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

In accordance with the accounting principle of prudence, the Company only records realised income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recognised as soon as they become known, by recording the appropriate provisions.

j) Provisions and contingencies

The Company recognises provisions on the liability side of the accompanying balance sheet for present obligations arising from past events which the Company considers will probably require an outflow of resources embodying economic benefits to settle them on maturity.

These provisions are recognised when the related obligation arises and the amount recognised is the best estimate at the date of the accompanying financial statements of the present value of the future expenditure required to settle the obligation. The change in the year relating to the discount to present value is recognised as interest cost in the statement of profit or loss.

Provisions for dismantling, removal or rehabilitation and environmental provisions are recognised by increasing the value of the related asset by the present value of the expenses that will be incurred when operation of the asset ceases. The impact on income arises when the asset concerned is depreciated (as described in previous sections of this Note) and when the provisions are discounted to present value (as described in the preceding paragraph).

Provisions are classified as current or non-current in the accompanying balance sheet on the basis of the estimated maturity date of the obligation covered by them, and non-current provisions are considered to be those whose estimated maturity date exceeds the average cycle of the activity giving rise to the provision.

It should be noted that contingent liabilities due to possible obligations that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control, are not recognised in the financial statements as the probability that such obligation will have to be settled is remote.

k) Environmental assets and liabilities

As indicated in Note 1, the Company engages mainly in Environmental Services and Integral Water Management activities which, due to their nature, involve special care in controlling environmental impact. For example, with regard to the operation under concession of landfills, the Company is generally responsible for the sealing, control and reforestation thereof upon completion of its operations. Also, the Company has non-current assets for the protection of the environment and bears any costs required for this purpose in the performance of its business activities.

The acquisition costs of these non-current assets used in environmental conservation are recognised under “Property, Plant and Equipment” or “Intangible Assets” based on the nature of the investment, and are depreciated or amortised over the useful lives of the assets or on the basis of the demand for or the use of the infrastructure in the service concession arrangements. Also, in accordance with current accounting legislation, the Company recognises the expenses and provisions arising from its environmental obligations.

The Company’s environmental policy goes beyond strict compliance with current legislation in the area of environmental improvement and protection to include the establishment of preventative planning and the analysis and minimisation of the environmental impact of the activities carried on by it.

Company management considers that the possible contingencies relating to environmental protection and improvement at 31 December 2016 would not have a significant impact on the accompanying financial statements, which include provisions to cover any probable environmental risks that might arise.

l) Pension obligations and similar

The Company has not established any pension plans to supplement the social security pension benefits. In accordance with the Consolidated Pension Plan and Fund Law, in specific cases where similar obligations exist, the Company externalises its obligations to its employees in this connection.

In addition, following authorisation by the Executive Committee, in the past an insurance policy was arranged and the premium paid to cover the payment of benefits relating to death, permanent occupational disability, retirement bonuses and pensions and other situations for, among other employees, certain Executive Directors and Executives. In particular, the contingencies giving rise to benefits are those which entail the extinguishment of the employment relationship for any of the following reasons:

- Unilateral decision of the Company.
- Dissolution or disappearance of the Parent for whatever cause, including merger or spin-off.
- Death or permanent disability.
- Other causes of physical or legal incapacity.
- Substantial change in professional terms and conditions.
- Resignation of the executive on reaching 60 years of age, at the request of the executive and with the consent of the Company.
- Resignation of the executive on reaching 65 years of age, by unilateral decision of the executive.

Furthermore, for the purposes of setting up an economic fund to compensate the CEO for the termination of his contract, the Company has set up a savings fund for his benefit, funded by annual contributions made by Fomento de Construcciones y Contratas S.A. If the current contractual relationship is terminated during the first three years of the term of this contract on any grounds other than the director's resignation, objective dismissal or disciplinary dismissal, the director will accrue the right to receive such sum as may be held in the savings fund on the effective date of termination of his contract. If termination occurs later than three years after the date of this contract, the director will accrue the right to receive such sum as may be held in the savings fund on the effective date of termination of his contract, except in cases of objective or disciplinary dismissal. In both cases the payment will be of a compensatory nature, consisting of the compensation provided for in his contract and replacing any other compensation that might be derived from the termination of the contractual relationship. The payment is to be made by the Company within two months following the termination of the contractual relationship.

The contributions made by the Company for both items are recognised under “Staff Costs” in the statement of profit or loss.

m) Grants

The Company accounts for grants received as follows:

m.1) Non-refundable grants

These are measured at the amount received or the fair value of the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders, which are recognised directly in equity.

m.2) Grants related to income

Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

n) Use of estimates

In preparing the accompanying financial statements estimates were made by the Company's Directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The recoverability of deferred tax assets (see Note 19).
- The recoverability of the investments in Group companies and associates, and of any loans to or receivables from those companies (see Note 10).
- The evaluation of possible impairment losses on certain assets (see Note 4.c).
- The useful life of intangible assets and property, plant and equipment (see notes 4.a and 4.b).
- The market value of certain financial instruments (see Note 13).
- The calculation of certain provisions (see notes 4.j and 15).
- The market value of non-current assets classified as held for sale (see Note 11).

Although these estimates were made on the basis of the best information available at 31 December 2016, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively.

ñ) Related party transactions

The Company performs all its transactions with related parties on an arm's length basis.

Note 22 "Related Party Transactions and Balances" details the main transactions with the significant shareholders of the Company, its Directors and Senior Executives and between Group companies.

o) Non-current assets and associated liabilities classified as held for sale

The Company classifies assets under “Non-Current Assets Classified as Held for Sale” if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition and the sale is expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

The associated liabilities are classified under “Liabilities Associated with Non-Current Assets Classified as Held for Sale”.

5. INTANGIBLE ASSETS

The changes in “Intangible Assets” in the accompanying balance sheets in 2016 and 2015 were as follows:

	Concession arrangements	Concessions	Computer software	Other intangible assets	Accumulated amortisation	Impairment	Total
Balance at 31.12.14	**158,946**	**26,477**	**44,794**	**16,380**	**(131,817)**	**(3,223)**	**111,557**
Additions or charge for the year	458	419	7,281	6,066	(16,112)	(603)	(2,491)
Disposals or reductions	(1,144)	(973)	(405)	(5)	875	8	(1,644)
Transfers	38	381	913	(256)	—	—	1,076
Balance at 31.12.15	**158,298**	**26,304**	**52,583**	**22,185**	**(147,054)**	**(3,818)**	**108,498**
Additions or charge for the year	732	189	3,452	986	(14,721)	—	(9,362)
Disposals or reductions	(70,909)	(19,437)	(10,555)	(544)	78,348	111	(22,986)
Transfers	—	187	2	538	(75)	—	652
Balance at 31.12.16	**88,121**	**7,243**	**45,482**	**23,165**	**(83,502)**	**(3,707)**	**76,802**

The heading “Concession Arrangements” for 2016, includes the reduction of EUR 70,750 thousand related to the transfer of participating interests in joint ventures (Note 2), mostly in respect of the concession for integrated management of the Vigo municipal water supply and sanitation service. The Company has transferred 49% of its participating interest to the other partner, the wholly owned subsidiary FCC Aqualia S.A., continuing to hold a residual stake of 1%. The assets assigned had accumulated amortisation of EUR 55,991 thousand. This transfer gave rise to no profit or loss. With regard to 2015 there are no significant variations.

"Concessions", which relates mainly to businesses carried on through joint ventures, includes primarily the amounts paid for obtaining the urban cleaning concessions and water supply. The most significant change in 2016 is the decrease of EUR 17,618 thousand, for the reason mentioned above, and with accumulated amortisation de EUR 15,739 thousand. With regard to 2015 not are there any significant variations.

The balance of "Computer Software" relates mainly, on the one hand, to the implementation, development and improvement costs of the corporate information system and, on the other hand, to costs relating to information technology infrastructures. In 2016 unused applications and infrastructure have been deregistered.

The detail of the intangible assets and of the related accumulated amortisation at 31 December 2016 and 2015 is as follows:

	Cost	Accumulated amortisation	Impairment	Net
2016				
Concession arrangements	88,121	(36,460)	(3,707)	47,954
Concessions	7,243	(2,215)	—	5,028
Computer software	45,482	(29,823)	—	15,659
Other intangible assets	23,165	(15,004)	—	8,161
	164,011	**(83,502)**	**(3,707)**	**76,802**
2015				
Concession arrangements	158,298	(88,129)	(3,818)	66,351
Concessions	26,304	(18,902)	—	7,402
Computer software	52,583	(27,184)	—	25,399
Other intangible assets	22,185	(12,839)	—	9,346
	259,370	**(147,054)**	**(3,818)**	**108,498**

Of the net amount of intangible assets, EUR 16,525 thousand relate to assets used in joint ventures (31 December 2015: EUR 34,722 thousand).

At the reporting date, all the intangible assets were used in the various production processes. However, a portion of these intangible assets, basically computer software amounting to EUR 25,401 thousand, had been fully amortised (31 December 2015: EUR 23,416 thousand), while the amounts relating to joint ventures were not material.

At 31 December 2016, the Company did not have any intangible assets located outside Spain.

6. PROPERTY, PLANT AND EQUIPMENT

The changes in "Property, Plant and Equipment" in the accompanying balance sheets in 2016 and 2015 were as follows:

		Other items of property, plant and equipment			
	Land and buildings	Plant and other items of property, plant and equipment	Property, plant and equipment in the course of construction and advances	Accumulated depreciation	Land and buildings
Balance at 31.12.14	**106,846**	**917,995**	**6,688**	**(675,803)**	**355,726**
Additions or charge for the year	1,731	67,464	6,846	(60,630)	15,411
Disposals or reductions	(26,041)	(31,358)	(124)	31,368	(26,155)
Transfers	3,376	2,880	(4,101)	71	2,226
Balance at 31.12.15	**85,912**	**956,981**	**9,309**	**(704,994)**	**347,208**
Additions or charge for the year	357	53,928	17,277	(57,902)	13,660
Disposals or reductions	(613)	(67,835)	(436)	67,224	(1,660)
Transfers	15,588	17,469	(18,317)	194	14,934
Balance at 31.12.16	**101,244**	**960,543**	**7,833**	**(695,478)**	**374,142**

Under "Land and Buildings", in order to bring all the Group's property assets together under the property and land-management division, in 2015 certain non-productive assets were sold to the subsidiary FCC Construcción S.A., for a price of EUR 25,557 thousand. In 2016 EUR 15,588 thousand in assets was transferred to the property-assets from inventory, with plans to transfer these assets in 2017 to the Group company that specialises in the property business.

The other changes in "Property, Plant and Equipment" relate basically to assets associated with the services and water concession arrangements operated by the Company. Of Note is the award to the Company in November 2016 of the services contract for the treatment and sale of recyclable waste in Dallas, Texas. This contract came into effect on 2 January 2017. On 1 January 2016 the contract for the USW-collection service in Orange County, Florida, came into effect. Both these contracts account for practically all the material assets located abroad, totalling EUR 30,137 thousand net of accumulated amortisation. Investments in tangible assets for both contracts in 2016 stood at EUR 15,906 thousand (31 December 2015: EUR 15,516 thousand).

The detail of the property, plant and equipment and of the related accumulated depreciation at 31 December 2016 and 2015 is as follows:

	Cost	Accumulated depreciation	Net
2016			
Land and buildings	101,244	(40,640)	60,604
Plant and other items of property, plant and equipment	960,543	(654,838)	305,705
Property, plant and equipment in the course of construction and advances	7,833	—	7,833
	1,069,620	**(695,478)**	**374,142**
2015			
Land and buildings	85,912	(38,335)	47,577
Plant and other items of property, plant and equipment	956,981	(666,659)	290,322
Property, plant and equipment in the course of construction and advances	9,309	—	9,309
	1,052,202	**(704,994)**	**347,208**

The Company owns buildings, the value of which, net of depreciation, and that of the land, were as follows at year-end:

	2016	2015
Land	23,566	8,043
Buildings	37,038	39,534
	60,604	**47,577**

Of the net amount of intangible assets, EUR 57,908 thousand relate to assets used in joint ventures (31 December 2015: EUR 57,995 thousand).

In 2016 and 2015 the Company did not capitalise any borrowing costs to "Property, Plant and Equipment”.

At 2016 year-end the Company held various items of property, plant and equipment under finance leases (see Note 7).

At the reporting date, most of the items of property plant and equipment were used in the various production processes. However, a portion of these assets amounting to EUR 381,010 thousand was fully depreciated (31 December 2015: EUR 402,896 thousand), of which EUR 17,580 thousand were recognised under "Buildings" (31 December 2015: EUR 16,174 thousand), while the amounts relating to joint ventures were not material.

The Company's property, plant and equipment subject to restrictions on title relate mainly to assets held under finance leases.

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2016 year-end the property, plant and equipment were fully insured against these risks.

7. LEASES

a) Finance leases

The Company has recognised assets leased under leases with basically a maximum term of five years and, in general, lease payments payable in arrears. Consequently, the present value of the payments does not differ significantly from their face value. The leased assets include notably the trucks and machinery used in the waste collection and cleaning services provided by the Company.

The detail of the finance leases in force at the end of 2016 and 2015 are as follows:

	2016	2015
Carrying amount	**37,439**	**34,011**
Accumulated depreciation	13,111	13,817
Cost of the assets	**50,550**	**47,828**
Finance costs	12,526	4,786
Capitalised cost of the assets	**63,076**	**52,614**
Lease payments paid in the year	(9,171)	(7,563)
Lease payments paid in prior years	(18,003)	(15,574)
Lease payments outstanding, including purchase option	**35,902**	**29,477**
Unaccrued finance charges	(8,943)	(2,071)
Present value of lease payments outstanding, including purchase option	**26,959**	**27,406**
Contract term (years)	3 to 5	3 to 5
Value of purchase options	473	352

The payment dates of the outstanding lease payments of the committed payments are shown in Note 16.

The finance leases arranged by the Company do not include lease payments the amount of which must be determined on the basis of future economic events or indices and, accordingly, in 2016 no expense was incurred in connection with contingent rent.

b) Operating leases

The Company makes operating lease payments basically for the use of buildings and structures relating to the Central Services offices in Madrid and Barcelona, and for the leases of premises and industrial buildings used by the Company as offices, warehouses, changing rooms and garages in the course of its activities.

The amount relating to the aforementioned leases in 2016 totalled EUR 38,175 thousand (31 December 2015: EUR 38,454 thousand).

Also worthy of Note among the operating lease agreements entered into by Fomento de Construcciones y Contratas S.A. due to the magnitude of the sums involved are those relating to the corporate headquarters of the FCC Group:

- Office buildings located at Federico Salmón, 13, Madrid and Balmes, 36, Barcelona.
  On 29 December 2011, the owners of these buildings and Fomento de Construcciones y Contratas S.A. entered into two lease agreements relating thereto for a minimum period of 30 years, extendable for two five-year periods at the discretion of the Company, with an initial annual rent adjustable based on the CPI. These buildings were transferred by the Company to their current owners under a sale and leaseback agreement. The owners, in turn, granted a purchase option to Fomento de Construcciones y Contratas S.A., which can be exercised only at the end of the lease term

at the higher of fair value and the CPI-adjusted selling price. On 1 June 2016, the Company assigned its contractual position to the wholly owned company Fedemes S.L., which has entered into subletting contracts with the various FCC Group companies that occupy the buildings, including Fomento de Construcciones y Contratas S.A., for the same duration as under the original contract.

- Office building located in Las Tablas (Madrid).
  On 19 December 2010, the owner and the Company entered into an agreement to lease the aforementioned building, the lease period commencing once construction of the building had been completed on 23 November 2012. The term of this lease is 18 years, extendable at the Company's discretion by two five-year periods, each with an annual rent adjustable each year based on the CPI.

In addition, on 18 July 2016, an addendum was added to the contract between the Company and Hewlett Packard Servicios España S.L., originally entered on 19 November 2010 and renegotiated on 30 May 2014, through which information technology infrastructure operating services were outsourced, in order to improve efficiency and create greater flexibility and competitiveness at an international level. The term was set to end in October 2020.

At 2016 year-end there were non-cancellable future committed payments in relation to the aforementioned items amounting to EUR 277,700 thousand (2015: EUR 373,019 thousand). The detail, by maturity, of the non-cancellable future minimum payments at 31 December 2016 and 2015 is as follows:

	2016	2015
Within one year	41,287	44,979
Between one and five years	105,266	140,250
After five years	131,147	187,790
	277,700	**373,019**

In its position as a lessor, when the Company holds lease contracts it bills the FCC Group investees on the basis of the use they make of the related properties and recognises these amounts as operating income.

8. SERVICE CONCESSION ARRANGEMENTS

This Note presents an overview of the Company's investments in concession businesses, mainly Environmental Services and Integral Water Management, which are recognised within the following balance sheet line items: intangible assets for the concessions classified as intangible assets and non-current and current trade receivables for the concessions classified as financial assets (see Note 4.a).

The following table details, by asset class and concession activity, the total amount of the assets held by the Company under service concession arrangements.

	Environmental Services	Integral Water Management	Total
2016			
Intangible assets	47,643	311	47,954
Financial assets	29,338	—	29,338
	76,981	**311**	**77,292**
2015			
Intangible assets	51,096	15,255	66,351
Financial assets	30,282	—	30,282
	81,378	**15,255**	**96,633**

The detail of the Company's most significant service concession arrangements is as follows:

a) Intangible assets

- El Campello urban solid waste treatment plant (Environmental Services)
  Construction and operation of the El Campello (Alicante) Integrated Urban Solid Waste Centre. It was granted to the Company in 2003 by the Plan Zonal XV consortium of the Valencia Autonomous Community and the construction phase was completed in November 2008. The initial operating phase of 20 years began at this time and was subsequently extended to 21 years and nine months. The net assets relating to the aforementioned arrangement total EUR 36,418 thousand (31 December 2015: EUR 38,905 thousand). It is classified as an intangible asset as the billings are determined in accordance with the tonnes treated and, consequently, the demand risk is assumed by the concession operator.

- Integrated management of the municipal water supply and sewerage service of Vigo.
  Contract awarded to the Aqualia-FCC-Vigo joint venture (1% Fomento de Construcciones y Contratas S.A. and 99% FCC Aqualia S.A., wholly owned by the Company). In 2016 the Company assigned a 49% participating interest in this JV to the other partner (notes 2 and 5). The operation of the concession includes investments for the extension, renovation and/or upgrade of the existing infrastructures that the grantor placed at the disposal of the joint venture. It was granted in 1991 for an initial term of 25 years, extendible for five-year periods up to a maximum legal term of 50 years. The grantor extended the concession in 2011 for an additional five years until 2020. The net assets relating to the aforementioned arrangement total EUR 260 thousand the current percentage participating interest (31 December 2015: EUR 14,232 thousand). The users are charged for the service and it is classified as an intangible asset, as the amount collected depends on the use made of the service and is therefore variable. The demand risk is therefore assumed by the concession operator.

b) Financial assets

- Urban solid waste treatment plant in Manises (Valencia). (Environmental Services).
  Grant by the Entidad Metropolitana para el Tratamiento de Residuos to the Gestión Instalación III joint venture (in which Fomento de Construcciones y Contratas S.A. holds a 34.99% ownership interest) for the construction and operation of the urban solid waste management system of certain areas of the province of Valencia. It was granted in 2005 for an initial period of 20 years from the

operational start-up of the plant which occurred in December 2012. As a result of an amendment to the arrangement, this concession was reclassified as a financial asset in 2013. The assets relating to the aforementioned arrangement total EUR 26,230 thousand (31 December 2015: EUR 27,235 thousand). A fixed amount plus a variable amount per tonne treated is charged; this second component is residual. In addition, the cost of the construction services is substantially covered through the fixed charge and therefore the entire concession is considered to be a financial asset.

9. NON-CURRENT AND CURRENT FINANCIAL INVESTMENTS

a) Non-current financial investments

The detail of "Non-Current Financial Investments" at the end of 2016 and 2015 is as follows:

	Equity instruments	Loans to third parties	Derivatives (Note 13)	Other financial assets	Total
2016					
Loans and receivables	—	9,805	—	28,790	38,595
Available-for-sale financial assets	11,319	—	—	—	11,319
Held-for-trading financial assets	—	—	30	—	30
Other financial assets at fair value through profit or loss	—	—	—	2,858	2,858
	11,319	**9,805**	**30**	**31,648**	**52,802**
2015					
Loans and receivables	—	31,230	—	7,716	38,946
Available-for-sale financial assets	22,300	—	—	—	22,300
Held-for-trading financial assets	—	—	1,816	—	1,816
Other financial assets at fair value through profit or loss	—	—	—	3,076	3,076
	22,300	**31,230**	**1,816**	**10,792**	**66,138**

The operation to sell the shares of Xfera Móviles S.A. and transfer the participatory loans granted to the Company to the latter, which began on 20 June with the signing of: (i) a sale and purchase contract between the Company (vendor) and Masmóvil Phone & Internet S.A.U. (purchaser), subject to compliance with certain suspension conditions); (ii) a contract of acknowledgment of debt an undertaking to assume debt and capitalisation, under which Masmóvil Phone & Internet (debtor) and Masmóvil Ibercom S.A. (bound party), undertook to pay certain sums to the Company in consideration of the transfer of the shares and participatory loans. On 5 October the contract for the sale of the shares and transfer of the participatory loans was finalised, whereupon the contract for the undertaking to assume debt and capitalisation came into effect, with the Company receiving in guarantee of receipt a bank guarantee on demand of EUR 24,282 thousand. The latter contract was still in effect as of 30 December. Subsequently, on 7 February 2017, the assignment of the contractual position of Fomento de Construcciones y Contratas S.A. to Masmóvil Phone & Internet S.A.U. was completed, resulting in receipts of EUR 29,139 thousand for the Company. At year end, the estimate of the value of the contract was updated by this sum (Note 9.b), in consequence of which the impairment and result from the disposal of financial instruments in the profit and loss account is EUR 6,190 thousand.

The detail, by maturity, of the loans and receivables is as follows:

	2018	2019	2020	2021	2022 and subsequent years	Total
Loans and receivables	10,797	169	42	35	27,552	38,595

Loans and receivables

The loans and receivables include basically escrow deposits related to the sale of Globalvia Infraestructuras S.A., for EUR 17,059 thousand (Note 11), and with the ordinary amortisation of the refinancing contract (Note 16.b) for EUR 4,625 thousand. This heading also includes the guarantees and deposits relating to legal and contractual obligations in the pursuit of the Company's business activities, together with the amounts granted to public entities to carry out works and build facilities. With regard to Xfera Móviles S.A., as a result of the aforementioned operation to sell shares and transfer participatory loans the latter were deregistered from the balance sheet (EUR 24,114 thousand). Also deregistered were the guarantees granted to Xfera Móviles S.A. to the value of EUR 12,384 thousand.

Available-for-sale financial assets

The detail at 31 December 2016 and 2015 is as follows:

	Effective percentage of ownership	Fair value
2016		
Vertederos de Residuos S.A.	16.03%	10,817
Other		502
		11,319
2015		
Vertederos de Residuos S.A.	16.03%	10,817
Xfera Móviles S.A.	3.44%	11,215
Other		268
		22,300

The movements during the year were mostly due to the sale of the shares of Xfera Móviles S.A. described in the previous paragraph.

b) Current financial investments

The balance of the accounts under this heading at the end of 2016 mostly refers to the part of the deferred price corresponding to the operation to sell the shares of Globalvia Infraestructuras S.A. for EUR 106,040 thousand (Note 11), together with the estimate of the value of the contract of undertaking to assume debt and capitalisation due to the Company in consideration of the transfer of the shares and participatory loans of Xfera Móviles S.A. (EUR 29,139 thousand; Note 9.a).

10. INVESTMENTS IN AND PAYABLES TO GROUP COMPANIES AND ASSOCIATES

a) Non-current investments in Group companies and associates

The detail of "Non-Current Investments in Group Companies and Associates" at 31 December 2016 and 2015 is as follows:

	Cost	Accumulated impairment losses	Total
2016			

Equity instruments of Group companies	4,502,543	(2,490,466)	2,012,077
Equity instruments of associates	488,225	(255,827)	232,398
Loans to Group companies	1,549,429	(29,546)	1,519,883
Loans to associates	841	—	841
	6,541,038	**(2,775,839)**	**3,765,199**
2015			
Equity instruments of Group companies	4,502,507	(2,204,031)	2,298,476
Equity instruments of associates	454,305	(272,095)	182,210
Loans to Group companies	1,256,195	(26,942)	1,229,253
Loans to associates	27	—	27
Other financial assets	100,000	—	100,000
	6,313,034	**(2,503,068)**	**3,809,966**

The changes in the line items in the foregoing table are as follows:

	Equity instruments of Group companies	Equity instruments of associates	Loans to Group companies	Loans to associates	Other financial assets	Net impairment losses	Total
Balance at 31.12.14	**4,316,102**	**423,780**	**1,166,812**	**26**	**200 thousand**	**(2,361,466)**	**3,745,254**
Additions or charge for the year	88,064	30,581	37,661	1	—	(193,648)	(37,341)
Disposals or reversals	(1,659)	(56)	(48,278)	—	—	104,839	54,846
Transfers	100,000	—	100,000	—	(100,000)	(52,793)	47,207
Balance at 31.12.15	**4,502,507**	**454,305**	**1,256,195**	**27**	**100,000**	**(2,503,068)**	**3,809,966**
Additions or charge for the year	86	50,617	239,094	814	—	(289,195)	1,416
Disposals or reversals	(50)	(16,424)	(45,860)	—	—	16,424	(45,910)
Transfers	—	(273)	100,000	—	(100,000)	—	(273)
Balance at 31.12.16	**4,502,543**	**488,225**	**1,549,429**	**841**	—	**(2,775,839)**	**3,765,199**

Equity instruments of Group companies

In 2016 there were no significant movements. However, worthy of Note is the public acquisition bid (OPA) launched by Fomento de Construcciones y Contratas S.A. (FCC) on 29 July for 100% of the shares representing the capital of Cementos Portland Valderrivas S.A. (CPV), for their exclusion from the stock markets where they are admitted for negotiation (Madrid and Bilbao). The launch of the OPA was studied by the FCC board of directors, following a request made by the Inversora Carso S.A. de C.V., approved by the board on 25 May, conditional on approval by CPV's shareholders, which was granted on 29 June. The OPA refers to 10,655,503 shares (representing 20.58% of CPV's share capital) at a cash price of EUR 6 per share, making the maximum sum to be disbursed by FCC EUR 63,933 thousand. The operation was authorised by the Spanish Stock Market Commission (CNMV) on 22 December, with the period for acceptance running from 30 December 2016 until 13 February 2017 (Note 25).

The most significant changes in 2016 detailed in the foregoing table were as follows:

- Subscription of the capital increase through the partial conversion into capital of the short-term receivables of the wholly-owned investee Azincourt Investments S.L. in July amounting to EUR 100,000 thousand. Also, impairment losses on investments amounting to EUR 33,356 thousand were reversed due to the increase in the net assets of FCC Environment (UK).

- Contribution made in September to the equity of the subsidiary Dédalo Patrimonial S.L.U. to offset losses amounting to EUR 85,802 thousand. As a result of the foregoing, the impairment losses on the long-term and short-term loans granted to the subsidiary (EUR 32,948 thousand and EUR 52,793 thousand, respectively) were transferred to impairment losses on investments.

- Capital payments payable at Valoración y Tratamiento de Residuos Urbanos S.A., amounting to EUR 1,500 thousand.

- Contribution to the equity of FCC Power Generation S.L.U. to offset losses amounting to EUR 750 thousand through the partial conversion into capital of loans granted and the subsequent sale of the shares in this subsidiary to FCC Industrial e Infraestructuras Energéticas S.A.U. Group in the framework of an internal restructuring. The ownership interest transferred had a gross carrying amount of EUR 1,659 thousand and impairment of EUR 804 thousand. The sale price was EUR 278 thousand. Both transactions were arranged in December 2016.

The detail, by company, of the investments in Group companies and associates is presented in Appendices I and III, respectively, indicating for each company in which a direct ownership interest is held the company name, registered office, line of business, the percentage of the capital held directly or indirectly, the amount of equity (capital, reserves and other), profit or loss, dividends received, whether or not it is listed and the carrying amount of the ownership interest.

Equity instruments of associates

The most significant changes in 2016 were as follows:

- Subscription of the 63,271,533 shares to which the Company was entitled in the exercise of its pre-emption rights in the capital increase at Realia Business S.A. effected and paid up in December 2016. The increase was performed at a price of EUR 0.80 per share (EUR 0.24 par value + EUR 0.56 share premium), giving rise to a total amount of EUR 50,617 thousand.

- Return of contributions by means of the partial distribution of the issue premium of the company FM Green Power S.L., to the value of EUR 16,424 thousand. The Company has proceeded to revert the accumulated impairment in this company for the same amount as the sum returned.

With regard to 2015, the most significant movements were as follows:

- Subscription of the 52,726,278 shares to which the Company was entitled in the exercise of its pre-emption rights in the capital increase at Realia Business S.A. The increase was performed at a price of EUR 0.58 per share (EUR 0.24 par value + EUR 0.34 share premium), giving rise to a total amount of EUR 30,581 thousand, which were paid in early January 2016.

- Reversal of the impairment losses on the investment of EUR 66,090 thousand, as a result of the improvement in the equity of Realia Business. The net investment in this company therefore amounted to EUR 125,617 thousand at 31 December 2015 and the value of the ownership interest, in accordance with its share price at that date, amounted to EUR 80,144 thousand without taking into account in both cases the amount of shares subscribed in the capital increase in progress, since at 31 December 2015 these shares were not listed. The carrying amount of the investment in Realia Business is recoverable on the basis of its value in use.

Long-term loans to Group companies

The most significant amounts are as follows:

	2016	2015
Cementos Portland Valderrivas S.A.	423,289	128,419
FCC Aqualia S.A.	362,815	360,732
FCC Versia S.A.	169,075	168,000
FCC Medio Ambiente S.A.	136,606	136,606
FCC Construcción S.A.	126,976	88,159
FCC PFI Holdings Limited	78,425	107,401
Enviropower Investments Limited	44,972	49,297
FCC Ámbito S.A. Sole-Shareholder Company	44,646	44,646
FCC Industrial e Infraestructuras Energéticas S.A.	34,386	34,386

Servià Cantó S.A.	10,700	10,700
Mantenimiento de Infraestructuras S.A.	10,000	10,000
Other	107,539	117,849
	1,549,429	**1,256,195**
Impairment:		
FCC Versia S.A.	(29,546)	(26,942)
	1,519,883	**1,229,253**

The following should be noted in relation to the foregoing table:

- Loans arising from the refinancing process. Under the refinancing agreements described in Note 16, the Company assumed, expressly, irrevocably and unconditionally, as the debtor, the contractual position of the subsidiaries vis-à-vis the existing syndicated financing and credit facilities, which led, in turn, to the execution of loan agreements between Fomento de Construcciones y Contratas S.A. and the subsidiaries. These loans total EUR 689,076 thousand, (31 December 2015: EUR 652,630 thousand) the detail being as follows:

	2016	**2015**
FCC Aqualia S.A.	209,063	206,979
FCC Medio Ambiente S.A.	136,606	136,606
FCC Construcción S.A.	126,976	88,159
FCC Ámbito S.A.	44,646	44,646
FCC Industrial e Infraestructuras Energéticas S.A.	34,386	34,386
FCC Versia S.A.	29,075	28,000
Servià Cantó S.A.	10,700	10,700
Mantenimiento de Infraestructuras S.A.	10,000	10,000
Other	87,624	93,154
	689,076	**652,630**

  The increase in 2016 is due mainly to the provision of the amount of the guarantees executed in FCC Construcción and FCC Aqualia S.A.

  The interest rate to apply is the effective rate assumed by Fomento de Construcciones y Contratas S.A. in the refinancing.

- The participating loan of EUR 149,250 thousand granted on 1 May 2010 to the subsidiary FCC Aqualia S.A. It was established with an indefinite due date, although the lender may ask the borrower for full or partial repayment at any time, provided that at least one month's advance notice is given. In this regard, on 22 December 2016, Fomento de Construcciones y Contratas S.A. informed the subsidiary of its request to declare the loan due on 31 January 2017. Without prejudice to the foregoing, Fomento de Construcciones y Contratas S.A. and FCC Aqualia S.A. agreed to refinance its return by adding the balance of the participatory loan to the ordinary loan due at the end of June 2018 identified in the chart above. For this reason, it continues to be classified in non-current assets on the Company's balance sheet as at 31 December 2016. The interest rate is calculated as having a fixed portion and a floating portion, the latter in accordance with profitability indicators for the borrower. In May 2015 the fixed interest rate was amended and set at 4.86%, as was the total maximum interest rate (fixed + floating) which may not exceed Euribor + 10%. This participating loan earned interest of EUR 10,230 thousand in 2016 (31 December 2015: EUR 9,308 thousand).

