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

2017

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 DECEMBER 2017

(in thousands of euros)

ASSETS	31/12/2017		31/12/2016 (*)	
NON-CURRENT ASSETS		**3,939,189**		**4,462,423**
Intangible assets (Notes 5 and 8)		**96,501**		**76,802**
Property, plant and equipment (Note 6)		**390,254**		**374,142**
Land and buildings	51,953		60,604	
Other items of property, plant and equipment	338,301		313,538	
Non-current investments in Group companies and associates (Notes 10 and 21.b)		**3,292,380**		**3,829,132**
Equity instruments	2,872,561		2,244,475	
Loans to companies	419,819		1,520,724	
Other financial assets (Note 2)	–		63,933	
Non-current financial investments (Note 9.a)		**47,657**		**52,802**
Deferred tax assets (Note 18)		**87,907**		**103,262**
Non-current trade receivables (Note 8)		**24,490**		**26,283**
CURRENT ASSETS		**707,691**		**844,057**
Inventories (Note 6)		**6,122**		**6,406**
Trade and other receivables		**441,075**		**382,619**
Trade receivables for sales and services (Note 11)	347,137		286,472	
Trade receivables from Group companies and associates (Note 21.b)	47,275		71,424	
Tax receivables (Note 18)	29,132		8,793	
Other receivables	17,531		15,930	
Current investments in Group companies and associates (Notes 10.b and 21.b)		**188.447**		**216,998**
Current financial investments (Note 9.b)		**8,876**		**143,734**
Cash and cash equivalents		**63,171**		**94,300**
TOTAL ASSETS		**4,646,880**		**5,306,480**

The accompanying notes 1 to 24 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 2017.

(*) The comparative figures from 2016 have been re-expressed to record the impact of the takeover bid for Cementos Portland Valderrivas S.A. made in 2017 (notes 2, 10, 15 and 21).

BALANCE SHEET AS AT DECEMBER 2017
(in thousands of euros)

EQUITY AND LIABILITIES	31/12/2017		31/12/2016 (*)	
EQUITY (Note 13)		**805,277**		**618,523**
Shareholder' equity		**795,885**		**609,782**
Share capital		**378,826**		**378,826**
Registered share capital	378,826		378,826	
Share Premium		**1,673,477**		**1,673,477**
Reserves		**953,856**		**953,167**
Treasury shares and equity interests		**(4,427)**		**(5,503)**
Prior years' losses		**(2,392,774)**		**(2,093,413)**
Profit (Loss) for the year		**184,337**		**(299,362)**
Other equity instruments		**2,590**		**2,590**
Valuation adjustments		**8,775**		**8,027**
Grants, donations and legacies received		**617**		**714**
NON-CURRENT LIABILITIES		**2,699,415**		**3,506,929**
Non-current provisions (Note 14)		**291,813**		**307,501**
Non-current payables (Note 15)		**1,834,788**		**3,139,649**
Debt instruments and other marketable securities	–		32,200	
Bank borrowings	1,797,420		3,082,785	
Other financial liabilities	37,368		24,664	
Non-current payables to Group companies and associates (Note 10.d)		**538,877**		**16,279**
Deferred tax liabilities (Note 18)		**29,309**		**43,500**
Non-current trade and other payables (Note 16)		**4,628**		**–**
CURRENT LIABILITIES		**1,142,188**		**1,181,028**
Current provisions		**4,043**		**6,686**
Current payables (Note 15)		**324,001**		**354,543**
Debt instruments and other marketable securities	30,578		348	
Bank borrowings	264,318		231,838	
Other financial assets (Note 2)	29,105		122,357	
Current payables to Group companies and associates (Note 10.e and 21.b)		**532,381**		**584,201**
Trade and other payables		**281,763**		**235,598**
Payable to suppliers	72,377		74,495	
Payable to suppliers - Group companies and associates (Note 21.b)	9,852		14,341	
Other accounts payable to Public Authorities (Notes 16 and 18)	65,972		41,415	
Other payables	133,562		105,347	
TOTAL EQUITY AND LIABILITIES		**4,646,880**		**5,306,480**

The accompanying notes 1 to 24 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 2017.

(*) The comparative figures from 2016 have been re-expressed to record the impact of the takeover bid for Cementos Portland Valderrivas S.A. made in 2017 (notes 2, 10, 15 and 21).

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

	31/12/2017	31/12/2016
CONTINUING OPERATIONS		
Revenue (Note 20)	**1,666,399**	**1,256,292**
Sales and services	1,216,370	1,179,068
Revenue from investments in Group companies and associates (Notes 20 and 21.a)	418,582	13,222
Financial revenue from marketable securities and other financial instruments of Group companies and associates (Notes 10, 20 and 21.a)	31,447	64,002
Procurements	**(158,547)**	**(154,045)**
Other operating income	**94,037**	**93,056**
Staff costs (Note 20)	**(782,591)**	**(761,749)**
Other operating expenses	**(196,457)**	**(176,609)**
Depreciation and amortisation charge and allocation to the income statement of grants (Notes 5, 6 and 13.g)	**(74,542)**	**(72,623)**
Excessive provisions (Note 14)	**8,113**	**19,870**
Impairment and gains or losses on disposals of non-current assets and other gains or losses (Note 21)	**(18,699)**	**10,194**
PROFIT (LOSS) FROM OPERATIONS	**537,713**	**214,386**
Finance income (Note 20)	**3,517**	**58,506**
From holdings in equity instruments of third parties	2,518	–
From marketable securities and other financial instruments of third parties	999	58,506
Finance costs	**(182,883)**	**(199,897)**
On debts to Group companies and associates (Note 21.a)	(25,748)	(9,406)
On debts to third parties	152,635	186,384
Interest cost relating to provisions	4,500	4,107
Changes in fair value of financial instruments (Note 20)	**15,363**	**22,775**
Exchange rate differences (Note 20)	**4,297**	**31,187**
Impairment and gains or losses on disposals of financial instruments (Note 10)	**(189,238)**	**(278,963)**
FINANCIAL PROFIT (LOSS)	**357,538**	**474,316**
PROFIT (LOSS) BEFORE TAX	**180,175**	**259,930**
INCOME TAX (Note 18)	**4,162**	**39,432**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**184,337**	**(299,362)**
PROFIT (LOSS) FOR THE YEAR	**184,337**	**299,362**

The accompanying notes 1 to 24 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 2017.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE
(in thousands of euros)

	31/12/2017	31/12/2016
Profit (Loss) per statement of profit or loss	**184,337**	**299,362**
Income and expenses recognised directly in equity		
Arising from available-for-sale financial assets	–	39
Arising from cash flow hedges	997	66
Grants, donations and legacies received	55	181
Tax effect	263	56
Income and expenses recognised directly in equity	**789**	**152**
Transfers to the statement or profit or loss		
Arising from cash flow hedges	–	–
Grants, donations and legacies received	163	129
Tax effect	25	11
Total transfers to the statement of profit or loss	**138**	**118**
TOTAL RECOGNISED INCOME AND EXPENSE	**184,988**	**299,328**

The accompanying notes 1 to 24 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 2017.

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

	Share capital (Note 13.a)	Share Premium (Note 13.b)	Reserves (Note 13.c)	Treasury Shares (Note 13.d)	Prior years' losses	Profit (loss) for the year	Other equity instruments (Note 13.e)	Valuation adjustments (Notes 12 and 13.f)	Grants (Note 13.g)	Equity
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**
Total recognised income and expense						**184,337**		**748**	**97**	**184,988**
Transactions with shareholders and owners			**689**	**1,076**						**1,765**
Treasury share and equity interest transactions (net)			689	1,076						1,765
Other changes in equity					**299,362**	**299,362**				
Equity at 31 December 2017	**378,826**	**1,673,477**	**953,856**	**4,427**	**2,392,774**	**184,337**	**2,590**	**8,775**	**617**	**805,277**

The accompanying notes 1 to 24 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 2017. In particular, Note 14, "Equity" explains this statement.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

	31/12/2017	31/12/2016	
Profit (Loss) for the year before tax			**259,930**
Adjustments to profit (loss)			**455,653**
Depreciation and amortisation charge (Notes 5 and 6)	74,705	72,752	
Impairment losses (Note 10)	194,515	278,817	
Changes in provisions (Note 14)	33,237	20,597	
Gains on derecognition and disposal of fixed assets (Note 20)	34	6,677	
Finance income (Note 20)	453,547	135,729	
Finance costs	182,883	199,898	
Exchange rates differences	4,297	31,187	
Changes in fair value of financial instruments	15,363	22,775	
Other income and expenses	77	127	
Changes in working capital			**118,123**
Trade and other receivables	11,068	173,421	
Trade and other payables	18,689	55,058	
Other current assets and liabilities	8,069	240	
Other cash flows from operating activities			**139,029**
Interest paid	142,978	177,309	
Interest and dividends received	448,344	56,419	
Income tax recovered/(paid) (Note 18)	9,123	12,326	
Other amounts received (paid)	8,541	5,813	
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES			**174,817**
Payments due to investments			**458,712**
Group companies and associates (Note 10)	524,638	371,187	
Intangible assets and property, plant and equipment (Notes 5 and 6)	58,583	77,637	
Other financial assets	8,335	9,888	
Proceeds from disposals			**164,206**
Group companies and associates (Note 10)	821,630	56,698	
Intangible assets and property, plant and equipment (Notes 5 and 6)	2,148	1,199	
Non-current assets classified as held for sale (Note 9.b)	106,444	103,322	
Other financial assets	54,019	2,987	
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES			**294,506**
Proceeds and payments relating to equity instruments			**705,329**
Proceeds from issue of equity instruments (Note 13.a)	-	707,848	
Disposal of treasury shares (Note 13.d)	1,940	–	
Purchase of treasury shares (Note 13.d)	180	–	
Grants, donations and legacies received	55	181	
Other proceeds and/or payments relating to equity instruments	-	2,700	
Proceeds and payments relating to financial liability instruments (Note 15)			**635,220**
Proceeds from issue of:			
Bank borrowings	64,669	8,956	
Borrowings from Group companies and associates	2,024,287	297,024	
Other payables	659	1,844	
Repayment and redemption of:			
Debt instruments and other marketable securities	1,950	417,600	
Bank borrowings	1,359,087	497,141	
Borrowings from Group companies and associates	1,572,951	15,549	
Other payables	109,737	12,754	
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES			**70,109**
Effect of exchange-rate variations			**2,566**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			**52,146**
Cash and cash equivalents at beginning of year			**146,446**
Cash and cash equivalents at end of year			**94,300**

The accompanying notes 1 to 24 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 2017.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

CONTENTS

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. 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).

- End-to-end 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.

The group has completed the internal-reorganisation process that has been implemented in recent years to focus on strategic business. In this regard, on 7 February 2017 the Company was paid for the sale of the Xfera Móviles S.A. shares together with the transfer of participatory loans in favour of Masmóvil Phone & Internet S.A.U., agreed the previous year, for a total sum of EUR 29.1 million (Note 9.b). Also, on 28 February the Company cashed its receipt of the contingent deferred price for the sale of shares of Global Vía Infraestructuras S.A., also arranged in previous years, for EUR 106.4 million (EUR 90.9 million plus EUR 15.5 million in interest) (Note 9.b).

The delisting tender offer made to the minority shareholders of Cementos Portland Valderrivas S.A. was accepted by 87.81% of the total securities it was aimed at. The shares were excluded from stock-market trading on 24 February 2017 (Note 10.a).

Finally, as part of the refinancing of the corporate debt, on 8 June the renewal of the new conditions of the syndicated loan of FCC S.A. were renewed, an operation that marked a milestone in the process of financial optimisation and one that will have a positive impact on generating free cash flow in the years to come. The agreement involves the advance repayment of EUR 1,069 million charged to funds obtained from bond issues by FCC Aqualia S.A. for EUR 700 million and 650 million. Following this partial repayment, the net corporate debt has been substantially reduced and its due date has been extended to five years, with a drop in the interest rate (Note 15.b).

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared from the accounting records of Fomento de Construcciones y Contratas S.A. and the unincorporated joint ventures (UTEs) in which it has interests, were prepared in accordance with the Spanish Commercial Code, Legislative Royal Decree 1/2010, of 2 July, which approves 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 2017. 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 of Group companies and associates" were classified as "Revenue" in the accompanying income statement.

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 2016 were approved by the shareholders at the Annual General Meeting held on 28 June 2017.

The financial statements are expressed in thousands of euros.

Unincorporated temporary joint ventures and similar entities

The balance sheet, income statement, statement of changes in equity and cash flow statement of the unincorporated joint ventures (UTEs) in which the Company has interests were proportionately consolidated on the basis of the Company’s percentage of ownership of each joint venture.

The unincorporated 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:

	2017	2016
Revenue	197,172	193,765
Operating income	25,216	21,663
Non-current Assets	106,234	107,351
Current assets	215,739	210,673
Non-current liabilities	35,012	35,351
Current liabilities	266,685	266,714

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

Grouping of items

Certain line items in the balance sheet, income statement 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 2017 the Company presents negative goodwill of EUR 434,497 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 532,381 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 2017, 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 10,567 million (31 December 2016: EUR 10,770 million) and equity attributable to the Company's shareholders of EUR 864 million (31 December 2016: EUR 797 million). In addition, consolidated sales amounted to EUR 5,802 million (31 December 2016: EUR 5,952 million). Lastly, the consolidated profit attributable to the Parent amounted to EUR 118 million (31 December 2016: a loss of EUR 162 million).

Re-expressions performed

These financial statements have been re-expressed to facilitate understanding of the date for 2016 cited here. With regard to the delisting takeover bid for Cementos Portland Valderrivas S.A. in progress as at 31 December 2016 and completed in February 2017, a liability has been registered representing the payment obligation for the acquisition of the shares to which the bid applied, for the maximum possible sum, i.e., considering the acquisition of 100% of those shares, as at year end 2016 Fomento de Construcciones y Contratas S.A. was understood to have incurred in the obligation to buy the equity instruments held by the minority shareholders the bid was targeted at. The impact of re-expression has meant an increase in current financial liabilities of EUR 63,933 thousand, offset by the same sum under non-current financial assets (Notes 10, 15 and 21.b).

The re-expression carried out has had the following impact on the 2016 financial statements:

	Annual statements data published	Impact of takeover bid	Impact after takeover bid
Non-current Assets	4,398,490	63,933	4,462,423
Current assets	844,057	—	844,057
	5,242,547	**63,933**	**5,306,480**

Equity	618,523	—	618,523
Non-current liabilities	3,506,929	—	3,506,929
Current liabilities	1,117,095	63,933	1,181,028
Total Equity	**5,242,547**	**63,933**	**5,306,480**

3. DISTRIBUTION OF PROFIT OR LOSS

The proposed distribution of the 2017 profits of Fomento de Construcciones y Contratas S.A., which will be submitted for the shareholders' approval at the AGM, is as follows:

	2017
Profit for year, before distribution (thousands of euros)	**184,337**
Distribution	
To legal reserve	**49,651**
To voluntary reserves	**134,686**

In addition, in 2016 the Company incurred a loss of EUR 299,362 thousand, which was 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 2017, 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 income statement. Also, provisions to replace and repair the infrastructure are systematically recognised in the income statement 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 income statement 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 income statement. As explained above, the income and expenses from the provision of maintenance and operation services are recognised in the income statement 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 2017 year-end there were no indications that any of the Company's intangible assets had suffered an impairment loss.

Computer software maintenance costs are recognised in the income statement 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 2017, 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 income statement 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 income statement.

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 income statement 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 income statement.

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 income statement 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 income statement 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 income statement.

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 income statement. 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 income statement 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 income statement.

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 (Note 12).

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 income statement 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 income statement 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 income statement.

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 valuation adjustments as an expense in the income statement 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 income statement 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) Income and expenses

Income 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. Income 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 income statement.

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 activity which, due to his nature, involves 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 2017 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.

Also, with regard to the contractual conditions agreed with the previous CEO, the Company had to set up a savings fund from which to compensate him if his contract was terminated during the first three years of its term on any grounds other than his voluntary resignation, objective dismissal 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 (Note 21.c).

The contributions made by the Company for both items are recognised under “Staff Costs” in the income statement.

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 these 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 (Note 18).
- The recoverability of the investments in Group companies and associates, and of any loans to or receivables from those companies (Note 10).
- The evaluation of possible impairment losses on certain assets (Note 4.c).
- The useful life of intangible assets and property, plant and equipment (Notes 4.a and 4.b).
- The market value of certain financial instruments (Note 12).
- The calculation of certain provisions (Notes 4.j and 14).

Although these estimates were made on the basis of the best information available at 31 December 2017, 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 21 "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) Statement of cash flows

The following expressions are used in the cash-flow statement:

- Cash flow: incoming and outgoing cash and equivalents.

- Cash flow from operating activities: payments and receipts in the entity's core business, plus any other activities that cannot be classified as investments or financing.

- Cash flow from investment activities: payments and receipts sourced from acquisitions and disposals of non-current assets.

- Cash flow from financing activities: payments and receipts sourced from the placing and cancellation of financial liabilities, equity instruments or dividends.

5. INTANGIBLE ASSETS

The changes in "Property, Plant and Equipment" in the accompanying balance sheets in 2017 and 2016 were as follows:

	Concession arrangements	Concessions	Computer software	Other intangible assets	Accumulated depreciation	Impairment	Total
Balance at 31/12/2015	**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 31/12/2016	**88,121**	**7,243**	**45,482**	**23,165**	**(83,502)**	**(3,707)**	**76,802**
Additions or charge for the year	27,885	2,914	1,946	1,381	(14,764)	—	19,362
Disposals or reductions	—	—	(79)	(195)	103	112	(59)
Transfers	(351)	(119)	—	488	378	—	396
Balance at 31/12/2017	**115,655**	**10,038**	**47,349**	**24,839**	**(97,785)**	**(3,595)**	**96,501**

The heading "Concession Arrangements" for 2017 includes an increase of EUR 27,885 thousand, mostly related to a waste-treatment plant in Granada province (Note 8). 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 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.

"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. With regard to 2017 there are no significant variations, and the most significant change in 2016 was the decrease of EUR 17,618 thousand, for the reason mentioned above, and with accumulated amortisation de EUR 15,739 thousand.

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 were deregistered.

The detail of the intangible assets and of the related accumulated amortisation at 31 December 2017 and 2016 is as follows:

	Cost	Accumulated depreciation	Impairment	Net
2017				
Concession arrangements	115,655	(41,480)	(3,595)	70,580
Concessions	10,038	(4,167)	—	5,871
Computer software	47,349	(34,900)	—	12,449
Other intangible assets	24,839	(17,238)	—	7,601
	197,881	**(97,785)**	**(3,595)**	**96,501**
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**

Of the net amount of intangible assets, EUR 15,466 thousand relate to assets used in joint ventures (31 December 2016: EUR 16,525 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 34,297 thousand, had been fully amortised (31 December 2016: EUR 25,401 thousand), while the amounts relating to joint ventures were not material.

At 31 December 2017, the Company did not have any intangible assets located outside Spain nor did it purchase undertakings for any relevant sums.

6. PROPERTY, PLANT AND EQUIPMENT

The changes in "Property, Plant and Equipment" in the accompanying balance sheets in 2017 and 2016 were as follows:

	Land and buildings	Other items of property, plant and equipment		Accumulated depreciation	Impairment	Total
		Plant and other items of property, plant and equipment	Property, plant and equipment in the course of construction and advances			
Balance at 31/12/2015	**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 31/12/2016	**101,244**	**960,543**	**7,833**	**(695,478)**	**—**	**374,142**
Additions or charge for the year	37	78,758	4,389	(59,778)	(5,145)	18,261
Disposals or reductions	(1,979)	(32,958)	(410)	32,787	—	(2,560)
Transfers	14	6,030	(3,872)	(1,761)	—	411
Balance at 31/12/2017	**99,316**	**1,012,373**	**7,940**	**(724,230)**	**(5,145)**	**390,254**

The most significant variations under tangible assets in 2017 correspond to assets associated with services and water contracts operated by the Company, basically for vehicles and plant assigned to street-cleaning and waste-collection contracts. These include services contracts for the treatment and marketing of recyclable waste and the collection of urban solid waste secured by the Company in 2017 and 2016 in the United States (Florida and Texas). These contracts account for practically all the tangible assets located abroad, totalling EUR 52,915 thousand net of accumulated amortisation (31 December 2016: EUR 30,137 thousand), with investment in property, plant and vehicles under these contracts in 2017 standing at EUR 26,364 thousand (31 December 2016: EUR 15,906 thousand).

The line "Disposals or reductions" mostly includes deregistrations of assets that were for the most part fully amortised.

In 2016 EUR 15,588 thousand in assets was transferred to the Property-assets from Inventory, with plans to transfer these assets in 2018 to the Group company that specialises in the property business (FC y C, S.L. Unipersonal *[Sole-Shareholder Company]*).

The detail of the property, plant and equipment and of the related accumulated depreciation at 31 December 2017 and 2016 is as follows:

	Cost	Accumulated depreciation	Impairment	Net
2017				
Land and buildings	99,316	(42,275)	(5,088)	51,953
Plant and other items of property, plant and equipment	1,012,373	(681,955)	(57)	330,361
Property, plant and equipment in the course of construction and advances	7,940	—	—	7,940
	1,119,629	**(724,230)**	**(5,145)**	**390,254**
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**

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

	2017	2016
Land	18,326	23,566
Buildings	33,627	37,038
	51,953	**60,604**

Of the net amount of intangible assets, EUR 61,237 thousand relate to assets used in joint ventures (31 December 2016: EUR 57,908 thousand).

In 2017 and 2016 the Company did not capitalise any borrowing costs to "Property, Plant and Equipment”.

At 2017 year-end the Company held various items of property, plant and equipment under finance leases (Note 7). Also, there were no significant undertakings to acquire property, plant or equipment.

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 388,111 thousand was fully depreciated (31 December 2016: EUR 381,010 thousand), of which EUR 21,580 thousand were recognised under "Buildings" (31 December 2016: EUR 17,580 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 2017 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 2017 and 2016 are as follows:

	2017	2016
Carrying amount	**60,404**	**37,439**
Accumulated depreciation	16,434	13,111
Cost of the assets	**76,838**	**50,550**
Finance costs	6,951	5,498
Capitalised cost of the assets	**83,789**	**56,048**
Lease payments paid in the year	(14,013)	(9,171)
Lease payments paid in prior years	(21,439)	(18,003)
Lease payments outstanding, including purchase option	**48,337**	**28,874**
Unaccrued finance charges	(2,938)	(1,915)
Present value of lease payments outstanding, including purchase option	**45,399**	**26,959**
Contract term (years)	3 to 5	3 to 5
Value of purchase options	1,045	473

The payment dates of the outstanding lease payments of the committed payments are shown in Note 15.

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 2017 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 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 2017 totalled EUR 35,063 thousand (31 December 2016: EUR 38,175 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 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.

- Office buildings located at Federico Salmón, 13, Madrid and Balmes, 36, Barcelona.

On 1 June 2016, the Company assigned its contractual position to the wholly owned company Fedemes S.L., which 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. Previously, 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.

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 2017 year-end there were non-cancellable future committed payments in relation to the aforementioned items amounting to EUR 247,230 thousand (2016: EUR 277,700 thousand). The detail, by maturity, of the non-cancellable future minimum payments at 31 December 2017 and 2016 is as follows:

	2017	2016
Within one year	32,288	41,287
Between one and five years	84,424	105,266
After five years	130,518	131,147
	247,230	277,700

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 End-to-End 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 (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	End-to-End Water Management	Total
2017			
Intangible assets	70,227	353	70,580
Financial assets	27,303	-	27,303
	97,530	**353**	**97,883**
2016			
Intangible assets	47,643	311	47,954
Financial assets	29,338	-	29,338
	76,981	**311**	**77,292**

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 34,981 thousand (31 December 2016: EUR 36,418 thousand).

- Municipal solid-waste-treatment plant in Granada province (Environmental Services). Operation and improvements for management of the public municipal-waste treatment service in Granada province, awarded by Granada Provincial Council until 2040. The net assets relating to the aforementioned arrangement total EUR 25,548 thousand.

Both these assets are classified as intangible as the billings are determined in accordance with the tonnes treated and, consequently, the demand risk is 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 25,170 thousand (31 December 2016: EUR 26,230 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 2017 and 2016 is as follows:

	Equity instruments	Loans to third parties	Derivatives (Note 12)	Other financial assets	Total
2017					
Loans and receivables	—	8,098	—	25,580	33,678
Available-for-sale financial assets	11,121	—	—	—	11,121
Held-for-trading financial assets	—	—	—	—	—
Other financial assets at fair value through profit or loss	—	—	—	2,858	2,858
	11,121	**8,098**	**—**	**28,438**	**47,657**
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**

Loans and receivables

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

	2018	2019	2020	2021	2022 and subsequent years	Total
Loans and receivables	4,178	105	113	31	29,251	33,678

The loans and receivables include basically the escrow deposit related to the sale of Global Vía Infraestructuras S.A., for EUR 17,060 thousand, for which the due date has been considered as “2022 and thereafter”, given the lack of precision involved, as it is linked to the release of guarantees lodged by that company to third parties to cover financial undertakings. 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.

Available-for-sale financial assets

The detail at 31 December 2017 and 2016 is as follows:

	Effective percentage of ownership	Fair value
2017		
Vertederos de Residuos S.A.	16.03%	10,817

Other		304
		11,121
2016		
Vertederos de Residuos S.A.	16.03%	10,817
Other		502
		11,319

b) Current financial investments

The reduction that occurred during the year is basically due to:

- Receipt on 7 February 2017 of EUR 29,139 thousand, in consideration of the assignment of FCC S.A.'s position in the “Undertaking to Assume Debt and Capitalisation Contract” in favour of Masmóvil Phone & Internet S.A.U. resulting from the sale of Xfera shares and transfer of participatory loans (Note 1).

- Receipt, on 28 February 2017, of EUR 106,444 thousand, corresponding to the portion of the price deferred in the operation to sell the holding in Global Vía Infraestructuras S.A. (Note 1).

The sum recorded under this heading mostly corresponds to guarantees and deposits and credits to public entities.

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 2017 and 2016 is as follows:

	Cost	Accumulated impairment losses	Total
2017			
Equity instruments of Group companies	5,284,560	(2,644,397)	2,640,163
Equity instruments of associates	488,225	(255,827)	232,398
Loans to Group companies	473,269	(54,291)	418,978
Loans to associates	841	—	841
	6,246,895	**(2,954,515)**	**3,292,380**
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
Other financial assets	63,933	—	63,933
	6,604,971	**(2,775,839)**	**3,829,132**

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	Impairment	Total
Balance at 31.12.2015	**4,502,507**	**454,305**	**1,256,195**	**27**	**100 thousand**	**(2,503,068)**	**3,809,966**
Additions or charge for the year	86	50,617	239,094	814	63,933	(289,195)	65,349
Disposals or reversals	(50)	(16,424)	(45,860)	—	—	16,424	(45,910)
Transfers	—	(273)	100 thousand	—	(100 thousand)	—	(273)
Balance at 31.12.2016	**4,502,543**	**488,225**	**1,549,429**	**841**	**63,933**	**(2,775,839)**	**3,829,132**
Additions or charge for the year	396,050	1,364	62,082	—	—	(188,036)	271,460
Disposals or reversals	(37,321)	(1,364)	(714,954)	—	(63,933)	9,360	(808,212)
Transfers	423,288	—	(423,288)	—	—	—	—
Balance at 31.12.2017	**5,284,560**	**488,225**	**473,269**	**841**	**—**	**(2,954,515)**	**3,292,380**

Equity instruments of Group companies

The changes in 2017 were as follows:

- Acquisition by the subsidiary FCC Construcción S.A. of all the 26,997,530 shares of FC y C S.L. Unipersonal *[Sole-Shareholder Company]* for EUR 317,900 thousand. This company manages the group's property assets.

- Capital increase at FC y C S.L., with the issue of 1,381,381 new shares with a par value of 1 euro and an issue premium of 9 euros, by means of a non-monetary contribution of property assets (valued at

EUR 7,682 thousand) and shares of property companies (valued at EUR 6,132 thousand). The total sum of the increase was EUR 13,814 thousand.

- Acquisition of the holding in Costa Verde Hábitat S.L. for EUR 4,768 thousand.

- Takeover bid (for delisting) at Cementos Portland Valderrivas S.A. (CPV) under which 9,356,605 shares were acquired. The Company's direct and indirect holding in CPV was established, following the takeover bid, at 97.45%. The cost of the operation was EUR 56,364 thousand.

- Various purchases of CPV shares from minority shareholders not involved in the takeover bid; specifically, 91,708 shares were acquired for EUR 550 thousand.

- Purchase of subscription rights in the capital increase carried out at CPV, for EUR 2,643 thousand.

- Outgoings and reversals included the distribution of a share premium by FCC Aqualia S.A. (EUR 32,538 thousand).

- All the transfers were caused by the capital increase at Cementos Portland Valderrivas S.A. (CPV), which was completed on 23 July, with the issue of 85,512,698 new shares by converting subordinated loans granted by the Company in prior years. Following the increase, the effective holding stood at 99.03% of CPV's share capital.

In 2016 there were no significant movements. However, worthy of Note is the tender offer for delisting launched by Fomento de Construcciones y Contratas S.A. (FCC) on 29 July 2016 for 100% of the shares representing the capital of CPV for their exclusion from the stock markets where they were admitted for negotiation (Madrid and Bilbao). The launch of the OPA had been studied by the FCC board of directors, following a request made by the Inversora Carso S.A. de C.V. and was approved by the mentioned board on 25 May. CPV's shareholders approved the tender offer on 29 June, targeted at 10,655,503 shares (representing 20.58% of CPV's share capital) at a cash price of EUR 6 per share. 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.

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

In 2017 both the incomings and the outgoings correspond to the acquisition and subsequent non-monetary contribution in the increase carried out at FC y C S.L., consisting of shares held by the Group in property companies (see preceding paragraph).

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), so 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 proceeded to revert the accumulated impairment in this company for the same amount as the sum returned.

Long-term loans to Group companies

The most significant amounts are as follows:

	2017	2016
FCC Medio Ambiente, S.A.	136,606	136,606
FCC Versia S.A.	74,075	169,075
FCC PFI Holdings Limited	66,708	78,425
Kent Enviropower Limited	46,056	—
Enviropower Investments Limited	45,971	44,972
FCC Ámbito S.A. Sole-Shareholder Company	44,646	44,646
Dédalo Patrimonial, S.L. Sole-Shareholder Company	18,410	5,083
Cementos Portland Valderrivas, S.A.	—	423,289
FCC Aqualia, S.A.	—	362,815
FCC Construcción, S.A.	—	126,976
FCC Industrial e Infraestructuras Energéticas S.A.	—	34,386
Serviá Cantó S.A.	—	10,700
Mantenimiento de Infraestructuras S.A.	—	10 thousand
Other	40,797	102,456
	473,269	**1,549,429**
Net impairment losses:		
FCC Versia, S.A.	(40,214)	(29,546)
Dédalo Patrimonial, S.L. Sole-Shareholder Company	(14,077)	—
	418,978	**1,519,883**

In 2017 the following relevant movements took place:

- Cancellation by FCC Construcción S.A. of loans resulting from the refinancing process between FCC S.A. and the companies FCC Construcción S.A., FCC Industrial e Infraestructuras Energéticas S.A., Serviá Cantó S.A., Mantenimiento de Infraestructuras S.A. and other member companies of the Construction area, totalling EUR 220,492 thousand, basically using funds obtained by FCC Construcción S.A. from the sale of shares of FC y C S.L. (see preceding section on “Equity instruments of Group companies”).