- The long-term loan of EUR 140,000 thousand granted on 9 February 2007 to FCC Versia S.A., which initially matured in two years, automatically renewable for additional successive two-year periods. The interest rate is established on the basis of the average 3-month Euribor of the month prior to the month on which it is to be revised, plus a spread of 0.75%. This loan was reduced by EUR 45,000 thousand which were converted into a participating loan in 2015. The loan matures on 31 January 2018 and is automatically renewable for additional successive two-year periods. The interest rate is calculated as having a fixed portion (7%) and a floating portion, in accordance with profitability indicators for the borrower. The total maximum interest rate (fixed and floating) may not exceed the limit of 10%. At 2016 year-end this loan had earned interest of EUR 3,865 thousand (31 December 2015: EUR 1,129 thousand).

- Contribution of EUR 4,405 thousand made on 27 June 2016 to Cementos Portland Valderrivas S.A. (CPV) as part of the contingent debt, under the terms of the Restructuring Framework Agreement and Deferment Contract. On 29 July, as part of the process of restructuring CPV's financial debt, the non-terminating amendment renewal of the contract for the above subordinated loan and the contracts for EUR 20,000 thousand and EUR 100,000 thousand granted by the Company to CPV in September 2014 and February 2015, respectively, was entered into. This renewal amends, inter alia, the interest-accrual clause and binds the Company to capitalise the loans mentioned within 12 months following the renewal date. Also, on 29 July a new subordinated-loan contract was granted to CPV for EUR 271,171 thousand, under the same terms as the renewal mentioned with regard to interest accrual and the obligation to capitalise. On 2 November a subordinated loan contract was entered into between the Company (lender) and CPV (borrower) for the assumption by the latter of the loan granted by the former to Uniland Acquisition Corporation on 29 March 2016 (USD 14,625 thousand), for EUR 13,919 thousand, including the principal and interest due but not paid. The terms of these contract are the same as for the loans described above. At 2016 year-end this loan had earned interest of EUR 5,375 thousand (31 December 2015: EUR 8,418 thousand).

The other loans relate to amounts granted to Group companies that mature in more than one year and earn interest at market rates.

Net impairment losses

The most significant changes, in addition to those indicated in "Equity Instruments of Group Companies and Associates”, are as follows:

- Impairment of EUR 96,321 thousand of the investment in FCC Construcción S.A. in 2016 (31 December 2015: EUR 96,587 thousand). The impairment test is assessed according to the updated cash flows after tax for the traditional construction business for the time horizon considered (5 years + terminal value). Analysis justifies the impairment noted, as a result of the low level of contracting in 2016, particularly in Spain, giving rise to lower earnings and Ebitda. Under the hypotheses used, the average accumulated growth of turnover is considered to be 4.4%, mostly in the industrial and international areas, from 2018 onwards (annual increase of 4.2%), as in 2017 growth is only expected to be 1.9%. In the final year of the period considered earnings of EUR 2 billion were recorded, positioning the target Ebitda margin at 4.6% of earnings, reached in the third year, from the margin of 3.3% obtained in 2016. The terminal value has been calculated as perpetual income with zero growth, representing 79% of the recoverable value obtained from the pure construction business. The discount rate applied, which includes tax impact, was 6.62%. When the test is stressed by reducing cash flows by 10%, the resulting sum to be impaired is EUR 140,295 thousand; similarly an increase of 200 basic points in the discount rate would result in impairment of EUR 206,547 thousand. Also considered in the recoverable value is the concession business and the property and land-management business, as they are legally dependent on FCC Construcción S.A. With regard to the former, aggregated book value of each of the concessions (EUR 231 million) has been added. The value of the property business is represented by the sum that FCC Construcción will receive for the transfer of that unit to another FCC Group company, once a "business-branch segregation" operation has been completed as part of the reorganisation that is under way (EUR 281 million).

- The Company has assessed the recoverability of its investment in the Cementos Portland Valderrivas (CPV) group, based on its value in use, as its liquidation or sale is not under consideration, the OPA authorised for 100% of the shares for exclusion from negotiation on stock markets (Note 10.a) is still ongoing, and the Company continues to provide financial support to CPV (see previous section). As at 31 December 2016, net investment stands at EUR 649,099 thousand, including EUR 225,810 thousand in orders and EUR 423,289 thousand in credit. The value of the ownership interest, in accordance with its share price at that date, amounted to EUR 217,537 thousand.

  As there are no expectations as to when CPV will be in a position to distribute dividends, and given that it does not fall within the finance perimeter of the FCC Group's syndicated debt, the most appropriate method of assessing the need for impairment has been considered to be the percentage of equity attributable to the controlling company in the consolidated financial statements, with no tacit gains being considered to exist on the valuation date. At 31 December 2016, an impairment loss of EUR 169,754 thousand was recognised in order to bring the value of the investment in Cementos Portland into line with the underlying carrying amount of the ownership interest that Fomento de Construcciones y Contratas S.A. held in this company at that date.

- In 2015, impairment loss on the investment in FCC Versia S.A. of EUR 55,193 thousand in the value of the portfolio and of EUR 26,942 thousand in the value of loans, as a result of the asset impairments suffered by this company, arising from the sale of its subsidiary Corporación Europea de Mobiliario Urbano S.A. formalised in November 2015.

b) Current investments in Group companies and associates

"Current Investments in Group Companies and Associates" includes basically the loans and other non-trade credit facilities granted to Group companies and associates to cater, inter alia, for certain specific cash situations, and other short-term investments. These investments are measured at the lower of cost and market value, plus the related interest at market rates.

The most significant amounts are as follows:

	2016	2015
Azincourt Investment S.L. (Sole-Shareholder Company)	101,161	95,074
FCC Environment (UK) Ltd.	28,894	30,704
FCC Aqualia S.A.	26,340	44,917
FCC-PFI Holding Group	16,570	15,534
FCC Construcción S.A.	13,036	251
FCC Medio Ambiente S.A.	7,417	14,549
Other	23,580	20,783
	216,998	**221,812**

These loans mature annually and earn interest at market rates.

c) Other non-current financial assets

The framework agreement for restructuring Cementos Portland Valderrivas S.A. entered into on 21 November 2014 included an undertaking by Fomento de Construcciones y Contratas S.A. to provide financial support totalling EUR 200,000 thousand, the recall of which it was agreed to postpone until the final due date of the finance contract under the agreement formalised on 24 March 2014. In 2015 EUR 100,000 thousand was provided, thereby reducing the deferred contingent debt. The remaining sum is replaced by a new contingent undertaking, linked to how the business of Cementos Portland Valderrivas S.A. progresses, as well as a variable sum that will not be greater than EUR 100,000 thousand (Note 10.d).

d) Non-current payables to Group companies and associates

Variations in the year largely correspond to the payables to Cementos Portland Valderrivas S.A. for the contingent contribution discussed above. This undertaking was called in both in 2014. However, in fulfilment of the obligations assumed in the refinancing agreement of Fomento de Construcciones y Contratas S.A. (Note 16), on 24 March 2014 an agreement was formalised whereby the contingent capital contribution was deferred until the date of final maturity of the Company's refinancing agreement. Subsequently, the restructuring framework agreement entered into on 21 November 2014 provided for the partial contribution of EUR 100,000 thousand, which were disbursed, and in 2015 the remaining sum was replaced by a new contingent undertaking, linked to how the business of Cementos Portland Valderrivas S.A. progresses, plus a variable sum that will not be greater than EUR 100,000 thousand. Given their contingent nature, neither these liabilities nor the linked assets (Note 10.c) are recorded on the attached balance sheet.

e) Current payables to Group companies and associates

The most noteworthy balances of "Current Payables to Group Companies and Associates", which includes the loans received by the Company bearing interest at market rates and trade accounts payable to those companies, recognised on the liability side of the accompanying balance sheet, are as follows:

	2016	2015
Asesoría Financiera y de Gestión S.A.	410,661	172,009
Per Gestora Inmobiliaria S.L.	49,602	49,274
Ecoparque Mancomunidad del Este S.A.	29,717	20,783
FCC Medio Ambiente S.A.	27,299	779
Fedemes S.L.	20,992	19,240
Sistemas y Vehículos de Alta Tecnología S.A.	13,474	10,541
Cementos Portland Valderrivas S.A.	8,493	8,700
FCC Construcción S.A.	5,612	29,306
Realia Business S.A.	—	30,581
FM Green Power Investments S.L.	—	16,086
Other	18,351	22,331
	584,201	**379,630**

The most significant movements in 2016 were as follows:

- Increase of the debt with the subsidiary Asesoría Financiera y de Gestión S.A. derived from cash pooling for EUR 238,652 thousand. In 2015 cash-pooling contracts were entered into between that company and FCC Group companies, including the parent, Fomento de Construcciones y Contratas S.A., such that financial movements would be channelled through that subsidiary. The increase of the debt with that subsidiary is to address the Company's cash and bank needs.

- Payment of the disbursement for the capital increase effected in 2015 by Realia Business S.A. for EUR 30,581 thousand, on 7 January 2016 (Note 4.a).

- Return of the deposit signed in October 2015 with FM Green Power Investments S.L., for EUR 16,086 thousand, on 20 January 2016.

11. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

At the end of year, Fomento de Construcciones y Contratas S.A. presented no balance under this heading (31 December 2015: EUR 220,000 thousand, corresponding to the investment in Globalvia Infraestructuras S.A.).

On 17 March the agreement was completed to close the sale of the shares of Globalvia Infraestructuras S.A., the contract for which had been signed on 23 October 2015 and amended on 17 November 2015, once the suspension conditions stipulated had been met, between the Company, FCC Construcción S.A. and Corporación Industrial Bankia S.A.U. (vendors); and Optrust Infraestructure Europe I S.a.r.l., Stichting Depositary PGGM Infraestructure Funds and USS Nero Limited (purchasers).

The total sale price includes an initial payment received by the Company when the operation was closed (EUR 83.8 million) and a deferred price, consisting of sum to be determined by a formula linked to the stake that would be held by Globalvia Infraestructuras S.A. in Globalvia Inversiones S.A. on the conversion date of the convertible bond, plus interest accrued. During the year, before the closure of the operation was signed, the Company received EUR 6 million and EUR 2.7 million in dividends, in February and March 2016 respectively.

The Company will also receive the sum released from the cash guarantee set up, by opening an escrow account on the closure date of the operation, held by Corporación Industrial Bankia S.A.U. and Fomento de Construcciones y Contratas S.A., with an initial balance of EUR 54.6 million (EUR 27.3 million corresponding to the Company), resulting from a share of dividends and a reduction of capital with return of contributions at Globalvia Infraestructuras S.A. This escrow account guarantees the purchasers any execution of guarantees lodged by the company to third parties to cover financial undertakings. The Company will receive the cash as the guarantees are released, although it was agreed that partial releases would be made three and six months after the closure date. As a result of this, the Company has received EUR 6.8 million and EUR 3.4 million in July and October 2016, respectively. It will also receive the sum, net of expenses, obtained from the sale or liquidation of the companies excluded from the perimeter for the transaction that legally remain as subsidiaries of Globalvia Infraestructuras S.A. In 2016, the sum received for this item was EUR 1.1 million.

On 23 January 2017 the agreement on the deferred price was signed, fixing the deferred amount at EUR 181.8 million (EUR 90.9 million corresponding to the Company), with EUR 31 million in interest (EUR 15.5 million for the Company). On 28 February 2017 the Company received EUR 106.4 million (Note 25).

In these annual financial statements the balance of the escrow account (EUR 17.1 million) is recorded under non-current financial investments (Note 9.a), for which, owing to the extended timeframe and uncertainty as to recovery, the appropriate non-current provision has been made for liabilities and contingencies, totalling EUR 16.9 million (Note 15.a).

The loss from the operation, including sale costs, recorded in the profit and loss statement was EUR 15.2 million.

12. TRADE RECEIVABLES FOR SALES AND SERVICES

"Trade Receivables for Sales and Services" in the accompanying balance sheet includes the present value of the Company's sales and services.

	2016	2015
Production billed not yet collected	147,056	319,784
Unbilled production	139,416	123,972
Trade receivables for sales and services	286,472	443,756
Customer advances	(14,423)	(12,246)
Total trade receivables, net	**272,049**	**431,510**

The foregoing total is the net balance of trade receivables after deducting the balance of “Other Payables - Customer Advances” on the liability side of the accompanying balance sheet which, as required by accounting regulations, includes the collected and uncollected pre-billings for various items and the advances received (normally in cash).

"Production Billed Not Yet Collected" reflects the amount of the billings issued to customers for services provided not yet collected at the balance sheet date.

"Unbilled Production" reflects the difference between the production recognised by the Company on each contract and the amount of the billings issued to the customers. The balance of this account relates basically to the price revisions under the various contracts which, although as yet unapproved, the Company considers will be duly billed since there are no doubts as to their being accepted.

The Company has the capacity to finance itself should it need working capital through the factoring of trade receivables to banks without recourse against Fomento de Construcciones y Contratas S.A. in the event of default. The amount deducted from the trade receivables balance at 2016 year-end in this connection amounted to EUR 200,771 thousand (31 December 2015: EUR 6,915 thousand), largely as a result of the sale operation without recourse of clients' invoices guaranteed by the finance group Inbursa (Note 22.e), for a maximum sum of EUR 200,000 thousand.

Of the net balance of trade receivables, EUR 58,702 thousand (31 December 2015: EUR 68,936 thousand) relate to balances from contracts performed through joint ventures.

Past due trade receivables not provided for by the Company amounted to EUR 218,022 thousand at 31 December 2016 (31 December 2015: EUR 202,349 thousand). It should be noted that this constitutes all of the Group's past due assets, as there are no significant past due financial assets. All matured balances that have not been settled by the counterparty are considered to be past due. However, it should be taken into account that, although certain assets are past due, there is no default risk, as most are public-sector customers from which the corresponding late-payment interest arising from collection delays may be claimed. In general, except in the case of certain receivables from Spanish Municipal Councils, there are no significant balances more than one year old which have not been written down. In some specific cases the balances are more than one year old and have not been written down, for example because the collection right is included in the 2015 financial restructuring fund in Spain.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The detail of the assets and liabilities relating to derivatives included under “Other Non-Current Financial Assets”, “Non-Current Payables - Other Financial Liabilities” and “Current Payables - Other Financial Liabilities” in the accompanying balance sheet and of the related effects on equity and the statement of profit or loss is as follows:

	Fair value			
	Assets (Note 9)	**Liabilities (Note 16)**	**Impact on equity**	**Impact on the statement of profit or loss**
2016				
Hedging derivatives	—	2,393	(1,683)	49
Other derivatives	30	—	—	(1,786)
	30	**2,393**	**(1,683)**	**(1,737)**
2015				
Hedging derivatives	—	2,508	(1,732)	25
Other derivatives	1,816	—	—	(4)
	1,816	**2,508**	**(1,732)**	**21**

Hedging derivatives

Following is a detail of the hedging derivatives arranged by the Company for 2016 and 2015, all of which are cash flow hedges, subdivided according to the hedged transaction, and including the type of derivative, the amounts arranged or notional amounts, the expiry date, the fair value at year-end, the impact on equity net of the related tax effect and the impact on the statement of profit or loss in respect to the ineffective portion:

2016

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on equity	Impact on the statement of profit or loss
Other payables (Note 16.b)	IRS	7,836	02/04/2024	—	1,138	(800)	23
	IRS	3,918	02/04/2024	—	569	(400)	12
	IRS	2,511	02/04/2024	—	365	(256)	7
	IRS	2,212	02/04/2024	—	321	(227)	7
Total					**2,393**	**(1,683)**	**49**

2015

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on equity	Impact on the statement of profit or loss
Other payables (Note 16.b)	IRS	8,376	02/04/2024	—	1,192	(824)	11
	IRS	4,188	02/04/2024	—	596	(412)	5
	IRS	2,684	02/04/2024	—	382	(264)	4
	IRS	2,364	02/04/2024	—	338	(232)	5
Total				**—**	**2,508**	**(1,732)**	**25**

The detail, by maturity, of the notional amount of the hedging transactions arranged at 31 December 2016 is as follows:

	Notional maturity 2017	2018	2019	2020	2021 and subsequent years
IRS (Other payables)	1,154	1,179	1,270	1,365	11,509

Other derivatives

Following is the detail for 2016 and 2015 of the derivative financial instruments that do not qualify for hedge accounting, subdivided according to the hedged transaction, and including a detail of the type of derivative, the amounts arranged or the notional amount, the expiry date, the fair value at year-end and the impact on the statement of profit or loss under "Changes in Fair Value of Financial Instruments":

2016

	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on the statement of profit or loss
Convertible bonds (Note 14.e)	TrigerCall	32,200	30/10/2020	30	—	(1,786)
				30	**—**	**(1,786)**

2015

	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on the statement of profit or loss
Convertible bonds (Note 14.e)	TrigerCall	449,800	30/10/2020	1,816	—	(4)
				1,816	**—**	**(4)**

14. EQUITY

On 4 March 2016 the public deed was recorded at the Barcelona Commercial Registry in respect of the Company's increase of capital, as agreed by the board of directors on 17 December 2015, in the framework of the authorisation granted by the shareholders at the Annual General Meeting held on 25 June 2015 (up to 50% increase). This capital increase was effected with monetary contributions for a total cash amount of EUR 709,518,762 by issuing 118,253,127 new ordinary shares for a unit price of EUR 6 (par value of EUR 1), which were admitted to listing on the Spanish Stock Market Interconnection System on 7 March. The increase was effected with a share premium of EUR 5 per share issued, resulting in an increase in the share premium of EUR 589,595 thousand after deducting the costs of the increase after tax (EUR 1,671 thousand).

The funds obtained from the capital increase have been used in part for the discounted buy-back (Dutch auction) of debt corresponding to Tranche B of the financial debt of Fomento de Construcciones y Contratas S.A., as regulated under the refinancing contract, totalling EUR 386,443 thousand after deducting a haircut of EUR 58,082 thousand. Also, EUR 289,495 thousand was allocated to financially supporting the subsidiary Cementos Portland Valderrivas S.A., with the remainder being used for corporate purposes, including the exercise of the preference subscription right for capital increases at Realia Business S.A. (EUR 87,301 thousand).

The details of the impact on equity of the capital increase of Fomento de Construcciones y Contratas S.A. are shown in the following chart:

Share capital increase	118,253
Share capital	**118,253**
Issue premium increase	591,266
Extension expenses after tax	(1,671)
Share premium	**589,595**
Profit from haircut	58,082
Tax effect	(14,521)
Year's profit (loss)	**43,561**
Total impact on equity	**751,409**

a) Share capital

Once the increase had been effected, the share capital of Fomento de Construcciones y Contratas S.A. consists of 378,825,506 book-entry ordinary shares of EUR 1 par value each.

All the shares carry the same rights and have been fully subscribed and paid.

The shares of Fomento de Construcciones y Contratas S.A. are included in the selective IBEX 35 index, are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and are traded through the Spanish stock market interconnection system.

With regard to share capital of over 10% owned by other companies either directly or through their subsidiaries, according to information furnished, Inversora Carso S.A. de C.V., which is in turn controlled by the Slim family, had a 61.11% ownership interest in the share capital directly or indirectly at the date of authorisation for issue of these financial statements. Samede Inversiones 2010 S.L. also has an indirect ownership interest of 15.44% in the share capital and the company Nueva Samede 2016 S.L.U. Nueva Samede) holds a direct stake of 4.53%, these two companies are controlled by Esther Koplowitz Romero de Juseu (100%).

Ms Esther Koplowitz Romero de Juseu also directly owns 123,313 shares of Fomento de Construcciones y Contratas S.A.

On 27 November 2014, the two main shareholders signed the "Investment Agreement" whereby both parties undertook not to increase their individual ownership interest in Fomento de Construcciones y Contratas S.A. to above 29.99% of the voting share capital for a period of four years. Subsequently, on 5 February 2016, the aforementioned shareholders signed an amended, non-terminating renewal contract in respect of the agreement. The main features of this renewal are as follows:

- The inclusion of Nueva Samede, a company associated with Esther Koplowitz Romero de Juseu, in the agreement, as a new shareholder of Fomento de Construcciones y Contratas S.A. (FCC) following the new capital increase.

- Amendment of FCC's corporate governance arrangements regarding share transfers in the event that, as a result of the new capital increase and subscription undertaking Control Empresarial de Capitales S.A. de C.V. (CEC) and/or the Guarantor, Inversora Carso S.A. de C.V. (Carso) should exceed 29.99% of the capital with voting rights or should acquire control of FCC, and the elimination of the provision regarding the parties' maximum stakes in the Company's capital.

- Amendments to FCC's articles of association and the make-up of the board of directors, if CEC and/or Carso should reach a percentage of voting rights that is equal to or greater than 30% or should in any other way acquire control of the Company.

Also, on 5 February 2016, Esther Koplowitz Romero de Juseu, Dominum Dirección y Gestión S.A. and Nueva Samede 2016 S.L.U entered into an agreement for the “Sale and Purchase of Subscription Rights in the New Capital Increase and Other Supplementary Agreements”. The main features of this agreement refer to: (i) establishing the terms and conditions to govern the transfer of preference subscription rights in the capital increase effected by Esther Koplowitz and Dominum Dirección y Gestión S.A. to Nueva Samede S.L.U.; (ii) the subsequent exercise of those rights by Nueva Samede; and (iii) regulation of the undertaking made by Carso (as the financier) to finance Nueva Samede in the acquisition of the preference subscription rights and paying-up of the shares resulting from the capital increase.

On 4 March 2016 CEC announced the launch of an OPA for Fomento de Construcciones y Contratas S.A., as its parent, Carso, achieved a percentage of directly or indirectly attributable voting rights of 36.595% (29.558% owned and 7.036% by attribution of Nueva Samede's holding). The bid referred to 100% of the Company's share capital at a price of EUR 7.6 per share. The request was filed at the Spanish Stock Market Commission (CNMV) on 5 April and accepted for processing by the CNMV on 18 April. Finally, on 22 July, the CNMV communicated that the OPA was accepted for 97,211,135 shares, representing 25.66% of the share capital (48.30% of the shares targeted).

On 1 July 2016 the transfer from Nueva Samede to Carso of 9,454,167 ordinary shares of Fomento de Construcciones y Contratas S.A. was completed, representing 2.496% of its share capital. The price was EUR 6.4782 per share, making the effective total of the transaction EUR 61,245,984.70.

b) Share premium

The Consolidated Text of the Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use for other purposes.

c) Reserves

The detail of "Reserves" in 2016 and 2015 is as follows:

	2016	2015
Legal reserve	26,114	26,114
Other reserves	927,053	894,067

	953,167	**920,181**

Under the Consolidated Text of the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve cannot be distributed to shareholders except in the event of liquidation.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

"Other Reserves" includes most notably EUR 6,034 thousand of restricted reserves, equal to the par value of the treasury shares retired in 2002 and 2008 which, in accordance with Article 335.c of the Spanish Limited Liability Companies Law, are restricted, unless the same requirements as those stipulated for capital reductions are met.

d) Treasury shares

The changes in treasury shares in 2016 and 2015 were as follows:

Balance at 31 December 2014	**(5,278)**
Sales	179,220
Acquisitions	(179,445)
Balance at 31 December 2015	**(5,503)**
Sales	—
Acquisitions	—
Balance at 31 December 2016	**(5,503)**

The detail of the treasury shares at 31 December 2016 and 2015 is as follows:

2016		2015	
Number of shares	Amount	Number of shares	Amount
415,500	(5,503)	415,500	(5,503)

At 31 December 2016, the shares of the Company represented 0.11% of the share capital (31 December 2015: 0.16%).

e) Other equity instruments

In accordance with recognition and measurement standard 9 of the Spanish National Chart of Accounts, "Other Equity Instruments" includes the measurement of the equity component resulting from accounting for the issue of bonds convertible into shares of the Company (Note 16.a).

In October 2009 Fomento de Construcciones y Contratas S.A. launched an issue of bonds exchangeable for shares of the Company, maturing on 30 October 2014. Certain terms and conditions were amended and approved by the General Assembly of the Syndicate of Bondholders on 5 May 2014 and by the shareholders at the Company's Annual General Meeting on 23 June 2014, as indicated in Note 16.a. The main features following the amendments are as follows:

- The amount of the issue was EUR 450,000 thousand with final maturity on 30 October 2020. On 12 May 2014, EUR 200 thousand of bonds were converted into 5,284 treasury shares of the Company.

- The bonds were issued at par with a face value of EUR 50 thousand.

- The bonds accrue interest at a fixed annual rate of 6.50% payable every six months.

- The price for which the bonds could be exchanged for shares of the Company was adjusted and established at EUR 30.00 per ordinary share, resulting in each nominal amount of EUR 50 thousand in bonds entitling the owner to receive 1,666.66 ordinary shares. Subsequently, as a result of the dilution arising from the capital increases in 2014 and 2016, the conversion price was adjusted to EUR 22.19 per ordinary share in 2014, representing that each nominal sum of EUR 50 thousand in bonds would entitle the holder to receive 2,253.27 ordinary shares, and at EUR 21.50 per ordinary share in 2016, resulting in each nominal amount of EUR 50 thousand in bonds entitling the owner to receive 2,325.58 ordinary shares.

- The entitlement to convert the bonds may be exercised at the request of each of the holders, at any time until 30 October 2020, pursuant to the terms and conditions of the bonds.

- A new case of optional repayment for the issuer from 30 October 2018 is included.

- Following the restructuring, the convertible bonds are no longer subordinated.

The shareholders at the Annual General Meeting held on 23 June 2014 at which the terms and conditions of the bonds were amended also adopted the following relevant resolutions in relation to the bonds:

- The disapplication of pre-emption rights required by the approval of the amendment of the terms and conditions that would otherwise have corresponded to the Company's shareholders in relation to the bonds pursuant to Article 416 of the Spanish Limited Liability Companies Law.

- In accordance with Article 414 of the Spanish Limited Liability Companies Law, it was resolved to increase the Company's capital by the amount required to cater for the conversion of such bonds as the holders thereof might request pursuant to the amended terms and conditions of the bonds up to an initially envisaged maximum of EUR 15,000 thousand corresponding to 15,000,000 new shares, but subject to possible modifications based on the amended terms and conditions. This capital increase will be carried out, in full or in part, by the Board of Directors, with express powers of delegation to any of the Board members, whenever necessary in order to cater for the conversion of the bonds, through the issue of new ordinary shares with the same par value and carrying the same rights as the ordinary shares outstanding on the date or dates on which the capital increase resolution is implemented.

Under the terms and conditions of the Convertible Bond (Note 16.a), in 2016 a put period of 60 working days was triggered, in which each individual bondholder had the right to ask the Company to return the principal of the bond plus interest accrued since the payment date of the last coupon (30 April 2016). On the expiry of this period, which ran from 30 June until 29 August, 92.7% of the bondholders exercised this right, with the consequent cancellation of the convertible bond by the same proportion. At the request of each of the holders and under the same conditions as prior to their partial cancellation, the conversion right may be exercised at any time until 30 October 2020. In addition, Fomento de Construcciones y Contratas S.A. is entitled to amortise in advance all the bonds from October 2018 at their par value plus the interest accrued by that date. The sum of amortised bonds in 2016 stands at EUR 417,600 thousand, with bonds for a nominal sum of EUR 32.200 thousand remaining active as at 31 December 2016. Consequently, in 2016, the proportional part of the equity component in respect of the amortisation of 2016 bonds has been transferred to the heading "voluntary reserves".

With regard to the issue of convertible bonds, we it should also be noted that the Company's purchase option enabling the bonds to be repurchased in certain circumstances (Trigger Call) was valued as at 31 December 2016 at EUR 30 thousand (31 December 2015: EUR 1,816 thousand (Note 13).

f) Valuation adjustments

The detail of "Valuation Adjustments" is as follows:

	2016	2015
Available-for-sale financial assets (Note 9)	9,710	9,749
Hedges (Note 13)	(1,683)	(1,732)
	8,027	**8,017**

g) Grants

The movements in non-returnable capital subsidies were as follows:

	Balance at beginning of year	Additions net of tax impact	Transfers to profit or loss and gains net of tax impact	Other variations (Note 2)	Balance at year end
2016	1,370	141	(118)	(679)	714
2015	1,619	—	(249)	—	1,370

The aforementioned amount relates mainly to grants received by the joint ventures through which the Company jointly performs contracts.

The decrease recorded under "other variations" is due to the assignment of a 49% stake in the Aqualia–FCC–Vigo JV to the other partner, the wholly owned subsidiary FCC Aqualia S.A. (Note 2)

15. LONG-TERM AND SHORT-TERM PROVISIONS

a) Long-term provisions

The changes in 2016 were as follows:

	Actions on infrastructure	Litigation	Liability and contingencies	Guarantees and contractual and legal obligations	Other	Total
Balance at 31.12.14	**13,284**	**385**	**196,118**	**87,983**	**10,368**	**308,138**
Charge for the year	1,343	945	13,065	11,666	2,349	29,368
Amounts used	(3,904)	(22)	(284)	(2,738)	(266)	(7,214)
Reversals (Note 21)	—	(28)	(11,940)	(5,475)	(34)	(17,477)
Balance at 31.12.15	**10,723**	**1,280**	**196,959**	**91,436**	**12,417**	**312,815**
Charge for the year (Note 11)	1,113	2,148	26,864	9,620	4,178	43,923
Amounts used	(10)	(553)	(2,518)	(5,019)	(1,081)	(9,181)
Reversals (Note 21)	(2,011)	(282)	(12,576)	(19,514)	(5,673)	(40,056)
Balance at 31.12.16	**9,815**	**2,593**	**208,729**	**76,523**	**9,841**	**307,501**

Provisions for actions on infrastructure

Under the service concession arrangements, these provisions cover the actions required to hand over the infrastructure at the end of the concession term, namely dismantling, removing or restoring these assets, replacement and major repair work and actions taken to upgrade the infrastructure and increase its capacity. Also, provisions to replace and repair the infrastructure are systematically recognised in the statement of profit or loss as the obligation is incurred (Note 4.a).

Provisions for litigation

Provisions for litigation cover the Company's contingencies when it acts as defendant in certain proceedings in relation to the liability inherent to the business activities carried on by it. The lawsuits, although numerous, are not expected to have an impact on the Company according to estimates regarding their final outcomes.

Provisions for liability and contingencies

Provisions for liability and contingencies cover the risks, not included in other categories, to which the Company may be exposed as a result of the activities it carries on. These liabilities, include the risks to cover the expansion of the Company's international activities and, in particular, the EUR 64,000 thousand included to challenge the sale of Alpine Energie. The following paragraphs describe the situation in relation to the insolvency proceeding of the Alpine subgroup, a legal subsidiary of FCC Construcción S.A., in greater detail.

On 19 June 2013, Alpine Bau GmbH (the head of the group of operating companies of the Alpine Group) presented a petition for insolvency proceedings with court-ordered liquidation and a winding-up proposal to the Vienna Commercial Court This application resulted in the closing of the business and the liquidation of its corporate assets (Schließung und Zerschlagung). On 28 June 2013, Alpine holding GmbH (the parent of Alpine Bau GmbH) directly filed for insolvency and liquidation. During the insolvency proceedings, the insolvency managers reported, in the liquidation process, recognised liabilities amounting to approximately EUR 1.750 million at Alpine Bau GmbH and EUR 550 million at Alpine Holding GmbH.

As a result of these two court-ordered liquidation proceedings of the subsidiaries of FCC Construcción S.A., the latter lost control over the Alpine Group.

As a result of these insolvency proceedings, at 31 December 2016 the Company and other FCC Group companies had recognised provisions in relation to the Alpine subgroup amounting to EUR 132,910 thousand in order to cover the contingencies and liability arising from the activities carried on by the aforementioned subgroup. The breakdown of these provisions is as follows:

Challenge to the sale of Alpine Energie	75,000
Encumbered collateral provided and accounts receivable for contracts of Alpine	57,910
Total	**132,910**

The provision for the challenge to the sale of Alpine Energie Holding AG amounting to EUR 75 thousand covers the risk relating to the action brought by the insolvency managers of Alpine Bau GmbH on 11 June 2014 against the Parent of the Group, Fomento de Construcciones y Contratas S.A. (provision of EUR 64,000 thousand) and two of its subsidiaries: Asesoría Financiera y de Gestión S.A. (provision of EUR 11,000 thousand) and Bveftdomintaena Beteiligunsgverwaltung GmbH. It should be noted in relation to the aforementioned proceedings that the expert commissioned by the Spanish Public Prosecutor's Office adjudged in October 2015 that the sale of Alpine Energie did not cause any damage or loss to Alpine Bau and that the sale conditions were in line with the prevailing market conditions at the time; therefore the judgement does not consider any dealings in assets with a view to defrauding creditors to have occurred. The Anti-Corruption and Economic Offences Prosecutor's Office has fully accepted the criteria set forth in the expert report, agreeing to close part of the investigation. Although this report was issued in the framework of criminal proceedings and the judge of the commercial court who processed the claim for retrospective annulment is under no obligation as a result of such conclusions, it is expected that if it has been considered that the sale was not detrimental to Alpine's assets, this should have a bearing on whether or not the retrospective annulment of the sale is upheld. However, in view of the uncertainty as to the final outcome, the Group maintained the provision recognised in prior years.

FCC Construcción S.A. provided corporate guarantees in order for certain subsidiaries of the Alpine subgroup to be awarded the contracts; if the latter declares bankruptcy, FCC Construcción S.A. may have to address these undertakings. In addition, in the ordinary course of its business activities, the FCC Group generated accounts receivable from the Alpine subgroup, which are highly unlikely to be recovered as a result of the bankruptcy proceedings. In order to cover both risks, the FCC Group recognised provisions amounting to EUR 57,910 thousand on the liability side of its consolidated balance sheet.