- Cancellations by FCC Aqualia S.A. using funds obtained from bond issues, of all loans, including the participatory loan granted by FCC S.A. to FCC Aqualia S.A. and its subsidiaries. The total sum repaid is EUR 385,773 thousand.

- Cancellation of subordinated loans granted by the Company to Cementos Portland Valderrivas S.A., by converting its capital increase into shares (EUR 423,289 thousand).

- Repayment of the ordinary loan granted to FCC Versia S.A. (EUR 95 thousand).

- Loan to Kent Enviropower Limited following the Company's purchase of that company's bank debt in July 2017. The sum outstanding as at 31 December was EUR 46,056 thousand, accruing interest at Libor plus a margin of 2.375%.

- Increase in the sum of credit granted to Dédalo Patrimonial S.L. Unipersonal *[Sole-Shareholder Company]* by EUR 13,327 thousand. Some of the total credit granted (EUR 14,077 thousand) has also been impaired.

- Impairment of credits granted to FCC Versia S.A. totalling EUR 10,668 thousand.

The balance as at 31 December 2017 includes:

- Loans arising from the refinancing process. Under the refinancing agreements described in Note 15, 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. Following the repayments mentioned in the preceding section, the only remaining loans from that source are those granted to subsidiaries in the Environmental Services Area and to FCC Versia S.A. These loans total EUR 236,561 thousand, (31 December 2016: EUR 689,076 thousand) the detail being as follows:

	2017	2016
FCC Medio Ambiente, S.A.	136,606	136,606
FCC Ámbito S.A.	44,646	44,646
FCC Versia S.A.	29,075	29,075
FCC Aqualia, S.A.	—	209,063
FCC Construcción, S.A.	—	126,976
FCC Industrial e Infraestructuras Energéticas S.A.	—	34,386
Servià Cantó S.A.	—	10,700
Mantenimiento de Infraestructuras S.A.	—	10 thousand
Other	26,234	87,624
	236,561	**689,076**

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

- Participatory loan of EUR 45.000 thousand to FCC Versia S.A. by transformation of an ordinary loan on 25 November 2015. The established due date, 31 January 2018, may tacitly be extended for further two-year periods, provided that the contract is not terminated by either of the parties with at least two months' notice. As no such notice had been given at the time of preparing these financial statements, the current due date is 31 January 2020. It has therefore been classified under non-current assets on the enclosed balance sheet as at 31 December 2017. On 1 January 2017 amending and non-terminating renewal was agreed in respect of the contract that changed the fixed part of the interest rate to 1%. The interest rate also has a variable part, calculated according to indicators of the borrower's profitability. This loan is impaired by EUR 40,214 thousand as at 31 December 2017 (31 December 2016: EUR 29,546 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 2017 detailed in the foregoing table were as follows:

- Impairment of EUR 163 million of the investment in FCC Construcción S.A. in 2017 (31 December 2016: EUR 96 million). Impairment has been calculated as the difference between the value of the carrying amount of Fomento de Construcciones y Contratas S.A. and the recoverable value, considering as the best evidence of the latter the consolidated equity corrected by any tacit gains, basically in certain concession assets included on the balance sheet.

- In 2016 the investment in Cementos Portland Valderrivas S.A. was impaired by EUR 170 million. Impairment at FM Green Power S.L. was also reversed (EUR 16 million).

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:

	2017	2016
Azincourt Investments S.L. Sole-Shareholder Company	107,231	101,161
FCC Environment (UK) Ltd.	28,515	28,894
FCC-PFI Holding Group	18,561	16,570
FCC Medio Ambiente, S.A.	7,411	7,417
FCC Aqualia, S.A.	3,781	26,340
FCC Construcción, S.A.	—	13,036
Other	22,948	23,580
	188,447	**216,998**

The most significant reductions correspond to companies that amortised their credit positions, i.e., FCC Construcción S.A. and FCC Aqualia S.A.

These loans mature annually and earn interest at market rates.

c) Other non-current financial assets

Under the agreement to restructure the financial debt of Cementos Portland Valderrivas S.A.(CPV), the Company has acquired the contingent undertaking, linked to the evolution of CPV's business, to contribute a variable sum not to exceed EUR 100,000 thousand (Note 10.d) In these financial statements the 2016 figures have been re-expressed in order to record the assets and liabilities related to the acquisition of the shares affected by the takeover bid for Cementos Portland Valderrivas S.A., totalling EUR 63,933 thousand (Notes 1, 2 and 10.a). These were cancelled in 2017 as the effective acquisition of the shares had been completed

d) Non-current payables to Group companies and associates

In 2017 two subordinated-loan contracts were entered into between Fomento de Construcciones y Contratas S.A. (lender) and FCC Aqualia S.A. (borrower):

- Loan of EUR 90,174 thousand, due in 20 years or earlier, once the financial obligations under the syndicated loan have been amortised or cancelled. Interest accrues at an annual rate of 2.30%, capitalised to the principal of the loan.

- Loan of EUR 425,668 thousand, due in 12 years. Interest accrues at an annual rate of 2.30%, capitalised to the principal of the loan until the fifth year, after which interest is to be paid at the end of each interest period.

During the year the above loans have accrued interest totalling EUR 5,990 thousand.

As mentioned in note 10.c, the Company has acquired 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:

	2017	2016
Asesoría Financiera y de Gestión, S.A.	307,912	410,661
Per Gestora Inmobiliaria, S.L.	49,675	49,602
Ecoparque Mancomunidad del Este, S.A.	19,737	29,717
FCC Medio Ambiente, S.A.	53,957	27,299
Fedemes S.L.	17,311	20,992
Sistemas y Vehículos de Alta Tecnología, S.A.	14,969	13,474
Cementos Portland Valderrivas, S.A.	14,212	8,493
FCC Construcción, S.A.	20,285	5,612
Other	34,323	18,351
	532,381	**584,201**

The most significant movement in 2017 was the reduction of the debt with the subsidiary Asesoría Financiera y de Gestión S.A. derived from cash pooling for EUR 102,749 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.

11. 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.

	2017	2016
Production billed not yet collected	203,301	147,056
Unbilled production	143,836	139,416
Trade receivables for sales and services	347,137	286,472
Customer advances	12,287.	14,423.
Total trade receivables, net	**334,850**	**272,049**

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 mostly includes the estimate of work completed and billed each month, totalling EUR 62,804 thousand, and price reviews covered by the terms and conditions of different contracts pending approval that the Company considers to be certain to be accepted and eventually billable, totalling EUR 58,232 thousand.

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 2017 year-end in this connection amounted to EUR 110,102 thousand (31 December 2016: EUR 200,771 thousand)

Of the net balance of trade receivables, EUR 59,500 thousand (31 December 2016: EUR 58,702 thousand) relate to balances from contracts performed through joint ventures.

Past due trade receivables not provided for by the Company amounted to EUR 173,839 thousand at 31 December 2017 (31 December 2016: EUR 218,022 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.

12. 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 income statement is as follows:

	Fair value			
	Assets (Note 9)	**Liabilities (Note 15)**	**Impact on equity**	**Impact on the income statement**
2017				
Hedging derivatives	-	1,384	935.	12
Other derivatives	5	-		25.
	5	**1,384**	**935.**	**13.**
2016				
Hedging derivatives	-	2,393	3,139,649	49
Other derivatives	30	-	-	(1,786)
	30	**2,393**	**(1,683)**	**(1,737)**

Hedging derivatives

Following is a detail of the hedging derivatives arranged by the Company for 2017 and 2016, 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 income statement in respect to the ineffective portion.

2017

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on equity	Impact on the income statement
Other payables (Note 15.b)	IRS	10,931	02/04/2024	—	1,367	(942)	10
	IRS	4,156	02/04/2024	—	17	7	2
Total					**1,384**	**(935)**	**12**

2016

Hedged transaction	Type of derivative	Amount arranged	Expiry	Fair value Assets	Fair value Liabilities	Impact on equity	Impact on the income statement
Other payables (Note 15.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**

The detail, by maturity, of the notional amount of the hedging transactions arranged at 31 December 2017 is as follows:

	Notional maturity 2018	2019	2020	2021	2022 and subsequent years
IRS (Other payables)	1,154	1,166	1,109	1,154	10,504

Other derivatives

Following is the detail for 2017 and 2016 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 income statement under "Changes in Fair Value of Financial Instruments":

2017

	Type of derivative	Amount arranged	Expiry	Fair value		Impact on the income statement
				Assets	Liabilities	
Convertible bonds (Note 15.a)	TriggerCall	30,250	31/10/2018	5	—	(25)
				5	**—**	**(25)**

2016

	Type of derivative	Amount arranged	Expiry	Fair value		Impact on the income statement
				Assets	Liabilities	
Convertible bonds (Note 15.a)	TriggerCall	32,200	30/10/2020	30	—	(1,786)
				30	**—**	**(1,786)**

13. EQUITY

On 4 March 2016 the public deed was recorded at the Barcelona Commercial Registry in respect of the increase of the capital of Fomento de Construcciones y Contratas, S.A., 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 2016. 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

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 (Ongoing Market).

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 were 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 referred 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 2016 and accepted for processing by the CNMV on 18 April 2016. Finally, on 22 July 2016, 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 2017 and 2016 is as follows:

	2017	2016
Legal reserve	26,114	26,114
Other reserves	927,742	927,053
	953,856	**953,167**

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 2017 and 2016 were as follows:

Balance at 31 December 2015	**(5,503)**
Sales	-
Acquisitions	-
Balance at 31 December 2016	**(5,503)**
Sales	1,256
Acquisitions	(180)
Balance at 31 December 2017	**(4,427)**

The detail of the treasury shares at 31 December 2017 and 2016 is as follows:

2017		2016	
Number of shares	**Amount**	**Number of shares**	**Amount**
230,100	(4,427)	415,500	(5,503)

At 31 December 2017, the shares of the Company represented 0.06% of the share capital (31 December 2016: 0.11%).

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 15.a).

f) Valuation adjustments

The detail of “Valuation Adjustments” is as follows:

	2017	2016
Available-for-sale financial assets (Note 9)	9,710	9,710
Hedges (Note 12)	(935)	(1,683)
	8,775	**8,027**

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	Balance at year end
2017	714	41	(138)	—	617
2016	1,370	141	(118)	(679)	714

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

In 2016 the decrease recorded under "other variations" was entirely 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.

14. NON-CURRENT PROVISIONS

The changes in 2017 were as follows:

	Actions on infrastructure	Litigation	Liability and contingencies	Guarantees and contractual and legal obligations	Other	Total
Balance at 31.12.2015	**10,723**	**1,280**	**196,959**	**91,436**	**12,417**	**312,815**
Charge for the year	1,113	36	26,864	4,068	4,178	36,259
Amounts used	(10)	(553)	(976)	(5,019)	(1,081)	(7,639)
Reversals	(2,011)	(282)	(12,575)	(19,514)	(121)	(34,503)
Transfers	—	2,112	(1,543)	5,552	(5,552)	569
Balance at 31.12.2016	**9,815**	**2,593**	**208,729**	**76,523**	**9,841**	**307,501**
Charge for the year	28,199	25	28,213	8,738	5,419	70,594
Amounts used	(2,666)	(66)	(71,494)	(3,798)	(714)	(78,738)
Reversals	—	(5)	(429)	(1,566)	(5,544)	(7,544)
Transfers	—	75 thousand	(43,960)	(31,040)	—	—
Balance at 31.12.2017	**35,348**	**77,547**	**121,059**	**48,857**	**9,002**	**291,813**

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 income statement as the obligation is incurred (Note 4.a). In 2017 provisions were activated for the adaptation and improvement of the municipal solid waste treatment plant in Granada province, totalling EUR 25,548 thousand.

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, mostly including EUR 75,000 thousand, until 31 December 2016 classified as provisions for liabilities and contingencies, guarantees and contractual and legal obligations, included to challenge the sale of Alpine Energie. With regard to the bankruptcy process of the Alpine subgroup, which is legally dependent on FCC Construcción S.A., there have been no significant changes from what was reported in the 2016 financial statements. The following paragraphs describe the situation in greater detail.

In 2006 the FCC Group acquired an absolute majority interest in Alpine Holding GmbH ("AH"), and in the process indirect control of its operating subsidiary Alpine Bau GmbH ("AB").

On 19 June 2013 AB filed for insolvency at Vienna commercial court, making a retrenchment proposal under court-ordered administration proceedings. After the court-appointed administrator found the retrenchment proposal not to be viable, he moved for the company to be closed and declared bankrupt, a motion that the court accepted on 25 June 2013, thus beginning the official liquidation process. As a result of the bankruptcy of AB, its parent, AH, filed a petition for administration before the commercial court, applying for a declaration of bankruptcy on 28 June 2013. This application was accepted on 2 July 2013.

The direct consequence of both these proceedings for the official liquidation proceedings of these subsidiaries of FCC Construcción S.A. is that the latter loses control of the Alpine group, interrupting its consolidation.

At the time of preparing these financial statements, the administrators in the respective official liquidation proceedings have reported recorded liabilities of approximately EUR 1,669 million at AB and EUR 550 million at AH.

In September 2014, the firm BDO Financial Advisory Services GmbH, at the request of the administrators of AH and AB, issued a report according to which AB would have been insolvent since at least October 2010.

In July 2015 the court processing the AB bankruptcy accepted the administrator's application to commission the preparation of a report to determine the date when AB's debt became untenable for the purposes of the administration proceedings. The expert appointed was Mr Schima, who, based on the report by BDO, a company where he is a partner, reached the same conclusions, finding that AB would have been insolvent since October 2010. In view of these conclusions drawn by the administrators and applied in various court proceedings since, further expert reports were issued in different proceedings, including those by Mr Konecny for the anti-corruption prosecutor's office, AKKT for the banks, Rohatschek for Deloitte Audit Wirtschaftsprüfungs GmbH, and E&Y for FCC, all of which differ from the conclusions drawn by BDO/Schima. In particular, in October 2017, the prosecutors' expert issued his fourth and final report; the reports by the accounting expert concludes that (i) it cannot be said that there was any fraud in the individual financial statements of AB and AH and consolidated statements of AH, and (ii) the final insolvency date for AB and AH was 18 June 2013.

In 2010, 2011 and 2012, AH carried out three bond issues with a joint nominal value of EUR 290 million, accepted for trading on the Luxembourg and Vienna stock exchanges. AH, as the issuer of the bonds, and its directors and monitoring-council members may be subject to liability towards the bondholders for claims for damages if the court's final decision finds the information contained in the corresponding issue brochure to have been incorrect, incomplete or based on false data.

In the framework of the insolvency of the Alpine group, the Central Economic Offences and Corruption Prosecutor's Office (*Wirtschafts- und Korruptions-Staatsanwaltschaft*) launched a criminal investigation in July 2013. To date, 380 claimants have joined the proceedings as private plaintiffs (*Privatbeteiligte*), claiming damages totalling EUR 350 million plus legal interest.

As these financial statements were being prepared, the prosecutors were in the process of investigating more than 25 persons (both natural and bodies corporate) in connection with the commission of crimes related to the Alpine group's tenders, specifically the alleged crimes of negligent insolvency and false accounting in respect of the Alpine group's financial statements.

Pursuant to the provisions for the criminal liability of bodies corporate under Austrian criminal law (*Verbandsverantwortlichkeitsgesetz*), if a court issues a final judgment finding Fomento de Construcciones y Contratas S.A. or FCC Construcción S.A., as the parents of AB and AH, to be criminally liable, because they are considered to be de facto directors, the former bondholders or other creditors suffering damages by those companies may file claims for damages against Fomento de Construcciones y Contratas S.A. or FCC Construcción S.A., under the aforementioned protection rules (*Schutzgesetze*). Also, finding any Group entities to be criminally liable would go hand in hand with a prohibition from participating in any further public tender processes in Austria.

As a result of these insolvency proceedings, as at 31 December 2017, the FCC Group had recognised provisions in relation to the Alpine subgroup amounting to EUR 125,437 thousand in order to cover the contingencies and liability arising of the bankruptcies of AH and AB. 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	50,437
Total	**125,437**

The provision for the challenge to the sale of Alpine Energie Holding AG amounting to EUR 75 thousand covers the risk relating with the filing for retroactive application made by the administrator on 11 June 2014 against the Parent of the Group, Fomento de Construcciones y Contratas S.A. and two of its subsidiaries: Asesoría Financiera y de Gestión S.A. and Bveftdomintaena Beteiligunsgverwaltung GmbH.

With regard to the sale of Alpine Energie Holding AG, in the framework of the investigation of alleged asset-stripping, the expert appointed by the prosecutor's office essentially concluded in October 2015 that the sale of Alpine Energie Holding AG (i) did not constitute asset-stripping and (ii) caused no harm or damage to AB; and (iii) that the sale conditions were consistent with market conditions at the time. 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, with regard to the alleged asset-stripping, in November 2016.

FCC Construcción S.A. lodged corporate guarantees in order for AB and some of its operating subsidiaries to be able to tender for and win contracts for works; now, four and a half years after the bankruptcy, the risk of these guarantees being executed has lessened. In addition, in the ordinary course of its business activities, the FCC Group generated accounts receivable from the Alpine group, which are highly unlikely to be recovered as a result of the bankruptcy proceedings. In order to cover both risks, the Group recognised provisions amounting to EUR 50,437 thousand on the liability side of its consolidated balance sheet.

Since the bankruptcy of AH and AB to date, the following actions have been brought against the FCC Group and directors of AH and AB:

- **Preliminary investigation 19 St 43/13y-1 by the Anti-Corruption and Economic Offences Prosecutor's Office:**

  - 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 Alpe 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.

  - In November 2016, the prosecutor's office decided to close the investigations of alleged asset-stripping in the sale of Alpine Energie Holding AG, considering that the facts accredited did not constitute that criminal offence.

  - In October 2017, the prosecutor's expert issued his fourth and final report; the reports by the accounting expert concluded that (i) no fraud can be said to have been committed in the individual financial statements of AB and AH and the consolidated statements of AH, and (ii) the final insolvency date of AB and AH was 18 June 2013.

- **Civil and commercial proceedings**

  - Petition for retroactive application filed by the administrator of Alpine Bau GmbH on 11 June 2014 against FCC and two group subsidiaries, Asesoría Financiera y de Gestión S.A. and BVEFDOMINTAENA Beteiligungsverwaltung GmbH, as joint and several liable parties, challenging the sale of shares of Alpine Energie Holding AG to the latter subsidiary. The administrator is not claiming the return of Alpine Energie Holding AG to the scope of the bankruptcy but rather a payment of EUR 75 million plus interest. The proceedings are still at the evidentiary stage.

  - 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. These three proceedings were suspended pending the findings of the report by the anti-corruption prosecutor's expert. That report has now been issued, seeking the continuance of the first of the proceedings.

  - 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 its subsidiary Alpine Bau GmbH without the necessary guarantees and through alleged control FCC Construcción S.A. The proceedings, which began with notice of the action in April 2015, were declared by the court to be “heard and pending judgment” in November 2017.

  - In April 2017 a member company of the FCC Group, Asesoría Financiera y de Gestión S.A., received a writ in which the administrator lodged a claim for payment by the CFO of de Alpine Bau GmbH and Asesoría Financiera y de Gestión S.A., jointly and severally, of the sum of EUR 19 million for alleged infringements of company and insolvency law, understanding that Alpine

Bau GmbH, on lodging a deposit at Asesoría Financiera y de Gestión S.A., had made payments charged to its own resources (a return of capital), which is forbidden by law. The proceedings are at the evidence-hearing stage and the court has appointed an expert.

- Also in April 2017, a former employee of FCC and also a former director of AH and AB received a writ issued by the administrator of Alpine Bau GmbH claiming EUR 72 million for alleged harm to the bankruptcy group caused by alleged liable delays when filing for insolvency.

The FCC Group has recorded 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, prior to the issue of the next report, therefore, no provision has been recognised in this connection as the Group considers that they are contingent liabilities (Note 19).

Provision for liabilities

These cover risks to which the Company may be exposed because of its business but are not covered by other categories. They include risks derived from international growth as well as tax risks. In 2017 the Company has made provisions totalling EUR 34,484 thousand for tax cases. On 10 October 2017 investigations by the tax authority regarding Corporation Tax for tax group 18/89 over the 2010–2012 period, headed by Fomento de Construcciones y Contratas S.A., resulted in a payable sum of EUR 34,484 thousand, including quota and penalty interest. The impact of this sum on the cash-flow statement has not been particularly significant, because payment of a considerable portion of it has been deferred (Note 16.a). Applications have also been made for EUR 35,835 thousand in respect of guarantees that remained lodged.

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.

15. NON-CURRENT AND CURRENT PAYABLES

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

	Non-current	Current
2017		
Debt instruments and other marketable securities	—	30,578
Bank borrowings	1,797,420	264,318
Obligations under finance leases	30,640	14,759
Derivatives (Note 12)	1,247	137
Other financial liabilities	5,481	14,209
	1,834,788	**324,001**
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 12)	2,244	149
Other financial liabilities (*)	5,878	111,791
	3,139,649	**354,543**

(*) The 2016 figure has been re-expressed, adding EUR 63,933 thousand to record the debt related to the public tender to acquire shares of Cementos Portland Valderrivas S.A. (Note 2).

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

	Maturity					
	2019	**2020**	**2021**	**2022**	**2023 and subsequent years**	**Total**
Bank borrowings	191,410	165,808	218,064	1,210,792	11,346	1,797,420
Obligations under finance leases	14,361	10,460	4,617	1,202	—	30,640
Derivatives	115	115	115	115	787	1,247
Other financial liabilities	1,562	1,141	1,106	505	1,167	5,481
	207,448	**177,524**	**223,902**	**1,212,614**	**13,300**	**1,834,788**

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 450,000 thousand for international institutional investors. Certain terms and conditions were amended and approved by the General Assembly of the Syndicate of Bondholders in 5 May 2014. The main characteristics following the changes are as follows:

- The final due date is 30 October 2020.
- 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 is established at EUR 21.50 per ordinary share, 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.
- A new case of optional repayment for the issuer from 30 October 2018 is included.

The changes made to the board of directors of Fomento de Construcciones y Contratas S.A. in 2016 and capital operations carried out led to a change in effective control, with Inversora Carso securing a majority holding of the capital. This situation, under the terms and conditions of the Convertible Bond, triggered a Put Period of 60 working days in which each individual bondholder had the right to ask the Company to return the principal of the bond (EUR 50,000 per 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.

The sum of bonds amortised in 2017 is EUR 1,950 thousand (2016: EUR 417,600 thousand). The book balance as at 31 December 2017 shown under this heading is EUR 30,578 thousand (31 December 2016: EUR 32,548 thousand), including EUR 328 thousand in outstanding accrued interest (31 December 2016: EUR 348 thousand). As at 31 December 2017 this sum is classified as current, owing to the intention to exercise the right of advance repayment provided under the main characteristics. These bonds traded at 102.4% of par at 31 December 2017 according to Bloomberg.

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 2017 at EUR 5 thousand (31 December 2016: EUR 30 thousand) (Note 12).

b) Non-current and current bank borrowings

During the first few months of 2017, in the context of refinancing the corporate debt of Fomento de Construcciones y Contratas S.A., an agreement was reached with all the financial creditors to refinance much of the debt under the previous refinancing contract, in effect since 26 June 2014, the terms and conditions of which are explained in detail in note 16.b of the 2016 financial statements.

On 28 February 2017 the process to sign the contracts for the refinancing of the Group's syndicated debt was completed, with all the affective credit entities being involved. All the suspension conditions to which their effectiveness was subject were met by 8 June.

The refinancing process completed in 2017 involved completely renewing the existing financing by replacing it with a new long-term credit facility for the Company, as the parent of the FCC Group together with certain dependent companies, with the group of companies headed by FCC Aqualia ceasing to be a bound party. In accordance with the relevant accounting rules, this renewal has resulted in no substantial changes to the conditions of the loan.

The main characteristics of the refinancing are:

- **Amount:** The total outstanding sum as at 31 December 2017 is EUR 2,004 million.
  This sum replaces the debt under the previous financing contract, with a repayable sum of EUR 3,237.4 million, following the advance repayment of EUR 1,068.8 million (including full cancellation of the tranche convertible into shares of Fomento de Construcciones y Contratas S.A. and the warrants associated with this convertible tranche).

  At the time of closing the refinancing agreement, as established under the financing contract, the funds corresponding to the sales of Xfera and Global Vía — EUR 29.1 million and 106.4 million, respectively — were allocated to the advance repayment of tranche A. Following this operation, the sum of the principal renewed was EUR 2,033.1 million.

  The principal as at 31 December 2017 is EUR 2,004 million, after making the first repayment of EUR 29.1 million under the repayment schedule for the new financing contract.

- **Tranches:** The new debt is split into four tranches, three of which (A, B and C) are commercial loans for initial sums of EUR 288.1 million, EUR 1,455.5 million and EUR 125 million, respectively; plus, a final tranche (D) (tranche D) represented by a revolving loan of EUR 300 million.

- **Maturity**: Tranches A, B and D mature in five years and tranche C in 18 months.

- **Interest rate:** The interest rate fixed for all tranches is Euribor plus a 2.3% differential, which may be reduced to 2% of certain contractual requirements are met.

- **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 with certain exceptions detailed in the contract; 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 and (ii) the sale of all or a substantial portion of the assets or businesses within the refinancing scope.

- **Cases of mandatory partial early repayment**. Among other cases, the Financing Agreement provides for the obligation to repay, early and partially, the outstanding principal using (i) 50% of the cash sum from monetary capital increases with certain exceptions detailed in the contract; (ii) the net funds deposited by the Company as a result of subscribing subordinated debt to restore financial ratios (equity cure); and (iii) proceeds from insurance indemnity payments and the sale of assets, subsidiaries and businesses, except under certain circumstances.

- **Financial ratios and other borrower obligations.** The Financing Agreement is subject to the achievement of certain annual financial ratios relating to the Fomento de Construcciones y Contratas, S.A. refinancing scope, the non-achievement of which may trigger a case for early repayment. The financial ratios will also be measured on 30 June each year, for information purposes only. As at 31 December 2017 these ratios are met and are also expected to be met as at 31 December 2018.

- **Guarantees.** The refinancing documents include personal guarantees by a substantial number of the companies within the refinanced scope, conserving their real guarantees of a large portion of the Group's credit assets and rights.

Financial Stability Framework Agreement

As a supplement to the main refinancing agreement, a Framework Financial Stability Contract was entered into, renewing the one in effect since 2014 and regulating such matters as the financial operations necessary for day-to-day business, national and international guarantees totalling EUR 1.481 million with a five-year term, and the undertaking to defer the debt of subsidiaries, as these are defined under the refinancing contract.

Syndicated international guarantee facility

In addition, a contract was entered into to renew the 2014 International Syndicated Guarantee Arrangements (EUR 116 million and a five-year term).

Cementos Portland Valderrivas Support Agreement

As part of the CPV refinancing process completed in 2016, FCC assumed a new contingent undertaking, known as a "Support Agreement", 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.

Finally, there are bilateral loans/credit facilities totalling EUR 34,856 thousand (31 December 2016: EUR 41,780 thousand).

At year-end the long- and short-term financing granted to the Company by banks had a limit of EUR 2,039,172 thousand (31 December 2016: EUR 3,260,301 thousand), which had almost been drawn down in full at 31 December 2017 and 2016, 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.

16. 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 18.a) include the deferral of the Corporation Tax debt of tax group 18/89 for the 2010–2012 periods, as authorised by the Large Taxpayers Central Office of the State Tax Agency. This deferment establishes monthly repayments until June 2019 at the latest, at an interest rate of 3.75%.

The detail of the aforementioned deferred payments is as follows:

	2017	2016
Non-current	4,628	-
Current	22,989	1,254
	27,617	**1,254**

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 2017 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"), 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 2017.

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 2,549 thousand, almost all of which had been made available as at 31 December 2017. 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:

	2017	2016
	Days	**Days**
Average period of payment to suppliers	94	95
Ratio of transactions settled	99	98
Ratio of transactions not yet settled	73	84
	Amount	**Amount**
Total payments made	331,864	302,151
Total payments outstanding	80,506	80,182

17. 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 "Changes 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 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 increases of EUR 1,000,000 thousand performed at the end of 2014 and completed in March 2016 of EUR 709,519 thousand, both of which are earmarked to strengthen the Company's capital structure.

Also, as explained in note 15.b on non-current and current bank debts, renewal of the syndicated loan of Fomento de Construcciones y Contratas S.A. came into effect on 8 June 2017.

Also, as explained in Note 15.a on "Non-current and current obligations and loans", in September 2016 much of the convertible bond issue of Fomento de Construcciones y Contratas, S.A. was repaid. This, together with other smaller request in subsequent months, has meant that by year end 2017 EUR 420 million of the issue had been repaid, 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.

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 income statement.

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 income statement:

	+25 pb	+50 pb	+100 pb
Impact on the income statement	8,257	16,514	33,029

d) Solvency risk

The most representative ratio for measuring solvency and capability of repaying the debt is:

In 2017 the Company improved its solvency compared with 2016, as we see from the evolution of net financial debt shown on the enclosed balance sheet, as follows:

	2017	2016
Bank borrowings	2,061,738	3,314,624
Debt instruments and other marketable securities	30,578	32,548
Payable to Group companies and associates	1,049,992	591,525
Other interest-bearing financial debt	49,824	62,860
Financial credits with Group companies and associates	(178,997)	(187,794)
Other current financial assets	(11,689)	(146,790)
Cash and cash equivalents	(63,171)	(94,300)
	2,938,275	**3,572,673**

The most significant variations were largely caused by:

- Repayment of bank debt (Note 15.b).
- Financing of subsidiaries (Note 10.d)
- Receipts of sums deferred by the sale of Global Vía and Xfera in 2016 (Note 9.b).

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 it operates. Unfavourable conditions in the debt and capital markets can obstruct or impede the obtainment of adequate financing for the performance of business activities.

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 the Company and 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.

As at 31 December 2017, the Company presents negative goodwill of EUR 434,497 thousand, although the Directors have prepared the financial statements according to the going-concern principle for the reasons explained in note 2.

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.

The FCC Group's strategic-planning process identifies the targets to be reached by each business area in terms of improvements to be implemented, market opportunities and the risk level that is considered to be acceptable. The process serves as the basis for preparing operating plans that specify the targets to reach each year.