Since the bankruptcy of Alpine Holding GmbH and Alpine Bau GmbH, preliminary investigations have been conducted by the Spanish Anti-Corruption and Financial Crime Prosecutor's Office and the following civil proceedings have been brought which entail certain risks. These proceedings are as follows:

- **Preliminary investigations:**

  - In July 2013 the claim filed by a bondholder against five Directors of Alpine Holding GmbH (all of whom were Directors when the bonds were issued and they filed for insolvency) gave rise to the investigations by the aforementioned Spanish Anti-Corruption and Financial Crime Prosecutor's Office.

  - In April 2014 a former Director of Banco Hypo Alde Adria filed a claim against FCC Construcción S.A., Alpine Holding GmbH, Alpine Bau GmbH, three of their Directors and one employee of Fomento de Construcciones y Contratas S.A. The investigations initiated by the Spanish Public Prosecutor's Office have been added to those mentioned above.

- **Civil and commercial proceedings**

  - In 2014 two bondholders filed two civil claims against FCC Construcción S.A. and a Director for EUR 12 thousand and EUR 506 thousand. In October 2016 notice was given of another law suit, filed three years previously, claiming EUR 23 thousand. Currently these three proceedings have been suspended pending a preliminary judgment being handed down in the criminal jurisdiction.

  - The insolvency managers of Alpine Holding filed a claim of EUR 186 million against FCC Construcción S.A. as it considers that this company must indemnify Alpine Holding GmbH for the amounts which the latter raised through bond issues in 2011 and 2012 and which the latter allegedly loaned to Alpine Bau GmbH without the necessary guarantees. Notice of the claim was given in April 2015 and the proceeding is at the evidence phase.

The FCC Group recognises provisions to cover the probable risks in connection with certain of these lawsuits. In relation to the remainder of the lawsuits, the FCC Group and its legal advisers do not consider it likely that there will be any future cash outflows and, therefore, no provision has been recognised in this connection as the FCC Group considers that they are contingent liabilities (Note 20).

Provisions for guarantees and contractual and legal obligations

Provisions for guarantees and contractual and legal obligations include the provisions to cover the expenses arising from contractual and legal obligations of a non-environmental nature.

Other provisions

"Other Provisions" includes the items not classified in the foregoing accounts, including provisions to cover environmental contingencies, self-insurance activity and the Company's obligations in relation to equity instrument-based transactions.

16. NON-CURRENT AND CURRENT PAYABLES

The detail of "Non-Current Payables" and "Current Payables" is as follows:

	Non-current	Current
2016		
Debt instruments and other marketable securities	32,200	348
Bank borrowings	3,082,785	231,838
Obligations under finance leases	16,542	10,417
Derivatives (Note 13)	2,244	149
Other financial liabilities	5,878	47,858
	3,139,649	**290,610**
2015		
Debt instruments and other marketable securities	446,523	4,873
Bank borrowings	3,585,225	209,140
Obligations under finance leases	18,419	8,987
Derivatives (Note 13)	2,310	198
Other financial liabilities	6,681	63,457
	4,059,158	**286,655**

The detail, by maturity, of “Non-Current Payables” is as follows:

	Maturity					
	2018	2019	2020	2021	2022 and subsequent years	Total
Debt instruments and other marketable securities	—	—	32,200	—	—	32,200
Bank borrowings	3,054,096	6,494	6,030	3,345	12,820	3,082,785
Obligations under finance leases	6,930	5,065	4,101	446	—	16,542
Derivatives	442	442	442	442	476	2,244
Other financial liabilities	1,764	895	1,079	854	1,286	5,878
	3,063,232	**12,896**	**43,852**	**5,087**	**14,582**	**3,139,649**

a) Non-current and current debt instruments and other marketable securities

On 30 October 2009 Fomento de Construcciones y Contratas S.A. issued convertible bonds totalling EUR 45 million for international institutional investors.

The restructuring of these convertible bonds was included in the framework of the overall refinancing in 2014. This restructuring consisted of extending the original maturity of the convertible bonds -set for October 2014- by six years until October 2020, initially reducing the conversion price from EUR 37.85 to EUR 30. After 1 December 2014, owing to the Company's capital increase, the conversion price was lowered to EUR 22.19, and as a result of the latest capital increase completed in March 2016 it was lowered once more to EUR 21.5, while the interest rate remained constant at 6.5%.

In accordance with applicable accounting regulations, in addition to their financial component, the convertible bonds have another component that is recognised in equity as described in Note 14.e. Note 14.e also describes the terms of the convertible bond issue.

As a result of the restructuring of the convertible bonds, as it is a compound instrument, the fair value of the convertibility option equity instrument was determined under the new conditions, mainly the lengthening of the maturity and the adjustment to its conversion price, as a result of the dilution arising from the successive capital increases. As the exercise price of the conversion option was far superior to the market price of the share and it was not expected that the market price would reach or exceed the exercise price of the option, the option was considered to be out of the money and its fair value was therefore considered to be zero. As a result, the carrying amount of the liability component and the equity instrument was maintained unaltered. In relation to the liability component, since its fair value, using as the discount rate the effective interest rate resulting from the conditions applied to the bond issue in 2009, was very close to its carrying amount, and having verified that the present value of the cash flows discounted under the new terms and conditions, including any fees and commissions paid, using the original effective interest rate, differed by less than 10% from the discounted present value of the cash flows still remaining from the original financial liability, the aforementioned refinancing did not give rise to the derecognition of the initial liability. It is important to Note that the restructuring of the bond affected its maturity but did not give rise, under any circumstances, to the early conversion of the bond.

In January 2015 a group of convertible-bondholders took legal action to petition the English courts to declare that the new restructuring framework agreement and its corresponding judicial approval constituted a general financial restructuring process that enabled its holders to request from the Company individual advance repayment of their credit. On 16 April 2015 the English court issued an order acknowledging the bondholders right to request partial advance repayment on an individual basis (in respect of the bonds held by each holder).

Fomento de Construcciones y Contratas S.A. filed an appeal against the court order and, on 22 November 2016 the competent UK court (England and Wales Court of Appeal) ratified the order issued by the lower court.

As a result of the capital increase of EUR 709.5 million completed in March 2016 and the consequent OPA for 100% of the capital launched by Control Empresarial de Capitales S.A. de C.V., once the legal threshold of 30% established under RD 1066/2007 had been exceeded, the final participating interest held by Inversora Carso S.A. de C.V. reached 61.11%. The General Meeting of Shareholders held on 28 June approved the changes to the make-up of the board of directors to reflect the new majority shareholding, with more than half the board members corresponding to Inversora Carso.

Under the terms and conditions of the convertible bond, this change to the board meant that effective control had also changed, triggering a put period of 60 working days in which each bondholder had the right to request, on an individual basis, that the Company return the principal of the bond (EUR 50 thousand per bond) plus interest accrued since the payment date of the last coupon (30 April 2016), Upon the expiry of this period, which ran from 30 June until 29 August, 92.7% of the bondholders exercised this right, with the consequent cancellation of the principle of the convertible bond by the same proportion.

At the request of each of the holders and under the same conditions as prior to their partial cancellation, the conversion right may be exercised at any time until 30 October 2020.

In addition, Fomento de Construcciones y Contratas S.A. is entitled to amortise in advance all the bonds from October 2018 at their par value plus the interest accrued by that date.

The balance recognised in this connection at 31 December 2016 under "Debt Instruments and Other Marketable Securities" in the accompanying balance sheet amounted to EUR 32,548 thousand (31 December 2015: EUR 451,396 thousand), including EUR 348 thousand of accrued interest payable (31 December 2015: EUR 4,873 thousand). These bonds traded at 101.1% of par at 31 December 2016 according to Bloomberg.

b) Non-current and current bank borrowings

In 2013 the FCC Group decided to commence the refinancing of most of its debt in order to achieve a sustainable financial structure adapted to the generation of cash projected for the Group in the prevailing market environment, which would enable it to focus on the other objectives of its 2013-2015 Strategic Plan aimed at improving profitability, reducing indebtedness and strengthening the capital structure.

The refinancing process was formalised through the refinancing agreements entered into on 24 March and 1 April 2014 by Fomento de Construcciones y Contratas S.A., other Group companies and the lending banks. Subsequent to compliance with certain conditions, the refinancing process came into effect on 26 June 2014, the date on which the full amount of the Financing Agreement was received and interest began to accrue. The refinancing was subscribed by virtually all the financial institutions involved (more than 40 entities), achieving coverage of 99.98% of the liabilities affected.

The refinancing was instrumented mainly through (i) the arrangement of a syndicated loan amounting to EUR 4,528 million; (ii) the entering into of a financial stability agreement for guarantee and working capital facilities; (iii) the restructuring of the convertible bonds issued in 2009 amounting to EUR 450 million (discussed above); and (iv) the arrangement of other additional financing agreements.

On 21 November 2014, a binding agreement, the "New Restructuring Framework Agreement", was entered into with lending entities representing 86.5% of the Financing Agreement and another existing debt, under which the following was agreed:

i) the use of the proceeds net of expenses arising from the 2015 capital increase; and
ii) the modification of certain terms and conditions of the financing agreement.

Specifically, the aforementioned agreement established that EUR 765 million of the proceeds from the capital increase in 2014 be used to repay and amortise EUR 900 million of Tranche B of the Financing Agreement, with the lending entities of Tranche B thereby assuming a debt reduction of 15%. It also provided for margin reduction and payment deferrals, including the potential extension of the term of Tranche B in the case of non-conversion. The lending entities' share of this reduction was proportional to their respective participation in Tranche B.

Since the aforementioned "New Restructuring Framework Agreement" had been approved by 86.5% of the lending entities, a court approval procedure was implemented to apply certain agreements provided for therein (in particular, debt reduction, margin reduction and payment deferrals, including the potential extension of the term of Tranche B in the case of non-conversion) to all of the lending entities in accordance with Additional Provision Four of Insolvency Law 22/2003, of 9 July. On 12 January 2015, Barcelona Commercial Court no. 10 ruled in favour of Fomento de Construcciones y Contratas S.A., agreeing to the court approval of the New Restructuring Framework Agreement and the extension of its effectiveness to the entities that had not signed it. The court approval was challenged by three creditors whose joint share in Tranche B affected by the New Restructuring Framework Agreement amounted to EUR 36 million (taking into account the aforementioned 15% debt reduction). In accordance with Additional Provision Four of Insolvency Law 22/2003, the reasons for a challenge are limited exclusively to: (i) compliance with the percentages required under Additional Provision Four of Insolvency Law 22/2003, and (ii) the disproportionate nature of the sacrifice required. On 2 November 2015, the Court summoned the parties to submit their objections to the written challenge in a period of ten working days. This period expired on 17 November 2015, and the Company submitted its statement of defence to the challenge on that date. On 29 November 2016 the competent Barcelona court found in favour of Fomento de Construcciones y Contratas S.A., rejecting the appeal against the approval order of 12 January 2015. As this judgment is final, no further appeals may be lodged. The extension of the terms and conditions of the refinancing of the Company's syndicated loan to all creditors was thus confirmed.

The detail of the most salient aspects of the aforementioned refinancing and its subsequent renewal is as follows:

Financing Agreement and subsequent renewal

The refinancing is structured primarily on the basis of a long-term syndicated financing agreement divided into tranches that came into force on 26 June 2014 (the "Financing Agreement") which entailed the novation of a significant portion of the various syndicated financing agreements, credit or loan facilities or bilateral financing instruments of Fomento de Construcciones y Contratas S.A. and certain of its Group companies (the "FCC Refinancing Scope"), with the exception of certain excluded companies and the excluded subgroups headed by Cementos Portland Valderrivas S.A., FCC Environment Services, FCC PFI Holdings Ltd and Azincourt Investment S.L.U. ("Azincourt"), ASA Abfall Services A.G. and Aqualia Czech S.L. (together the "Excluded Subgroups").

The main features of this syndicated financing agreement are as follows:

- **Amount:** The initial amount is EUR 4,528 million, which replaces the debt existing in various syndicated and bilateral structures for the same amount. As a result of the renewal the principal stands at EUR 3.237 million.

- **Tranches**: Tranche A for an initial amount of EUR 3,178 million, which is classified as a guaranteed senior commercial loan and Tranche B for an initial amount of EUR 1,350 million that is of the same guaranteed nature as Tranche A and includes a right to convert the outstanding balance at maturity into newly issued shares at market price without a discount (including the PIK or capitalisable component of the accrued interest) through the conversion of loans into share capital or a subordinated loan in certain circumstances envisaged in the Financing Agreement. As a result of the renewal and the use of a portion of the funds from the capital increases effected in 2014 and 2016 to repay Tranche B, the principal amounted to EUR 138 million at 31 December 2016.

- **Maturity**: The maturity of the Financing Agreement was set at 4 years from 26 June 2014 with the possibility of being extended up to a maximum period of 6 years (automatic extension by 1 year in the case of conversion of Tranche B into shares of Fomento de Construcciones y Contratas S.A. and additional extension by 1 more year where this has been approved by an enhanced majority of 75% of entities financing Tranche B). After novation of the agreement, if Tranche B has not been converted, it will be extended automatically for an additional three-year period.

- **Repayment**: The repayment schedule includes EUR 150 million at 24 months and EUR 175 million at 36 months, and the remainder is payable on maturity. Tranche B is repayable on the original maturity date, notwithstanding its possible conversion into shares under the terms and conditions indicated below. However, if the entities financing Tranche B decide not to convert Tranche B into shares of Fomento de Construcciones y Contratas S.A. on the original maturity date, the maturity of Tranche B will be automatically extended for an additional three-year period from the original maturity date.

- **Interest rate of Tranche A**: The interest rate established for Tranche A is Euribor plus a floating spread increasing over the period of 3% in the first year, 3.5% in the second year and 4% in the third and fourth years.

- **Cases of early maturity**. The Financing Agreement provides for certain cases of early maturity, which include, inter alia (i) non-payment; (ii) non-achievement of covenants; (iii) material adverse effect; (iv) insolvency proceedings involving any party to the Agreement or relevant subsidiary; and (v) cross default if other debts are not paid.

- **Cases of mandatory total early repayment**. The Financing Agreement provides for certain cases of mandatory total early repayment which include, inter alia (i) a change of control at the FCC Group (which involves the acquisition of control by a third party other than an industrial company or a credit institution of acknowledged solvency, experience and management capacity), unless it results from a monetary capital increase the funds of which are used for the purposes envisaged in the Financing Agreement, or from the acquisition of control as a result of a possible conversion into shares; or the loss of control of the current controlling shareholder that does not involve the acquisition of control by a third party; and (ii) the sale of all or a substantial portion of the assets or businesses of the Group.

- **Cases of mandatory partial early repayment**. Among other cases, the Financing Agreement provides for the obligation of the borrowers to repay, early and partially, the outstanding principal using (i) all of the net proceeds from monetary capital increases, unless (a) they are used to repurchase Tranche B debt (using the Dutch auction procedure); (b) and up to 25% of the proceeds from the capital increase may be used, at the Company's discretion, as contributions of funds to certain companies in which non-controlling interests are held, Excluded Subgroups (except for Alpine) or certain companies excluded from the FCC Refinancing Scope; (ii) the effective amount paid in by any FCC Group company party to the refinancing or any company in the FCC Refinancing Scope as a result of the subscription of subordinated debt; (iii) proceeds from insurance indemnity payments and the sale of assets, subsidiaries and businesses, except under certain circumstances; and (iv) cash surpluses existing at 31 December of each year which exceed certain minimum amounts.

- **Financial ratios and other borrower obligations**. The Financing Agreement is subject to the achievement of certain half-yearly financial ratios relating to the FCC Refinancing Scope the non-achievement of which may trigger a case for early repayment. At 31 December 2016, the ratios envisaged in this agreement had been achieved.

- **Flexibility in the terms and conditions in the case of deleverage**. If all the circumstances concur, which in accordance with the Financing Agreement constitutes a case of deleverage of the FCC Refinancing Scope, the Financing Agreement provides for the automatic modification of certain conditions and obligations upon the borrowers including (i) the easing of partial early payment cases; and (ii) modification of the dos and don'ts obligations incumbent upon borrowers (including the removal of the prohibition on distributions to shareholders), establishing minimum thresholds triggering the prohibition of constitution of liens and encumbrances or limitations on the disposal and sale of assets when conducted under conditions other than market conditions.

  As a result of the aforementioned renewal, certain clauses were modified, thereby mitigating various restrictions imposed by the original Agreement, the most significant being: (i) Fomento de Construcciones y Contratas S.A. can provide funding to Group companies other than the borrowers and guarantors if they meet certain requirements; (ii) the maximum amount of additional financial indebtedness which Fomento de Construcciones y Contratas S.A. and other Group companies may incur has been increased; and (iii) the Company may distribute dividends to shareholders, although the required conditions were not met during the year.

- **Personal guarantees and security interests**. The Financing Agreement provides for personal guarantees whereby Fomento de Construcciones y Contratas S.A. and Group companies acting as guarantors are jointly and severally liable for the fulfilment of the obligations of the other borrowers. In further assurance of compliance with the obligations under the Financing Agreement, certain security interests have been given by the borrowers including (i) a pledge of shares and ownership interests in various FCC Group companies; (ii) a pledge of collection rights relating to bank accounts; and (iii) a pledge of receivables under certain concession arrangements and other collection rights, as well as the grant of a promise of creating additional security interests in certain circumstances.

  There is a promise to create additional security interests in assets of any kind (property, plant and equipment, intangible assets or financial assets) and, in particular, in the Group's property assets which are not encumbered or subject to promises of guarantees, receivables or shares of or ownership interests in any company owned by it in any of the following cases: (i) if the majority of the financial institutions have requested this expressly in view of the circumstances at any given time (regardless of whether or not the additional security interests will be provided to all the guaranteed creditors); (ii) in a case of early maturity of the financing (regardless of whether or not the early maturity of the financing has been declared); or (iii) at any other time at which a guarantee may have become invalid or unenforceable, or may have been cancelled or reduced in any way.

The obligation to create additional security interests will be automatic (i) when, having evidenced the existence of a legal or contractual restriction which impedes the provision of a personal guarantee by a significant subsidiary or other Group company or the existence of non-controlling shareholders outside the FCC Group, the shares or ownership interests in that significant subsidiary or company must be pledged; and (ii) in any of the cases in which security interests are extended to new contracts awarded to or formalised by the companies that form part of the areas of the Group engaging in the provision of urban cleaning and water services.

With regard to the water division, there is an undertaking to pledge the credit rights under water-division contracts in the event of the termination on any grounds of factoring at FCC Aqualia S.A., or if all or some of these credit rights may be pledged for any other reason.

Also, if any of the bound parties enters into any contracts with public entities outside the scope of factoring at FCC Aqualia S.A., they undertake to pledge the credit rights derived from such contracts, provided that the estimated annual billing under such contracts represents 3% or more of the total billing of the Group's water division.

Main characteristics of Tranche B

- **Repurchase of Tranche B**. The Financing Agreement establishes that, in the event of a capital increase at Fomento de Construcciones y Contratas S.A., the proceeds obtained from the increase may be earmarked for the acquisition of Tranche B debt through a Dutch auction process, which could allow for the repurchase of Trance B at a discount.

- **Interest rate of Tranche B**. The interest rate agreed upon was 1-year Euribor plus an annual fixed spread (PIK component) of 11% in the first year, 13% in the second year, 15% in the third year and 16% in the fourth year, with the Euribor payable in cash and the PIK component capitalisable at the end of each interest period. In accordance with the renewal of FCC's financing contract in November 2014, the PIK component accrued and was capitalised at the reduced rate of 6% solely in relation to that portion of Tranche B that had been repaid and only with respect to the interest accrued from 26 June 2014 until 19 December 2014. As a result of the aforementioned novation of the FCC Financing Agreement, the interest rate on the PIK component was reduced from the aforementioned date to 5% per year on the portion not yet repaid after the novation.

  The PIK component of the interest on Tranche B can be converted, temporarily and automatically (without the need for prior approval of the lenders) into a participating subtranche of Tranche B provided that, during the term of the FCC Financing Agreement, the financial adviser in the refinancing issues a report, at the request of Fomento de Construcciones y Contratas S.A. which determines that (i) even if the Company has adopted all the legal measures necessary to increase its equity, or if the adoption of such measures has not been possible, the Company is in a situation of mandatory dissolution pursuant to the Spanish Limited Liability Companies Law; and (ii) this situation of mandatory dissolution was caused exclusively by the accrual of the PIK component. The aforementioned conversion will be a temporary measure, applicable only as long as the circumstances that necessitated the conversion persist. Therefore, if at any time after the conversion Fomento de Construcciones y Contratas S.A.'s equity position is totally or partially restored, the novation of the participating subtranche of Tranche B will take place automatically and it will be included once again in Tranche B in accordance with its original terms and conditions. The existence of a situation of mandatory dissolution that cannot be automatically remedied by converting the PIK component indicated in the preceding paragraph will constitute grounds for the early maturity of the FCC Financing Agreement. However, it may be agreed, with the approval of lenders whose aggregate share of Tranche B represents 75% or more of the total outstanding balance payable, to convert Tranche B into a participating loan up to the limit of the minimum amount necessary to remedy the situation of mandatory dissolution.

- **Conversion of Tranche B into shares**. As indicated previously, the Financing Agreement envisages that the full balance of Tranche B not yet paid (including the interest PIK component) can be converted into shares of Fomento de Construcciones y Contratas S.A. primarily, and including other cases of early conversion, (i) in the event of failure to repay or refinance Tranche B on maturity (ordinary conversion); (ii) in a case of total or partial mandatory repayment, or a case of early maturity envisaged in the Financing Agreement (early conversion); or (iii) in a case of insolvency proceedings involving Fomento de Construcciones y Contratas S.A., subject at all times to the condition that it is thus agreed upon by lenders whose aggregate share of Tranche B represents 75% or more of the total outstanding balance payable.

  The conversion right is instrumented through a warrants issue approved by the shareholders at the Annual General Meeting of Fomento de Construcciones y Contratas S.A. held on 23 June 2014. The warrants give their holders the right to convert -up to six months after the original maturity date- a number of new shares of the Company in proportion to their share of the Tranche B debt (including principal and capitalised interest payable at the conversion date) at the market price of the shares upon exercise of the warrants, for which the higher would be considered of (i) the nominal value; and (ii) the value of the weighted average market price of the shares in the eight weeks prior to the date on which the conversion process is initiated (five months before the original maturity date) in the case of ordinary conversion, or the weighted average market price of the shares during the eight weeks after the date on which the conversion process is initiated, in the case of early conversion.

  The warrants were subscribed by the lending entities with a share in Tranche B and are transferable only in the amount of the corresponding share in Tranche B, which simultaneously requires the joint and indivisible transfer of Tranche A. The warrants will not be listed on any secondary market.

  In order to minimise the impact on the share price of the Company's shares that could result from the conversion, the lending entities assumed certain restrictions on the transfer of shares (lock up) and in relation to the orderly sale thereof.

  However, it should be stressed that the warrants will not be convertible into shares of Fomento de Construcciones y Contratas S.A. if prior to or on the conversion date the aforementioned Tranche B is repaid or if various circumstances arise together, including most notably: (i) that the Company has accredited the reduction of the Net Financial Debt/EBITDA Ratio of the FCC Refinancing Scope to under 4 times; (ii) that it has repaid at least EUR 1.500 million of the total financing granted through Tranche A and Tranche B; and (iii) that recurring EBITDA exceeds EUR 750 million. In these cases, the conversion of the warrants would be immediately deactivated, Tranche B would be converted into Tranche A and the spread applicable to the interest rate on the total of Tranche A would be set at 4.5%.

  In accordance with the terms and conditions of the Refinancing Agreement, the aforementioned warrants enable new shares to be subscribed at their market value, which can be exercised on the conversion date and cannot be disposed of separately from the aforementioned share of Tranche B. Therefore, neither the disposal of the warrant, together with the corresponding share of Tranche B, nor the exercise of the option would give rise to the obtainment of any economic benefit for its holder, as it merely affords entitlement to subscribe new shares at their fair value. Therefore, the fair value of the derivative is zero, on both initial recognition and subsequent measurement.

Financial Stability Framework Agreement

To complement the main Refinancing Agreement, a Financial Stability Framework Agreement was entered into governing, inter alia, the financial transactions necessary for day-to-day business activity: domestic and international guarantees amounting to EUR 1,704 million and leasing, renting, reverse factoring, factoring and German models amounting to EUR 459 million for a period of four years; and the commitment -vis-à-vis the lenders- to automatically defer (in terms and conditions of repayment and maturity similar to those set out for Tranche A in the Financing Agreement) the claimability of certain contingent debt items from the time of accrual, as a result of initiating claims or executing security interests provided in relation to guarantees.

Syndicated international guarantee facility

Also, the grant of a new international guarantee facility was formalised amounting to EUR 250 million extendible to EUR 450 million, for a period of four years, extendible to six (in line with the possible extensions of the Financing Agreement).

Cementos Portland Valderrivas deferral agreement

The refinancing also included the formal arrangement of an agreement entered into in March 2014 with the lending banks of Cementos Portland Valderrivas to defer Fomento de Construcciones y Contratas S.A.'s obligation to contribute contingent capital of up to EUR 200 million to that subsidiary. The Agreement has a term of four years (extendible to six years), would enter into force from when FCC S.A.'s contribution obligation became enforceable and would bear, as deferred contingent debt, an interest rate identical to that applicable to Tranche A of the Financing Agreement at any given time.

On 5 February 2015, under the New Restructuring Framework Agreement, EUR 100 million obtained in the 2014 capital increase were contributed to CPV in the form of a subordinated loan, which were used by CPV to reduce its financial indebtedness by this amount while at the same time FCC S.A.'s obligations under the “CPV Support Agreement” were reduced by this amount.

As part of the CPV refinancing process completed in 2016 (see below), the remaining sum under the aforementioned deferment contract, EUR 100 million, was replaced by a new contingent undertaking, known as a "support contract", between FCC S.A. and Cementos Portland Valderrivas S.A., linked to how CPV's business progresses, for a variable sum of not greater than EUR 100 million.

Other disclosures

Also, under the New Restructuring Framework Agreement, in December 2014 the lending entities agreed on the contribution by FCC S.A. of EUR 100 million to Azincourt Investment S.L., also with a charge to the 2014 capital increase, in order to enable it to repay a portion of its debt.

Finally, there are bilateral loans/credit facilities totalling EUR 41,780 thousand (31 December 2015: EUR 40,680 thousand).

At year-end the long- and short-term financing granted to the Company by banks had a limit of EUR 3,260,301 thousand (31 December 2015: EUR 3,794,365 thousand), which had almost been drawn down in full at 31 December 2016 and 2015, since the signing of the syndicated financing agreement led to the repayment of most of the bilateral financing, with the undrawn balances added to "Cash" and, therefore, working capital needs started to be managed through cash.

17. NON-CURRENT AND CURRENT TRADE AND OTHER PAYABLES

a) Accounts payable to public authorities

The entire balance of "Trade and Other Non-Current Payables" and a portion of the balance of "Other Accounts Payable to Public Authorities" under "Trade and Other Current Payables" (Note 19.a) include the deferral of the payment of certain prior years' taxes and social security contributions, authorised by the Large Taxpayers Central Office of the State Tax Agency and the Social Security General Treasury, respectively. The deferred amounts are payable monthly up to a maximum of four years at an interest rate of 4-5%.

The detail of the aforementioned deferred payments is as follows:

	2016	2015
Non-current	—	6,931
Current	1,254	64,552
	1,254	**71,483**

b) Deferral of payment to suppliers in commercial transactions

In relation to the Resolution issued by the Spanish Accounting and Audit Institute (ICAC) on 29 January 2016 implementing Final Provision Two of Law 31/2015, of 3 December, which amends Additional Provision Three of Law 15/2010, of 5 July, on combating late payment in commercial transactions, it should be noted with respect to 2016 that in Spain the Company operates mainly with public-sector customers such as the State, Autonomous Communities, Local Corporations and other public bodies which take longer to settle their payment obligations than the periods established in Public Sector Contract Legislation and in Law 3/2004, of 29 December, on combating late payment in commercial transactions.

It is important to Note that the provisions of Article 228.5 of the current Consolidated Public Sector Contracts Law ("TRLCSP"), which enable the concession operator to agree with the suppliers payment periods in excess of those established in this Article provided that certain terms and conditions are met, were applied to agreements and supplies with third parties arising from contracts entered into by the Company with the various public authorities.

Due to this situation, in order to adapt the Company's financial policy to reasonable levels of efficiency, the usual payment periods to the suppliers in the sectors in which the Company operates were maintained throughout 2016.

The Company's supplier payment policy described in the two preceding paragraphs is thus supported by a) payments to suppliers under agreements entered into by the Company with the public authorities in accordance with the requirements of Article 228.5 of the TRLCSP; and b) payments to other suppliers, in Transitional Provision Two of Law 15/2010 and, where applicable, the provisions of Article 9 of Law 3/2004, which does not consider "payment deferral due to objective reasons" to be abusive, taking into consideration in both case a) and case b) the usual payment period in the business sectors in which the Company operates.

Furthermore, the Company acknowledges and pays suppliers, always by mutual agreement, the late-payment interest agreed in the agreements and provides them with negotiable payment methods associated with actions for collection of a bill of exchange. Such agreements, which are expressly provided for in the TRLCSP, as described above, are also allowed by Directive 2011/7/EU of 16 February, of the European Parliament and of the Council.

In addition, the Company has entered into reverse factoring and similar agreements with various financial institutions in order to facilitate early payment to its suppliers, under which the supplier may exercise its collection right vis-á-vis the Company, obtaining the amount billed less the discount finance costs and fees applied by the aforementioned entities. The facilities arranged total EUR 2,501 thousand, with the full sum having been made available as at 31 December 2016. The aforementioned agreements do not modify the main payment conditions contained therein (interest rate, term or amount) and, therefore, they remain classified as trade payables.

In compliance with the aforementioned Resolution, the following table provides information on the average period of payment to suppliers for those commercial transactions which have accrued since the date of entry into force of the aforementioned Law 31/2014, i.e. 24 December 2014.

	2016	2015
	Days	Days
Average period of payment to suppliers	95	89
Ratio of transactions settled	98	84
Ratio of transactions not yet settled	84	105
	Amount	Amount
Total payments made	302,151	211,036
Total payments outstanding	80,182	85,558

18. INFORMATION ON THE NATURE AND RISKS OF FINANCIAL INSTRUMENTS

The concept of financial risk refers to the changes in the financial instruments arranged by Fomento de Construcciones y Contratas S.A. as a result of political, market and other factors and the repercussion thereof on the financial statements. The risk management philosophy of the Company and the FCC Group is consistent with its business strategy and seeks to achieve maximum efficiency and solvency at all times. To this end, strict financial risk management and control criteria have been established, consisting of identifying, measuring, analysing and controlling the risks incurred in the group's operations, and the risk policy has been integrated into the Group organisation in the appropriate manner.

In view of the Company's activities and the transactions through which it carries on its business, it is currently exposed to the following financial risks:

a) Capital risk

For capital management purposes, the fundamental aim of the Company and the FCC Group is to reinforce the financial and equity structure to improve the Debt/Equity Ratio, in an attempt, on the one hand, to reduce the cost of capital and in turn maintain capital adequacy, in order to continue managing its activities and, on the other, to maximise value for shareholders, not just at Group level, but also at the level of the Parent, Fomento de Construcciones y Contratas S.A.

The fundamental base considered by the Company to be capital is reflected under "Equity" in the balance sheet, which for management and monitoring purposes excludes the item "Adjustments net in the fair value of financial instruments" as they are considered within the management of interest rate risk since they result from the measurement of instruments that convert floating-rate debt into fixed-rate debt.

In addition to the contents of the preceding paragraph, it should also be noted that the Company's financial liabilities include two components which may be considered capital for management purposes: the convertible bonds and Tranche B of the refinancing, given its convertible nature in certain circumstances. In the first case, this item is not included, due to the unsubordinated nature of such bonds once the refinancing has been arranged. In the second case, despite the component which can be converted on maturity, it is considered solely to be financial debt, given the intention to repay it from when it is arranged.

In light of the industry in which the Company and the FCC Group operate, they are not subject to external capital requirements, although this does not prevent regular monitoring of equity in order to guarantee a financial structure that is based on compliance with the legislation in force in the countries in which they operate. Analysis is also performed of the capital structure of each of the subsidiaries in order to strike a suitable balance between debt and equity.

Proof of the foregoing are the capital increase of EUR 1,000,000 thousand performed at the end of 2014 and completed on 4 March 2016 of EUR 709,519 thousand, both of which are earmarked to strengthen the Company's capital structure (Note 14).

Also, as explained in Note 16.a on non-current and current obligations and loans, in September much of the convertible bond issue of FCC S.A. was repaid. This, together with other smaller request in subsequent months, represented repayment of the issue during the year of EUR 417.7 million, i.e., nearly 93% of the total. This cancellation has made it possible to substantially reduce the annual finance cost of 6.5% associated with this issue. This operation was in addition to the repayment in April of 77% of Tranche B of the syndicated loan of FCC S.A. by using the Dutch auction procedure, obtaining an average discount of 15%.