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 Company 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 Environment Area, 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

(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 0.63% in the medium and long term at 31 December 2017, 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:	130	269	546

18. DEFERRED TAXES AND TAX MATTERS

a) Tax receivables and payables and deferred taxes

a.1) Tax receivables

	2017	2016
Non-current		
Deferred tax assets	87,907	103,262
	87,907	**103,262**
Current		
Current tax assets	23,743	1,541
Other accounts receivable from public authorities	5,389	7,252
	29,132	**8,793**

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

	2017	2016
Non-deductible finance costs	53,650	57,329
Provisions	23,167	33,217
Other	11,090	12,716
	87,907	**103,262**

"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 18.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 together with the new agreement to refinance the corporate debt, entered into in 2017, have enabled the financial debt and interest rates to be reduced, which in turn will result in a considerable reduction in financial costs.

a.2) Tax payables

	2017	2016
Non-current		
Deferred tax liabilities	29,309	43,500
Other accounts payable to public authorities	4,628	-
	33,937	**43,500**
Current		
Other accounts payable to public authorities	65,972	41,415
Tax withholdings payable	8,839	8,663
VAT and other indirect taxes payable	23,751	19,415
Accrued social security taxes payable	8,597	10,074
Deferral of payments to public authorities (Note 16)	22,989	1,254
Other	1,796	2,009
	65,972	**41,415**

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

	2017	2016
Impairment of goodwill for tax purposes	10,114	10,115
Accelerated depreciation and amortisation	6,801	10,051
Haircut deferment	-	9,791
Finance leases	4,220	4,921
Other	8,174	8,622
	29,309	**43,500**

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

a.3) Changes in deferred tax assets and liabilities

The changes in deferred tax assets and liabilities in 2017 and 2016 were as follows:

	Deferred tax assets	Deferred tax liabilities
Taxable temporary differences (income statement liability method)		
Balance at 31.12.2015	**167,992**	**35,467**
Arising in the year	-	11,236
Arising in prior years	(70,738)	(5,500)
Other adjustments	5,416	2,172
Balance at 31.12.2016	**102,670**	**43,375**
Arising in the year	-	-
Arising in prior years	(13,864)	(4,600)
Other adjustments	(1,238)	(9,579)
Balance at 31.12.2017	**87,568**	**29,196**
Temporary differences (balance sheet liability method)		
Balance at 31.12.2015	**627**	**17,248**
Arising in the year	-	37
Arising in prior years	(35)	(16,935)
Other adjustments	-	(226)
Balance at 31.12.2016	**592**	**124**
Arising in the year	-	14
Arising in prior years	(253)	(25)
Other adjustments	-	-
Balance at 31.12.2017	**339**	**113**
Total at 31/12/2017	**87,907**	**29,309**

Worthy of Note on this chart is the variation in deferred taxes on assets in 2016, sourced in prior years, totalling EUR 70,738 thousand, which largely corresponds to the reversion of the accumulated impairment of the company Global Vía Infraestructuras S.A. caused by its sale.

“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.

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:

	2017			2016		
Accounting loss for the year before tax			**180,175**			**(259,930)**
	Increase	**Decrease**		**Increase**	**Decrease**	
Permanent differences	258,820	(454,594)	(195,774)	365,884	(33,207)	332,677
Adjusted accounting profit (loss)			(15,599)			72,747
Temporary differences						
- Arising in the year	-	(55,457)	(55,457)	-	(44,943)	(44,943)
- Arising in prior years	18,400	-	18,400	89,695	(282,951)	(193,256)
Taxable profit (tax loss)			**(52,656)**			**(165,452)**

The foregoing table includes notably the permanent differences relating to 2017 and 2016. 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 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 treatment as permanent differences of deferred tax assets generated in the year, including limitations on the deductibility of finance costs in 2016.

c) Tax recognised in equity

At year end 2017 and 2016 the tax registered under equity is not significant.

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:

	2017	2016
Adjusted accounting profit (loss)	(15,599)	72,747
Income tax charge	(3,900)	18,187
Other adjustments	(262)	21,245
Corporation Tax expenditure/(income)	**(4,162)**	**39,432**

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.

e) Breakdown of income tax expense

The breakdown of the income tax expense for 2017 and 2016 is as follows:

	2017	2016
Current tax	(2,326)	(15,514)
Deferred taxes	(1,836)	54,946
Total tax expense	**(4,162)**	**39,432**

f) Tax loss and tax credit carryforwards

At 2017 year-end the Company had tax loss carryforwards from prior periods amounting to EUR 106,249 thousand, as part of tax group 18/89, with the following details by year:

	Amount
2014	47,860
2016	58,389
Total	**106,249**

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 from prior years amounting to EUR 11,007 thousand, for which, in the same way as for tax loss carryforwards, the Company did not recognise 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	583	Indefinite
Other	437	15 years
	11,007	

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 issued a “Communication of the Commencement of Verifications and Investigations" with regard to Corporation Tax for tax group 18/89, headed by the Company (periods between 01/2010 and 12/2013), and with regard to VAT (periods between 01/2012 and 12/2013) and PAYE withholdings (periods between 04/2011 and 12/13). During the final quarter of 2017 the authorities gave notice of a debt in respect of Corporation Tax for the tax group headed by Fomento de Construcciones y Contratas S.A. (for the 2010–2012 periods), as well as in respect of VAT and PAYE withholdings for several Group companies, totalling EUR 37 million. Payment of most of this debt has been deferred by the tax authority for 18 months. It is also likely that during the first quarter of 2018 the Company will be ordered to make a VAT payment (2012–2013 periods) for EUR 1 million, plus another debt for the tax group's Corporation Tax for which no outgoings are expected, although certain tax credits recorded for companies in the tax group will be regularised. The total effect of tax regularisation in 2017 and forecast for 2018 will have no impact on the Company's results, as adequate provisions have been made for the corresponding sums in the financial statements.

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 2017 and 2016 is as follows:

	2017	2016
Income tax recovered from/paid to Group companies in prior year and for Corporation Tax payments for the year	39,854	(12,700)
Deferred taxes	(6,897)	—
Pre-payments	(28,014)	—
CT prior years	4,364	—
Withholdings and other	(184)	374
	9,123	**(12,326)**

19. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

At 31 December 2017, Fomento de Construcciones y Contratas S.A. had provided EUR 474,662 thousand (31 December 2016: EUR 535,224 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 2017 year-end the Company had also provided guarantees to third parties for certain Group companies amounting to EUR 320,659 thousand (31 December 2016: EUR 382,593 thousand). These include, most notably, EUR 288,902 thousand relating to Environmental Services companies.

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 14 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 14 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 and 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, although it is now at the “heard pending judgment" stage, 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 a contentious-administrative appeal before the National Court of Justice. In late January 2018 we received notice of the decisions issued by the National Court of Justice finding in favour of the contentious-administrative appeals filed by Gestión y Valorización Integral del Centro S.L. and BETEARTE, both subsidiaries of Fomento de Construcciones y Contratas S.A., against the CNMC decision imposing various sanctions for alleged collusion practices. Both these judgments accept the companies' representations that no single, continued infringement took place. The FCC Group does not expect any outgoings as a result of this legal action, although after the judgment was announced, the CNMC has told the media that it intends to appeal the judgments before a higher court.

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.

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.

20. 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:

	2017	2016
Environmental Services	1,200,821	1,160,120
Other	15,549	18,948
	1,216,370	**1,179,068**

Of the total cited, EUR 17,823 thousand corresponds to contracts abroad, specifically in the United States (31 December 2016: EUR 8,648 thousand).

In “Revenue from investments in Group Companies and associates” of particular note is the dividend shared by FCC Aqualia S.A. of EUR 413,462 thousand.

The detail of "Staff Costs" is as follows:

	2017	2016

Wages and salaries	580,347	567,252
Employee benefit costs	202,244	194,497
	782,591	**761,749**

In 2017 "Impairment and gains or losses on disposals of non-current assets and other gains or losses" includes a provision of EUR 12,473 thousand (Note 14). In 2016 reversal of provisions amounted to EUR 12,516,000 (Note 14), relating to risks that were 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.

"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:

	2017	2016
Azincourt Investments S.L. Sole-Shareholder Company	6,070	6,087
FCC Medio Ambiente, S.A.	6,045	6,004
FCC Aqualia, S.A.	3,992	19,771
Enviropower Investments, Limited	2,661	2,955
FCC-PFI Holding Group	2,615	3,543
FCC Ámbito S.A. Sole-Shareholder Company	1,784	1,965
FCC Versia, S.A.	1,670	5,145
FCC Construcción, S.A.	1,617	4,231
FCC Environment (UK) Group	1,149	643
Cementos Portland Valderrivas, S.A.	—	5,376
Other	3,844	8,282
	31,447	**64,002**

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.

Also, in 2017 the heading "Changes in fair value of financial instruments" includes a profit of EUR 16,000 thousand for the receipt of an arbitration award with Veolia in respect of the sale of the Proactiva group in 2013. In 2016 this heading included losses of EUR 20,820 thousand owing to the decrease in the value of receivables at Global Vía Infraestructuras S.A.

"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.

21. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related party transactions

The detail of the transactions with related parties in 2017 and 2016 is as follows:

	Group companies	Joint ventures	Associates	Total
2017				
Services rendered	78,528	15,239	3,379	97,146
Services received	23,372	158	309	23,839
Dividends	416,280	787	1,515	418,582
Finance costs	25,748	—	—	25,748
Finance income	31,447	—	—	31,447
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

b) Related party balances

The detail of the related party balances at year-end is as follows:

	Group companies	Joint ventures	Associates	Total
2017				
Current investments (Note 10)	186,736	1,299	412	188,447
Non-current investments (Note 10)	3,059,142	16,960	216,278	3,292,380
Current payables (Note 10)	528,322	4,059	—	532,381
Non-current payables (Note 10)	538,877	—	—	538,877
Trade receivables	42,280	4,522	473	47,275
Trade payables	7,453	2,332	67	9,852
2016				
Current investments (Note 10)	215,822	588	588	216,998
Non-current investments (Note 10)	3,595,894	16,959	216,279	3,829,132
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

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

	2017		2016	
Company	Receivable	Payable	Receivable	Payable
FCC Construcción, S.A.	17,556	—	39,113	1,932
Serveis Municipals de Neteja de Girona S.A.	4,182	—	3,926	—
Fast Consortium Limited LLC	2,199	2,166	2,206	2,166
Societat Municipal Mediambiental d'Igualada S.L.	1,818	—	1,567	—
ASA Group	1,626	910	1,011	1,735
Cementos Portland Valderrivas, S.A.	1,324	42	802	31
FCC Aqualia, S.A.	1,182	93	2,805	92
FCCyC, S.L. Sole-shareholder Company	1,164	—	—	—
FCC Medio Ambiente, S.A.	1,132	260	1,432	231
Valoración y Tratamiento de Residuos Sólidos Urbanos, S.A.	1,062	—	678	—
Servicio de Recogida y Gestión de Residuos Sólidos Urbanos del Consorcio Vega Sierra Elvira, S.A.	1,055	628	1,077	363
Empresa Comarcal de Serveis Mediambientals del Baix Penedés ECOBP, S.L.	1,013	—	964	—
Hidrotec Tecnología del Agua S.L. Sole-Shareholder Company	939	27	398	9
Servicios Especiales de Limpieza S.A.	826	607	666	911
Ecoparc del Besòs S.A.	736	—	1,072	—
FCC Industrial e Infraestructuras Energéticas S.A.	735	188	1,022	444
Alfonso Benitez, S.A.	728	32	843	252
FCC Environment (UK) Group	710	334	479	—
Servicios Urbanos de Málaga S.A.	668	—	905	—
Gandia Serveis Urbans S.A.	553	—	1,998	—
FCC Enviromnet Services (UK) Limited	530	—	—	—
Fedemes S.L.	469	886	3,349	1,452
FCC Ámbito S.A. Sole-Shareholder Company	395	164	660	98
Manipulación y Recuperación MAREPA S.A.	388	13	1,106	68
Gestió i Recuperació de Terrenys S.A. Sole-Shareholder Company	13	1,371	1	1,185
Other	4,272	2,131	3,344	3,372
	47,275	**9,852**	**71,424**	**14,341**

c) Operations with Company Directors and senior FCC Group executives

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

	2017	2016
Fixed remuneration	1,066	1,230
Other remuneration (*)	1,864	1,443
	2,930	**2,673**

(*) Includes in 2017 a severance payment of EUR 708 thousand, including a no-competition agreement, made to the previous CEO. Also included is 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 3,168 thousand in 2017 (2016: EUR 3,507 thousand).

2017	
Marcos Bada Gutierrez	General Internal Audit Manager
Agustín García Gila	Chairman of Environmental Services
Felipe B. García Pérez	General Secretary
Miguel A. Martínez Parra	General Manager of Administration and Finance
Félix Parra Mediavilla	General Manager of FCC Aqualia

The total remuneration figure includes sums paid to Pablo Colio over the period between 16 January 2017 (when he was appointed as Managing Director of FCC Construcción) and 12 September 2017 (when he was appointed as CEO). The figure for total remuneration includes the sums corresponding to severance payments for three senior managers in 2017.

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

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 2017 (nor were there any in 2016).

For the purposes of setting up an economic fund to compensate the previous CEO, the Company set up a savings fund in his favour, funded by annual contributions made by Fomento de Construcciones y Contratas S.A. (Note 4.1). The contributions for this item in 2017 totalled EUR 510 thousand (2016: EUR 202 thousand). On 28 September 2017, the Company received a sum of EUR 712 thousand as recovery of the policy taken out.

Under article 38.5 of the articles of association, the Company takes out civil-liability insurance to cover directors and executives. The policy covers all the Group's directors as a whole. The premium paid in 2017 was EUR 1,333 thousand.

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.

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
	CEMENTOS PORTLAND VALDERRIVAS S.A.	DIRECTOR
GERARDO KURI KAUFMANN	CEMENTOS PORTLAND VALDERRIVAS S.A.	CEO
	REALIA BUSINESS S.A.	CEO
JUAN RODRÍGUEZ TORRES	CEMENTOS PORTLAND VALDERRIVAS S.A.	DIRECTOR
	REALIA BUSINESS S.A.	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.	CHAIRMAN'S OFFICE
	REALIA BUSINESS S.A.	DIRECTOR
PABLO COLIO ABRIL	FCC INDUSTRIAL PERÚ, S.A.	BOARD MEMBER
	GUZMAN ENERGY O&M, S.L.	CHAIRMAN

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.

d) Situations of conflict of interest

No situations of direct or indirect conflict of interest with the interests of the Company have come to light, in accordance with the applicable law (s. 229 Capital Companies Act), without prejudice to the Company's operations with related parties contained in this report or any agreements on remuneration issues or the appointment of officers. In this regard, whenever ad hoc conflicts of interest have come to light affecting certain directors, they have been resolved according to the procedure provided under the Board Rules, with the persons involved standing aside from the relevant 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 for technical support and consulting between Inmobiliaria and Realia, regarding the development of 33 houses at A.R. Nuevo Tres Cantos and the associated marketing contract.

- Contracts for technical support and consulting between Inmobiliaria and Realia for a development for 86 homes, garage spaces, storage rooms and common areas on plot 1-6.A at A.R. Nuevo Tres Cantos, plus the corresponding marketing contract.

- Factoring line for EUR 130 million with assignment of credits without financing recourse granted by the Inbursa finance group to Fomento de Construcciones y Contratas.

- Financing by the Inbursa finance group to FCC Construcción S.A. for Panama Metro line 2, by means of the acquisition of works certificates totalling USD 415 million.

- Marketing contracts between FCyC S.L.U. (principal) and Realia Business S.A. (agent) and contract for technical assistance and consulting provided by Realia Business S.A. to FCyC. S.L. related to the new Buenavista residential estate in Tres Cantos, phase II.

- In the framework of the refinancing of the debt associated with the Spanish business of the Cementos Portland Valderrivas group in 2016, a subordinated financing contract was entered into, with a book value as at 31 December 2017 of EUR 70,405 thousand, with Banco Inbursa S.A., Institución de Banca Múltiple. The finance costs accrued during the year totalled EUR 2,316 thousand.