With these operations the Company and the FCC Group have made significant progress in the process that is under way, consolidating and optimising the capital structure to provide a solid finance platform, while strengthening operational capacity and flexibility.

The finance department, which is responsible for managing financial risks, regularly reviews the financial debt ratio and compliance with finance covenants, as well as the capital structure of the subsidiaries.

b) Foreign currency risk

A noteworthy consequence of the 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 Company's reference currency and the currency with which it mainly operates is the euro, the FCC Group also has certain financial assets and liabilities denominated in currencies other than the euro. The foreign currency risk arises mainly on debt denominated in foreign currencies, on investments to be made in international markets and on amounts received in a currency other than the euro.

The FCC Group's general policy is to mitigate, as far as possible, the adverse effect on its financial statements of exposure to fluctuations in foreign currencies, with regard to both transactional and purely equity-related changes. The Company therefore manages the effect that foreign currency risk can have on the balance sheet and the statement of profit or loss.

c) Interest rate risk

Fomento de Construcciones y Contratas S.A. and the FCC Group are exposed to risks arising from interest rate fluctuations, since the financial policy aims to guarantee that their current financial assets and debt are partially tied to floating interest rates. The reference interest rate for the bank borrowings arranged in euros is mainly Euribor.

Any interest rate increase could increase the borrowing costs on the debt tied to floating rates and could increase, in turn, the refinancing costs of the debt and the costs involved in issuing new debt.

In order to ensure a position that is in the best interest of the Company and of the FCC Group, an interest rate risk management policy is actively implemented based on the ongoing monitoring of markets and on assuming different positions based primarily on the asset being financed.

The following table summarises the effect that the aforementioned increases and decreases in the interest rate yield curve on gross debt, after excluding any hedged debt, would have on the Company's statement of profit or loss:

	+25 pb	+50 pb	+100 pb
Impact on the statement of profit or loss	10,008	20,016	40,031

d) Solvency risk

It should be noted in relation to "Solvency risk" that, although the Company's financial statements present losses of EUR 299,362 thousand, these relate mostly to the accounting losses or, as the case may be, non-recurring losses in certain investments at Group companies due to impairment of goodwill at Cementos Portland Valderrivas S.A. and adjustments to certain investments at FCC Construcción S.A., that do not affect cash and will not affect the borrowings of the Company and the FCC Group in the future (and, therefore, will similarly not affect their solvency risk).

e) Liquidity risk

Fomento de Construcciones y Contratas S.A. performs their transactions in industries which require a high level of financing, and to date they have obtained adequate financing to be able to carry on their operations. However, the Company cannot guarantee that these circumstances relating to the obtainment of financing will continue in the future.

The capacity of the Company and of the FCC Group to obtain financing depends on many factors, many of which are outside their control, such as general economic conditions, the availability of bank funds and the monetary policies of the markets in which they operate. Unfavourable conditions in the debt and capital markets can obstruct or impede the obtainment of adequate financing for the performance of business activities.

Apart from seeking new sources of financing, the Company and the FCC Group may need to refinance a portion of their current debt through bank loans and debt issues, since a significant portion of the financing matures in 2018. Historically, the FCC Group has always been able to renew its loan agreements and expects to continue to do so over the next twelve months. However, the ability to renew the loan agreements depends on various factors, many of which are outside the control of the FCC Group, such as the general conditions of the economy, the availability of funds for loans from private investors and banks and the monetary policies of the markets in which it operates. Unfavourable conditions in the debt markets can obstruct or impede the FCC Group's capacity to renew its financing. Therefore, the FCC Group cannot guarantee its capacity to renew the loan agreements on economically attractive terms. The inability to renew these loans or ensure adequate financing on acceptable terms could have an adverse impact on the liquidity of Fomento de Construcciones y Contratas S.A. and its Group and on its ability to cover working capital requirements.

In order to adequately manage this risk, Fomento de Construcciones y Contratas S.A. closely monitors the maturities of all the credit lines and financing of each of the Group companies so that they can be renewed in sufficient time and on the best terms offered by the market, analyses the suitability of the financing on a case-by-case basis and studies any alternatives with more favourable terms. In addition, Fomento de Construcciones y Contratas S.A. is present in various markets in order to facilitate the obtainment of financing and to mitigate liquidity risk.

f) Concentration risk

This risk arises from the concentration of financing transactions with common features which are distributed as follows:

- Sources of financing: in order to diversify this risk, the Company and the FCC Group work with numerous Spanish and international financial institutions in order to obtain financing.

- Markets/Geographical area (Spanish and foreign): the Company operates basically in the domestic market and, therefore, the debt is concentrated mainly in euros.

- Products: the Company uses various financial products, including loans, credit facilities, bonds, syndicated transactions, factoring, discounting, etc.

g) Credit risk

The provision of services or the acceptance of orders from customers, whose financial solvency cannot be guaranteed at the time of acceptance, is not known or cannot be assessed by the Company, together with situations that may arise during the provision of a service or execution of an order that could affect the customer's financial position could result in the risk of non-payment of the amounts owed.

The Company and the FCC Group request commercial reports and assess the financial solvency of its customers before entering into agreements with them and also engage in ongoing monitoring of customers, and they have a procedure in place to be followed in the event of insolvency. In the case of public customers, the Group's policy is not to accept projects without an allocated budget and financial approval. Offers exceeding a certain collection period must be authorised by Financial Management. Furthermore, late payment is monitored on an ongoing basis by the various management committees.

With respect to creditworthiness, the Group uses their best judgement to recognise impairment losses on financial assets for which uncertainty exists as to their recoverability. Therefore, since most of the unprovisioned financial assets relate mainly to accounts receivable from public sector customers in the Construction and Environment Areas, there should be considered to be no risk of non-payment since the creditworthiness of those customers is high.

h) Financial derivatives designated as hedging instruments

In general, the financial derivatives arranged by the Company are treated, for accounting purposes, in accordance with the regulations on hedge accounting described in the notes to the financial statements. The main financial risk hedged by the Company using derivative instruments relates to fluctuations in the floating interest rates to which the project financing of the joint venture Gestión Instalación III (see Note 8.b) is tied. Financial derivatives are measured by experts on the subject that are independent from the Company and the entities financing it, using generally accepted methods and techniques.

Sensitivity analyses are carried out periodically in order to observe the effect of a possible change in interest rates on the Company's accounts.

Accordingly, a simulation was performed using three rising basic yield curve scenarios for the euro with an average of around 0.45% in the medium and long term at 31 December 2016, assuming increases in the curve of 25 bp, 50 bp and 100 bp. The amounts obtained in relation to the derivatives in force at year-end with an impact on equity are shown below (in thousands of euros), after the application, where applicable, of the percentage of ownership.

	+25 pb	+50 pb	+100pb
Impact on equity:	181	359	706

19. DEFERRED TAXES AND TAX MATTERS

a) Tax receivables and payables

The detail of the tax receivables and payables from/to public authorities is as follows:

a.1) Tax receivables

	2016	2015
Non-current		
Deferred tax assets	103,262	168,619
	103,262	**168,619**
Current		
Current tax assets	1,541	25,990
Other accounts receivable from public authorities	7,252	7,750
	8,793	**33,740**

The detail of “Deferred Tax Assets” is as follows:

	2016	2015
Impairment of investment portfolio	—	65,328
Non-deductible finance costs	57,329	57,329
Provisions	33,217	33,570
Other	12,716	12,392
	103,262	**168,619**

"Other" includes, inter alia, the differences for period depreciation and amortisation and the deferral of losses contributed by joint ventures which will be included in the tax base for the following year.

Management of Fomento de Construcciones y Contratas S.A., Parent of Spanish tax group 18/89 (Note 19.h), assessed the recoverability of the deferred tax assets by estimating the future tax bases relating to this group and concluded that there were no doubts as to their recoverability in a period of no more than ten years. The estimates used are based on the Group's estimated "consolidated book result before tax from continued operations for the year", adjusting the corresponding permanent and temporary differences that are expected to occur in each year. Forecasts show an improvement in profits, as a result of maintaining in place the steps taken to cut costs and strengthening the Group's financial structure by means of the two capital increases effected, for EUR 1,000 million in 2014 and EUR 710 million in 2016, which have enabled the Group's financial debt to be reduced and its financial liabilities to be restructured, resulting in significant cost reductions.

a.2) Tax payables

	2016	2015
Non-current		
Deferred tax liabilities	43,500	52,715
Other accounts payable to public authorities	—	6,931
	43,500	**59,646**
Current		
Other accounts payable to public authorities:	41,415	109,857
Tax withholdings payable	8,663	9,050
VAT and other indirect taxes payable	19,415	19,335
Accrued social security taxes payable	10,074	13,849
Deferral of payments to public authorities (see Note 18)	1,254	64,552
Other	2,009	3,071
	41,415	**109,857**

The detail of “Deferred Tax Liabilities” is as follows:

	2016	2015
Impairment of goodwill for tax purposes	10,115	8,381
Accelerated depreciation and amortisation	10,051	12,759
Haircut deferment	9,791	—
Finance leases	4,921	6,100
Acquisition differences	—	16,924
Other	8,622	8,551
	43,500	**52,715**

"Other" includes, inter alia, the deferral of gains contributed by joint ventures which will be included in the tax base for the following year.

b) Reconciliation of the accounting loss to the taxable profit (tax loss)

The reconciliation of the accounting loss to the taxable profit (tax loss) for income tax purposes is as follows:

	2016	2015
Accounting loss for the year before tax	(259,930)	(23,611)

	Increase	Decrease		Increase	Decrease	
Permanent differences	365,884	(33,207)	332,677	199,996	(143,778)	56,218
Adjusted accounting profit (loss)			72,747			32,607
Temporary differences:						
- Arising in the year	—	(44,943)	(44,943)	—	—	—
- Arising in prior years	89,695	(282,951)	(193,256)	33,923	(54,463)	(20,540)
Taxable profit (tax loss)			**(165,542)**			**12,067**

The foregoing table includes notably the permanent differences relating to 2016 and 2015. These differences arose from:

- The impairment losses on the investments of tax group 18/89 and the reversals of impairment losses on investments in the remaining investees.

- The treatment as permanent differences of deferred tax assets generated in the year, basically because of the limitations on the deductibility of finance costs, and the exemption to avoid the double taxation of dividends. Spanish Income Tax Law 27/2014, of 27 November, to be applied from 2015, eliminated the tax credit for double taxation of dividends, replacing it with the aforementioned exemption.

The changes in deferred tax assets and liabilities in 2016 and 2015 were as follows:

	Deferred tax assets	Deferred tax liabilities
Taxable temporary differences (statement of profit or loss liability method)		
Balance at 31.12.14	**194,489**	**45,104**
Arising in the year	—	—
Arising in prior years	(15,250)	(9,498)
Arising in prior years	(11,247)	(139)
Balance at 31.12.15	**167,992**	**35,467**
Arising in the year	—	11,236
Arising in prior years	(70,738)	(5,500)
Arising in prior years	5,416	2,172
Balance at 31.12.16	**102,670**	**43,375**
Temporary differences (balance sheet liability method)		
Balance at 31.12.14	**723**	**21,212**
Arising in the year	—	—
Arising in prior years	(96)	(60)
Arising in prior years	—	(3,904)
Balance at 31.12.15	**627**	**17,248**
Arising in the year	—	37
Arising in prior years	(35)	(16,935)
Arising in prior years	—	(225)
Balance at 31.12.16	**592**	**125**
Total at 31.12.16	**103,262**	**43,500**

Worthy of Note on this chart is the variation in deferred taxes on assets sourced in prior years, totalling EUR 70,738 thousand, which largely corresponds to the reversion of the accumulated impairment of the company Globalvia Infraestructuras S.A. caused by its sale (Note 11).

“Other Adjustments” arose as a result of the positive or negative differences between the estimate of the tax expense or benefit at the accounting close and the amount per the subsequent settlement of the tax at the date of payment and of the adjustment of deferred tax assets and liabilities to the income tax rates applicable in 2015 (28%) and 2016 (25%).

c) Tax recognised in equity

At 31 December 2016, the tax recognised in equity amounted to EUR 11,492 thousand (31 December 2015: EUR 10,752 thousand) and related basically to the 2014 and 2016 capital increases expenses.

d) Reconciliation of the accounting result to the income tax expense

The reconciliation of the accounting result to the income tax expense is as follows:

	2016	2015
Adjusted accounting profit (loss)	72,747	32,607
Income tax charge (25% for 2016 and 28% for 2015)	18,187	9,130
Other adjustments	21,245	1,945
Income tax expense	**39,432**	**11,075**

In 2016 "Other Adjustments" related basically to the adjustment made as a result of the non-recognition of the tax losses that it is considered will not be able to be offset by the tax group in the income tax return for 2016 for EUR 19,388 thousand. Also recorded is the impact of the application of Royal Legislative Decree 3/2016, resulting in a corporation tax expense of EUR 1,912 thousand, as a result of the reversion of deferred taxes on assets related to impairment of financial holdings that were not deductible in prior years. This decree also requires the return within five years of the tax impact of any impairment considered deductible before 2013, although the impact of this item on the Company is negligible.

e) Breakdown of income tax expense

The breakdown of the income tax expense for 2016 and 2015 is as follows:

	2016	2015
Current tax	(15,514)	3,379
Deferred taxes	54,946	7,696
Total tax expense	**39,432**	**11,075**

f) Tax loss and tax credit carryforwards

At 2016 year-end the Company had tax loss carryforwards from 2014 amounting to EUR 47,860 thousand, as part of tax group 18/89. The Company has not recorded any deferred tax assets for this item.

In addition, it should be noted that the Company had tax credit carryforwards amounting to EUR 10,968 thousand, for which, in the same way as for tax loss carryforwards, the Company did not recognised any deferred tax assets. The detail is as follows:

Tax credit	Amount	Period for deduction
Reinvestment tax credits	4,688	15 years
R&D+i activities	2,949	18 years
For Canary Islands general indirect tax	1,698	15 years
Job creation for disabled people	652	15 years
For domestic double taxation	544	Indefinite

Other	437	15 years
	10,968	

The Company also has unrecognised tax credit assets amounting to EUR 325 million relating to the impairment loss recognised in prior years on its ownership interest in Azincourt S.L., a holding company which holds the shares of the UK-registered company FCC Environment (UK). The amount of the impairment recognised, which was deemed to be non-deductible for income tax purposes, amounts to EUR 1,300.1 million. This amount might be deductible for income tax purposes in the future in the event of the winding-up of the company Azincourt Investment S.L.

g) Years open for review and tax audits

Fomento de Construcciones y Contratas S.A. has all the years not yet statute-barred open for review by the tax authorities for the taxes applicable to it. On 8 June 2015, the State Tax Agency's Department of Tax and Customs Control served notice of the commencement of a tax audit for income tax (periods from 01/2010 to 12/2013) and VAT (period from 01/2012 to 12/2013). With respect to income tax, the audit will cover the entire 18/89 tax group, of which the Company is the Parent, whereas the VAT audit affects the Company and certain subsidiaries. In view of the criteria that the tax authorities might adopt in the interpretation of tax legislation, the outcome of the tax audits currently under way and any tax audits of the open years that could be conducted by the tax authorities in the future could give rise to contingent tax liabilities which cannot be objectively quantified at the present time. However, the Group’s senior executives consider that any resulting liabilities would not significantly affect the Company’s equity.

h) Tax group

Under authorisation 18/89, Fomento de Construcciones y Contratas S.A., as the Parent, files consolidated income tax returns with all the other Group companies that meet the requirements established by tax legislation.

i) Other tax disclosures

The detail of "Income Tax Recovered/Paid" in the statements of cash flows for 2016 and 2015 is as follows:

	2016	2015
Income tax recovered from/paid to Group companies in prior year	(12,700)	17,621
Deferred taxes	—	(9,741)
Pre-payments	—	(18,726)
Withholdings and other	374	(292)
	(12,326)	**(11,138)**

20. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

At 31 December 2016, Fomento de Construcciones y Contratas S.A. had provided EUR 535,224 thousand (31 December 2015: EUR 548,656 thousand) of guarantees, mostly consisting of completion bonds provided to government agencies and private-sector customers as security for the provision of urban cleaning contract services.

At 2016 year-end the Company had also provided guarantees to third parties for certain Group companies amounting to EUR 382,593 thousand (31 December 2015: EUR 283,849 thousand). These include, most notably, EUR 292,245 thousand relating to Environmental Services companies and EUR 76,386 thousand relating to Construction companies in relation to the activity carried on by them.

Fomento de Construcciones y Contratas S.A. and the joint ventures in which it has interests are acting as defendants in lawsuits in relation to the liability inherent to the various business activities carried on by the Company in the performance of the contracts awarded, for which the related provisions have been recognised (notes 15 and 4.j). Accordingly, any resulting liabilities would not have a significant effect on the Company's equity.

With respect to the main contingent liabilities arising from the insolvency proceedings of the Alpine subgroup, it should be noted that the potential financial effects would be the outflow of cash of the amount indicated in the related claims detailed in Note 15 to these financial statements. In relation to the complaints filed on the one hand, by a bondholder against certain directors of Alpine Holding, GmbH, auditors of Alpine their partners and, on the other, a former director of Banco Hypo Alpe Adria, both are cases of complaints filed in the criminal jurisdiction, which are still being investigated and, therefore, the criminal liability (and civil liability that might arise and which is the sole quantifiable liability) prevent the determination of an amount and timing of the potential outflow of benefits until the amount that might arise in connection with the liability can be determined. . In turn, the court proceedings brought by the insolvency managers of Alpine Holding GmbH for EUR 186 million are during the evidence-hearing stage and, since they constitute a new procedure, the legal arguments put forward by the parties, and the lack of any clear case law doctrine, it is to be supposed that the such proceedings may reach the Supreme Court, a situation which would give rise to a significant delay in the timing of the court proceedings, which, based on the preliminary estimates of the Group, could go on until 2020. In all cases, the possibility of indemnity payments, except for costs and court costs if our case prospers in court, is remote or practically non-existent.

In addition to the lawsuits related to Alpine, it should be noted that on 15 January 2015 the Competition Section of the Spanish National Markets and Competition Commission issued a resolution in relation to case file S/0429/12 for an alleged infringement of Article 1 of Spanish Competition Law 15/2007. The aforementioned resolution affects various companies and associations in the waste management industry, including Fomento de Construcciones y Contratas S.A. and other companies in the FCC Group. The Group filed an appeal for judicial review requesting as a precautionary measure the suspension of the enforcement of the resolution. On 29 April 2015, the Competition Section of the Spanish National Markets and Competition Commission agreed to suspend the enforcement of the resolution without the provision of a guarantee and on 10 September the Group submitted the statement of claim. No provision was recognised to cover the financial consequences of the aforementioned resolution, since it is considered that it is a court proceeding with a right of appeal and in which the definitive penalty to be imposed, where applicable, shall be specified in the decisions to be handed down and, accordingly, there is uncertainty as to the outcome of the aforementioned resolution, which does not allow for a reliable estimate to be made of the potential amount to be paid. The penalty imposed amounts to EUR 16,880 thousand and it is estimated that the potential cash outflow could be scheduled over a minimum period of two and a half or three years. Given the characteristics of the lawsuit, no indemnity payments will arise under any circumstance. However, the Group estimates that it is not likely that an outflow of resources will take place as a result of the aforementioned action.

The Company has other lawsuits and court proceedings underway in addition to those detailed above from which no significant outflows of cash are expected to arise.

The Company also has a commitment to make a contingent contribution to Cementos Portland Valderrivas S.A. of up to EUR 100,000 thousand, linked to how its business continues to progress (Note 10.d).

In relation to the Company's interests in joint operations managed jointly through unincorporated joint ventures, joint property entities, silent participation agreements and other entities of a similar nature, the venturers share joint and several liability with respect to the activity carried on (see Note 13).

It should be noted in relation to the guarantees enforced or provided that the Company has not obtained significant assets as a result of guarantees enforced in its favour.

21. INCOME AND EXPENSES

The revenue and the income from sales and services include the dividends and the accrued interest on the financing granted to investees (Note 2).

The detail, by area, of "Sales and Services" is as follows:

	2016	2015
Environmental Services	1,160,120	1,145,245
Integral Water Management	18,948	50,059
	1,179,068	**1,195,304**

Of the total cited, EUR 8,648 thousand corresponds to contracts abroad, specifically in the United States.

The detail of "Staff Costs" is as follows:

	2016	2015
Wages and salaries	567,252	562,737
Employee benefit costs	194,497	189,939
	761,749	**752,676**

In 2016 “Impairment and Gains or Losses on Disposals of Non-Current Assets and Other Gains or Losses” includes a reversal of a provision amounting to EUR 12,516 thousand (Note 15), relating to risks that are currently considered to be remote, income from acknowledgment of debt regarding the “hospital cent” for EUR 4,925 thousand and losses from deregistered intangible and tangible assets totalling EUR 6,677 thousand. The 2015 figures include a reversion of provisions of EUR 10,000 thousand (Note 15), with regard to risks that are considered remote, as well as the indemnity payment made to the former Second Deputy-Chairman and CEO as a result of their replacement amounting to EUR 8,375 thousand.

The heading “excessive provisions” includes reversions of provisions for guarantees and contractual and legal obligations totalling 19,870 thousand (EUR 5,499 thousand as at 31 December 2015; Note 15).

“Finance Income From Marketable Securities and Other Financial Instruments of Group Companies and Associates” includes the interest earned on the financing granted to investees (Note 10), which includes most notably the following:

	2016	2015
FCC Aqualia S.A.	19,771	19,106
Azincourt Investments S.L. Sole-Shareholder	6,087	6,788
FCC Medio Ambiente S.A.	6,004	8,334
Cementos Portland Valderrivas S.A.	5,376	8,418
FCC Versia S.A.	5,145	2,408
FCC Construcción S.A.	4,231	5,171
Other	17,388	22,429
	64,002	**72,654**

In 2016 “Finance Income” included most notably EUR 58,082 thousand arising from a debt reduction agreed on in the novation of the financing agreement entered into as a result of the partial repayment of Tranche B of the loan, as indicated in Note 16.b.

"Exchange Rate Differences" relate mainly to the differences arising on the loans in pounds sterling granted to FCC PFI Holdings Limited, Enviropower Investment Ltd. and FCC Environment (UK) Ltd.

22. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related party transactions

The detail of the transactions with related parties in 2016 and 2015 is as follows:

	Group companies	Joint ventures	Associates	Total
2016				
Services rendered	78,911	8,367	1,148	88,426
Services received	20,661	692	207	21,560
Dividends	10,888	781	1,553	13,222
Finance costs	9,382	24	—	9,406
Finance income	63,918	84	—	64,002
2015				
Services rendered	95,152	16,192	1,929	113,273
Services received	27,484	533	155	28,172
Dividends	73,144	1,019	803	74,966
Finance costs	4,756	—	—	4,756
Finance income	72,127	—	527	72,654

b) Related party balances

The detail of the related party balances at 31 December 2016 and 2015 is as follows:

	Group companies	Joint ventures	Associates	Total
2016				
Current financial assets (Note 10)	215,822	588	588	216,998
Non-current financial assets (Note 10)	3,531,961	16,959	216,279	3,765,199
Current payables (Note 10)	583,534	667	—	584,201
Non-current payables (Note 10)	16,279	—	—	16,279
Trade receivables	68,384	2,767	273	71,424
Trade payables	14,146	189	6	14,341
2015				
Current financial assets (Note 10)	220,466	417	929	221,812
Non-current financial assets (Note 10)	3,627,730	9,191	173,045	3,809,966
Current payables (Note 10)	332,833	130	46,667	379,630
Non-current payables (Note 10)	110,308	—	—	110,308
Trade receivables	94,661	267	5,224	100,152
Trade payables	15,499	247	12	15,758

The detail of the trade receivables from and payables to Group companies and associates is as follows:

	2016		2015	
Company	**Receivable**	**Payable**	**Receivable**	**Payable**
FCC Construcción S.A.	39,113	1,932	47,376	1,702
Serveis Municipals de Neteja de Girona S.A.	3,926	—	3,237	—
Fedemes S.L.	3,349	1,452	—	48
FCC Aqualia S.A.	2,805	92	11,924	946
FCC Saudi Co	2,206	2,166	2,168	2,166
Gandia Serveis Urbans S.A.	1,998	—	1,450	—
Societat Municipal Mediambiental d'Igualada S.L.	1,567	—	1,587	—
FCC Medio Ambiente S.A.	1,432	231	4,125	576
Manipulación y Recuperación MAREPA S.A.	1,106	68	1,850	438
Sercovira S.A.	1,077	363	514	—
Ecoparc del Besòs S.A.	1,072	—	2,183	—
FCC Industrial e Infraestructuras Energéticas S.A.	1,022	444	2,493	425
ASA Group	1,011	1,735	132	—
Empresa Comarcal de Serveis Mediambientals del Baix Penedés ECOBP S.L.	964	—	1,315	—
Servicios Urbanos de Málaga S.A.	905	—	1,071	—
Cementos Portland Valderrivas S.A.	802	31	2,238	55
Servicios Especiales de Limpieza S.A.	666	911	552	1,936
FCC Ámbito S.A. Sole-Shareholder Company	660	98	1,443	73
Hidrotec Tecnología del Agua S.L. Sole-Shareholder Company	398	9	2,322	164
Tratamiento Industrial de Aguas S.A.	39	25	153	2,548
Limpieza e Higiene de Cartagena S.A.	8	—	2,635	19
Gestió i Recuperació de Terrenys S.A. Sole-Shareholder Company	1	1,185	1	1,357
Other	5,297	3,599	9,383	3,305
	71,424	**14,341**	**100,152**	**15,758**

c) Remuneration of the Directors of the Company and Senior Executives of the FCC Group

The Directors of Fomento de Construcciones y Contratas S.A. earned the following amounts (in thousands of euros):

	2016	2015
Fixed remuneration	1,230	2,044
Other remuneration (*)	1,443(**)	5,046
	2,673	**7,090 (*)**

(*) Also, on 18 August 2015 Juan Béjar Ochoa ceased to discharge his position as CEO and left the Company, receiving in August an indemnity payment of EUR 8,375 thousand.

(**) Includes the contribution to the CEO's savings fund of EUR 202 thousand (Note 4.l) and Alejandro Aboumrad's contract to provide services (EUR 338 thousand).

The Senior Executives listed below, who are not members of the Board of Directors, earned total remuneration of EUR 3,507 thousand in 2016 (2015: EUR 5,861 thousand).

2016	
Marcos Bada Gutierrez	General Internal Audit Manager
Agustín García Gila	Chairman of Environmental Services
Felipe B. García Pérez	General Secretary
Miguel Jurado Fernández	Manager of FCC Construcción
Félix Parra Mediavilla	General Manager of FCC Aqualia

The figure for total remuneration includes the sums corresponding to severance payments for three senior managers in 2016.

On 16 January 2017, Pablo Colio Abril replaced Miguel Jurado Fernández as the managing director of FCC Construcción.

2015	
Carlos M. Jarque Uribe	Chief Executive and CEO
Agustín García Gila	Chairman of Environmental Services
Felipe B, García Pérez	General Secretary
Miguel Jurado Fernández	Manager of FCC Construcción
Vicente Mohedano Martín	Manager of FCC Construcción
Miguel A. Martínez Parra	General Manager of Administration and Finance
Miguel Hernanz Sanjuán	General Internal Audit Manager
Julio Pastor Bayón	General Communication and Corporate Responsibility Manager
Félix Parra Mediavilla	General Manager of FCC Aqualia
Ana Villacañas Beades	General Organisation Manager

In the past, an insurance policy was arranged and the premium paid to meet payment of the contingencies relating to death, permanent occupational disability, retirement bonuses and other items for some of the Executive Directors and Executives of Fomento de Construcciones y Contratas S.A. (Note 4.l). There have been no contributions or income for these items in 2016 (nor were there any in 2015).

For the purposes of setting up an economic fund to compensate the CEO for the termination of his contract, the Company has set up a savings fund in his favour, funded by annual contributions made by Fomento de Construcciones y Contratas S.A. (Note 4.l). The contributions for this item in 2016 totalled EUR 202 thousand (zero in 2015).

Except as indicated in the foregoing paragraphs, no other remuneration, advances, loans or guarantees have been granted to the Directors and there are no pension or life insurance obligations to former or current Directors.

d) Detail of investments in companies engaging in similar activities and performance of similar activities by the Directors or persons related to them as independent professionals or as employees

In relation to the investments held by the Directors of Fomento de Construcciones y Contratas S.A., or persons related to them, in the share capital of companies outside the FCC Group; or in relation to whether they, as independent professionals or as employees, engage in a similar or complementary activity to that which constitutes the company object of the Group; or in relation to whether they themselves or a person acting on their behalf have performed, with the Company or with any company of the same Group, other transactions outside the course of the Company's ordinary business operations or in conditions that were not on an arm's length basis; it should be mentioned that the aforementioned Directors have stated that they or persons related to them:

- Do not carry on, as independent professionals or as employees, any activity that is identical, similar or complementary to the activity that constitutes the Company's object.

- Do not own any investments in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of Fomento de Construcciones y Contratas S.A.

- Had not performed, with the Company or any company of the same Group, other transactions outside the course of the Company's ordinary business operations, or in conditions that were not on an arm's length basis.

The detail of the Directors who hold positions at companies in which Fomento de Construcciones y Contratas S.A. holds a direct or indirect ownership interest is as follows:

Name or company name of Director	Group company name	Position
CARLOS MANUEL JARQUE URIBE	REALIA BUSINESS S.A.	DIRECTOR
GERARDO KURI KAUFMANN	CEMENTOS PORTLAND VALDERRIVAS S.A. REALIA BUSINESS S.A.	CEO CEO
JUAN RODRÍGUEZ TORRES	CEMENTOS PORTLAND VALDERRIVAS S.A. REALIA BUSINESS S.A.	DIRECTOR NON-EXECUTIVE CHAIRMAN
ALVARO VÁZQUEZ DE LAPUERTA	CEMENTOS PORTLAND VALDERRIVAS S.A.	DIRECTOR
INMOBILIARIA AEG S.A. DE C.V.	CEMENTOS PORTLAND VALDERRIVAS S.A.	DIRECTOR
EAC INVERSIONES CORPORATIVAS S.L.	CEMENTOS PORTLAND VALDERRIVAS S.A. REALIA BUSINESS S.A.	CHAIRMAN'S OFFICE DIRECTOR

These Directors hold positions or discharge functions and/or hold ownership interests of less than 0.01% in all cases in other FCC Group companies in which Fomento de Construcciones y Contratas S.A. directly or indirectly holds a majority of the voting power.

At the Annual General Meeting held on 28 June 2016 five Directors (Juan Rodríguez Torres, Carlos Manuel Jarque Uribe, Antonio Gómez García, Alfonso Salem Slim and Miguel Angel Martínez Parra) were released so that they could hold a direct or indirect ownership interest and discharge executive or management positions at the companies of the Group to which the shareholders Control Empresarial de Capitales S.A. de C.V. and Inmobiliaria Carso S.A. de C.V. belong or at their investees or affiliates.

Also in 2016 various one-off conflicts of interest were reported with certain Proprietary Directors of Control Empresarial de Capitales S.A. de C.V., which were resolved in accordance with the procedure established in the Board of Directors regulations. The Directors in question abstained in the related discussions and votes.

e) Operations with associated parties

During the year various operations took place with companies with which shareholders of Fomento de Construcciones y Contratas S.A. are associated. The most significant of these were as follows:

- Contracts to provide services entered into between Alejandro Aboumrad González and Fomento de Construcciones y Contratas S.A. and between Gerardo Kuri Kaufmann and Cementos Portland Valderrivas S.A., worth EUR 338 thousand and EUR 175 thousand, respectively.

- Subcontracting of works pending completion and new works contracted for the "Ciudad de la Salud" project in Panama to FCC Américas S.A. de C.V., which is 50% owned by the Carso group and by the Group.

- Exclusion OPA for the Cementos Portland Valderrivas S.A. holding (Note 4).

- Corporate operation in Giant Cement Holding Inc., with Elementia S.A. de C.V. (Note 4).

- Agreement to sell the holding in Concesionaria Túnel de Coatzacoalcos S.A. de C.V. to Promotora de Desarrollo de América Latina S.A. de C.V.

- Operation for sale without recourse of clients' invoices guaranteed by the finance group Inbursa, worth approximately EUR 200 million.

- Capital increase effected by Realia Business S.A., in which the Group was involved via its effective participating interest.

- A consortium headed by the Carso group in which the Group is also a partner has been awarded the contract to build the new international terminal at Mexico City airport.

- Another consortium between the Carso group and the Group will build the Samalayuca gas pipeline in Mexico.

- In the framework of the refinancing of the debt associated with the Spanish business of the Cementos Portland Valderrivas group, a subordinate finance contract has been formalised, worth approximately EUR 80 million, with Banco Inbursa S.A., a multiple banking institution, at an interest rate of Euribor plus a differential of 290 basic points, due in January 2022. The finance costs accrued during the year totalled EUR 974 thousand.

Additionally, other operations are carried out under market conditions, mostly telephone and ISP services, with associated parties related to the shareholder Carlos Slim Helú. The sums involved are not significant.

f) Mechanisms in place to detect, determine and resolve any conflicts of interest between the controlling company and/or its Group and its directors, executives or significant shareholders

The FCC Group has precise mechanisms in place to detect, determine and resolve any conflicts of interest between Group companies and their directors, executives and significant shareholders, as indicated in article 25 of the board regulations.

23. INFORMATION ON THE ENVIRONMENT

As indicated in Note 1, by their very nature, the Company’s Environmental Services and Integral Water Management businesses are geared towards environmental protection and conservation, not only through the production activity itself (waste collection, operation and control of landfills, sewer cleaning, treatment and elimination of industrial waste, wastewater treatment, etc.), but also as a result of performing these activities using production techniques and systems designed to reduce environmental impact in accordance with the limits established in the relevant legislation.

The performance of production activities described above requires the use of specialised structures, plant and machinery that are efficient in terms of environmental protection and conservation. At 31 December 2016, the acquisition cost of the non-current assets assigned to the above activity totalled EUR 1,148,828 thousand (31 December 2015: EUR 1,167,229 thousand), with accumulated depreciation amounting to EUR 716,496 thousand (31 December 2015: EUR 782,863 thousand).

Company management considers that any possible contingencies in relation to the protection and improvement of the environment at 31 December 2016 would not have a material impact on the accompanying financial statements.

As indicated in Note 1, Fomento de Construcciones y Contratas S.A. is the Parent of the FCC Group which operates various business lines and, due to the nature thereof, pays particular attention to controlling the impact on the environment. These matters are discussed in detail in the Group's Corporate Social Responsibility report, which is published annually on FCC's website, www.fcc.es, among other channels, and provides the reader with more representative information than that included in this Note.

24. OTHER DISCLOSURES

a) Employees

The average number of employees at the Company in 2016 and 2015 was as follows:

	2016	2015
Managers and university graduates	235	246
Professionals with qualifications	479	449
Clerical and similar staff	648	752
Other salaried employees	22,943	22,334
	24,305	**23,781**

In compliance with RD 602/2016, of 2 December, adding new requirements for information in companies' financial reporting, the chart below show the average number of persons employed in 2016 by the Company who have degree of disability of 33% or higher.

	2016
Managers and university graduates	2
Professionals with qualifications	4
Clerical and similar staff	10
Other salaried employees	509
	525

For the purposes of the Royal Decree cited, as these annual accounts are classified as initial, no comparative figures from the previous year are presented.

At 31 December 2016 and 2015, the number of employees, Directors and Senior Executives of the Company, by gender, was as follows:

	Men	Women	Total
2016			
Directors	11	4	15
Senior executives	5	—	5
Managers and university graduates	189	33	222
Professionals with qualifications	363	112	475
Clerical and similar staff	273	371	644
Other salaried employees	17,836	4,851	22,687
	18,677	**5,371**	**24,048**

	Men	Women	Total
2015			
Directors	7	4	11
Senior executives	9	1	10
Managers and university graduates	196	32	228
Professionals with qualifications	356	103	459
Clerical and similar staff	283	385	668
Other salaried employees	17,437	4,903	22,340
	18,288	**5,428**	**23,716**

b) Fees paid to auditors

The 2016 and 2015 fees for financial audit services and for other professional services provided to the Company by the principal auditor Deloitte S.L. and by other auditors participating in the audit are shown in the following table:

	2016			2015		
	Principal auditor	Other auditors	Total	Principal auditor	Other auditors	Total
Audit services	214	—	214	214	—	214
Other attest services	128	—	128	127	—	127
Total audit and related services	**342**	—	**342**	**341**	—	**341**
Tax counselling services	28	47	75	50	12	62
Other services	522	1,276	1,798	322	1,828	2,150
Total professional services	**550**	**1,323**	**1,873**	**372**	**1,840**	**2,212**
TOTAL	892	1,323	2,215	713	1,840	2,553

25. EVENTS AFTER THE REPORTING PERIOD

On 13 February 2017 the acceptance period for the Cementos Portland Valderrivas S.A. exclusion public acquisition bid (exclusion OPA; Note 10.a) expired. The exclusion OPA was accepted for 9,356,605 shares, representing 87.81% of the shares to which the OPA originally referred. Consequently, no forced sales are needed. The Group's effective participating interest following the operation is now 97.45%. All 51,786,608 shares were excluded from being traded on stock markets on 24 February 2017.

Receipt from the sale of the shares of Xfera Móviles S.A. and transfer of participatory loans occurred on 7 February 2017 for a final sum of EUR 29,139 thousand. The sum initially estimated as at 31 December 2016 was EUR 24.285 thousand, corresponding to impairment of the participatory loans of EUR 11,047 thousand. On the date of preparation of these annual financial statements the sum of this impairment has been adjusted (Note 9).

On 28 February 2017 the Company received EUR 106,444 thousand corresponding to the deferred price of the sale of the shares of Globalvia Infraestructuras S.A. (notes 9.b and 11). As the receivable was valued as a current financial asset at fair value with changes in profit and loss at EUR 106,040 thousand, in accordance with the regulations no adjustment has been made with regard to the difference with the sum recorded in these financial statements.

Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

GROUP COMPANIES

APPENDIX I

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
Aparcamientos Concertados S.A. Arquitecto Gaudí, 4 – Madrid -Car parks-	2,500	—	100.00	367	630	204	—	546	413
Armigesa S.A. Pza. Constitución, s/n – Armilla (Granada) -Urban cleaning-	612	—	51.00	—	1,200	245	—	253	190
A.S.A. Abfall Service AG Hans-Hruschka-Gasse, 9 - Himberg (Austria) - Urban cleaning-	226,784	—	Dir. 99.98 Indir. 0.02	7,000	5,000	41,783	—	(10,677)	5,950
Asesoría Financiera y de Gestión S.A. Federico Salmón, 13 - Madrid -Financial services-	3,008	3,008	Dir. 43.84 Indir. 56.16	—	6,843	12,364	—	904	(34,683)
Azincourt Investment S.L. (Sole-Shareholder Company) Federico Salmón, 13 – Madrid -Holding company-	1,545,686	1,300,110	100.00	—	4	117,573	39,155	(133)	(34,621)
Bvefdomintaena Beteiligungsverwaltung GmbH Nottendorfer, 11 – Vienna (Austria) -Corporate vehicle-	165	165	100.00	—	35	(5)	—	—	—
Cementos Portland Valderrivas S.A. Dormilatería, 72 – Pamplona - Cement-	409,635	183,825	Dir. 70.25 Indir. 8.86	—	77,680	375,084	4,195	(205,678)	(287,791)
Compañía General de Servicios Empresariales S.A. (Sole-Shareholder Company) Federico Salmón, 13 – Madrid -Corporate vehicle-	60	—	100.00	—	60	17	—	1	1
Corporación Española de Servicios S.A. Federico Salmón, 13 – Madrid -Corporate vehicle-	44	—	Dir. 99.99 Indir. 0.01	—	60	16	—	—	—
Dédalo Patrimonial S.L. (Sole-Shareholder Company) Federico Salmón, 13 – Madrid -Holding company-	85,863	85,863	100.00	—	61	(90,547)	—	2,265	1,196

GROUP COMPANIES

APPENDIX I/2

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
Ecoparque Mancomunidad del este S.A. Federico Salmón, 13 - Madrid -Urban cleaning-	16,803	—	Dir. 99.99 Indir. 0.01	—	16,805	11,386	—	3,076	2,222
Egypt Environment Services SAE El Cairo – Egypt -Urban cleaning-	7,760	3,416	Dir. 97.00 Indir. 3.00	1,052	36,400 (EGP)(*)	5,132 (EGP)(*)	— (EGP)(*)	21,372 (EGP)(*)	(10,362) (EGP)(*)
Empresa Comarcal de Serveis Mediambientals del Baix Penedés, ECOBP S.L. Plaça del Centre, 3 – El Vendrell (Tarragona) -Urban cleaning-	200	—	66.60	249	540	109	120	546	401
Europea de Gestión S.A. (Sole-Shareholder Company) Federico Salmón, 13 – Madrid -Corporate vehicle-	63	—	100.00	—	60	21	—	(1)	(1)
FCC Aqualia S.A. Federico Salmón, 13 – Madrid -Water management-	254,768	—	100.00	—	145,000	537,107	4,824	96,166	50,085
FCC Concessions de Infraestructuras S.L. Avenida Camino de Santiago, 40 – Madrid -Concessions-	3	—	100.00	—	3	—	—	—	—
FCC Construction S.A. Balmes, 36 – Barcelona -Construction-	1,728,051	816,024	100.00	—	220,000	384,394	—	(69,949)	(93,694)
FCC Equal CEE S.L. Federico Salmón, 13 – Madrid -Social services-	3	—	Dir. 99.97 Indir. 0.03	—	3	3	—	44	33
FCC Equal CEE Comunidad Valenciana S.L. Riu Magre, 6 P.I. Patada Quart de Poblet -Social services-	3	—	Dir. 99.97 Indir. 0.03	—	3	—	—	(1)	(1)

GROUP COMPANIES

APPENDIX I/3

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
FCC Medio Ambiente S.A. Federico Salmón, 13 – Madrid -Urban cleaning-	35,102	—	Dir. 98.98 Indir. 1.02	—	43,273	47,330	—	24,215	14,657
FCC Versia S.A. Avenida Camino de Santiago, 40 – Madrid -Management company-	62,624	62,624	100.00	—	120	(35,098)	—	239	(4,934)
Fedemes S.L. Federico Salmón, 13 – Madrid -Real estate-	10,764	—	Dir. 92.67 Indir. 7.33	—	10,301	7,394	—	(768)	(788)
Gandia Serveis Urbans S.A. Llanterners, 6 – Gandia (Valencia) -Urban cleaning-	78	—	95.00	645	120	1,882	—	1,431	546
Geneus Canarias S.L. Electricista, 2 Urb. Ind. de Salinetas Telde (Las Palmas) (Canary Islands) -Waste treatment-	1,762	—	100.00	—	1,714	438	494	621	431
Geral I.S.V. Brasil Ltda. Río Branco, 131 – 10º – Andar Parte Centro Río de Janeiro (Brazil) -Vehicle roadworthiness testing-	21	—	100.00	—	—	—	—	—	—
Limpiezas Urbanas de Mallorca S.A. Ctra. Can Picafort, s/n – Santa Margalida (Balearic Islands) -Urban cleaning-	5,097	—	Dir. 99.92 Indir. 0.08	—	308	4,819	—	1,350	990
Per Gestora Real Estate S.L. Federico Salmón, 13 – Madrid -Corporate vehicle-	71,552	17,632	Dir. 99.00 Indir. 1.00	—	60	66,363	—	(2)	(11,958)
Serveis Municipals de Neteja de Girona S.A. Pza. del vi, 1– Girona -Urban cleaning-	45	45	75.00	—	60	(359)	—	(54)	(171)

GROUP COMPANIES

APPENDIX I/4

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
Servicio de Recogida y Gestión de Residuos Sólidos Urbanos del Consorcio Vega Sierra Elvira S.A. Doctor Jiménez Rueda, 10– Atarfe (Granada) -Waste treatment-	1,334	214	60.00	—	2,224	(157)	—	(158)	(168)
Sistemas y Vehículos de Alta Tecnología S.A. Federico Salmón, 13 - Madrid -High-technology equipment retailing-	5,828	—	Dir. 99.99 Indir. 0.01	—	180	6,895	—	1,275	1,038
Societat Municipal Medioambiental d'Igualada S.L. Pza. del Ajuntament, 1 – Igualada (Barcelona) -Urban cleaning-	870	—	65.91	—	1,320	37	—	48	(15)
Tratamientos y Recuperaciones Industriales S.A. Rambla Catalunya, 2-4 – Barcelona -Waste treatment-	21,455	17,540	Dir. 74.92 Indir. 0.08	1,575	72	2,645	—	1,397	1,039
Valoración y Tratamiento de Residuos Urbanos S.A. Riu Magre, 6 – Pol. Ind. Patada del Cid– Quart de Poblet (Valencia) -Waste treatment-	4,000	—	80.00	—	5,000	1,688	—	1,430	1,044
TOTAL	**4,502,543**	**2,490,466**		**10,888**					

(*) (EGP): Egyptian pounds.

NOTE:

- Of the companies shown above, only Cementos Portland Valderrivas S.A. is a listed company and its market price at the balance sheet date was EUR 5.98. The average market price in the last quarter of 2015 was EUR 6.15.

- As required by Article 155 of the Consolidated Text of the Spanish Limited Liability Companies Law, in 2015 the Company made the requisite notifications to the companies in which it had acquired direct or indirect holdings of over 10%.

APPENDIX II

JOINT VENTURES

	% of ownership
AGARBI	60.00
AGARBI BI	60.00
AGARBI INTERIORES	20.00
AGUAS TOMELLOSO	20.00
AKEI	60.00
ALCANTARILLADO MELILLA	50.00
ALELLA	50.00
ALUMBRADO BAZA	100.00
ALUMBRADO LEPE	50.00
ALUMBRADO PEÑÍSCOLA	50.00
ARAZURI 2016	50.00
ARCOS	51.00
ARUCAS II	70.00
BARBERA SERVEIS AMBIENTALS	50.00
BILBOKO LORATEGIAK	60.00
BILBOKO SANEAMENDU	50.00
BILBOKO SANEAMENDU BI	50.00
BIOCOMPOST DE ÁLAVA	50.00
BIZKAIAKO HONDARTZAK	25.00
BOADILLA	50.00
BOMBEO ZONA SUR	1.00
CABRERA DE MAR	50.00
CANA PUTXA	20.00
CANGAS	50.00
CASTELLAR DEL VALLÈS	50.00
CENTRO DEPORTIVO GRANADILLA DE ABONA	1.00
CGR GUIPUZCOA	35.14
CHIPIONA	50.00
CLAUSURA SAN MARCOS	40.00
COLEGIOS SANT QUIRZE	50.00
CONSERVACION GETAFE	1.00
CONTENEDORES LAS PALMAS	30.00
CTR DE L'ALT EMPORDÀ	45.00
CTR-VALLÈS	20.00
CUA	50.00
DONOSTIAKO GARBIKETA	70.00
DOS AGUAS	35.00
ECOPARQUE CÁCERES	50.00
ECOURENSE	50.00
EDAR ALMANSA	5.00
EDAR CUERVA	5.00
EDAR RANILLA	25.00
EDAR REINOSA	1.00
EDAR SAN VICENTE DE LA BARQUERA	1.00
EFIC. ENERG. PUERTO DEL ROSARIO	60.00
EDIFICIO ARGANZUELA	99.99
ENERGÍA SOLAR ONDA	25.00
ENLLUMENAT SABADELL	50.00
ENVASES LIGEROS MALAGA	50.00
EPELEKO PLANTA	35.00
ERETZA	70.00
ES VEDRA	25.00
EXPL. PL. BIO LAS DEHESAS	50.00
F.L.F. LA PLANA	47.00
F.S.S.	99.00
FCC SANEAMIENTO LOTE D	100.00
FCC S.A. LUMSA	50.00
FCC – ACISA - AUDING	45.00
FCC – AQUALIA SALAMANCA	5.00
FCC - ERS LOS PALACIOS	50.00
FCC – FCCMA ALCOY	20.00
FCC – FCCMA R.B.U. SAN JAVIER	20.00
FCC – FCCMA SEGRIÀ	20.00

APPENDIX II/2

	% of ownership
FCC – HIJOS DE MORENO S.A.	50.00
FCC – PALAFRUGELL	20.00
FCC – PERICA	60.00
FCC – SUFI MAJADAHONDA	50.00
FCCSA – GIRSA	80.00
FONT BARO DE VIVER	100.00
GESTIÓ INTEGRAL DE RUNES DEL PAPIOL	40.00
GESTIÓN INSTALACIÓN III	34.99
GESTION SERVICIOS DEPORTES CATARROJA	100.00
GIREF	20.00
GIRSA – FCC	20.00
GOIERRI GARBIA	60.00
GUADIANA	20.00
ICAT LOTE 11	50.00
ICAT LOTE 15	50.00
ICAT LOTE 20 Y 22	70.00
ICAT LOTE 7	50.00
INTERIORES BILBAO	80.00
JARD. UNIVERSITAT JAUME I	50.00
JARDINES MOGAN	51.00
JARDINES PROTECCIÓN ESPECIAL	50.00
JARDINES TELDE	100.00
JUNDIZ II	51.00
LA LLOMA DEL BIRLET	80.00
LAS CALDAS GOLF	50.00
LEGIO VII	50.00
LEKEITIOKO MANTENIMENDUA	60.00
LIMPIEZA Y RSU LEZO	55.00
LODOS ARAZURI	50.00
LOGROÑO LIMPIO	50.00
LUZE VIGO	20.00
LV RSU VITORIA-GASTEIZ	60.00
LV Y RSU ARUCAS	70.00
LV ZUMAIA	60.00
LV ZUMARRAGA	60.00
MANACOR	30.00
MANCOMUNIDAD DE ORBIGO	1.00
MANTENIMENT REG DE CORNELLÀ	60.00
MANTENIMIENTO DE COLEGIOS III	60.00
MELILLA	50.00
MÉRIDA	1.00
MMI 5º CONTENEDOR	60.00
MNTO. EDIFICI MOSSOS ESQUADRA	70.00
MNTO. MEDITERRANEA FCC	50.00
MNTO. INSPECCION DE TRABAJO	100.00
MURO	20.00
MUZKIZ	20.00
NERBIOI IBAIZABAL 5º CONTENEDOR	60.00
NIGRÁN	1.00
ONDA EXPLOTACIÓN	33.33
PÁJARA	70.00
PAMPLONA	80.00
PASAIA	70.00
PASAIAKO PORTUA BI	45.00
PISCINA CUB. MUN. ALBATERA	93.00
PISCINA CUB. MUN. L'ELIANA	100.00
PISCINA CUBIERTA BENICARLÓ	65.00
PISCINA CUBIERTA C. DEP. ALBORAYA	100.00
PISCINA CUBIERTA MANISES	100.00
PISCINA CUBIERTA PAIPORTA	90.00
PLANTA RSI TUDELA	60.00
PLANTA TR. FUERTEVENTURA	70.00
PLANTA TRATAMIENTO VALLADOLID	90.00

	% of ownership
PLATGES VINAROS	50.00
PLAYAS GIPUZKOA	55.00
PLAYAS GIPUZKOA II	55.00
PONIENTE ALMERIENSE	50.00
PORTMANY	50.00
PUERTO DE PASAIA	55.00
PUERTO DE PTO. DEL ROSARIO	70.00
PUERTO	50.00
PUERTO II	70.00
R.B.U. VILLA-REAL	47.00
RBU. ELS PORTS	50.00
R.S. PONIENTE ALMERIENSE	50.00
REDONDELA	1.00
RESIDUOS 3 ZONAS NAVARRA	60.00
RSU LVS. BME TIRAJANA	50.00
RSU TOLOSALDEA	60.00
S.U. BENICASSIM	35.00
S.U. BILBAO	60.00
S.U. OROPESA DEL MAR	35.00
SALTO DEL NEGRO	50.00
SAN FERNANDO	20.00
URBAN CLEANING CASTELLÓN	65.00
SANEAMIENTO VITORIA-GASTEIZ	60.00
SANEJAMENT CELLERA DE TER	50.00
SANEJAMENT MANRESA	80.00
SANT QUIRZE DEL VALLÉS	50.00
SANTOMERA	60.00
SASIETA	75.00
SAV - FCC TRATAMIENTOS	35.00
SELECTIVA LAS PALMAS	55.00
SELECTIVA SAN MARCOS	65.00
SELECTIVA SAN MARCOS II	63.00
SELECTIVA UROLA-KOSTA	60.00
SELLADO VERTEDERO LOGROÑO	50.00
SERAGUA-FCC-VIGO	1.00
SOLARES CEUTA	50.00
STA. COLOMA DE GRAMANET	61.00
S.U. ALICANTE	30.00
TABLADA	20.00
TOLOSAKO GARBIKETA	40.00
TORREJÓN	25.00
TRANSP. Y ELIM. RSU	33.33
TRANSPORTE RSU	33.33
TRANSPORTE SAN MARCOS	80.00
TÚNEL PUERTO ALGECIRAS	30.00
TXINGUDIKO GARBIKETA	73.00
UROLA ERDIA	60.00
URRETXU Y ZUMARRAGA	65.00
URTETA	50.00
VALDEMORO	100.00
VALDEMORO 2	100.00
VERTEDERO GARDELEGUI II	70.00
VERTEDERO GARDELEGUI III	70.00
VERTRESA	10.00
VIDRIO MELILLA	50.00
VIGO RECICLA	70.00
VILLALÓN DE CAMPOS	20.00
VINAROZ	50.00
ZAMORA LIMPIA	30.00
ZARAGOZA DELICIAS	51.00
ZARAUZKO GARBIETA	60.00
ZUMAIA	60.00
ZURITA	50.00
ZURITA II	50.00

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

APPENDIX III

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Net impairment losses						From operations	From continuing operations
Ecoparc del Besós S.A. Rambla Cataluña, 91-93 – Barcelona -Urban cleaning-	2,621	—	Dir. 31.00 Indir. 54.00	403	7,710	2,423	14,909	4,155	1,746
Ecoserveis Urbans Figueres S.L. Avda. Alegries, s/n – Lloret de Mar (Girona) -Urban cleaning-	301	—	50.00	97	601	96	—	157	192
Empresa Mixta de Limpieza de la Villa de Torrox S.A. Pza. de la Constitución, 1 – Torrox (Málaga) -Urban cleaning-	299	—	50.00	—	600	742	—	425	318
Empresa Mixta de Medio Ambiente de Rincón de la Victoria S.A. Avda. Zorreras, 1 – Rincón de la Victoria (Málaga) -Urban cleaning-	301	—	50.00	—	601	202	—	(27)	(59)
FM Green Power Investments S.L. Federico Salmón, 13 – Madrid -Energy-	257,089	249,861	49.00	—	86,753	(2,466)	—	(35)	(31)
Gestión Integral de Residuos Sólidos S.A. Profesor Beltrán Ibaquena, 4 – Valencia -Urban cleaning-	10,781	5,711	49.00	—	13,124	(2,479)	287	(188)	(70)
Ingeniería Urbana S.A. Pol. Industrial Pla de Vallonga, s/n – Alicante -Urban cleaning-	3,786	—	35.00	281	6,010	5,964	—	(45)	278
Palacio de Exposiciones y Congresos de Granada S.A. Ps. del Violón, s/n – Granada -Equipment management-	255	255	50.00	—	510	(2,371)	—	(298)	(264)

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

APPENDIX III/2

Company	Carrying amount		% of ownership	Dividends received	Share capital	Reserves	Other equity items	2016 profit (loss)	
	Assets	Net impairment losses						From operations	From continuing operations
Realia Business S.A. Paseo de la Castellana, 216 – Madrid -Real estate-	206,815	—	Dir. 34.34 Indir. 2.62	—	154,754	211,495	—	(47,849)	62,570
Servicios Urbanos de Málaga S.A. Ulises, 18 – Madrid -Urban cleaning-	1,610	—	51.00	—	3,156	629	—	(8)	(8)
Suministros de Agua de Queretaro S.A. de C.V. Santiago de Queretaro (Mexico) -Water management-	4,367	—	Dir. 24.00 Indir. 2.00	1,553	347,214 (MXN)(*)	343,105 (MXN)(*)	—	217,981 (MXN)(*)	112,030 (MXN)(*)
T O T A L	**488,225**	**255,827**		**2,334**					

(*) (MXN): Mexican Pesos.

NOTE:

- Of the companies shown above, only Bolsa Realia Business S.A. is a listed company and its market price at the balance sheet date was EUR 0.86. The average market price in the last quarter of 2015 was EUR 0.87.

- As required by Article 155 of the Consolidated Text of the Spanish Limited Liability Companies Law, in 2015 the Company made the requisite notifications to the companies in which it had acquired direct or indirect holdings of over 10%.

Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.

Directors' Report

This report was prepared in accordance with the guidelines established in the "Guide for the preparation of directors' reports of listed companies" published by the Spanish National Securities Market Commission (CNMV).

Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

CONTENTS	PAGE

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

1. THE COMPANY'S SITUATION

Fomento de Construcciones y Contratas, S.A. is the Parent of the FCC Group and holds direct or indirect ownership of the investments in the Group's businesses and areas of activity. Consequently, with a view to providing information on the economic and financial events that took place during the year, positioning us in their appropriate context, the Consolidated Director's Report of the FCC Group is as follows.

1.1. Company situation: Organisational structure and management decision-making process

The organisational structure of FCC Group is based on a first level made up of areas, which are divided into two large groups which are operational and functional.

The operating Areas encompass all the activities relating to the production line. As described in greater detail in Note 1 to the consolidated financial statements, the FCC Group is composed of the following operating Areas:

- **Environmental Services.**
- **End-to-End Water Management.**
- **Construction.**
- **Cement.**

Each of these operating Areas is presided over by one or various Specialised Companies, which report to FCC and encompass the activities inherent to the Group.

The functional Areas that provide support to the operating Areas are as follows:

- **Administration and Finance**: the Administration and Finance Department is made up of the Administration, IT Systems, Finance, Investor Relations and Management Control, Corporate Marketing and Branding, Procurement, and Human Resources units.

  The Administration unit runs the administrative management of the FCC Group. Its duties regarding information systems and internal control include the following:
  - General accounting
  - Accounts standardisation
  - Consolidation
  - Tax consulting
  - Tax procedures
  - Tax compliance
  - Administrative procedures

- **Internal Auditing and Risk Management**: its purpose is to provide the Board of Directors, via the Auditing and Control Committee, and the FCC Group's senior management with support for their responsibilities to supervise the internal control system by exercising a function of single, independent governance aligned with professional standards, to contribute towards good corporate governance, verify due compliance with the applicable rules and regulations, both internal and external, and reduce to reasonable levels any impact of risks on the FCC Group's achievement of its objectives.

  To do this, it is structured into two independent roles: Internal auditing, and risk and compliance management.

- **General Secretary's Office**: depending directly on the Group' Chief Executive, its main duty is to support the Chief Executive's management and that of the heads of FCC's other divisions, by providing all the services detailed in the corresponding sections on FCC's various divisions and departments, whose performance and supervision is the responsibility of the General Secretary.

  The office is made up of these units: Legal Department, Quality Assurance, Corporate Security and General Services and Corporate Responsibility.

On a secondary level, the Areas may be divided into Sectors –operating Sectors– and Divisions - functional Divisions– creating spheres permitting greater specialisation when required.

The structure of the main decision-making bodies is as follows:

- **Board of Directors**: This is the body with the widest-reaching, unrestricted powers, except for those expressly reserved by the Spanish Limited Liability Companies Law or the Bylaws to the powers of the shareholders at the General Meeting.

- **Audit and Control Committee**: Its main function is to support the Board of Directors in its supervisory tasks, through the periodic review of the process for preparing economic and financial information, its internal controls and independence of the external auditor.

- **Nomination and Remuneration Committee**: This supports the Board of Directors in relation to the proposals for the nomination, re-election, ratification and termination of Directors, establishes and controls the remuneration policy of the Company’s Directors and Senior Executives and the fulfilment by the Directors of their duties, particularly in relation to situations of conflicts of interest and related party transactions.

- **Management Committee**: Each of the business units has its own Management Committee or other committee with similar duties.

More detailed information on the functions of the FCC Group’s decision-making bodies is provided in section 1 of the Internal Control over Financial Reporting system (ICFR) report.

1.2. Company situation: Company business model and strategy

FCC is one of the main European groups specialised in environmental services, water and infrastructure development, with a presence in over 34 countries worldwide. Over 48% of its billings arise from international markets, mainly Europe, Latin America and the US.

Environmental Services

The Environmental Services Area has a solid presence in Spain, maintaining a position of leadership in the provision of environmental urban services for over 100 years.

In Spain FCC provides environmental services to more than 3,600 municipal districts all over the country, serving a population of more than 28 million. The services provided in this sector include solid-waste collection and street-cleaning, which accounted for 38% and 31%, respectively, of the turnover obtained in this market in 2016. These activities are followed in importance by waste treatment and elimination, cleaning and maintenance of buildings, parks and gardens, and, to a lesser extent, sewerage. Together they cover nearly 98% of the domestic business, with the remainder corresponding to miscellaneous services.

In turn, the international business is carried on chiefly in the UK and Central and Eastern Europe through the subsidiaries FCC Environment Limited (UK) and FCC environment CEE, respectively. For a good number of years now FCC has led markets both in integral urban solid waste management and in other environmental services. The services provided in this sector include waste treatment, elimination and collection, which accounted for 58% and 18%, respectively, of total turnover in 2016.

The Environmental Services Unit also specialises in the integrated handling of industrial and commercial waste, recovery of by-products and soil decontamination, through FCC Ámbito. Its extensive network of handling and valuation facilities means that waste can be handled correctly, thereby assuring the protection of the environment and people's health.

Internationally, considerable growth has been Noted in USW and industrial-waste collection in the United States.

The strategy in Spain will focus on staying competitive through quality and innovation, extending the efficiency and quality of services based on innovation and accumulated know-how, and continuing to make progress in providing smarter services for more sustainable and responsible cities.

However, the waste-treatment business will be slowed down by the high volume of investment required and the non-implementation of the National Waste Plan.

This year we will continue to focus on the efficiency of operations and growing our business. In this regard, the inclusion of new technologies will enable us to further consolidate our strength in the markets for waste recycling and valuation in Europe and position ourselves as key players in the circular economy. With regard to the United States, the business will continue to be developed in the years to come.

End-to-End Water Management

Globally, FCC Aqualia serves more than 23 million users and provides services to more than 1,100 municipal districts in 21 countries, offering the market full solutions for the needs of public and private entities and organisations at every stage of the integrated water cycle and for all uses: human, agricultural or industrial.

FCC Aqualia's business focuses on concessions and services, covering concessions for distribution networks, BOT, O&M and irrigation services, as well as technology and network tasks covering EPC contracts and industrial water-treatment activities.

In 2016, the Spanish market accounted for 75.7% of total turnover and 77.7% of the unit's EBITDA, and the trend for billing volumes to recover that began last year has continued. The legal framework in which contracts are undertaken does not lead us to expect any significant risks for the business in the short term. Central and regional governments are not currently calling for tenders for major water-infrastructure concessions, mainly because of the tax-consolidation and debt-reduction process that the authorities are continuing to apply, thus increasing the shortfall in infrastructure renewal and growth. Despite this, we have won new contracts or secured extensions to existing ones for integrated-water-cycle concessions with a high level of loyalty being shown by the local authorities we work with. Aqualia has also made considerable efforts to extend its presence in the facilities O&M market (WWTPs, DWTPs, desalinisation plants), winning several major contracts in Spain.

The international market achieved a turnover and EBITDA accounting for 24.3% and 22.3% of the total, respectively. FCC Aqualia focuses its business in Europe, North Africa, the Middle East and the Americas, currently holding contracts in more than 15 countries.

The unit continues to seek to stay competitive in markets with a consolidated local presence (Europe) and make the most of any opportunities that arise with regard to the management of public services for the urban water cycle. In other expansion markets, growth through BOT will be strengthened (North Africa, Latin America and the Middle East), together with O&M, while further options in others will be explored (e.g., United States). FCC Aqualia always makes full use of its experience in the integrated management of the water cycle to seek new business opportunities in countries where the political and social climate is stable.

Construction

This Area is mainly involved in the design and construction of large civil engineering and industrial works and building construction projects. It operates in highly complex public Works such as railways, tunnels and bridges, which, with industrial installation and maintenance projects, account for a large part of its activity.

65% of all earnings come from abroad, including the building of major infrastructure projects such as Riyadh Metro lines 4, 5 and 6, Lima Metro line 2, Doha Metro, the Mersey Bridge and Panama Metro line 2, with some still in the early stages of construction. In 2016 the contracts won included electromechanical facilities at stations and tunnels for Riyadh Metro lines 4, 5 and 6 (Saudi Arabia), worth EUR 115 million, and the extension of the Port of Playa Blanca (Lanzarote, Canary Islands), worth EUR 36.4 million, and the refurbishment of fuel facilities at Dublin Airport (Ireland), worth EUR 33 million.

The unit's strategy focuses on the development and construction of major, technically complex infrastructure projects, with assured funding and in countries with a stable presence, in order to optimise the profitability of the experience and the technical skills of its work teams.

Cement

The FCC Group carries on its cement activity through Cementos Portland Valderrivas (CPV). Its business is devoted to manufacturing cement, which in 2016 accounted for about 90% of all the business's earnings, with the remaining 10% mostly coming from the concrete, mortar and aggregate businesses. Its business is based at various cement-production sites in Spain (7) and Tunisia (1).

With regard to its geographical diversification, 65% of revenue came from international markets. CPV has a presence in Spain, Tunisia and the US (the latter through a 45% stake in Giant Cement), although the company also exports mainly to the UK, North Africa and Canada.

The company enjoys a position of leadership both in its main market, Spain, and in Tunisia.

CPV's main objective continues to be to remain competitive in terms of both costs and market share in the markets in which it operates, attempting to retain its status as an industry benchmark in all the countries in which it has a presence.

2. BUSINESS PERFORMANCE AND RESULTS

2.1. Business performance

2.1.1. Highlights

FCC Medio Ambiente expanded its international portfolio in the UK and the US.