Additionally, other operations are carried out under market conditions, mostly telephone and ISP services, with associated parties related with the majority shareholder. 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 20 et seq. of the board regulations.

22. INFORMATION ON THE ENVIRONMENT

As indicated in Note 1, by their very nature, the Company's Environmental Service business 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 2017, the acquisition cost of the non-current assets assigned to the above activity totalled EUR 1,190,468 thousand (31 December 2016: EUR 1,148,828 thousand), with accumulated depreciation amounting to EUR 748,096 thousand (31 December 2016: EUR 716,496 thousand).

Company management considers that any possible contingencies in relation to the protection and improvement of the environment at 31 December 2017 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.

23. OTHER DISCLOSURES

a) Employees

The average number of employees at the Company in 2017 and 2016 was as follows:

	2017	2016

Managers and university graduates	225	235
Professionals with qualifications	485	479
Clerical and similar staff	613	648
Other salaried employees	23,796	22,943
	25,119	**24,305**

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 2017 and 2016 by the Company who have degree of disability of 33% or higher.

	2017	**2016**
Managers and university graduates	2	2
Professionals with qualifications	10	4
Clerical and similar staff	8	10
Other salaried employees	544	509
	564	**525**

At 31 December 2017 and 2016, the number of employees, Directors and Senior Executives of the Company, by gender, was as follows:

	Men	**Women**	**Total**
2017			
Directors	11	4	15
Senior executives	5	—	5
Managers and university graduates	180	31	211
Professionals with qualifications	365	106	471
Clerical and similar staff	251	363	614
Other salaried employees	18,063	5,196	23,259
	18,875	**5,700**	**24,575**

	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**

b) Fees paid to auditors

The 2017 and 2016 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:

	2017			2016		
	Principal auditor	Other auditors	Total	Principal auditor	Other auditors	Total
Audit services	271	21	292	262	22	284
Other attest services	203	53	256	128	-	128
Total audit and related services	**474**	**74**	**548**	**390**	**22**	**412**
Tax counselling services	-	82	82	28	47	75
Other services	306	408	714	522	1,276	1,798
Total professional services	**306**	**490**	**796**	**550**	**1,323**	**1,873**
TOTAL	**780**	**564**	**1,344**	**940**	**1,345**	**2,285**

24. EVENTS AFTER THE REPORTING PERIOD

On 20 February 2018 the Group reported that following the receipt of a bid by the investment fund IFM Global Infrastructure Fund ("IFM") to purchase a minority stake in the company FCC Aqualia S.A., exclusive negotiations between FCC and IFM are at advanced stages regarding the acquisition by IFM of a 49% stake in FCC Aqualia S.A.

GROUP COMPANIES

APPENDIX I

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
Aparcamientos Concertados, S.A. Arquitecto Gaudí, 4 – Madrid -Car parks-	2,500	__	100	413	630	204	__	457	346
Armigesa, S.A. Pza. Constitución, s/n - Armilla (Granada) -Urban cleaning-	612	__	51	84	1,200	272	__	280	210
Asesoría Financiera y de Gestión, S.A. Federico Salmón, 13 – Madrid -Financial services-	3,008	__	Dir. 43.84 Indir. 56.16	__	6,843	(32,318)	__	12,253	27,462
Azincourt Investment, S.L. Sole-Shareholder Company Federico Salmón, 13 – Madrid -Financial services-	1,545,686	1,300,110	100	__	4	82,952	57,440	(166)	(28,437)
Bvefdomintaena Beteiligungsverwaltung GmbH Nottendorfer, 11 – Viena (Austria) -Corporate vehicle-	170	170	100	__	35	(396)	__	__	(396)
Cementos Portland Valderrivas, S.A. Dormilatería, 72 – Pamplona -Cement-	892,480	183,825	Dir. 95.58 Indir. 2.90	__	206,12	382,564	3,130	(17,546)	(44,937)
Compañía General de Servicios Empresariales, S.A. Sole-Shareholder Company Federico Salmón, 13 – Madrid -Corporate vehicle-	60	__	100	__	60	18	__	1	(1)
Corporación Española de Servicios, S.A. Federico Salmón, 13 – Madrid -Corporate vehicle-	44	__	Dir. 99.99 Indir. 0.01	__	60	15	__	(1)	(2)
Dédalo Patrimonial, S.L. Sole-Shareholder Company Federico Salmón, 13 – Madrid -Financial services-	85,863	85,863	100	__	61	(3,549)	__	(12,567)	(10,588)

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 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	13,608	—	3,831	2,941

GROUP COMPANIES

APPENDIX I/2

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
Egypt Environment Services SAE El Cairo – Egypt -Urban cleaning-	7,760	2,308	Dir. 97,00 Indir. 3.00	—	36,400 (EGP) (*)	5,231 (EGP) (*)	— (EGP) (*)	36,314 (EGP)(*)	22,990 (EGP)(*)
Empresa Comarcal de Serveis Mediambientals del Baix Penedés, ECOBP, S.L. Plaça del Centre, 3 – El Vendrell (Tarragona) -Urban cleaning-	200	—	66.6	267	540	109	90	599	442
Europea de Gestión, S.A. Sole-Shareholder Company Federico Salmón, 13 – Madrid -Corporate vehicle-	63	—	100	—	60	20	—	—	(2)
FCC Aqualia, S.A. Federico Salmón, 13 – Madrid -Water management-	222,231	—	100	413,462	145,000	141,950	4,922	123,537	74,006
FCC Austria A.S.A. Abfall Service AG Hans-Hruschka-Gasse, 9 - Himberg (Austria) -Urban cleaning-	226,784	—	Dir. 99.98 Indir. 0.02	1,160	5,000	46,722	303	(8,147)	19,419
FCC Concesiones de Infraestructuras, S.L. Avenida Camino de Santiago, 40 – Madrid -Concessions-	3	—	100	—	3	—	—	—	—
FCC Construcción, S.A. Balmes, 36 – Barcelona -Construction-	1,728,051	979,095	100	—	220,000	280,039	—	71,980	50,384
FCC Equal CEE, S.L. Federico Salmón, 13 – Madrid -Social services-	3	—	Dir. 99.97 Indir. 0.03	—	3	36	—	176	132
FCC Equal CEE Andalucía S.L. Avda. Moliere, 36 Edif. Cristal 9/1 P - Málaga -Social services-	3	3	Dir 99.97 Indir, 0.03	—	3	—	—	(10)	(8)

FCC Equal CEE Comunidad Valenciana S.L. Riu Magre, 6 P.I. Patada Quart de Poblet (Valencia) -Social services-	3	3	Dir. 99.97 Indir. 0.03	—	3	(1)	—	(5)	(4)

GROUP COMPANIES

APPENDIX I/3

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 profit (loss)	
	Assets	Impairment						From operations	From continuing operations
FCC Equal CEE Murcia S.L. Luis Pasteur, 8 - Cartagena (Murcia) -Social services-	3	2	Dir. 99,97 Indir. 0.03	—	3	(2)	—	(3)	(2)
FCC Medio Ambiente, S.A. Federico Salmón, 13 – Madrid -Urban cleaning-	35,102	—	Dir. 98.98 Indir. 1.02	—	43,273	61,988	—	34,942	22,329
FCC Versia, S.A. Avenida Camino de Santiago, 40 – Madrid -Management company-	62,624	62,624	100		120	(40,032)	—	1,141	(302)
FCCyC, S.L. Sole-Shareholder Company Federico Salmón, 13 – Madrid -Real estate-	331,719	—	100	—	28,379	264,547	—	(3,204)	(6,257)
Fedemes, S.L. Federico Salmón, 13 – Madrid -Real estate-	10,764	—	Dir 92.67 Indir. 7.33	—	10,301	4,124	—	870	498
Gandia Serveis Urbans, S.A. Llanterners, 6 – Gandia (Valencia) -Urban cleaning-	78	—	95	519	120	1,882	—	1,456	772
Geneus Canarias, S.L. Electricista, 2 Urb. Ind. de Salinetas Telde (Las Palmas) -Waste treatment-	1,762	—	100	—	1,714	869	407	659	481
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	5,806	—	462	285
Per Gestora Inmobiliaria, S.L. Federico Salmón, 13 – Madrid -Corporate vehicle-	71,552	12,388	Dir 99.00 Indir. 1.00	—	60	54,411	—	105	5,298

Serveis Municipals de Neteja de Girona, S.A. Pza. del vi, 1– Girona -Urban cleaning-	45	45	75	__	60	(530)	__	(232)	(267)

GROUP COMPANIES

APPENDIX I/4

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 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	307	60	—	2,224	(324)	—	(212)	(197)
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	7,934	—	1,722	1,421
Societat Municipal Medioambiental d'Igualada, S.L. Pza. del Ajuntament, 1 – Igualada (Barcelona) -Urban cleaning-	870	—	65.91	—	1,320	22	—	31	(22)
Tratamientos y Recuperaciones Industriales, S.A. Rambla Catalunya, 2-4 – Barcelona -Waste treatment-	21,455	17,654	Dir. 74.92 Indir. 0.08	375	72	3,184	—	906	672
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	—	5,000	2,732	—	1,364	992
TOTAL	5,284,560	2,644,397		416,280					

(*) (EGP): Egyptian pounds.

NOTE:

- 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%.

JOINT VENTURES

APPENDIX II

	% of ownership
AGARBI	60.00
AGARBI BI	60.00
AGARBI INTERIORES	20.00
AIZMENDI	60.00
AKEI	60.00
ALCANTARILLADO BURGOS	60.00
ALCANTARILLADO MELILLA	50.00
ALELLA	50.00
ALUMBRADO BAZA	100.00
ALUMBRADO LEPE	50.00
ALUMBRADO MONT-ROIG DEL CAMP	50.00
ALUMBRADO PEÑÍSCOLA	50.00
ARAZURI 2016	50.00
ARCOS	51.00
ARUCAS II	70.00
BARBERA SERVEIS AMBIENTALS	50.00
BERANGO	20.00
BILBOKO LORATEGIAK	60.00
BILBOKO SANEAMENDU	50.00
BILBOKO SANEAMENDU BI	50.00
BILKETA 2017	20.00
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 CUERVA	5.00
EDAR RANILLA	25.00
EDAR REINOSA	1.00
EDAR SAN VICENTE DE LA BARQUERA	1.00
EDIFICIO ARGANZUELA	99.99
EFICIENCIA ENERGÉTICA PUERTO DEL ROSARIO	60.00
EMANKUDE	20.00
ENERGÍA SOLAR ONDA	25.00
ENLLUMENAT SABADELL	50.00
ENVASES LIGEROS MALAGA	50.00
EPELEKO PLANTA	35.00
EPREMESA PROVINCIAL	55.00
ERETZA	70.00
ES VEDRA	25.00
ETXEBARRI	20.00
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 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
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 7	50.00
ICAT LOTE 11	50.00
ICAT LOTE 15	50.00
ICAT LOTE 20 Y 22	70.00
INTERIORES BILBAO	80.00
INTERIORES BILBAO II	30.00
INTERIORES ORDUÑA	20.00
JARD. UNIVERSITAT JAUME I	50.00
JARDINES MOGAN	51.00
JARDINES PROTECCIÓN ESPECIAL	50.00
JARDINES PUERTO DEL ROSARIO	78.00
JARDINES TELDE	100.00
JARDINS SANTA COLOMA	50.00
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 ARRASATE	60.00
LV ORDUÑA	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 BREÑA ALTA	50.00
MANTENIMIENTO DE COLEGIOS III	60.00
MELILLA	50.00
MÉRIDA	1.00
MNTO. EDIFICI MOSSOS ESQUADRA	70.00
MNTO. MEDITERRANEA FCC	50.00
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
PARQUES INFANTILES LP	50.00
PASAIA	70.00
PASAIAKO PORTUA BI	45.00
PISCINA CUB. MUN. ALBATERA	100.00
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
PLATGES VINAROS	50.00
PLAYAS GIPUZKOA	55.00

APPENDIX II/3

	% of ownership
PLAYAS GIPUZKOA II	55.00
PLAYAS GIPUZKOA III	60.00
PONIENTE ALMERIENSE	50.00
PORTMANY	50.00
PUERTO	50.00
PUERTO II	70.00
PUERTO DE PASAIA	55.00
PUERTO DE PTO. DEL ROSARIO	70.00
RBU ELS PORTS	50.00
RBU VILLA-REAL	47.00
R.S. PONIENTE ALMERIENSE	50.00
REDONDELA	1.00
RESIDENCIA	50.00
RESIDUOS 3 ZONAS NAVARRA	60.00
RSU BILBAO II	20.00
RSU CHIPIONA	50.00
RSU LVS. BME TIRAJANA	50.00
RSU SESTAO	60.00
RSU TOLOSALDEA	60.00
RTVE	50.00
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
SANEAMIENTO URBANO 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
SEGURETAT URBICSA	60.00
SELECTIVA LAS PALMAS	55.00
SELECTIVA SAN MARCOS	65.00
SELECTIVA SAN MARCOS II	63.00
SELECTIVA SANLUCAR	50.00
SELECTIVA UROLA-KOSTA	60.00
SELECTIVA UROLA-KOSTA II 2017	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	33.33
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
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	Capital	Reserves	Other equity items	2017 profit (loss)	
	Assets	Impairments						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	620	7,710	2,169	13,304	5,172	2,659
Ecoserveis Urbans Figueres, S.L. Avda. Alegries, s/n – Lloret de Mar (Girona) -Urban cleaning-	301	—	50	84	601	120	—	141	174
Empresa Mixta de Limpieza de la Villa de Torrox, S.A. Pz. de la Constitución, 1 – Torrox (Málaga) -Urban cleaning-	299	—	50	—	600	1,059	—	113	86
Empresa Mixta de Medio Ambiente de Rincón de la Victoria, S.A. Avda. Zorreras, 1 – Rincón de la Victoria (Málaga) -Urban cleaning-	301	—	50	—	601	142	—	83	15
FM Green Power Investments, S.L. Federico Salmón, 13 – Madrid -Energy-	257,089	249,861	49	—	62,885	—	—	(44)	(43)
Gestión Integral de Residuos Sólidos, S.A. Profesor Beltrán Ibaquena, 4 – Valencia -Urban cleaning-	10,781	5,711	49	—	13,124	(2,548)	253	119	98
Ingeniería Urbana, S.A. Pol. Industrial Pla de Vallonga, s/n – Alicante -Urban cleaning-	3,786	—	35	83	6,010	6,004	—	(99)	132
Palacio de Exposiciones y Congresos de Granada, S.A. Ps. del Violón, s/n – Granada - Equipment management-	255	255	50		510	(2,635)	—	(898)	(956)

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

APPENDIX III/2

Company	Carrying amount		% of ownership	Dividends received	Capital	Reserves	Other equity items	2017 profit (loss)	
	Assets	Impairments						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	273,944	—	(1,629)	3,160
Servicios Urbanos de Málaga, S.A. Ulises, 18 – Madrid -Urban cleaning-	1,610	—	51	—	3,156	621	—	(27)	(27)
Suministros de Agua de Queretaro S.A. de C.V. Santiago de Queretaro (Mexico) -Water management-	4,367	—	Dir. 24.00 Indir. 2.00	1,515	347,214 (MXN)(*)	312,485 (MXN)(*)	—	235,761 (MXN)(*)	106,250 (MXN)(*)
TOTAL	488,225	255,827		2,302					

(*) (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 1.10. The average market price in the last quarter of 2016 was EUR 1.07.

- 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%.

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).

CONTENTS	PAGE

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 business model and strategy: 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 and 45% of its billings sourced from international markets, mainly Europe, Middle East, 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 in around 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 36% and 32%, respectively, of the Area's turnover obtained in this market in Spain in 2017. 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 other 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 56% and 20%, respectively, of total turnover in 2017.