FCC Medio Ambiente expanded its international portfolio with contracts in Scotland and the United States. In Scotland, it began development work on the Edinburgh and Midlothian energy-from-waste (EfW) plant, which has an associated backlog of €511 million. Additionally, in December it was awarded a contract by competitive tender to collect municipal solid waste in Polk county, Florida. The contract is for ten years and represents a backlog of approximately USD 102 million. And in November, the City Council of University Park, Texas, awarded FCC a five-year service contract for the treatment and marketing of all the city's recyclables, with scope for a five-year extension. Contract revenues could exceed €3.2 million, depending on its final duration and on commodity prices.

These contracts are in addition to the backlog in Spain, where the largest increase came in September when Madrid City awarded FCC one of the three municipal waste collection contracts in the Western area, which covers much of downtown Madrid. This contract is for four years and represents a backlog of €227.5 million.

FCC Aqualia obtained new international contracts, worth €318 million

FCC Aqualia obtained a number of international contracts, including construction and management of two sewage treatment plants in Colombia worth €148 million, which will serve over 3 million people, and a desalination plant in El-Alamein (Egypt) worth €114.6 million. It also landed network contracts in Riyadh (Saudi Arabia) worth €23 million. Order intake enabled the total order book to remain at record highs: close to €15 billion at year-end.

FCC Construction exceeds €500 million in order intake in industrial construction

FCC Industrial greatly expanded business in 2016. The contracts it obtained during the year, such as the Samalayuca-Sasabe gas pipeline in Mexico, upgrading of fuelling facilities at Dublin airport (Ireland), and the electromechanical installations on Riyadh Metro lines 5 and 6 (Saudi Arabia), boosted the order book considerably in 2016: by 14.4% with respect to 2015.

Further steps towards consolidation and financial optimisation of the Group

In September, the bulk of the FCC, S.A. convertible bond was repaid early and this, combined with smaller payments in subsequent months, resulted in the repayment in 2016 of a nominal amount of €417.7 million, nearly 93% of the total. This led to a substantial reduction in the interest expenses on this issue (6.5% interest rate). This followed the repayment in April of 77% of Tranche B of FCC, S.A.'s syndicated loan by means of a Dutch auction in which an average 15% haircut was obtained. The new funding structure for CPV, the company that heads the Cement division, came into force in July after repayment of over €270 million with funds from the March equity issue, including arrangement of a 5-year maturity and a substantial reduction in funding costs, which will make it possible to adapt the area's funding structure in order to generate cash flow as planned.

These transactions enabled the FCC Group to make substantial progress in strengthening and optimising the capital structure, providing a sound funding platform with stronger capacity and operational flexibility.

Delisting bid for CPV

The period for acceptance of the delisting bid for 100% of the shares representing the capital stock of Cementos Portland Valderrivas, S.A. (CPV), in which FCC owns 77.9%, in order to delist that company from the Madrid and Bilbao Stock Exchanges, where it is currently listed, commenced on 30 December. The deadline for acceptance is 13 February 2017.

FCC Aqualia and FCC Medio Ambiente lead a new biogas production project

The Methamorphosis project, headed by FCC Aqualia and FCC Medio Ambiente in association with other private- and public-sector agents — including Greater Barcelona (AMB), Catalan Energy Institute (ICAEN) and SEAT — seeks to develop an innovative process and new techniques for enhancing biofuel production from municipal and agribusiness waste. The project envisages the installation and operation of prototypes to increase biogas output and enrich its content at a waste treatment centre owned by AMB and managed by FCC Medio Ambiente.

2.1.2. Executive Summary

- Consolidated Group EBITDA increased by 2.3% in 2016, to €833.7 million. This resulted in a sizeable increase in the EBITDA margin to 14.0% in 2016 (12.6% in 2015).
- EBITDA expanded despite the 8.1% reduction in revenues to €5,951.6 million, which was due mainly to the 17.1% decline in the Construction division and, to a lesser extent, to the 4.5% decline in the Environment division because of sterling's depreciation and the conclusion of the construction phase of a municipal waste recycling and recovery plant.
- Operating profitability increased steadily in almost all areas due to concentrating on more profitable operations, to efficiency improvements in overheads achieving synergies and to measures to increase productivity. All in all support costs were reduced by 12.6% with respect to 2015.
- The attributable consolidated loss of €165.2 million in 2016 (compared with a loss of €46.3 million in 2015) is due to the impairment of goodwill in the Cement area in the amount of €299.9 million in the third quarter. This impairment, which has no impact on Group cash flow, is due to the delay in the expected demand recovery in Spain caused by the additional setback in public expenditure this year. But for that adjustment, group EBT would have amounted to €133.8 million.
- As a result of strong operating cash flow and the changes to the capital structure, net interest-bearing debt was reduced by 34.3% in 2016 to €3,590.9 million. That €1,882.7 million reduction was due broadly to: (i) the capital increase performed in March; (ii) deconsolidation of Giant Cement in the Cement division; (iii) receipt of an advance for commissioning a waste treatment plant in the UK; (iv) control over capital expenditure and the divestment of certain investees; and (v) measures to contain costs and improve cash conversion of current assets.
- The backlog ended the year at €30,589.9 million, 85.4% of which is concentrated in water and waste management, which ensures a high degree of visibility and strength for the Group's prospects.

NOTE: The stake in GVI was derecognised from the "assets held for sale" item following completion of the sale in the first quarter of 2016. At 2016 year-end, this item contained only the assets and liabilities of Cemusa Portugal (see Note 5.2). The income from this investment and that from the sale of GVI are recognised under "*income from discontinued operations*" (Note 4.5.2).

KEY FIGURES

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Net sales	5,951.6	6,476.0	-8.1%
EBITDA	833.7	814.6	2.3%
EBITDA margin	14.0%	12.6%	*1.4 p.p*
EBIT*	93.6	323.8	-71.1%
EBIT margin	*1.6%*	*5.0%*	*-3.4 p.p*
Income attributable to equity holders of the parent company	(161.6)	(46.3)	n/a
Operating cash flow	1,024.9	600.3	70.7%
Investing cash flow	(94.7)	(412.6)	-77.0%
Net equity	936.8	487.2	92.3%
Net interest-bearing debt	3,590.9	5,473.6	-34.4%
Backlog	30,589.9	32,499.7	-5.9%

** Includes impairment at CPV amounting to €299.9 million*

2.1.3. Summary by business area

Area	**Dec. 16**	**Dec. 15**	**Chg. (%)**	**% of 2016 total**	**% of 2015 total**
(M€)					
REVENUES BY BUSINESS AREA					
Environmental Services	2,728.1	2,855.6	-4.5%	45.8%	44.1%
Water	1,009.8	1,033.5	-2.3%	17.0%	16.0%
Construction	1,652.6	1,992.9	-17.1%	27.8%	30.8%
Cement	536.2	580.4	-7.6%	9.0%	9.0%
Corp. services and adjust.	24.9	13.6	83.1%	0.4%	0.2%
Total	**5,951.6**	**6,476.0**	**-8.1%**	**100.0%**	**100.0%**
REVENUES BY GEOGRAPHIC AREA					
Spain	3,072.5	3,407.8	-9.8%	51.6%	52.6%
United Kingdom	889.3	1,029.1	-13.6%	14.9%	15.9%
Middle East & N. Africa	725.5	610.8	18.8%	12.2%	9.4%
Central Europe	535.9	520.2	3.0%	9.0%	8.0%
Latin America	336.1	491.5	-31.6%	5.6%	7.6%
US and Canada	247.7	256.5	-3.4%	4.2%	4.0%
Others	144.6	160.1	-9.7%	2.4%	2.5%
Total	**5,951.6**	**6,476.0**	**-8.1%**	**100.0%**	**100.0%**
EBITDA*					
Environmental Services	438.7	425.3	3.2%	52.6%	52.2%
Water	231.4	227.5	1.7%	27.8%	27.9%
Construction	55.0	75.8	-27.4%	6.6%	9.3%
Cement	89.2	94.3	-5.4%	10.7%	11.6%

Corp. services and adjust.	19.4	(8.3)	n/a	2.3%	-1.0%
Total	**833.7**	**814.6**	**2.3%**	**100.0%**	**100.0%**

EBIT**					
Environmental Services	221.8	191.5	15.8%	n/a	59.1%
Water	144.1	145.3	-0.8%	n/a	44.9%
Construction	(47.4)	(19.2)	146.9%	n/a	-5.9%
Cement	(120.4)	28.6	n/a	n/a	8.8%
Corp. services and adjust.	(104.5)	(22.4)	n/a	n/a	-6.9%
Total	**93.6**	**323.8**	**-71.1%**	**n/a**	**100.0%**

NET DEBT					
With recourse	2,329.1	3,254.3	-28.4%	64.9%	59.5%
Without recourse					
Environmental Services	439.0	659.6	-33.4%	12.2%	12.1%
Water	246.2	249.8	-1.4%	6.8%	4.6%
Construction	0.0	0.0	-	0.0%	0.0%
Cement	511.4	1,248.9	-59.1%	14.2%	22.8%
Corporate	65.2	61.0	6.7%	1.8%	1.1%
Total	**3,590.9**	**5,473.6**	**-34.4%**	**100.0%**	**100.0%**

BACKLOG*					
Environmental Services	11,151.7	11,825.7	-5.7%	36.5%	36.4%
Water	14,955.9	14,443.7	3.5%	48.9%	44.4%
Construction	4,482.3	6,230.3	-28.1%	14.7%	19.2%
Total	**30,589.9**	**32,499.7**	**-5.9%**	**100.0%**	**100.0%**

** See definition on page 30, in accordance with ESMA rules (2015/1415en).*
*** Includes impairment at CPV amounting to €299.9 million*

2.1.4. Income Statement

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Net sales	**5,951.6**	**6,476.0**	**-8.1%**
EBITDA	**833.7**	**814.6**	**2.3%**
EBITDA margin	***14.0%***	***12.6%***	***1.4 p.p***
Depreciation and amortisation	(404.8)	(433.2)	-6.6%
Other operating income	(335.3)	(57.6)	n/a
EBIT*	**93.6**	**323.8**	**-71.1%**
EBIT margin	***1.6%***	***5.0%***	***-3.4 p.p***
Financial income	(289.1)	(354.3)	-18.4%
Other financial results	(22.2)	(10.6)	109.4%
Equity-accounted affiliates	56.4	35.4	59.3%
Earnings before taxes (EBT) from continuing operations	**(161.2)**	**(5.7)**	n/a
Corporate income tax expense	(35.0)	40.8	-185.8%
Income from continuing operations	**(196.2)**	**35.1**	**n/a**
Income from discontinued operations	(7.3)	(89.3)	-91.8%

Net income	**(203.5)**	**(54.2)**	**n/a**
Non-controlling interests	41.9	7.9	n/a
Income attributable to equity holders of the parent company	**(161.6)**	**(46.3)**	**n/a**

* *Includes impairment at CPV amounting to €299.9 million*

2.1.4.1. Net sales

Consolidated Group revenues declined by 8.1% in 2016 €5,951.6 million. This was due mainly to the continuing decline in demand in the Construction area in Spain, caused by the persisting reduction in investment in public works. A range of minor factors, concentrated in the UK, led to a 4.5% reduction in revenues in Environmental Services. Revenues in the Water area declined by 2.3% to €1,009.8 million, due entirely to the Technology and Networks area. The decline in revenues in these two areas did not have a negative impact on earnings since their overall contribution to the Water division is minor, and it was offset by the reduction in operating expenses throughout the Group in 2016.
Cement revenues shrank by 7.6%, largely due to the effect of the deconsolidating the revenues from the company that heads US operations in November, after FCC's stake was diluted in a capital increase at that subsidiary.

The Group's two main areas, Water and Environmental Services, experienced differing impacts. Environmental Services revenues declined by 4.5% due to the average 11.4% depreciation by sterling in the period and also to completion of construction of a treatment plant in the UK that came into service in June. Adjusting for those two effects, revenues were stable in Environmental Services, commensurate with business performance in a situation of generally stable prices, in line with the broad economy. Water revenues declined by 2.3% due entirely to the persistent contraction of the Technology and Networks area (design, engineering and outfitting of water infrastructure) because of cutbacks in government spending to address the budget deficit.

Revenue breakdown, by region

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Spain	3,072.5	3,407.8	-9.8%
United Kingdom	889.3	1,029.1	-13.6%
Middle East & North Africa	725.5	610.8	18.8%
Central Europe	535.9	520.2	3.0%
Latin America	336.1	491.5	-31.6%
US and Canada	247.7	256.5	-3.4%
Others	144.6	160.1	-9.7%
Total	**5,951.6**	**6,476.0**	**-8.1%**

In Spain, revenues fell by 9.8% to €3,072.5 million due almost entirely to the aforementioned contraction of the domestic Construction business (35.4%). Cement revenues declined by 5.9% because of falling sale prices and a slight reduction in volumes.

Outside Spain, revenues expanded by 18.8% in the Middle East and North Africa due to progress with major projects, particularly Riyadh Metro, as well as a higher contribution by network and water treatment projects in the Water division in Saudi Arabia (Riyadh and Mecca).

In the UK, the Group's second largest market, revenues declined by 13.6% due to a combination of factors that were concentrated in the Environmental Services area. One was the depreciation by sterling (-11.4%) as a result of the Brexit vote, and another was the completion of construction work on treatment plants following the commissioning of the Buckinghamshire plant in June, plus the reduction in revenues as a result of lower collection of landfill fees for the Administration.

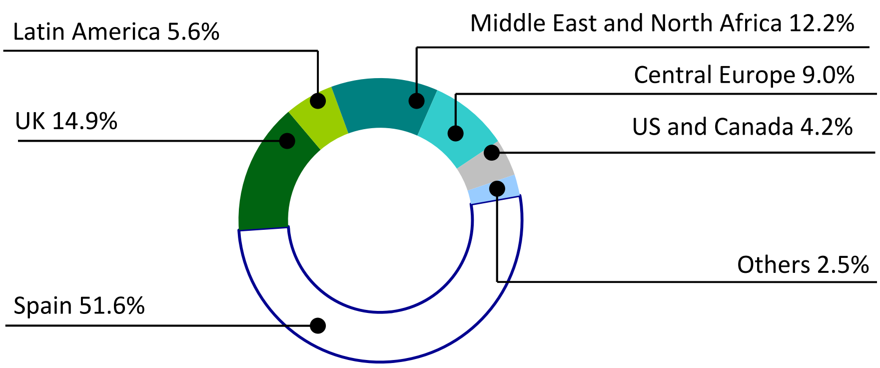
Revenues in Latin America fell by 31.6% due to the time lag between the completion of major construction works, such as Panama Metro Line 1 and projects in Colombia and Costa Rica, and the start of other projects such as Lima Metro and Panama Metro Line 2. In the Water division, a number of projects in Chile and Mexico also concluded, although this effect was partly offset by progress with canalisation in Montevideo (Uruguay).

Revenues in Central Europe increased by 3%, due to increased activity in the Environmental Services division in most countries in the region, particularly the Czech Republic and, to a lesser extent, Austria.

In the United States and Canada, revenues declined 3.4% as a result of deconsolidating the parent company of the Cement business in that region in November 2016. Adjusting for this change, like-for-like revenues in the United States and Canada increased by 40.9% as a result of faster progress with construction of the Gerald Desmond Bridge in Los Angeles, in the Construction area, and the start-up of two waste collection and treatment contracts (in Florida and Texas) in the first half of the year within the Environmental Services division.

The 9.7% decline in Other markets was due entirely to completion of a number of construction contracts in Portugal.

% Revenues by region



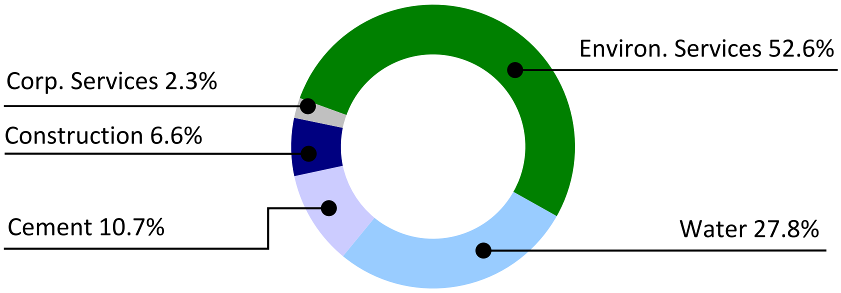
2.1.4.2. EBITDA

EBITDA amounted to €833.7 million in 2016, a 2.3% increase year-on-year due to a sharp reduction in support and administration expenses throughout the Group. These expenses continued to decline, having fallen by 12.6% in 2016. Notable savings have been achieved in Corporate Services, which contributed a net €19.4 million of EBITDA in 2016, contrasting with a loss of €-8.3 million in 2015.

Environmental Services achieved 3.2% growth to €438.7 million despite sterling's depreciation in the year, which cut €13.9 million off this area's EBITDA. Results in the period show a limited contribution from the Buckinghamshire recycling plant, which came into service in the third quarter. Water achieved a 1.7% increase due to the higher contribution from concessions, as operating efficiency is increasing and value-added contracts are coming into operation.

The main impact in Cement was the deconsolidation on 1 November of the Cement business in the US after FCC's stake was diluted to 35.6% attributable to FCC (as a result, it is now equity-accounted). Although its EBITDA declined by 5.4% in 2016, to €89.2 million, it actually registered a 2.4% increase year-on-year in like-for-like terms, since higher exports and a general reduction in energy expenses offset the effect of slack demand in Spain. The reduction in Construction was mainly due to the decline in revenues mentioned above.

% EBITDA by Business Area



As a result, at 31 December 2016, the Environmental Services and Water areas accounted for 80.4% of Group EBITDA, while 19.6% came from cyclical businesses, linked to demand for infrastructure and building.

2.1.4.3 EBIT

EBIT amounted to €93.6 million, compared with €323.8 million in 2015. The difference between years is attributable mainly to two factors: one was the impairment of goodwill in the Cement area in September, amounting to €299.9 million (€187.2 million in the Cement area and the remainder in the stake in the parent company) to reflect the impact on this item of the delay in the demand recovery in Spain, attributable primarily to the decline in public expenditure this year. The other was an extraordinary provision of €53.4 million booked in the Construction area in May to adjust overheads to the ongoing decline in infrastructure investment in Spain. Adjusting for those two extraordinary items and other lesser factors such as the €54.3 million adjustment to the Cement interest in the US after the loss of control, EBIT would have increased by 21.2% with respect to 2015.

2.1.4.4 Earnings before taxes (EBT) from continuing operations

Earnings before taxes from continuing operations were negative in the amount of €161.2 million, compared with €5.7 million in 2015, due to the extraordinary provisions discussed in the section on EBIT and to the following items:

2.1.4.4.1Financial income

Net financial expenses declined by 18.4% year-on-year in 2016, to €289.1 million, mainly as a result of higher financial revenues and the progressive impact of measures to reduce debt and the associated interest expenses. The financial result in the first half of 2016 included a positive contribution of €58 million from the reduction of the Tranche B debt in April by means of a Dutch auction, while the reduction in interest expenses includes the decline in the Cement area and the effect of repaying much of the FCC, S.A. convertible bond.

2.1.4.4.2Other financial results

This item, amounting to €-27.1 million (vs. €-10.6 million in 2015), reflects the €22.1 million variation in the value of financial instruments and other impairments that were partly offset by the €13.8 million gain on the sale of a 10% stake in the Malaga Metro concession.

2.1.4.4.3Equity-accounted affiliates

Companies accounted for using the equity method contributed €56.4 million in income, mainly as a result of the haircut on Realia debt agreed upon with the lenders, which enabled this investee to contribute €31.5 million, and the €16.4 million in dividends received from a stake in a renewable energy company.

2.1.4.5 Income attributable to equity holders of the parent company

Net attributable income in 2016 amounted to €-165.2 million, compared with a loss of €-46.3 million in 2015. This was the result of incorporating the following items into EBT:

2.1.4.5.1Income tax

The corporate income tax expense amounted to €33.8 million in 2016, contrasting with revenue of €40.8 million in 2015 due to application of tax credits in the Environmental Services area.

2.1.4.5.2 Income from discontinued operations

Discontinued operations contributed a loss of €7.3 million, corresponding to GVI (unchanged since the beginning of the year), due to the impact on earnings of the sale of GVI in the first quarter, mainly from the cancellation of the related financial instruments.

2.1.4.5.3 Non-controlling interests

Non-controlling interests, concentrated mainly in the Cement business, were attributed a loss of €41.9 million, compared with €7.9 million in 2015. The increase is due to their share of the impairment of goodwill booked in this area in the third quarter.

2.1.5 Balance Sheet

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Intangible assets	2,536.3	3,026.4	(490.1)
Property, plant and equipment	2,534.6	3,146.4	(611.8)
Equity-accounted affiliates	669.0	587.0	82.0
Non-current financial assets	322.3	392.8	(70.5)
Deferred tax assets and other non-current assets	946.6	1,031.8	(85.2)
Non-current assets	**7,008.7**	**8,184.3**	**(1,175.6)**
Non-current assets available for sale	14.9	235.9	(221.0)
Inventories	581.6	648.6	(67.0)
Trade and other accounts receivable	1,754.7	2,217.1	(462.4)
Other current financial assets	263.7	230.7	33.0
Cash and cash equivalents	1,146.1	1,345.5	(199.4)
Current assets	**3,761.1**	**4,677.8**	**(916.7)**
TOTAL ASSETS	**10,769.8**	**12,862.1**	**(2,092.3)**
Equity attributable to equity holders of parent company	791.3	280.7	510.6
Non-controlling interests	145.5	206.5	(61.0)

Net equity	**936.8**	**487.2**	**449.6**
Grants	225.5	248.3	(22.8)
Non-current provisions	1,175.6	1,254.1	(78.5)
Long-term interest-bearing debt	4,590.1	5,612.2	(1,022.1)
Other non-current financial liabilities	69.2	66.6	2.6
Deferred tax liabilities and other non-current liabilities	535.3	536.7	(1.4)
Non-current liabilities	**6,595.6**	**7,717.8**	**(1,122.2)**
Liabilities linked to non-current assets available for sale	14.9	15.9	(1.0)
Non-current provisions	202.9	194.7	8.2
Short-term interest-bearing debt	411.0	1,437.6	(1,026.6)
Other current financial liabilities	82.2	91.8	(9.6)
Trade and other accounts payable	2,526.3	2,917.0	(390.7)
Current liabilities	**3,237.3**	**4,657.0**	**(1,419.7)**
TOTAL LIABILITIES	**10,769.8**	**12,862.1**	**(2,096.0)**

2.1.5.1 Equity-accounted affiliates

The investment in equity-accounted companies (€669.0 million) comprised the following at 31 December 2016:

1) €206.0 million for the 36.9% stake in Realia, which increased substantially due to two capital increases and to income for the year.
2) €74.7 million for investments in companies in the Water area, mainly service concession companies in other countries (North Africa and Mexico).
3) €77.3 million for holdings in companies in the Environmental Services area (recycling and municipal services, mainly in Spain and the UK).
4) €48.8 million for the 35.6% stake in Giant Cement Holding, the parent company of the Cement division in the US, which is now equity-accounted, whereas it was fully consolidated at 2015 year-end.
5) €262.2 million for the other holdings (transport infrastructure concessions and renewable energy companies) and loans to affiliated companies.

2.1.5.2 Non-current assets and liabilities available for sale

The balance of €14.9 million in non-current assets available for sale at the end of the year was practically unchanged and related entirely to the residual business of Cemusa in Portugal. Those assets had associated liabilities for the same amount: €14.9 million.
The decline in the balance with respect to 2015 year-end is due to completion of the sale of 50% of GVI in the first quarter of 2016.

2.1.5.3. Cash and cash equivalents

The reduction of €199.4 million in 2016, to a balance of €1,146.1 million, is due mainly to the inflow of funds from the capital increase completed in March (€709.5 million), which was amply offset by repayment of €417.7 million of principal of the FCC, S.A. convertible bond in the fourth quarter of 2016, and by the use of part of the funds from the capital increase to cancel the former financing of the Cement area in the third quarter, as well as partial repayment of the FCC, S.A. syndicated loan in the second quarter.

2.1.5.4. Net equity

At 2016 year-end, net equity amounted to €936.8 million, a sizeable increase over 2015 year-end due to the additional capital raised in the period, which strengthened the Group's structure and finances and absorbed the impairment booked in the Cement area in the third quarter in response to the delay in the projected recovery in demand in Spain.

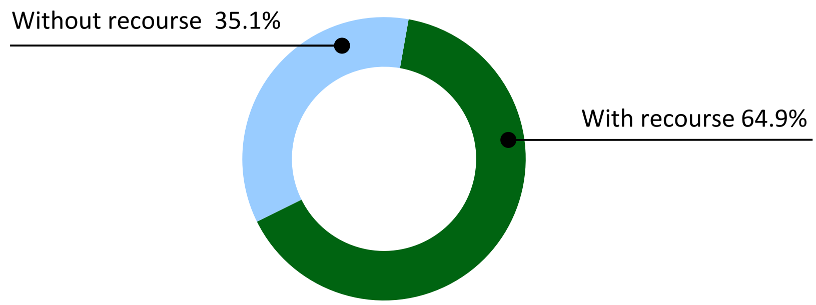
2.1.5.5. Net interest-bearing debt

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Bank borrowings	4,536.1	5,647.7	(1,111.6)
Debt instruments and other loans	232.4	1,088.5	(856.1)
Accounts payable due to financial leases	49.4	62.1	(12.7)
Derivatives and other financial liabilities	183.1	251.5	(68.4)
Gross interest-bearing debt	**5,001.1**	**7,049.8**	**(2,048.7)**
Cash and other current financial assets	(1,410.1)	(1,576.2)	166.1
Net interest-bearing debt	**3,590.9**	**5,473.6**	**(1,882.7)**
With recourse	*2,329.1*	*3,254.3*	(925.2)
Without recourse	*1,261.8*	*2,219.3*	(957.5)

At the end of 2016, net interest-bearing debt amounted to €3,590.9 million, a notable €1,882.7 million reduction with respect to 2015 year-end. This reduction was the result of several factors, including notably: The net influx of cash (€708 million) from the capital increase performed in March. The effect of deconsolidating the debt connected with the cement business in the US after FCC lost control (€436.4 million at 2015 year-end). Receipt of the advance for completion and commissioning of the Buckinghamshire recycling and incineration plant in June (€219.6 million), and realisation of customer receivables. Other current financial assets increased by €106 million due to the second instalment (due in February 2017) of the price of the sale of GVI, which took place in the first quarter of 2016.

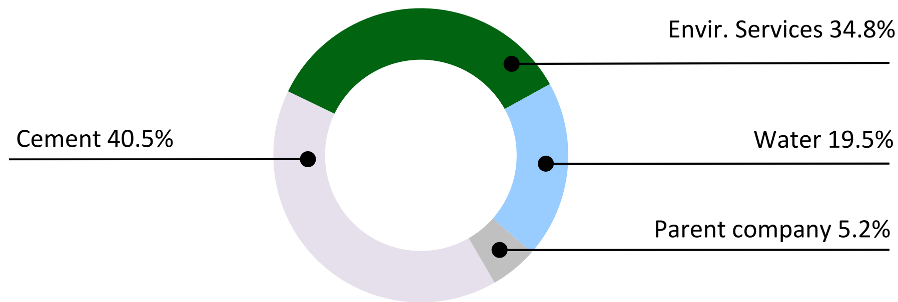
Gross interest-bearing debt, which is the basis of financial expenses, declined substantially, by €2,048.7 million to €5,001.1 million, due mainly to repayment of €386.4 million of Tranche B (including a 15% haircut), repayment of the debt associated with the Buckinghamshire project, repayment of Tranche A of the syndicated loan (€140.9 million), repayment of debt at the Cement division parent company (€284 million) under the new funding structure instituted in the third quarter, repayment of the bulk of the FCC, S.A. convertible bond (€417.7 million of principal and €10 million of accrued coupon), and deconsolidation of debt in the US Cement operations, as discussed earlier.

Debt with and without recourse



Net financial debt is divided between corporate debt (64.9%) and debt without recourse (35.1%). Net debt with recourse amounted to €2,329.1 million at 31 December 2016, including mainly legacy debt from the acquisition of a number of operating companies in the various divisions, excluding Cement, structured as a syndicated loan.

Net debt without recourse, by area



Net interest-bearing debt without recourse to the Group parent company amounted to €1,261.8 million at year-end. A large proportion of that is connected to the Cement area (€511.4 million). Environmental Services accounts for €439 million (€342.1 million in the UK, €70.7 million in Central Europe and the remainder in other waste treatment and recycling plants in Spain and Portugal). Net debt without recourse in the Water area amounted to €246.2 million, of which €181.7 million relate to the Czech Republic and the other €64.5 million to a number of end-to-end water concessions in Spain. The €65.2 million at parent company level are the net project debt of the concession companies for the Coatzacoalcos tunnel in Mexico and the Conquense highway in Spain.

2.1.5.6. Other current and non-current financial liabilities

The balance of other current and non-current financial liabilities, which do not qualify as interest-bearing debt, was €151.4 million at 2016 year-end. It includes financial liabilities such as those associated with hedging derivatives, suppliers of fixed assets, and deposits and guarantees received.

2.1.6. Cash flow

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
EBITDA	**833.7**	**814.6**	**2.3%**
(Increase)/decrease in working capital	331.4	(35.7)	n/a

Income tax (paid)/received	(48.6)	(77.2)	-37.0%
Other operating cash flow	(91.6)	(101.4)	-9.7%
Operating cash flow	**1,024.9**	**600.3**	70.7%
Investment payments	(448.6)	(431.9)	3.9%
Divestment receipts	294.2	38.5	n/a
Other investing cash flow	59.7	(19.2)	n/a
Investing cash flow	**(94.7)**	**(412.6)**	**-77.0%**
Interest paid	(316.3)	(269.5)	17.4%
(Payment)/receipt of financial liabilities	(1,452.7)	(90.2)	n/a
Other financing cash flow	677.7	(32.8)	n/a
Financing cash flow	**(1,091.3)**	**(392.5)**	**178.0%**
Exchange differences, change in consolidation scope, etc.	(38.3)	13.1	n/a
Increase/(decrease) in cash and cash equivalents	**(199.4)**	**(191.6)**	**4.1%**

2.1.6.1. Operating cash flow

Operating cash flow improved substantially in 2016 to a positive figure of €1,024.9 million, a sizeable €424.6 million improvement on the figure one year earlier.

This was due to a high level of cash conversion and a strong positive variation in working capital. It also reflects the effect of the reduction of accounts payable in June following handover of the recycling plant in the UK by the Environmental Services division. This improvement, coupled with higher realisation of customer receivables, amply offset the payment of €126.3 million for deferral of prior years' taxes. The refund in 2016 is deemed to conclude the payments for these deferrals, and no amount remains outstanding.

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Environmental services	326.2	(71.7)	397.9
Water	21.6	(3.3)	24.9
Construction	41.0	71.0	(30.0)
Cement	(10.4)	9.9	(20.3)
Corporate services and adjustments	(47.0)	(41.6)	(5.4)
(Increase)/decrease in working capital	**331.4**	**(35.7)**	**367.1**

Other operating cash flow reflects the application of €73.1 million in provisions in the Construction area, linked partly to the structure adjustment plan that was completed in 2016, as well as other lesser amounts in the Water and Environmental Services areas.

2.1.6.2. Investing cash flow

Investing cash flow amounted to €94.7 million, contrasting with a negative €412.6 million in 2015.

Investment payments in 2016 amounted to €448.6, similar to 2015, though this year it included €87.3 million (in proportion to the Company's 36.9% stake) of two capital increases completed at Realia in the year. Investment in Environmental Services, one of the most capital-intensive areas, declined to €216.5 million, from €270.7 million the previous year, due to completion of construction of the Buckinghamshire (UK) waste incineration plant in May and efforts to contain costs throughout this division.

Receipts increased substantially to €294.2 million in 2016, compared with €38.5 million in 2015. This increase was due to a number of divestments. In Corporate Services, the first instalment for the sale of GVI, amounting to €103.8 million (to be followed by a second instalment in February 2017), plus €76 million received for a number of concession divestments. Additionally, it includes €63.4 million in the Environmental Services area as the advance received for the financial asset corresponding to completion and commissioning of the recycling plant in the UK.

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

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Environmental services	(150.9)	(250.1)	99.2
Water	(55.0)	(71.3)	16.3
Construction	(22.7)	(40.1)	17.4
Cement	0.9	(12.6)	13.5
Corporate services and adjustments	73.3	(19.3)	92.6
Net investments *(Payments - Receipts)*	**(154.4)**	**(393.4)**	**239.0**

Other investing flows refer to the financial interest received plus other changes in loans to third parties and investees, mainly in the Water and Construction divisions.

2.1.6.3. Financing cash flow

Consolidated financing cash flow amounted to €1,091.3 million in 2016, far higher than the 2015 figure (€392.5 million). That figure includes the aforementioned cash outflows, i.e. repayment of €417.7 million of the FCC, S.A. convertible bond and €140.9 million in principal of the parent company's syndicated loan, repayment of the bulk of Tranche B of that loan, by means of a Dutch auction, for €315.3 million, repayment of €284 million due to cancellation of the pre-existing funding of the Cement division's parent company, and repayment of €219.6 million in debt in the Environmental Services division as a result of collecting the advance in June upon entry into service of a treatment and recycling plant in the United Kingdom.
Cash inflows include €708 million raised in the capital increase on 4 March 2016.
Interest expenses amounted to €316.3 million in 2016, compared with €269.5 million in 2015; this variation is due to the substantial reduction in debt in 2016 and to the calendar of accruals and actual payment of debt servicing costs.