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 2017, the Spanish market accounted for 77% of total turnover and 77.7% of the unit's EBITDA, and the trend for billing volumes to recover that began in 2015 and 2016 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 an extremely high level of loyalty (more than 90%) 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 23% 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.

64% 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. Major contracts won in 2017 include the refurbishment of sections of the Gurasoada–Simeria railway line (sectors 2a, 2b and 3) for €146 million, €154 million and €300 million, respectively.

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 2017 accounted for more than 90% of all the business's earnings, with the remainder 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, 40% of revenue came from international markets. CPV has a presence in Spain, Tunisia and UK, although the company also exports to the UK, North Africa and various locations in Europe from those three countries.

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.SIGNIFICANT EVENTS

Pablo Colio appointed CEO of FCC

In September, the Board of Directors of FCC, S.A. voted unanimously to appoint Pablo Colio as Group CEO in place of Carlos Jarque, who stepped down as CEO on 12 September and continues as a proprietary director. The current CEO has extensive experience, including 23 years in a range of executive positions in the FCC Group.

FCC Aqualia repurchases 49% of its Czech Republic subsidiary from Mitsui

In November, FCC Aqualia reached an agreement with Mitsui to repurchase a 49% stake in the company that heads its water business in the Czech Republic for €92.5 million, thereby recovering 100% of that business and, indirectly, of its Czech subsidiary, SmVak. The transaction had not been completed at year-end as it was pending approval by the Czech authorities; that approval had been obtained by the date of this report, enabling the transaction to be completed.

FCC Aqualia chosen Water Company of the Year 2017

FCC Aqualia, the company that heads the Water division, was named Water Company of the Year 2017 last December by iAgua magazine. Aqualia was also the winner in five other categories.

FCC Environmental Services division obtains contract for a second recycling plant in the US

In December, the city of Houston, Texas, awarded FCC Environmental Services a contract to design, build and operate a recycling plant. The 15-year contract, with scope for a 5-year extension, represents a backlog of $250 million; the plant will initially be able to process 120,000 tons per year. The deal further expands the company's footprint in the US, where revenues increased by 66.9% in 2017. Additionally, the Dallas plant, which is operational, was named Recycling Facility of the Year by the US National Waste & Recycling Association (NWRA).

Also notable was the entry into service in 2017 of the company's ninth energy-from-waste facility; managed by Mercia Waste Management, which is owned 50% by the FCC Group, the plant processes waste from Worcestershire and Herefordshire (UK).

FCC Construction ends 2017 with 7.2% growth in the overall backlog

At 2017 year-end, the Group's Construction area had an aggregate attributable backlog amounting to €4,935.3 million (€4,299.9 in consolidated terms plus €635.4 million attributable in other contracts not reflected in consolidated revenues). This increase was due notably to: (i) upgrade work on three sections of railway line in Transylvania (Romania), worth €599 million attributable to FCC; the work is to be completed in 36 months and establishes Romania as one of FCC's main markets in this business; and (ii) the adjudication to a consortium headed by Grupo Carso, in which FCC has a 14.3% stake, of a contract to build the terminal building at Mexico City's new international airport; the 44-month contract is worth over €3,900 million in total.

The backlog does not yet reflect the Corredor de las Playas I (Panama) contract, awarded in November to a consortium involving the company that heads the Construction division; the 20-month contract, in which the budget attributable to FCC Construction amounts to $266 million, is to expand a section of the Inter-American Highway.

Successful novation of the bulk of the FCC Group's interest-bearing debt

The novation of the conditions governing FCC, S.A.'s syndicated loan came into force on 8 June 2017; this is a milestone in the process of optimising the Group's finances and had an immediate positive impact on cash flow. The refinancing agreement was completed with the early repayment of €1,069 million of existing borrowings using the funds obtained from two corporate bond issues by FCC Aqualia, S.A. in the international market. The bonds, with nominal amounts of €700 million and €650 million, mature in 2022 and 2027 and pay coupons of 2% on average.

After this partial repayment, the Group's corporate financial net debt was reduced substantially to a balance of €1,283.1 million as of year-end, -44.9% less than at the end of 2016, and its main maturity was extended to five years, while the interest rate on the bulk was linked to Euribor plus a spread of 2.3%, i.e. about 170 basis points less than in the previous structure. This combined deal also substantially reduced the FCC Group's overall funding costs.

2.1.2. EXECUTIVE SUMMARY

- **Net attributable profit amounted to €118 million in 2017, contrasting with the loss of €-161.6 million in 2016**, which included goodwill impairment in the Cement business.

- Consolidated revenues amounted to €5,802 million, -2.5% less than in 2016. This reduction was due entirely to the deconsolidation of Giant (cement business in the US) since 1 November 2016, and to the euro's strength against most of the other currencies in which the Group operates. **Adjusting for both effects, the FCC Group's comparable revenues increased by 1.6% with respect to 2016.**

- Group EBITDA declined slightly, by -2.2%, to €815.4 million, compared with €833.7 million in 2016; however, **adjusting for the aforementioned revenue effects, EBITDA would have increased by +2.7%.** The EBITDA margin was 14.1%, slightly higher than in 2016. EBITDA performance reflected the outcome of the measures to improve efficiency in structural expenses (-16.8% year-on-year), synergies and productivity improvements.

- Net financial expenses declined by -10.9% to €257.7 million in the year, even though the 2016 figure included a positive contribution of €58 million as a result of refinancing transactions. **Excluding this effect, financial expenses declined by 41.2%.**

- **Consolidated net interest-bearing debt was cut by 0.3%** to €3,579.5 million at 31 December 2017, a reduction of €11.4 million.

KEY FIGURES

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Net sales	5,802.0	5,951.6	-2.5%
EBITDA	815.4	833.7	-2.2%
EBITDA margin	*14.1%*	*14.0%*	*0.1 p.p.*
EBIT	435.9	93.6	N/A
EBIT margin	*7.5%*	*1.6%*	*5.9 p.p.*
Income attributable to equity holders of the parent company	118.0	(161.6)	N/A
Operating cash flow	768.9	1,024.9	-25.0%
Investing cash flow	(150.9)	(94.7)	59.3%
Net equity	938.5	872.9	7.5%
Net financial debt	3,579.5	3,590.9	-0.3%
Backlog	29,377.4	30,589.9	-4.0%

2.1.3. SUMMARY BY BUSINESS AREA

Area	Dec. 17	Dec. 16	Chg. (%)	% of 2017 total	% of 2016 total
(M€)					
REVENUES BY BUSINESS AREA					
Environment	2,736.0	2,728.1	0.3%	47.2%	45.8%
Water	1,025.9	1,009.8	1.6%	17.7%	17.0%
Construction	1,681.5	1,652.6	1.7%	29.0%	27.8%
Cement	340.4	536.2	-36.5%	5.9%	9.0%
Corp. services adjust.	18.2	24.9	-26.9%	0.3%	0.4%
Total	**5,802.0**	**5,951.6**	**-2.5%**	**100.0%**	**100.0%**
REVENUES BY GEOGRAPHIC AREA					
Spain	3,185.2	3,072.5	3.7%	54.9%	51.6%
United Kingdom	755.1	889.2	-15.1%	13.0%	14.9%
Middle East& Africa	653.9	716.2	-8.7%	11.3%	12.0%
Rest of Europe and RoW	463.1	428.4	8.1%	8.0%	7.2%
Latin America	414.5	356.0	16.4%	7.1%	6.0%
Czech Republic	264.4	241.6	9.4%	4.6%	4.1%
US and Canada	65.7	247.7	-73.5%	1.1%	4.2%
Total	**5,802.0**	**5,951.6**	**-2.5%**	**100.0%**	**100.0%**
EBITDA*					
Environment.	425.8	438.7	-2.9%	52.2%	52.6%
Water	241.5	231.4	4.4%	29.6%	27.8%
Construction	70.3	55.0	27.8%	8.6%	6.6%
Cement	57.8	89.2	-35.2%	7.1%	10.7%
Corp. services and adjust.	20.0	19.4	3.1%	2.5%	2.3%
Total	**815.4**	**833.7**	**-2.2%**	**100.0%**	**100.0%**
EBIT					
Environment	203.4	221.8	-8.3%	46.7%	N/A
Water	153.2	144.1	6.3%	35.1%	N/A
Construction	84.8	(47.4)	N/A	19.5%	N/A
Cement	26.1	(120.4)	-121.7%	6.0%	N/A
Corp. services and adjust.	(31.6)	(104.5)	-69.8%	-7.2%	N/A
Total	**435.9**	**93.6**	**N/A**	**100.0%**	**N/A**
NET FINANCIAL DEBT*					
With recourse	1,283.1	2,329.1	-44.9%	35.8%	64.9%
Without recourse					
Environment	374.4	439.0	-14.7%	10.5%	12.2%
Water	1,383.8	246.2	462.1%	38.7%	6.9%
Construction	0.0	0.0	N/A	0.0%	0.0%
Cement	475.6	511.4	-7.0%	13.3%	14.2%
Corporate	62.6	65.2	-4.0%	1.7%	1.8%
Total	**3,579.5**	**3,590.9**	**-0.3%**	**100.0%**	**100.0%**
BACKLOG*					
Environment	10,285.9	11,151.7	-7.8%	35.0%	36.5%
Water	14,791.6	14,955.9	-1.1%	50.4%	48.9%
Construction	4,299.9	4,482.3	-4.1%	14.6%	14.7%
Total	**29,377.4**	**30,589.9**	**-4.0%**	**100.0%**	**100.0%**

** See explanatory note for the definition of the calculation in accordance with ESMA rules (2015/1415en).*

NOTE: The Cement area in 2017 does not include the US business, which was deconsolidated on 1 November 2016

2.1.4.INCOME STATEMENT

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Net sales	**5,802.0**	**5,951.6**	**-2.5%**
EBITDA	**815.4**	**833.7**	**-2.2%**
EBITDA margin	***14.1%***	***14.0%***	***0.1 p.p.***
Depreciation and amortisation	(370.8)	(404.8)	-8.4%
Other operating income	(8.7)	(335.3)	-97.4%
EBIT	**435.9**	**93.6**	**N/A**
EBIT margin	***7.5%***	***1.6%***	***5.9 p.p.***
Financial income	(257.7)	(289.1)	-10.9%
Other financial results	(28.9)	(22.2)	30.2%
Equity-accounted affiliates	33.9	56.4	-39.9%
Earnings before taxes (EBT) from continuing operations	**183.2**	**(161.2)**	**N/A**
Corporate income tax expense	(59.6)	(35.0)	70.3%
Income from continuing operations	**123.6**	**(196.2)**	**N/A**
Income from discontinued operations	0.0	(7.3)	N/A
Net income	**123.6**	**(203.5)**	**N/A**
Non-controlling interests	(5.5)	41.9	N/A
Income attributable to equity holders of the parent company	**118.0**	**(161.6)**	**N/A**

2.1.4.1.Net sales

The Group's consolidated revenues declined by 2.5% in 2017 to €5,802 million, as a result mainly of deconsolidating the US cement business in November 2016 and, to a lesser extent, of the depreciation of certain currencies against the euro, principally the sterling pound (-6.5% year-on-year). Adjusting for both effects, consolidated revenues would have increased by 1.6%.

The Water business increased revenues steadily during the year (+1.6%) despite the decline in the Technology and Networks area (waterworks design, engineering and equipment) caused by the completion of certain projects and lower activity in certain projects, in the international arena in both cases. There was a slight increase (+0.3%) in revenues in Environmental Services, hampered by the aforementioned negative exchange rate effect in the UK (-€50.6 million in the year), which was partly offset by greater activity by the recycling plants, new contracts in Spain and the US, and increased activity in all Central European markets.

Infrastructure activities include a 1.7% increase in Construction revenues due to expanded activity on projects in Spain and some other countries, including notably Panama and Qatar, while the 36.5% decline in the Cement area is due almost entirely to deconsolidation of Giant in the US. In comparable zones, Cement revenues reflected an improvement in Spain (+9.4%) and a decline in the Tunisian market and in exports to neighbouring countries, plus a deterioration of the Tunisian currency's exchange rate against the euro.

Revenue breakdown, by region			
(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	3,185.2	3,072.5	3.7%
United Kingdom	755.1	889.2	-15.1%
Middle East & Africa	653.9	716.2	-8.7%
Rest of Europe and RoW	463.1	428.4	8.1%
Latin America	414.5	356.0	16.4%
Czech Republic	264.4	241.6	9.4%
US and Canada	65.7	247.7	-73.5%
Total	**5,802.0**	**5,951.6**	**-2.5%**

Revenues increased by 3.7% in Spain to €3,185.2 million, supported by growth in all business areas. In particular, Cement registered a 9.4% increase due to the revival of private sector demand during the year, while Construction expanded by 5%, broadly as a result of more private sector business. Water increased revenues by 3.4%, due to growth in water demand in certain areas, particularly on the coast, and Environmental Services by 2.8% because of the start-up of some contracts and the expansion of others.

Latin America recovered, as revenues increased by 16.4% due to a larger contribution from certain construction projects in Panama, such as Panama City Metro line 2 and a hospital, plus Lima Metro in Peru. In the Water division, the Networks and Technology area completed a number of water projects in Chile and Uruguay.

Revenues increased by 9.4% in the Czech Republic, with particularly good performance by Environmental Services, supported by large volumes of waste processing and certain special winter work contracts, accompanied by a higher contribution from the Water business.

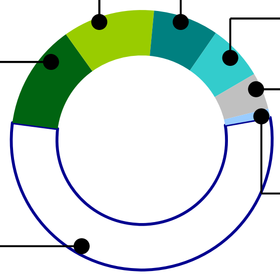
Revenues increased by 8.1% in the Rest of Europe and the Rest of the World (RoW), headed by good Environmental Services performance in Central Europe, where consolidated revenues surged 13% due to expanded activity in all the countries where the Group operates.

In the UK, revenues declined by 15.1% due basically to the exchange rate effect, as sterling depreciated by 6.5% with respect to 2016. The decline was also due, to a lesser extent, to the reduction in landfill tax receipts collected for local authorities, partly offset by a higher revenue contribution from operating energy-from-waste plants. The Construction division completed construction of the Mersey Gateway Bridge in the second half of the year.

Revenues in the Middle East and Africa declined by 8.7% as a result of shrinkage in domestic sales by the Cement business in Tunisia and the steady depreciation of the Tunisian dinar against the euro, plus a reduction in exports to neighbouring countries. Additionally, the Construction area booked an adjustment to the degree of progress with the Riyadh Metro project.

In the United States and Canada, revenues declined 73.5% as a result of deconsolidating the parent company of the Cement business in that region in November 2016. Excluding that business, revenues in that region increased by 6.5% in like-for-like terms as a result of the entry into service of a number of waste collection and treatment contracts (Florida and Texas, respectively) in the Environmental Services area, which offset the slower progress by Construction given the advanced state of the projects in the region.

% Revenues by region



2.1.4.2. EBITDA

EBITDA amounted to €815.4 million in 2017, a 2.2% decline year-on-year due to the effects discussed earlier in the context of revenues; adjusting for them, EBITDA would have increased by +2.7%. The consolidated EBITDA margin increased to 14.1% due to higher operating profitability, synergies and a reduction in the Group's overall structural and administration expenses (-16.8%).