2.1.6.4. Exchange differences, change in consolidation scope, etc.

This item was negative in the amount of €38.3 million in 2016, contrasting with the positive difference of €13.1 million in 2015. This change is due to the impact of currency fluctuations on cash, concentrated in the Environmental Services area (UK) and, to a lesser extent, in other markets in the Water division.

2.1.6.5. Variation in cash and cash equivalents

Combining the foregoing flows, and broadly as a result of the reduction in gross interest-bearing debt, the Group's cash position was reduced by €199.4 million with respect to 2015 year-end, to €1,146.1 million at 31 December 2016.

2.1.7. Business Performance

2.1.7.1. Environmental Services

The Environmental Services area accounts for 52.6% of FCC Group EBITDA. A total of 95.3% of its activities involve municipal solid waste collection, treatment and disposal, along with other municipal services such as street cleaning and green area upkeep. The other 4.7% corresponds to industrial waste collection and management.

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 and Eastern Europe, mainly Austria and the Czech Republic, FCC has a balanced presence throughout the municipal waste management chain (collection, processing and disposal). In Portugal and other countries, FCC is involved in both industrial and municipal waste management.

2.1.7.1.1 Results

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Revenues	2,728.1	2,855.6	-4.5%
Environment	*2,598.7*	*2,731.5*	*-4.9%*
Industrial Waste	*129.4*	*124.1*	*4.3%*
EBITDA	438.7	425.3	3.2%
EBITDA margin	16.1%	14.9%	*1.2 p.p.*
EBIT	221.8	191.5	15.8%
EBIT margin	8.1%	6.7%	*1.4 p.p.*

Revenues in the Environmental Services area declined by 4.5% to €2,728.1 million in 2016, mainly as a result of a reduction in revenues in the United Kingdom.

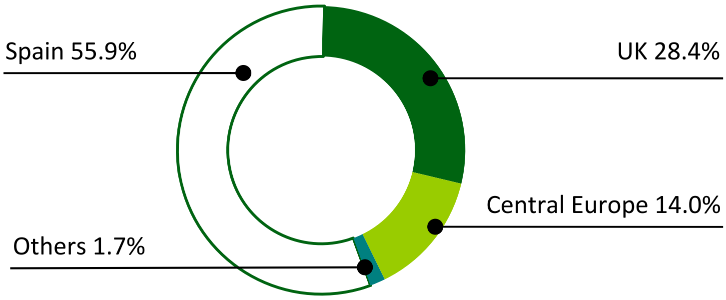
Revenue breakdown, by region

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Spain	1,526.0	1,518.1	0.5%
United Kingdom	776.0	926.9	-16.3%
Central Europe	381.7	369.0	3.4%
Portugal, etc.	44.4	41.6	6.7%
Total	**2,728.1**	**2,855.6**	**-4.5%**

Revenues in Spain amounted to €1,526 million, in line with the previous year, whereas revenues in the UK declined by 16.3% to €776 million due mainly to the negative effect of sterling's depreciation (-11.4%) and, to a lesser extent, to completion of construction of the Buckinghamshire waste incineration plant, which came into service in June under a 30-year concession.

Revenues in Central Europe increased by 3.4% to €381.7 million, supported basically by expanding business in the Czech Republic and, to a lesser extent, in Austria. Revenues in other markets increased by 6.7% due to the contribution by the United States — mainly revenues from the waste collection contract in Orange County (Florida).

Revenue breakdown, by region



EBITDA amounted to €438.7 million, a 3.2% increase on 2015, favoured by a 1.2 percentage point improvement in the EBITDA margin to 16.1%. This increase in the margin, achieved despite depreciation of the pound sterling, is due, among other factors, to the higher contribution resulting from entry into service of the Buckinghamshire waste incineration plant, as well as the effect of winding down the landfill business in the UK.

EBIT amounted to €221.8 million, a 15.8% increase year-on-year, due mainly to lower depreciation and amortisation.

Backlog breakdown, by region

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Spain	6,663.9	7,112.0	-6.3%
International	4,487.8	4,713.7	-4.8%
Total	**11,151.7**	**11,825.7**	**-5.7%**

The area's backlog declined by 5.7% with respect to 2015 year-end. The backlog declined by 6.3% in Spain due to a lower order intake, while it fell by 4.8% in the international areas, basically as a result of sterling's depreciation against the euro, which had an impact of close to €570 million. The contract to build and operate the Edinburgh and Midlothian (Scotland) incineration plant, worth €511 million, was added to the backlog in the fourth quarter after it achieved financial completion. The total backlog amounts to over 4 times revenues in the last twelve months.

2.1.7.1.2. Cash Flow

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
EBITDA	**438.7**	**425.3**	**3.2%**
(Increase)/decrease in working capital	326.2	(71.7)	n/a
Income tax (paid)/received	(41.6)	(26.4)	57.6%
Other operating cash flow	(7.6)	7.0	n/a
Operating cash flow	**715.7**	**334.2**	**114.2%**
Investment payments	(216.5)	(270.7)	-20.0%
Divestment receipts	65.6	20.6	n/a
Other investing cash flow	7.6	16.2	-53.1%
Investing cash flow	**(143.3)**	**(233.9)**	**-38.7%**
Interest paid	(85.2)	(95.4)	-10.7%
(Payment)/receipt of financial liabilities	(506.2)	(6.3)	n/a

Other financing cash flow	(54.5)	(120.5)	-54.8%
Financing cash flow	**(645.9)**	**(222.2)**	**190.7%**
Exchange rate variations, etc.	(30.5)	11.1	n/a
Increase/(decrease) in cash and cash equivalents	**(104.0)**	**(110.8)**	**-6.1%**

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Without recourse	439.0	659.6	(220.6)

Operating cash flow increased notably to €715.7 million, €381.5 million more than in 2015. This was due mainly to an improvement in EBITDA and a significant reduction in working capital, which includes the €156.2 million advance collected upon completion of development of the Buckinghamshire incineration plant, and a larger volume of non-recourse factoring.

Investment payments amounted to €216.5 million, 20% less than in 2015, mainly as a result of the lower impact of construction of the Buckinghamshire plant, and also of the containment of capital expenditure in this area as a whole.

Divestment receipts amounted to €65.6 million, related almost entirely, once again, to the part of the Buckinghamshire plant that was recognised as a financial asset under development at the end of the first half of 2016, as required by the accounting standards.

Net financial debt without recourse in this area declined sharply, by €220.6 million, driven by receipt of the advance associated with the Buckinghamshire incinerator, and also the positive effect of sterling's depreciation. Of the total outstanding debt, €342.1 million relates to the UK, €70.7 million to Central Europe and the remaining €26.2 million to waste treatment and recycling plants in Spain and Portugal.

2.1.7.2. End-to-end Water Management

The Water area accounted for 27.8% of FCC Group EBITDA in the period. Public concessions and end-to-end water management (capture, purification, distribution and treatment) account for 89.6% of total revenues, and Technology and Networks (design, engineering and outfitting of water infrastructure) account for the other 10.4%.

FCC serves more than 13 million people in over 850 municipalities in Spain. In Central Europe, FCC serves 1.3 million users, mainly in the Czech Republic. It also has a strong presence in Italy and Portugal. FCC designs, equips and operates water treatment plants in Latin America, the Middle East and North Africa. Overall, FCC Aqualia supplies water and/or sewage treatment services to over 23 million people.

2.1.7.2.1. Results

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Revenues	1,009.8	1,033.5	-2.3%
Concessions and services	*904.3*	*872.5*	3.6%
Technology and networks	*105.5*	*161.0*	-34.5%
EBITDA	231.4	227.5	1.7%
EBITDA margin	22.9%	22.0%	*0.9 p.p.*
EBIT	144.1	145.3	-0.8%
EBIT margin	14.3%	14.1%	*0.2 p.p.*

This area's revenues declined by 2.3% year-on-year, to €1,009.8 million, mainly as a result of the decline in the technology and networks business in the domestic market as public administrations cut back investment in water infrastructure. However, this decline was partly offset by the incipient contribution from the contracts obtained recently in Latin America and the Middle East.

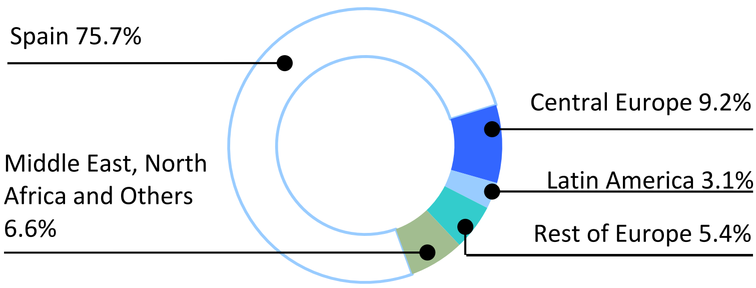
Revenue breakdown, by region

(M€)	Dec. 16	Dec. 15	Chg. (%)
Spain	764.8	779.8	-1.9%
Central Europe	93.2	92.1	1.2%
Latin America	31.7	62.0	-48.9%
Rest of Europe (Portugal and Italy)	54.4	62.8	-13.4%
Middle East, North Africa and Others	65.8	36.8	78.8%
Total	**1,009.8**	**1,033.5**	**-2.3%**

Central Europe increased by 1.2% as a result of updated tariffs and higher billing volumes in the water contract in the Czech Republic, operated through subsidiary SmVAK.

The decline in revenues in Latin America is due to the completion of several major projects in Mexico. However, this effect was broadly offset by growth in the Middle East and North Africa due to work on networks in Riyadh and a treatment plant in Djerba (Tunisia).

Revenue breakdown, by region



Despite the decline in revenues, EBITDA increased by 1.7% with respect to 2015, to €231.4 million, due to a significant increase in the EBITDA margin, to 22.9%. This was attributable to the combined effect of a lower contribution by the technology and network business and an increase in the profitability of the concession business, mainly as a result of improvements in contract operating efficiency and in structural and support expenses.

Backlog breakdown, by region

(M€)	Dec. 16	Dec. 15	Chg. (%)
Spain	8,753.0	9,924.2	-11.8%
International	6,202.9	4,519.5	37.2%
Total	**14,955.9**	**14,443.7**	**3.5%**

The backlog expanded by 3.5% with respect to 2015 year-end, to €14,955.9 million, i.e. close to 15 times revenues in the last 12 months. The international backlog expanded by 37.2% to €6,202.9 million, driven by the extension of business in the Czech Republic, a new contract to build a desalination plant in Egypt (€114.6 million), and another €148 million for the construction and operation of two waste water treatment plants in Colombia.

2.1.7.2.2. Cash Flow

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
EBITDA	**231.4**	**227.5**	**1.7%**
(Increase)/decrease in working capital	21.6	(3.3)	n/a
Income tax (paid)/received	(31.6)	(38.6)	-18.1%
Other operating cash flow	(3.3)	18.0	-118.3%
Operating cash flow	**218.1**	**203.6**	**7.1%**
Investment payments	(55.4)	(78.8)	-29.7%
Divestment receipts	0.4	7.5	-94.7%
Other investing cash flow	(58.9)	(88.4)	-33.4%
Investing cash flow	**(113.9)**	**(159.7)**	**-28.7%**
Interest paid	(37.6)	(37.2)	1.1%
(Payment)/receipt of financial liabilities	(47.8)	38.3	n/a
Other financing cash flow	(10.8)	(69.9)	-84.5%
Financing cash flow	**(96.2)**	**(68.8)**	39.8%
Exchange rate variations, etc.	(6.6)	(2.8)	135.7%
Increase/(decrease) in cash and cash equivalents	**1.4**	**(27.7)**	-105.1%

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Without recourse	246.2	249.8	(3.6)

Operating cash flow increased by 7.1% to €218.1 million due to the improvement in working capital, favoured by efforts made in this area to reduce the balance of customer receivables. The change includes the payment of €16.9 million of deferred taxes, compared with €22.9 million in 2015.

Payments for investments declined to €55.4 million, while other investing cash flow reflected a lower cash outflow for loans to other Group companies. This effect is eliminated at Group level and, consequently, has no impact on the consolidated cash flow statements.

Net debt without recourse declined slightly in 2016, to €246.2 million. Of that amount, €181.7 million is related to the business in the Czech Republic and the other €64.5 million to an end-to-end water concession in Spain (Aquajerez).

2.1.7.3. Construction

The Construction area is mainly involved in the design and construction of large civil engineering and industrial works in certain geographies. It operates in highly complex public works such as railways, tunnels and bridges, which, with industrial installation and maintenance projects, account for a large part of its activity.

2.1.7.3.1. Results

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**

Revenues	1,652.6	1,992.9	-17.1%
EBITDA	55.0	75.8	-27.4%
EBITDA margin	*3.3%*	*3.8%*	*-0.5 p.p*
EBIT	(47.4)	(19.2)	146.9%
EBIT margin	*-2.9%*	*-1.0%*	*-1.9 p.p*

This area's revenues amounted to €1,652.6 million in 2016, down 17.1% year-on-year due almost entirely to the 35.4% decline in Spain. As in previous quarters, this reduction is due to the ongoing cutback in government expenditure on infrastructure in Spain.

The fall in revenues in Spain is partly offset by revenues from other countries, which shrank by a more moderate 2.1% and now account for 64.8% of the area's total. The reduction in international revenues was a temporary effect, which lessened steadily as the year advanced, due to the completion of certain projects that were not fully offset by the commencement of new projects.

Revenue breakdown, by region

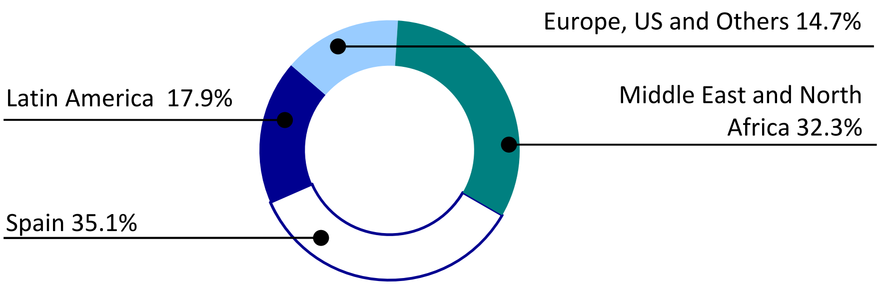
(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Spain	580.8	898.7	-35.4%
Middle East and North Africa	534.3	439.6	21.5%
Latin America	295.5	419.4	-29.5%
Europe, US, etc.	242.0	235.2	2.9%
Total	**1,652.6**	**1,992.9**	**-17.1%**

Revenues in the Middle East and North Africa continued to rise rapidly (+21.5%), mainly due to the execution of the Riyadh Metro project.

Revenues in Latin America continued to decline, as in previous periods, having fallen by 29.5% year-on-year due to the completion of major projects, such as Panama Metro Line 1, the Chucas hydroelectric dam, and the Panama Canal expansion. Nevertheless, the decline eased off as the year advanced due to the growing contribution from new projects, including notably Lima Metro in Peru and Panama Metro Line 2.

Revenues in Europe, the US and other markets increased by 2.9% due to the higher contribution from the Mersey and Gerald Desmond bridges, and to faster progress with a number of rail projects in Romania.

Revenue breakdown, by region



EBITDA amounted to €55.0 million, 27.4% less than in 2015. This was due to the continuing low volume of activity in the domestic market, recognition of losses on certain international projects, and certain provisions. Earnings recovered during the year, and margins improved slightly, which diluted the exceptional negative effects that were recognised in the year.

EBIT was negative in the amount of €47.4 million, due basically to a €53.4 million provision booked in May to adjust production resources to the decline in demand for infrastructure investment in Spain.

Backlog breakdown, by region

(M€)	Dec. 16	Dec. 15	Chg. (%)
Spain	1,038.7	1,358.8	-23.6%
International	3,443.6	4,871.5	-29.3%
Total	**4,482.3**	**6,230.3**	**-28.1%**

The area's backlog declined to €4,482.3 million, 28.1% less than at 2015 year-end. The decline in the backlog in Spain is due to persisting low demand for civil engineering. The reduction in the international backlog (-29.3% to €3,443.6 million) is due to the low order intake in the period, with bids being concentrated in large infrastructure projects, and also, to the readjustment caused by early completion of some projects in North Africa.

Backlog breakdown, by business segment

(M€)	Dec. 16	Dec. 15	Chg. (%)
Civil engineering	3,467.2	5,008.2	-30.8%
Building	654.9	907.2	-27.8%
Industrial projects	360.2	314.9	14.4%
Total	**4,482.3**	**6,230.3**	**-28.1%**

Civil engineering and industrial projects retained their importance, accounting for 85.4% of the total due to the increased order intake in connection with industrial facility projects, while building (almost entirely non-residential) accounted for the remaining 14.6%.

2.1.7.3.2. Cash Flow

(M€)	Dec. 16	Dec. 15	Chg. (%)
EBITDA	**55.0**	**75.8**	**-27.4%**
(Increase)/decrease in working capital	41.0	71.0	-42.3%
Income tax (paid)/received	8.4	(25.6)	-132.8%
Other operating cash flow	(108.4)	(25.7)	n/a
Operating cash flow	**(4.0)**	**95.5**	**-104.2%**
Investment payments	(50.3)	(52.4)	-4.0%
Divestment receipts	27.6	12.3	124.4%
Other investing cash flow	(57.3)	130.9	-143.8%
Investing cash flow	**(80.0)**	**90.8**	**-188.1%**
Interest paid	(12.2)	(11.7)	4.3%
(Payment)/receipt of financial liabilities	70.9	(72.5)	-197.8%
Other financing cash flow	0.1	0.0	n/a
Financing cash flow	**58.8**	**(84.2)**	**-169.8%**
Exchange rate variations, etc.	3.5	(39.1)	-109.0%

Increase/(decrease) in cash and cash equivalents	**(21.7)**	**63.0**	**-134.4%**

The area's operating cash flow was negative in the amount of €4 million, contrasting with a positive €95.5 million in 2015. This was attributable mainly to the reduction in EBITDA coupled with less favourable performance by working capital. Additionally, other operating cash flow included the release of provisions in connection with the workforce adjustment that took place between May and December 2016, and the closure of certain projects.

Working capital in 2016 included a €29.4 million payment of taxes deferred in prior years, with the result that the Area is up to date with its tax obligations.

Investment payments amounted to €50.3 million, a 4.0% decline year-on-year, and include mainly the investment in specialised machinery for certain contracts, particularly underground civil engineering work, and investment payments in connection with companies in the area. The sale of various machinery assets provided €27.6 million in divestment proceeds in the period. Other investing cash flow, which amounted to €57.3 million, basically refers to changes in loans to Group companies.

2.1.7.4. Cement

The Cement area accounted for 10.7% of FCC Group EBITDA in 2016, through the 77.9% stake in Cementos Portland Valderrivas (CPV). This area produces mainly cement; it has seven factories in Spain and one in Tunisia.

2.1.7.4.1. Results

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Revenues	536.2	580.4	-7.6%
Cement	480.1	514.9	*-6.8%*
Other	*56.1*	*65.5*	*-14.3%*
EBITDA	89.2	94.3	-5.4%
EBITDA margin	*16.6%*	*16.2%*	*0.4 p.p.*
EBIT*	(120.4)	28.6	-521.0%
EBIT margin	*-22.5%*	*4.9%*	*-27.4 p.p.*

** Includes impairment at CPV amounting to €187.2 million*

This area's revenues declined by 7.6% with respect to 2015, to €536.2 million, due to a decline of 6.8% in cement sales and of 14.3% in other businesses (concrete, mortar, aggregate and waste treatment). Revenues were affected by deconsolidation of the cement business in the United States (Giant Cement) as a result of dilution of FCC's stake in Cementos Portland Valderrivas to 45% and the resulting decision to recognise it by the equity method starting November.

Revenue breakdown, by region

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
Spain	185.5	197.2	-5.9%
US and Canada	186.1	212.8	-12.5%
Tunisia	68.7	80.3	-14.5%

UK and others	95.9	90.1	6.5%
Total	**536.2**	**580.4**	**-7.6%**

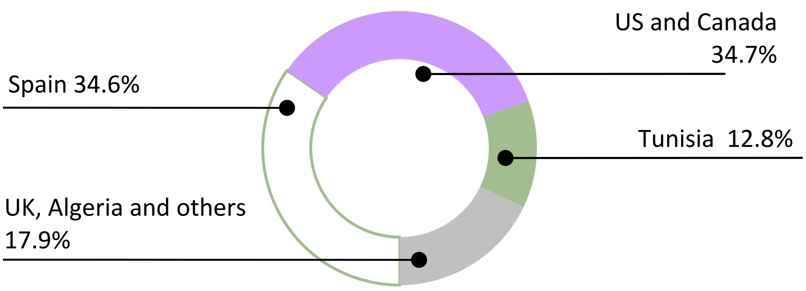
Revenues in Spain declined by 5.9%, due to the combination of slightly lower prices and a year-on-year decline in cement consumption due to shrinkage of the domestic market during the year.

Revenues fell by 12.5% in the United States and Canada due, as discussed in the previous point, to deconsolidating the US business in November, which had been providing more than one-third of the division's turnover. In the first nine months of 2016, revenues increased by 4.6% year-on-year, driven by a market recovery in terms of both cement volumes and prices.

Revenues declined by 14.5% in Tunisia, despite stable prices, because of the decline in domestic consumption and exports and, above all, of the dinar's 11% depreciation against the euro.

Revenues from exports to the UK and other markets increased by 6.5%, despite the adverse impact of the pound's depreciation, because of greater sales penetration in the UK.

Revenue breakdown, by region



EBITDA declined by 5.4% to €89.2 million, compared with €94.3 million in 2016. This decline was due mainly to the lower contribution from the business in the US, which was deconsolidated in November, and the negative impact of selling zero CO_2 emission rights in the period, contrasting with 3.9 million in 2015.

The Cement area recognised impairment of goodwill in the amount of €187.2 million in the third quarter, with the result that EBIT was negative in the amount of €120.4 million. This impairment, which has no impact on the area's cash flow, is due to the delay in the expected recovery by demand and prices in Spain caused by the additional setback in public expenditure this year. This item includes other income, including an accounting capital gain of €54.3 million as a result of the adjustment to the valuation of the stake in Giant Cement on changing it from global consolidation to the equity method.

2.1.7.4.2. Cash Flow

(M€)	**Dec. 16**	**Dec. 15**	**Chg. (%)**
EBITDA	**89.2**	**94.3**	**-5.4%**
(Increase)/decrease in working capital	(10.4)	9.9	-205.1%
Income tax (paid)/received	0.2	(6.9)	-102.9%
Other operating cash flow	(4.2)	(10.7)	-60.7%
Operating cash flow	**74.8**	**86.6**	**-13.6%**

Investment payments	(11.9)	(16.8)	-29.2%
Divestment receipts	12.8	4.2	204.8%
Other investing cash flow	(2.5)	0.8	-412.5%
Investing cash flow	**(1.6)**	**(11.8)**	-86.4%
Interest paid	(94.0)	(94.0)	0.0%
(Payment)/receipt of financial liabilities	37.5	3.7	913.5%
Other financing cash flow	(20.2)	(2.3)	778.3%
Financing cash flow	**(76.7)**	**(92.6)**	**-17.2%**
Exchange rate variations, etc.	(2.1)	3.4	-161.8%
Increase/(decrease) in cash and cash equivalents	**(5.6)**	**(14.4)**	**-61.1%**

(M€)	**Dec. 16**	**Dec. 15**	**Change (M€)**
Without recourse	511.4	1,248.9	(737.5)

Operating cash flow amounted to €74.8 million, a 13.6% decline with respect to 2015, due mainly to a temporary negative variation in working capital that will reverse in the coming months.

Financing cash flow in 2016 includes both interest payments and the early repayment of Giant Cement's debt in October.

Capital expenditure kept pace with demand and was confined to preventative and maintenance expenses. Cash outflows under this heading in 2016 amounted to €11.9 million, compared with €16.8 million in 2015. Additionally, recovery of deposits and sureties as a result of refinancing the debt of this area's parent company resulted in divestment receipts amounting to €12.8 million, compared with €4.2 million in 2015.

The area's interest-bearing debt to third parties is without recourse to FCC. The €737.5 million reduction in this item with respect to 2015 year-end is due mainly to the partial repayment of the area parent company's syndicated loan in the third quarter, and to the deconsolidation of the debt associated with the US business after the stake in Giant Cement was diluted to 45%.

2.2. Business performance. Environment

The information relating to the FCC Group's Environmental Policy is described in greater detail in Note 29 to the consolidated financial statements.

The FCC Group's strategy is based on a commitment to social responsibility in relation to environmental services, complying with the applicable legal requirements, respect for its relationship with its stakeholders and its desire to generate wealth and social well-being.

At the FCC Group, the following principles, which form the basis of its contribution to sustainable development, are encouraged and stimulated throughout the organisation:

– Continuous improvement: To promote environmental excellence through the setting of targets to achieve continuous improvement in the performance of activities, while minimising the negative impacts of the FCC Group's processes, products and services and strengthening the positive impacts.

– Control and monitoring: To establish environmental indicator management systems for the operational control of processes, which provide the necessary information for monitoring, assessing, taking decisions on and communicating the FCC Group's environmental efforts, and ensure compliance with the commitments acquired.

– Climate change and prevention of pollution: To lead the battle against climate change by implementing processes involving reduced emission of greenhouse gases and by promoting energy efficiency and the use of renewable energies. To prevent pollution and protect the natural environment through responsible management and consumption of natural resources and by minimising the impact of the emissions, discharges and waste generated and managed as a result of the FCC Group's activities.

– Care for the environment and innovation: To identify the risks and opportunities pertaining to the activities with respect to the changing natural environment in order to promote innovation and the use of new technologies, and to generate synergies among the FCC Group's various activities.

– Life cycle of the products and services: To make environmental considerations a priority in the planning of activities, purchase of materials and equipment and in relationships with suppliers and contractors.

– Ensure the participation of all: To promote awareness and application of the environmental principles among employees and other stakeholders.

2.3. Business performance. Employees

Following is a detail, by business area, of the FCC Group’s headcount at 31 December 2016:

AREAS	SPAIN	ABROAD	TOTAL	%s of Total	% Chg. 2015
Environmental Services	30,758	8,710	39,468	72%	2.03%
Water Management	6,178	1,774	7,952	15%	4.18%
Construction	3,516	2,155	5,671	10%	-17.22%
Cement	763	330	1,093	2%	-35.13%
Central Services and Other	283	-	283	1%	-3.74%
TOTAL	**41,498**	**12,969**	**54,467**	**100%**	**-1.23%**

3. LIQUIDITY AND CAPITAL RESOURCES

Liquidity

To optimise its financial position, the FCC Group maintains a proactive liquidity risk management policy by monitoring cash and its projections on a daily basis.

The FCC Group meets its liquidity requirements through the cash flows generated by the businesses and through the financial agreements reached.

With a view to improving its financial position, the Group actively manages collection from its customers to ensure they meet their payment obligations.

For the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, the Group has the cash disclosed in the consolidated balance sheet (see Note 17 to the consolidated financial statements), and financing (detailed in Note 20 to the consolidated financial statements).

Note 30 of the consolidated report explains the policy implemented by the FCC Group to manage its liquidity risk and associated mitigating factors.

Capital resources

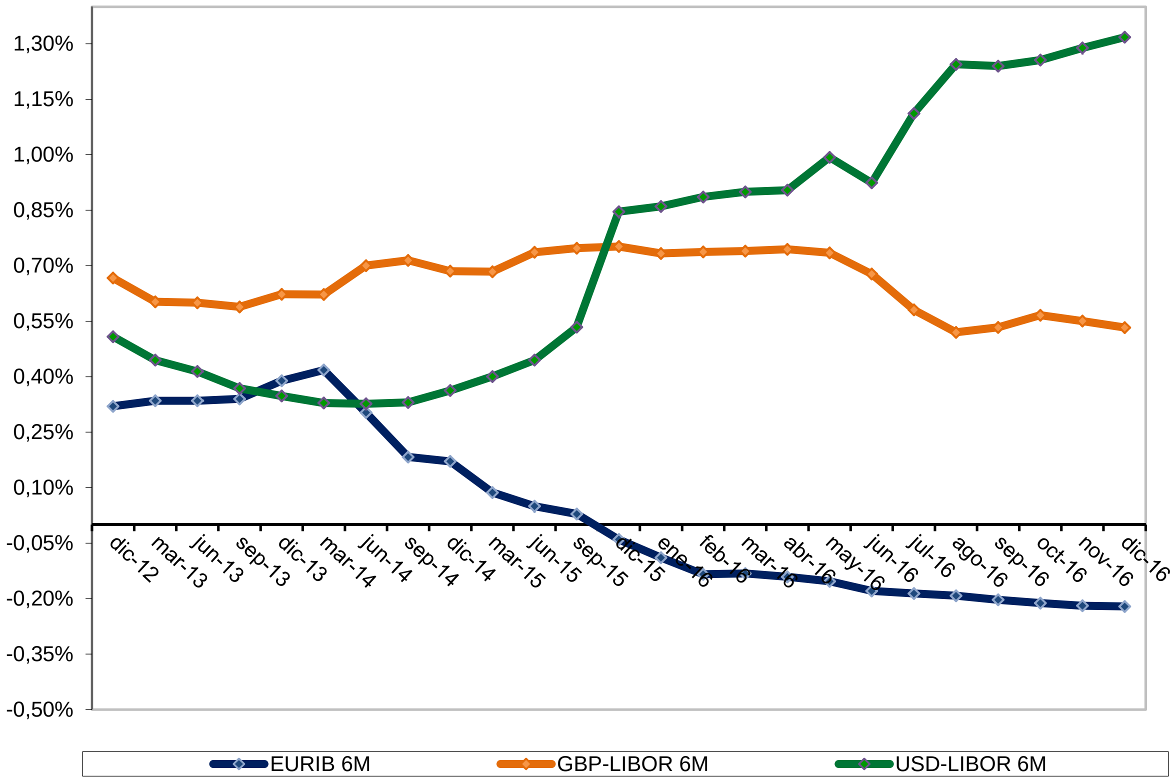
The Group manages its capital to ensure that the Group companies are capable of continuing as profitable and solvent businesses.

As part of capital management operations, the Group obtains financing through a wide variety of financial products from more than 50 Spanish and international financial institutions.

In 2014 the Group completed a EUR 4.528b global financing process and in recent years it has reached various limited recourse debt refinancing agreements (see Note 20 to the consolidated financial statements). At the end of 2014 a capital increase of almost EUR 1,000,000 thousand was effected, with another on 4 March 2016 for EUR 709,519 thousand, both allocated to strengthening the Company's capital structure.

In order to optimise the cost of capital resources, the FCC Group maintains an active interest rate risk management policy that includes ongoing monitoring of the market and assumes various positions based mainly on the financed asset.

How interest rates have evolved in recent years is shown below.



This section is discussed in further detail in Note 30 to the consolidated financial statements.

4. MAIN RISKS AND UNCERTAINTIES

The current risk-management policy, together with the system for developing it, was approved by the board of directors in October 2016. The risk-management policy and system have been designed to identify any potential events that if they were to occur would affect the FCC Group, and also to manage risks within the acceptable risk level, providing the board and management of FCC with a reasonable degree of assurance that their objectives can be met.

That is why it is key for them to be integrated into the organisation's business processes.

Risk management at FCC is governed by the following basic principles:

- Integrating the risk/opportunity vision
- Assigning responsibility
- Segregating duties/independence
- Homogenisation
- Monitoring and controlling risks
- Internal control
- Action plans
- Continuous assessment of the process
- Supervision by the Auditing and Control Committee.

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

The activities that fall within the scope of the risk-management system of the FCC Group include preparing and updating of risk maps and risk matrix and control of business units to enable FCC's consolidated risk map to be drawn up, as well as preparing risk-materialisation reports and action plans. Other activities included within the system are training, document control, monitoring and reviews of the system and continuous improvement.

In addition, the risk-management system also establishes internal communication mechanisms at various different levels: within the business unit via risk-management performance reports, between the Risks and Compliance Committee and the Risk Management role (e.g., risk-materialisation reports), and between the Internal Auditing Department, Risk Management and the Auditing and Control Committee.

Risk maps and the matrix of risks and controls include identification of the main risks in the various business areas, as well as controls established by management to mitigate the effect of those risks and valuation in terms of the likelihood of their occurrence and their impact on the financial statements of the business area analysed.

The process of drawing up risk maps for the business units includes the stages of setting targets, identifying risks, identifying processes, assessing risks according to their potential impact if they were to materialise and the likelihood of their occurrence, and identifying the personnel responsible for managing the risks identified.

The process of preparing the matrix of risks and controls for business units includes the stages of identifying key control activities to mitigate risks, assigning responsibilities for control and designing key indicators to enable a system of alerts to be established to warn of any deviations or materialisations.

The Group's risk-management system is based on the existence of three levels of risk management. The first two are located within the business unit that, as part of its business, gives rise to the FCC Group's exposure to risk. The third consists, first of all, of the corporate staff reporting to senior management (corporate departments) and finally the Internal Auditing and Risk Management and Compliance staff, who report to the Auditing and Control Committee.

FCC Construcción has a Risks and Compliance Committee with an executive role, whose duties, in accordance with the approved risk-management policy and system, include implementing the system, assuring compliance of the risk-management processes defined and developing sufficient control environments to mitigate and maintain risks within acceptable levels.

As established under the Regulations of the FCC Board of Directors, it is the responsibility of the full board to approve the company's risk-management and control policy, identifying any risks that the company considers to be major and implementing and monitoring the appropriate internal-control and information systems, in order to assure future viability and competitiveness, as well as making the appropriate decisions for their optimal development.

The role of the Auditing and Control Committee also includes supervising and studying a risk-management and control policy that identifies:

- The various different types of risks faced by the company, including – among financial or economic risks — contingent liabilities and other risks off-book risks.

- Setting the risk level that the company considers to be acceptable.

- Measures provided to mitigate the impact of the risks identified, if they should ever materialise.

- The information systems to be used to control and manage those risks, including contingent liabilities or off-book risks, referring them to the board for approval.

The first level of risk management and internal control is located on the operational lines of the business unit, which act as risk takers and are responsible for appropriately managing, monitoring and reporting the risk generated, including tax risks, in accordance with the risk appetite and risk limits authorise.

The second level is made up of support, control and supervision teams who oversee the effective control of the risk and its management in accordance with the risk appetite, including tax risks.

The Risk Management and Compliance Department is part of the third level of risk management and internal control. Its duties are related to supervising, coordinating, monitoring and integrating the risk-management and control process within the organisation. This third level also includes corporate functions (HR, Tax, Administration, Legal, etc.) and the internal-auditing function as the last line of defence.

The risk scenarios considered have been classified into four groups: Strategic risks, operational risks, compliance risks and financial risks.

4.1. Main Risks and Uncertainties. Operational risks

- Uncertainty and volatility of raw materials, energy and subcontracted services.

  The FCC Group, in the course of its activities, consumes high volumes of raw materials and energy, as well as working with numerous subcontractors and industrial firms. Changing economic conditions and uncertainty in general could give rise to oscillating prices that would have an impact on the FCC Group's results.

- Municipalisation of the management of services currently provided by the FCC Group.

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

- Disasters

  The complexity of certain environments in which the FCC Group operates increases exposure to the risk of suffering the effects of unforeseen events causing damage to people, assets or the environment, including natural disasters, terrorism and criminal acts.

- Information security

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

- Rescheduling of projects

  The financial and economic situation could cause public and private investment forecasts to be cut back, which could lead to various projects under way in Spain and abroad to be rescheduled, with considerable impact on their results, if clients fail to meet their undertakings while the FCC Group makes a constant effort to comply with its own.

- Risks derived from links to third parties

  The FCC Group may operate jointly with public authorities or private entities through various forms of partnership (companies, consortia, economic interest groups, joint ventures and similar). The members of such partnerships share the operational, economic and financial risks associated with certain projects or activities. Nevertheless, adverse developments in a project or business, in the underlying economic and political climate or in the partners' economic position could cause conflicts to arise, with negative effects on their performance and therefore also on the FCC Group.

- Repercussion of extraordinary costs in activities developed

  The FCC Groups' design and build activities expose it to certain risks that are inherent to contracting of that kind, such as the repercussion of extraordinary costs. In the Environmental Services, Water and Construction business areas, the FCC Group develops "turnkey" design and build contracts that are remunerated based on a fixed price. Whether the price of a turnkey contract is subject to review may vary according to the jurisdiction.

- Unilateral termination or amendment of contracts.

  Public Authorities may unilaterally amend or terminate certain contracts before they have been fully performed. In these cases, the compensation to be received by the FCC Group might not be sufficient to cover the losses incurred and, also, such compensation might be difficult to collect.

  Regardless of the nature and sum owed in compensation to the FCC Group under a concession or works contract terminated by the client, the FCC Group could need to take legal action or proceed to arbitration in order to receive it, thereby increasing its costs and delaying the receipt of compensation due.

- The departure of key technical and management staff could hamper the success of business operations.

  The success of the FCC Group's business operation largely depends on its key personnel with technical and management experience. If the FCC Group were to lose a substantial number of key personnel, although this is unlikely, they could be difficult to replace, complicating the successful management of the Group's business.

- Industrial disputes

  The Construction and Services divisions of the FCC Group are notably labour-intensive. Consequently, this, together with the fact that significant geographical diversity involves varying employment legislation, could give rise to individual or collective conflicts with employees for various reasons, undermining the company's production capacity and its reputation.

- Adaptation the FCC Group's personnel to the operations planned

  Maintaining a workforce at FCC that is not aligned with the Group's forecast contract-completion needs, in terms of both numbers and quality, could result in an oversized workforce, with high personnel costs relative to production, or undersizing, with the risk of being unable to complete the projects contracted with sufficient quality, resulting in delays and associated costs.

4.2. Main risks and uncertainties. Financial risks

The concept of financial risk refers to the changes in the financial instruments arranged by the FCC Group as a result of political, market and other factors and the repercussion thereof on the consolidated financial statements. The FCC Group’s risk management philosophy is consistent with its business strategy and seeks to achieve maximum efficiency and solvency at all times. To this end, strict financial risk management and control criteria have been established, consisting of identifying, measuring, analysing and controlling the risks incurred in the Group’s operations, and the risk policy has been integrated into the Group organisation in the appropriate manner.

In view of the Group’s activities and the transactions through which it carries on its business, it is currently exposed to the following financial risks:

Capital risk

Capital risk is described in greater detail in point 3 in this consolidated Directors’ Report.

Interest rate risk

In order to ensure a position that is in the FCC Group’s best interest, an interest rate risk management policy is actively implemented based on the ongoing monitoring of markets and on assuming different positions based primarily on the asset being financed.

Foreign currency risk

A Noteworthy consequence of the 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. The FCC Group's general policy is to mitigate, as far as possible, the adverse effect on its financial statements of exposure to foreign currencies, with regard to both transactional and purely equity-related changes. The FCC Group therefore manages the effect that foreign currency risk can have on the balance sheet and the statement of profit or loss.

Solvency risk

The most representative ratio for measuring solvency and capability of repaying the debt is: Net Debt/Ebitda.

The strong generation of operating funds and measures applied to the capital structure have enabled a substantial reduction in the net financial debt to be achieved.

Liquidity risk

Liquidity risk is described in greater detail in point 3 in this consolidated Directors’ Report.

Concentration risk

This risk arises from the concentration of financing transactions with common features which are distributed as follows:

- Sources of financing: in order to diversify this risk, the FCC Group works with numerous Spanish and international financial institutions in order to obtain financing.

- Markets/Geographical area (Spanish, foreign): the FCC Group operates in a wide variety of Spanish and international markets. The Group's debt is concentrated mainly in euros and the remainder in various currencies in several international markets.

- Products: the FCC Group arranges various financial products, including loans, credit facilities, bonds, syndicated transactions, factoring, discounting, etc.

- Currency: the FCC Group finances its operations in a wide variety of currencies, corresponding, whenever possible, to the country of origin.

Credit risk

The provision of services or the acceptance of orders from customers, whose financial solvency cannot be guaranteed at the time of acceptance, is not known or cannot be assessed by the Group, together with situations that may arise during the provision of a service or execution of an order that could affect the customer's financial position, could result in the risk of nonpayment of the amounts owed.

The Group requests commercial reports and assesses the financial solvency of its customers before entering into agreements with them and also engages in ongoing monitoring of customers, and has a procedure in place to be followed in the event of insolvency. In the case of public customers, the Group's policy is to not accept projects without an allocated budget and financial approval. Offers exceeding a certain collection period must be authorized by management of the Financial Department. Furthermore, late payment is monitored on an ongoing basis on the various management committees.

Financial derivatives designated as hedging instruments

In general, the financial derivatives arranged by the FCC Group are treated, for accounting purposes, in accordance with the regulations on hedge accounting described in the Notes to the consolidated financial statements. The main financial risk hedged by the FCC Group using derivative instruments relates to fluctuations in the floating interest rates to which the FCC Group companies' financing is tied. Financial derivatives are measured by experts on the subject that are independent from the Group and the entities financing it, using generally accepted methods and techniques.

The financial risks to which the Group is exposed are discussed in greater detail in Note 30 to the FCC Group's financial statements.

5. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 13 February 2017 the acceptance period for the Cementos Portland Valderrivas S.A. exclusion public acquisition bid (exclusion OPA; see Note 5.a of the consolidated report) expired. The exclusion OPA was accepted for 9,356,605 shares, representing 87.81% of the shares to which the OPA originally referred. Consequently, no forced sales are needed. The Group's effective participating interest following the operation is now 97.45%. On 24 February 2017 all the shares of Cementos Portland Valderrivas (51,786,608 in all) were excluded from trading.

Receipt from the sale of the shares of Xfera Móviles S.A. and transfer of participatory loans occurred on 7 February 2017 for a final sum of EUR 29,139 thousand. The sum initially estimated as at 31 December 2016 was EUR 24,285 thousand, i.e. impairment of the participatory loans of EUR 11,047 thousand. On the date of preparing these annual financial statements, in accordance with FRS 10 "Events Subsequent to Closure", the sum of that impairment has been adjusted accordingly (Note 14 of the consolidated report).

On 28 February 2017 the Company received EUR 106,444 thousand corresponding to the deferred price of the sale of the shares of Global Vía Infraestructuras S.A. (Notes 4.b and 5 of the consolidated report). As the receivable was valued as a current financial asset at fair value with changes in profit and loss at EUR 106,040 thousand, in accordance with the regulations no adjustment has been made with regard to the difference with the sum recorded in these consolidated financial statements

6. COMPANY OUTLOOK

Set forth below are the prospects for 2016 for the main business areas composing the FCC Group.

The countries where the **Environmental Services** division operates are undergoing a process of profound transformation, owing to the environmental requirements of national governments, driven by EU directives and being subject to a consolidation process, with an increase in concentration and the arrival of new competitors.

In the UK economic activity is expected to slow down in 2017, owing to cuts to public authorities' budgets

As for central and eastern Europe, moderate growth in central Europe, with risks of greater intervention and municipalisation of services in certain eastern European countries, such as Hungary.

With regard to opportunities in the US market, a large number of tender processes for urban-waste services will be launched in the coming years.

In the industrial-waste sector in Spain, there is a need for inspections to be intensified by some authorities, in order to detect and prosecute illegal practices more efficiently. These practices may result in environmental problems that pose a serious risk to people's health.

In Portugal there are major business opportunities related to decontamination actions on environmental liabilities.

In the area of end-to-end water management, certain concession contracts in Spain are set to come to an end in 2017, with similar renewal rates to those in 2016 expected, i.e. close to 100%, with a more active market this year offering better contracting opportunities. In the water-infrastructure area, in 2017 various concessions are likely to be opened up in treatment infrastructure, in order to progress with compliance with the Wastewater Treatment Plan, which is very deficient in rural areas, and subject to sanctions for infringements of EU requirements.

With the formation of the new government in the final quarter of 2016 a number of legislative initiatives and the transposition of EU directives have been resumed. However, no progress has been made with the setting-up of a state regulator, despite the considerable demand from all the stakeholders involved.

Internationally, in the Americas the deficit in water infrastructure increases FCC Aqualia's growth options, which have multiplied significantly following FCC's withdrawal from the capital of Proactiva, a company in which it was partnered with the French operator Veolia.

In Mexico, the experience gained with various contracts is being put to good use by planning for similar projects, where more demanding technical and financial capacities have made FCC Aqualia a benchmark.

In Colombia, Peru, Paraguay and Panama the respective governments have launched various water-improvements programmes that present interesting opportunities for new business.

In Portugal, the concessions business is expected to be reactivated after the local elections in the last quarter of 2017, spurred by the budget deficit suffered by local authorities and the need to invest in infrastructure.

In the Czech Republic, tender processes are expected to be launched for the private management of water and sanitation services in major towns and cities.

In North Africa, sea water desalination and waste water purification constitute business opportunities in the countries in which Aqualia already has a presence, as is the case in Tunisia and Egypt.

In the Middle East, where population growth is reaching up to 8% per year in some countries, the serious reduction in earnings from oil is forcing nations in the Gulf to withdraw subsidies and use private initiatives to develop their water-infrastructure projects.

In the **Construction** area, although the Spanish economy has begun to show signs of recovery, this improvement is not expected to give rise to any significant growth in the amount of public contracting, which continues to present levels that are far below those recorded before the 2008–2013 economic crisis. Given this situation of less public tendering in the Spanish market, FCC tends to look towards diverse international markets, particularly in emerging countries, where the boom in infrastructure developments presents an opportunity.

One objective of the Group in 2017 will be to seek contracts, mainly through the international market, by means of demanding risk management to give access to a selective portfolio of projects with assured profitability, higher profits and better cash generation.

Taking into account the foregoing, it is estimated that revenue in Spain in 2017 will remain similar with respect to 2016, due mainly to budgetary restrictions in the public sector.

However, revenue from abroad in 2017 is expected to be similar to that earned in 2016, with the performance of large infrastructure construction projects obtained in 2016 and 2015 and the contribution made by new markets in the Americas (Central America, Chile, Peru, Colombia and the US), the Middle East (Saudi Arabia and Qatar) and Europe (the UK and Romania).

In the Cement area in Spain, although the recovery of the Spanish economy continued in 2016, supported by improved interior demand, with a growth of 3.2% in GDP and an drop in unemployment to 18.6%, this has not been reflected in higher cement consumption, the demand for which fell by 3.1% in 2016 to 11.1 million tonnes, partly offset by an 5.6% increase in exports to 9.8 million tonnes.

For 2017 the expected improvement in the Spanish economy, together with greater political stability following the formation of a new government, leads us to believe that cement consumption may begin to grow again.

In Tunisia the local market cooled somewhat in 2016, with a 3.9% decrease in volume to 7.2 million tonnes. Exports to Algeria and Libya also fell over the course of the year, in the case of Algeria because of an increase in its own production capacity, and in Libya because of the unstable situation in the country, which may well continue throughout the current year.

In the US market, where the business has not been consolidated since November 2016 owing to the loss of control that occurred, the PCA (Portland Cement Association) expects domestic demand to rise by 3.1%, although it believes that its cement-consumption forecasts could be affected by the policies of the new US administration and Congress's support for them.

In this context, the Cementos Portland Valderrivas Group will continue to implement its policies to contain expenditure and optimise investment and adapt all organisational structures to the reality of the various markets in which it operates, in order to improve cash flow generation.

7. RDI ACTIVITIES

In 2016 the FCC Group's RDI activities encompassed more than 50 projects.

Set forth below is a description of the activities of the various business Areas and of the main projects carried out in 2016.

ENVIRONMENTAL SERVICES

In the environmental services area, aside from continuing with the research work in various projects that commenced in previous years, a new project, titled IoT, has been developed to devise a methodology for an efficient management system for street-cleaning services.

Notable projects in 2016 include:

- **VEMTESU:** Definition, design and development of an electric vehicle powered with batteries and ultra-condensers, with a self-supporting chassis and low cab.

- **ELECTRIC GUTTER CLEANER:** Definition, design and development of a fully electric heavy truck for urban hydrodynamic cleaning services. This is a vehicle with permanent electric traction with no mechanical transmission.

In addition, work continued on the **ADVANCED SOLUTION FOR THE GLOBAL MANAGEMENT OF ALL THE PROCESSES AND PLAYERS IN ENVIRONMENTAL CONTRACTS** project, which encompasses various objectives such as process improvement, swiftness of response vis à vis new business requirements, global access to more favourable functionalities, management of geo-referenced information, etc.

END-TO-END WATER MANAGEMENT

Aqualia's innovation activity was consolidated in 2016 with the addition of a new eco-efficiency line to each of the three areas developed previously: Sustainability, Quality and Smart Management, thanks to three new European projects under the umbrella of the H2020 programme.

The new eco-efficiency line covers the following projects:

- **RENOVAGAS:** project co-funded by Mineco Innpacto programme and led by Enagas. In October 2016 a methane-enrichment prototype was installed at the Jerez WWTP, using the CO2 from biogas and hydrogen produced with renewable electricity. Thanks to the catalytic reactor developed by Tecnalia, in 2017 the quality of the biofuel produced will be demonstrated for two vehicles, which were delivered with another project being run in tandem (Smart Green Gas).

- **CLEANWATER:** Project funded by the EU Eco-Innovation programme. A new method has been demonstrated for manufacturing hypochlorite on site at water plants, thereby avoiding the risks of using and transporting chlorine gas. The project has been undergoing trials since early 2016 in Almería, since September in Denia and beginning in 2017 in Nigrán.

- **SMART GREEN GAS:** project under the umbrella of the CDTI programme of Consorcios de Investigación Empresarial Nacional (CIEN). FCC Aqualia leads a consortium of five firms (Gas Natural Fenosa, Naturgas/EDP, Ecobiogas, Diagnostiqa, Dimasa Group) to develop efficient infrastructure for the production and management of biomethane networks. Aqualia's first actions in Jerez and Aranda del Duero have demonstrated that the quality control of the biomethane is sufficient to power vehicles.

- **MIDES:** a project under the H2020 Mides umbrella aims to revolutionise desalinisation by reducing the energy cost tenfold compared with conventional reverse osmosis. The technology used — the microbial desalinisation cell (MDC) was developed with Imdea Agua (in a previous IISIS project) — allows waste organic material (from effluents) to be used to activate bacteria that displace salts via membranes with no need for external energy sources. The project mobilises eleven partners from seven countries to implement the technology and set up three demonstration units on three continents: Europe (Spain), Africa and the Americas.

- **LIFE ANSWER:** under the umbrella of the Life Answer project, led by Mahou, also involves the University of Alcalá de Henares, which has developed the microbial-treatment-cell technology (fluidised MFC, in a previous ITACA project). The aim is to demonstrate the technology at Mahou's brewery in Guadalajara to achieve energy savings, combining it with an electro-coagulation pretreatment to enable aluminium to be recycled.

In the Sustainability area, projects include:

- **ALL-GAS:** consisting of producing bio-energy from wastewater treatment. The project is now in its final large-scale demonstration phase, with the building of 2 hectares of algae crops and a 2700 m^3 digester. In 2017, the transformation of up to 2,000 m^3/d of municipal effluent into biomethane to power up to 20 vehicles will be demonstrated. One car has already been running since the summer of 2016 using the biomethane produced by the 1,000 m^2 prototype.

- **INCOVER:** a project launched in 2016 and led by the Aimen technology centre, with Aqualia as the leading firm in a consortium of eighteen entities from seven countries. This project creates synergy with existing facilities and the knowledge acquired in ALL-GAS to extend the use of algae biomass in products of higher value, such as bio-fertilisers and bio-plastics, and improve the production of reusable water.

- **SABANA:** a project launched in 2016, led by the University of Almería, with Aqualia as the main principal industrial partner, together with Westphalia (Germany) and the Italian food group Veronesi in a consortium of eleven entities from five countries (also the Czech Republic and Hungary). The aim is to install 5 hectares of crops and a bio-refinery to achieve new bio-fertilisers and bio-pesticides as alternatives to chemical products, by using microalgae, to open the way to agriculture that is "safer" both for consumers and for the environment.

In the Quality area, projects include:

- **LIFE MEMORY:** in the framework of the development of the project a 50 m3 reactor has been commissioned in Alcázar de San Juan, demonstrating the technical and economic feasibility of an innovative technology, an Anaerobic Membrane Bioreactor (SAnMBR), which makes it possible to convert the organic matter contained in waste water directly into biogas. Without the conventional aerobic stage, energy consumption and CO2 emissions are reduced by up to 80%, with 25% less space required than a conventional aerobic WWTP and a reduction of around 50% in the volume of sludge produced.

- **LIFE BIOSOL:** a project titled Biosolar Water Reuse and Energy Recovery, led by the French SME Heliopur, has now completed the first demonstration stage at El Centa (Seville). The new solar wastewater treatment enables the water to be reused and organic waste to be recovered. Implementation on a larger scale at Almería WWTP is being assessed.

- **BIOWAMET BESTF2:** is being developed under the European ERANET programme, in partnership with Southampton and Delft universities. In synergy with the Life Memory project on anaerobic reactors with membranes, it is being implemented at a small EDAR in the Lower Ebro to obtain bio-energy and reusable water.

- **LIFE METHAMORPHOSIS:** Aqualia leads a consortium of six entities (with Área Metropolitana de Barcelona, FCC SA, Gas Natural, Icaen and SEAT). Three recently developed technologies are being built at Besós Ecopark, managed by the FCC Group: **ANMBR**, **ELAN** (autotrophic nitrogen elimination) and a biogas-washing system. The end product will be biomethane that can be injected into the natural-gas network or used as fuel for cars.

- **INNOVA E3N:** the project consists of the energy-efficient elimination of nitrogen, continuing on from the Innova Impactar project funded by the Cantabria Regional Government and optimising the pilot implemented in Santander's sewerage network to demonstrate decentralised compact treatment plants.

- **PIONEER:** part of the European ERA-NET Cofund Water Works programme within the WATER JPI initiative, led by the USC, partners Aqualia with a network of universities (Verona/IT, DTU/DK and KTH/SE) to improve the elimination of micropollutants and reduce the environmental impact of treatment with technologies such as ELAN and estruvite precipitation.

- **MEDRAR:** co-funded by the Conecta Peme programme to foster RIS 3 priorities identified in Galicia and supported by the European Regional Development Fund, has the objective of improving treatment in small towns and villages. Together with two SMEs and led by the USC, compact automated modules are being developed, integrated into the rural environment, with minimum impact and costs.

Over the course of 2016, the research team at FCC Aqualia has obtained two new patents for key aspects of the feeding of a UASB anaerobic reactor and for the washing of biogas and elimination of H2S and CO2.

Also during the year five patent applications were made for different demonstration technologies: ELAN, AnMBR, MDC, MFC and estruvite crystallisation.

In addition, the results of the related research were presented at major scientific congresses and events.

CONSTRUCTION

FCC Construcción fosters an active policy of technological development, while permanently applying innovation to its construction projects, with a firm commitment to research and development, sustainability and the contribution to quality of life in Society as competitiveness factors. This innovation policy is coordinated with the other business areas of the FCC Group.

The development and use of innovative technologies to carry out construction projects contribute significant value added and are differentiating factors in the current market, which is highly competitive and internationalised.

The projects developed by FCC Construcción and its investees are of three types: internal projects, projects with other FCC Group companies and projects carried out in conjunction with other companies in the industry or other related industries, frequently with technology-driven SMEs, which makes it possible to perform open innovation projects with a participation in the value chain and, occasionally, on a horizontal cooperation basis. Also, the presence of universities and technological institutes is fundamental in practically all the projects.

Also, the involvement of universities and technology centres is a key factor in practically all these projects.

Algunos de los proyectos se llevan a cabo en consorcio con Administraciones Públicas, como es el caso del Proyecto Europeo LIFE **IMPACTO CERO**, en el que participa el Administrador de Infraestructuras Ferroviarias (Adif).

Some of the projects are carried out in consortia with Public Authorities, such as the European LIFE **IMPACTO CERO**, *Development and demonstration of an anti-bird strike tubular screen for High Speed Rail lines*, with the participation of the Spanish Railway Infrastructure Manager (Adif).

In 2016 various new projects were approved:

- **CALA:** in the RETOS 2016 call for proposals, the objective of which is to improve hydrological security and increase the reservoir capacity of brick dams by implementing lateral spill-collection channels. Calculation code, experimental validation and construction process.

- **ROBIM:** as part of the CIEN programme, the objective of which is an autonomous robot to inspect and assess existing buildings with BIM integration, developing an automated, active and multidisciplinary technology for inspection, assessment and diagnosis of the composition, condition and energy efficiency of the walls of existing buildings, thereby facilitating the obtaining of reliable information in sufficient detail on building systems and pathologies and a comprehensive analysis of the building.

- **CYRENE**: approved by CDTI (Industrial Technological Development Centre) and developed by MATINSA, the objective of which is to develop a new system for the integrated management of road tunnels containing the control of all installations and implementing optimised global-management strategies.

FCC Construcción carries out both Spanish and international R&D+i projects.

In Europe, as part of the H2020 programme, the following projects are currently being worked on:

- **IN2RAIL** (Innovative Intelligent Rail), led by Network Rail. The aim of this project is to set the foundations for a resilient, consistent, cost-efficient, high capacity and digitised European railway network. Innovative technologies will be studied for a global approach that covers an intelligent infrastructure, intelligent mobility management (I2M), new power sources for railways and energy management. The results of this project will contribute to the Shift2rail initiative, a PPP dedicated to railways and falling within the Horizon 2020 programme, the objective of which is to make progress towards the introduction of the single European railway area.

- **NANOFASE:** (Nanomaterial Fate and Speciation in the Environment). The objective of this project is to determine the fate of nanomaterials in the environment.

- **REWASTEE:** under the Eco-Innovation call for proposals and aimed at the industrial validation, market deployment and replication of a developed technology for recycling steelmaking wastes and manufacturing multifunctional building products.

- **BUILDSMART:** (Energy Efficient Solutions Ready for the Market). The purpose of this project is to demonstrate that it is possible to construct buildings with very low energy consumption in an innovative and profitable way. The project includes the design, construction and monitoring of new residential and non-residential buildings in Sweden, Ireland and Spain.

- **IMPACTO CERO:** The objective of this project is to develop an anti-collision screen for birdlife based on the concept of equally-spaced tubular screens.

- **ASPHALTGEN:** project developed by Servià Cantó based on research into new asphalt aggregate paving with self-generating features based on technology consisting of ionic liquids encapsulated in inorganic materials.

- **GUIDENANO:** project developed by Servià Cantó that is developing innovative methodologies to evaluate and manage human and environmental health risks of nanoenabled products, considering the whole product life cycle.

The following Spanish projects carried out in 2016 are worthy of mention:

- **DOVICAIM:** project developed in conjunction with Instituto de Hidráulica Ambiental "IH Cantabria", and is aimed at developing an integrated methodology and the tools required to support the complete life cycle of the construction of vertical docks using prefabricated blocks in a floating dock, including design, optimisation, construction, installation and operation. The project is focused directly on the clear strategic priority of ensuring the international development of FCC Construcción.

- **SORT-i:** project from the Retos-Colaboración tender process, its main objective is the development of tools based on optical systems and new technologies for the identification, monitoring and management of structural risks of buildings and infrastructure in an intelligent, automatic and telemetric manner, as a means to maximise safety and minimize the risks of physical damage in high-potential situations of structural collapse.

- **SETH:** project developing a comprehensive structural monitoring system for buildings based on holistic technologies.

- **APANTALLA:** project consisting of developing new nanostructured materials with improved electromagnetic radiation shielding properties.

- **MERLIN:** project based on the development of better local refurbishment of infrastructure. This project was carried out in cooperation with the Cementos Portland Valderrivas Group.

- **TRILOBITES:** project based on detecting and identifying toxic gases.

- **DANAE:** project with the objective of achieving smart regulation of tunnel lighting, led by MATINSA.

FCC Construcción is participating in numerous European and Spanish R&D+i associations with the shared objective of articulating the role of the company as a driving force behind research, development and technological innovation in the Construction Area, pursuant to the approach taken in the EU's current H2020 programme.

CEMENTOS PORTLAND VALDERRIVAS

The Cementos Portland Valderrivas Group's (CPVG) commitment to society takes the form of innovation in products, processes and technologies inherent to the materials it processes and manufactures.

Its innovation is designed strategically on the basis of three main axes:

- Product innovation. Leading to high-durability and high-mechanical performance cements.
- Sustainable construction. To obtain eco-efficient materials with a reduced carbon footprint.
- Construction solutions. Based on integral customer service.

In the Group's other activities the circular economy continues to be encouraged by using alternative raw materials and fuels in our production processes, thereby enabling us to achieve savings in CO2 emissions.

Fuel derived from waste is used in the furnaces at production facilities, having previously been handled at appropriate treatment plants operated by firms duly authorised by the local authorities (authorised waste handlers). The main advantage of this process is its use of the heat energy that this waste contains, thereby reducing in part the consumption of traditional fossil fuels, mostly derived from oil.

In 2016 the Cementos Portland Valderrivas Group has consolidated heat replacement with alternative fuels in its clinker furnaces, achieving an average value of 12% across all its plants. Spain has maintained a rate of heat replacement of 11% in 2016. Part of these fuels consist of biomass, thereby avoiding emissions into the atmosphere of approximately 94,900 tonnes of CO2, equivalent to the average annual emissions produced by 52,750 cars, i.e. approximately 0.2% of the cars in Spain. Worthy of mention here is the beginning of valuation testing at the Tunisia plant, using biomass.

Energy valuation is now a standard, consolidated practice in countries such as Germany, Austria, Belgium, Denmark, the Netherlands, Sweden and Switzerland, where landfills have practically disappeared, unlike the current situation in Spain, where more than half the waste generated ends up at a landfill.

In addition, the Group encourages the responsible use of natural resources by valuing the materials obtained from industrial by-products, replacing natural raw materials to save non-renewable resources and avoid the impact that their use has on the natural environment. In 2016, the consumption of raw materials was 565,000 tonnes of industrial by-products.

Among other activities this year, the work done the previous year on the R&D project **MERLIN**, approved in the INNPACTO call for proposals by the Ministry of Finance and Competitiveness, has been justified.

In 2016 new challenges were tackled such as the emergence of other lines of research at the R&D laboratories that the entity has been developing, relating mainly to cement quality or the improvement of its applications, through studies of durability performance in reinforced concrete structures, without overlooking the broadening of the range of special products offered.

Dissemination of the results led to the Group's participation in various international cement industry congresses.

All the initiatives carried out contribute to strengthening the image of the Cement Area, especially with the synergies established with a large number of potential users and external companies, technical research institutes, universities and government-controlled public sector bodies, positioning the Cementos Portland Valderrivas Group as a benchmark in RDI in the development and application of cement-based materials in the industry.

8. ACQUISITION AND DISPOSAL OF TREASURY SHARES

At 31 December 2016, the FCC Group held a total of 415,500 own shares directly and indirectly (0.11% of the company's capital).

On 18 December 2015, as required by current legislation, the Company announced suspension of the liquidity contract in force with an independent financial institution in view of the execution of the capital increase approved by the Board of Directors in December and completed in March 2016.
Upon completion of the capital increase, on 4 March 2016, Inversora Carso announced a mandatory takeover bid for FCC; consequently, by virtue of section 2.b) of Rule 5 of CNMV Circular 3/2007, of 29 December, all operations under the liquidity contract were suspended from that date and continued to be suspended after the takeover had been settled, on 28 July. As a result, the liquidity contract was still suspended at the date of this report.

9. OTHER RELEVANT INFORMATION. STOCK MARKET PERFORMANCE AND OTHER INFORMATION

9.1. Stock Market Performance

	Jan. - Dec. 2016	**Jan. - Dec. 2015**
Closing price (€)[1]	7.5510	6.8178
Change in the period	*10.8%*	*(40.4%)*
High (€)[1]	9.3820	11.5757
Low (€)[1]	6.0387	5.4192
Average daily trading (shares)	1,679,079	1,952,572
Average daily trading (M€)	12.3	17.8
Market capitalisation at end of period (M€)	2,861	1,824
No. of shares outstanding	378,825,506	260,572,379

9.2. Dividends

No dividends were paid in the period.

10. DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES UNDER ESMA RULES (2015/1415es)

EBITDA

We define EBITDA as the profit from continuous operations before tax, profit or loss of companies by the equity method, financial profit or loss, amortisation expenses, impairment and profit or loss from disposals of non-current assets, subsidies and net variation in provisions and other non-recurring expenditure and income.

EBIT

This corresponds to the operating profit or loss in the profit and loss account and consolidated earnings presented in the enclosed consolidated financial statements.

ORDERS

The FCC Group uses its orders as an off-book measure for certain business areas. We calculate orders for our Environmental Services, Water and Construction divisions, as their business is based on contracts in the long or medium term. We do not calculate orders for the Cement division, owing to the typically short-term nature of the ordering cycle.

On a given date orders are defined as the production or services pending, i.e. contracted sums or clients' orders, excluding taxes, minus any sum under such contracts or orders that has already been recognised as income. Pending income is valued according to current prices on the calculation date. Only sums that are binding on clients under a contract in effect or confirmed order are included as orders.

In the Environmental Services division we recognise the orders resulting from waste-handling contracts only if the contract guarantees exclusivity in the geographical area where the plant, landfill or facility is located.

In the Water division, the FCC Group calculates the income portfolio based on long-term estimates over the course of the contract, which are used as the basis for contracts with clients and at the rates established under those contracts.

In the Construction division, the FCC Group recognises orders only when there is a contract or order signed by the end client.

Once a contract has been included in orders, the value of the production pending completion under that contract remains on the order book until it is completed or cancelled. However, we do make valuation adjustments to reflect any changes to prices and deadlines that may be agreed with the client. For example, after the calculation date a given price may rise or fall as a result of the production contracted owing to additional work to be done. Owing to multiple factors, some or all of the orders linked to a contract may give rise to actual earnings or not. As our orders are subject to projects being altered and cancelled, they cannot be taken as a reliable indication of future earnings.

11. ANNUAL CORPORATE GOVERNANCE REPORT