EBITDA performance by business area was as follows:

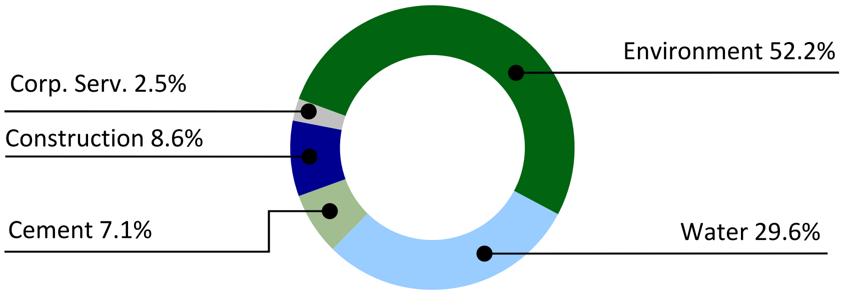
Environmental Services achieved €425.8 million in EBITDA, a 2.9% decline year-on-year. This reduction was due mainly to the exchange rate effect (pound sterling and Egyptian pound), which had an €8.8 million combined impact, and of the baseline effect of certain one-off items in 2016 (default interest and the Spanish tax on retail sale of hydrocarbons) plus other factors such as the increase in fuel costs.

The Water area reported €241.5 million in EBITDA, 4.4% more than in 2016, supported by higher returns in the concessions. The latter, plus the lower contribution by technology and networks, boosted the margin to 23.5% in the full year.

EBITDA in the Construction area amounted to €70.3 million, 27.8% more than in 2016, and the EBITDA margin improved to 4.2% in the year, a considerable increase on the 3.3% margin in 2016. This substantial improvement is also attributable to a sharp reduction in structural expenses achieved through the adjustments implemented last year.

The main impact in Cement was the deconsolidation on 1 November 2016 of the Cement business in the US; that business ceased to contribute to revenues and is now equity-accounted. This area's EBITDA declined by 35.2% to €57.8 million, as a result mainly of the elimination of the US contribution and, to a lesser extent, of operating performance in Tunisia, where sales declined and the Tunisian dinar depreciated sharply (-12.8%).

% EBITDA by Business Area



As a result of that performance by the Group's utilities areas, Environmental Services and Water accounted for 81.8% of Group EBITDA in 2017, compared with 18.2% from infrastructure construction, building and other lesser activities.

2.1.4.3. EBIT

EBIT amounted to €435.9 million, a sharp contrast with the €93.6 million in 2016. The difference between years is due mainly to the baseline effect attributable to the impairment of Cement area goodwill in the amount of €299.9 million that was recognised in September 2016. The increase in this item was also supported by an 8.4% decline in depreciation and amortisation due both to the deconsolidation in the Cement area and to the lower use of property, plant and equipment associated with Construction projects. This year's figures also include a €13.3 million extraordinary expense item due to the adjustment on the sale of industrial assets in the US in 2014.

2.1.4.4. Earnings before taxes (EBT) from continuing operations

Earnings before taxes from continuing operations amounted to €183.2 million. due to EBIT performance and the effect of the following items:

2.1.4.4.1.Financial income

Net financial expenses declined by 10.9% year-on-year to €257.7 million in 2017. It is important to note that the financial result in 2016 included the positive impact of reducing the Tranche B debt by €58 million through a Dutch auction in April 2016. But for this effect, financial expenses would have declined by -41.2% year-on-year. The adjusted reduction is due to the progressive impact of measures to optimise the funding structure and its associated interest expenses. The positive effects of the financial optimisation measures, particularly the novation of the parent company's syndicated loan and the bonds issued by FCC Aqualia in June, will become visible progressively in the coming years.

2.1.4.4.2.Other financial results

This item amounted to €-28.9 million, contrasting with €-22.2 million in 2016. The main components of this item in 2017 were the significant exchange losses (€-47.3 million) and the positive impact (€16 million) of the outcome of arbitration in connection with the 2013 sale of Proactiva.

2.1.4.4.3. Equity-accounted affiliates

Companies carried by the equity method contributed €33.9 million to earnings in 2017, as a result of the positive ordinary contribution by affiliates, mainly in the Water, Environmental Services and transport concession businesses, offset by losses in the Cement business in the US (Giant Cement). This contrasts with the €56.4 million recognised in 2016, which included the haircut agreed upon with Realia's lenders, which enabled that affiliate to contribute €31.5 million, and €16.4 million in dividends from a holding in a renewable energy company.

2.1.4.5. Income attributable to the parent company

Net attributable income in 2017 amounted to €118 million, contrasting sharply with the €-161.6 million in losses booked in 2016, and was due to the items referred to above plus the following factors:

2.1.4.5.1. Income tax

The corporate income tax expense amounted to €59.6 million, contrasting with €35 million last year.

2.1.4.5.2. Income from discontinued operations

Discontinued operations contributed zero in 2017, contrasting with a loss of €-7.3 million in 2016, corresponding to the impact of the sale of GVI at the beginning of that year (mainly because of the cancellation of the related financial instruments).

2.1.4.5.3. Non-controlling interests

Non-controlling interests were attributed a profit of €5.5 million in 2017, concentrated in the Water division, contrasting with a loss of €-41.9 million in 2016. This sharp year-on-year difference is due to the aforementioned effect of non-controlling interests' share in the goodwill impairment recognised in the Cement area in 2016.

2.1.5.BALANCE SHEET

(M€)	**Dec. 17**	**Dec. 16**	**Change (M€)**
Intangible assets	2,485.2	2,536.3	(51.1)
Property, plant and equipment	2,459.0	2,534.6	(75.6)
Equity-accounted affiliates	650.6	669.0	(18.4)
Non-current financial assets	328.4	322.3	6.1
Deferred tax assets and other non-current assets	837.4	946.6	(109.2)
Non-current assets	**6,760.8**	**7,008.7**	**(247.9)**
Non-current assets available for sale	41.4	14.9	26.5
Inventories	569.6	581.6	(12.0)
Trade and other accounts receivable	1,798.3	1,754.7	43.6
Other current financial assets	158.6	263.7	(105.1)
Cash and cash equivalents	1,238.3	1,146.1	92.2
Current assets	**3,806.2**	**3,761.1**	**45.1**
TOTAL ASSETS	**10,566.9**	**10,769.8**	**(202.9)**
Equity attributable to equity holders of parent company	863.9	797.5	66.4
Non-controlling interests	74.6	75.4	(0.8)
Net equity	**938.5**	**872.9**	**65.6**
Grants	215.4	225.5	(10.1)
Non-current provisions	1,141.0	1,175.6	(34.6)
Long-term interest-bearing debt	4,224.6	4,590.1	(365.5)
Other non-current financial liabilities	55.0	69.2	(14.2)
Deferred tax liabilities and other non-current liabilities	476.8	535.3	(58.5)
Non-current liabilities	**6,112.7**	**6,595.6**	**(482.9)**
Liabilities linked to non-current assets available for sale	14.2	14.9	(0.7)
Non-current provisions	165.8	202.9	(37.1)
Short-term interest-bearing debt	751.7	474.9	276.8
Other current financial liabilities	75.8	82.3	(6.5)
Trade and other accounts payable	2,508.1	2,526.3	(18.2)
Current liabilities	**3,515.7**	**3,301.3**	**214.4**
TOTAL LIABILITIES	**10,566.9**	**10,769.8**	**(202.9)**

2.1.5.1. Equity-accounted affiliates

The investment in equity-accounted companies (€650.6 million) comprised the following at 31 December 2017:

1) €209.4 million for the 36.9% stake in Realia.
2) €71.8 million for investments in companies in the Water area, mainly service concession companies in other countries (North Africa and Mexico).
3) €82 million for holdings in companies in the Environmental Services area (recycling and municipal services, mainly in Spain and the UK).
4) €33.7 million for the 44.6% stake in Giant Cement Holding, the parent company of the Cement division in the US, which has been equity-accounted since November 2016, whereas it was previously fully consolidated, and €22.2 million for other companies in which the Cement area's parent company has a stake.
5) €253.7 million for other holdings (mainly 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 entire €41.4 million balance of non-current assets available for sale at year-end corresponds to the residual business of Cemusa in Portugal and the value of the holding in the Cedinsa subgroup (an additional €27.1 million). Those assets have associated liabilities in connection with Cemusa for the same amount: €14.2 million.

2.1.5.3. Cash and cash equivalents

Cash and cash equivalents amounted to €1,238.3 million at the end of the period, 8% more than the balance at 2016 year-end; the increase was concentrated in the fourth quarter and was due to the reduction in working capital, contrasting with the trend that is normally observed in the first half every year.

2.1.5.4. Net equity

At the end of December 2017, equity amounted to €938.5 million, including an 8.3% increase attributable to the Group parent company as a result of earnings in the period.

2.1.5.5. Net interest-bearing debt

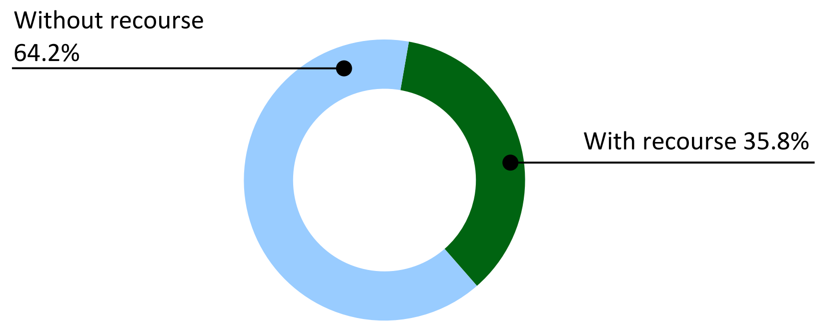
(M€)	**Dec. 17**	**Dec. 16**	**Change (M€)**
Bank borrowings	3,157.2	4,536.1	(1,378.9)
Debt instruments and other loans	1,609.2	232.4	1,376.8
Accounts payable due to financial leases	59.8	49.4	10.4
Derivatives and other financial liabilities	150.1	183.1	(33.0)
Gross interest-bearing debt	**4,976.3**	**5,001.1**	**(24.8)**
Cash and other current financial assets	(1,396.8)	(1,410.1)	13.3
Net interest-bearing debt	**3,579.5**	**3,590.9**	**(11.4)**
With recourse	*1,283.1*	*2,329.1*	*(1,046.0)*

Without recourse	*2,296.4*	*1,261.8*	*1,034.6*

At the end of December 2017, net interest-bearing debt amounted to €3,579.5 million, €11.4 million less than at 2016 year-end (-0.3%). That reduction is attributable to a €33.1 million reduction in working capital and to the investment of €56.1 million in the first quarter of 2017 to buy out most of the minority shareholders in the Cement area, plus €54 million invested in development of a waste-to-energy plant in the Environmental Services business in the UK, which is still under construction.

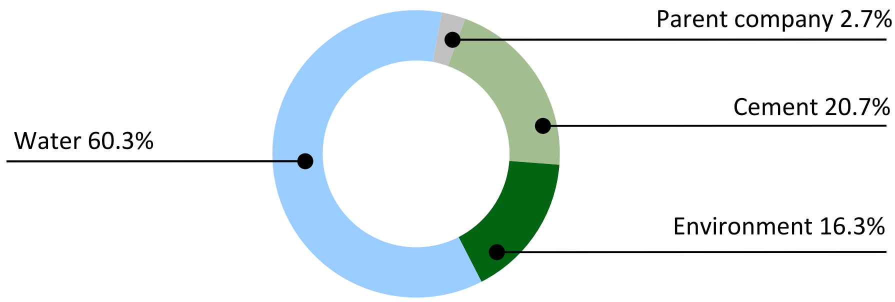
Gross interest-bearing debt also declined slightly, by 0.5% to €4,976.3 million.

Debt with and without recourse



Net financial debt is divided between corporate debt (35.8%) and debt without recourse (64.2%). Net debt with recourse includes mainly legacy debt from the acquisition of a number of operating companies in the various divisions (excluding Cement) which is structured mostly as a syndicated loan at parent company level. The sizeable 44.9% year-on-year reduction in this item is due to the early partial repayment of €1,069 million using funds from the FCC Aqualia bond issue in June.

Net debt without recourse, by area



Net interest-bearing debt without recourse to the Group parent company amounted to €2,296.4 million at year-end and included the two FCC Aqualia bonds totalling €1,350 million that were issued in the international capital markets in June. As a result, Water is now the division with the largest amount of non-recourse net debt (€1,383.8 million), which includes not only the aforementioned two bonds but also €189.4 million attributable to the business in the Czech Republic and the remainder to end-to-end water concessions, principally in Spain. The Cement area accounts for €475.6 million, while Environmental Services accounts for €374.4 million (€299.3 million in connection with UK activities, €53.8 million related to Central Europe, and the remainder to other waste treatment and recycling plants in Spain and Portugal). The €62.6 million at parent company level are the project debt of the Coatzacoalcos tunnel concession company in Mexico and of the Conquense highway and Tema concession companies, both in Spain.

2.1.5.6. Other current and non-current financial liabilities

The balance of other current and non-current financial liabilities, which are not classified as interest-bearing debt, amounted to €130.8 million at year-end and includes financial liabilities such as those linked to hedging derivatives, suppliers of property, plant and equipment, and deposits and guarantees received.

2.1.6. CASH FLOW

(M€)	Dec. 17	Dec. 16	Chg. (%)
EBITDA	815.4	833.7	-2.2%
(Increase)/decrease in working capital	31.1	331.4	-90.6%
Income tax (paid)/received	(83.7)	(48.6)	72.2%
Other operating cash flow	6.1	(91.6)	N/A
Operating cash flow	**768.9**	**1,024.9**	**-25.0%**
Investment payments	(333.1)	(448.6)	-25.7%
Divestment receipts	173.6	294.2	-41.0%
Other investing cash flow	8.6	59.7	-85.6%
Investing cash flow	**(150.9)**	**(94.7)**	**59.3%**
Interest paid	(185.6)	(316.3)	-41.3%
(Payment)/receipt of financial liabilities	(244.8)	(1,452.7)	-83.1%
Other financing cash flow	(43.3)	677.7	N/A
Financing cash flow	**(473.7)**	**(1,091.3)**	**-56.6%**
Exchange differences, change in consolidation scope, etc.	(52.1)	(38.3)	36.0%
Increase/(decrease) in cash and cash equivalents	**92.2**	**(199.4)**	**N/A**

2.1.6.1. Operating cash flow

In 2017 as a whole, operating cash flow amounted to €768.9 million, i.e. €256 million less than in 2016 despite a substantial improvement in cash conversion, due entirely to lower working capital (€-300.3 million).

This sizeable difference in working capital performance in 2017 is due to the variation between years in the volume of receivables sold without recourse. Whereas this balance increased by €283.5 million in 2016, it declined by €100.5 million in 2017. Consequently, excluding variations in the sale of receivables between years, working finance needs improved in 2017 with respect to 2016 as a result of the sustained efforts to improve the Group's cash conversion ratio.

(M€)	Dec. 17	Dec. 16	Change (M€)
Environment	(7.0)	326.2	(333.2)
Water	43.7	21.6	22.1
Construction	(0.3)	41.0	(41.3)
Cement	4.4	(10.4)	14.8
Corporate services and adjustments	(9.7)	(47.0)	37.3
(Increase)/decrease in working capital	**31.1**	**331.4**	**(300.3)**

Environmental Services accounted for the bulk of the year-on-year variation in working capital, basically because of the aforementioned variation in sales of receivables, with a positive baseline effect in 2016 due to receipt of an advance upon delivery of the Buckinghamshire incinerator plant in the UK.

Other operating cash flow refers mainly to cash arising from a €6.1 million variation in provisions in all business areas, contrasting with €91.6 million applied in 2016, basically because of lower provisioning needs (concentrated in the Construction area).

2.1.6.2. Investing cash flow

Investing cash flow totalled €150.9 million in 2017, compared with €94.7 million in 2016.

Investment payments amounted to €333.1 million, concentrated in the Environmental Services area (€210.1 million, including €54 million invested in developing an energy-from-waste plant in the UK). The year-on-year reduction is due to containment of capital spending in the more capital-intensive business areas (i.e. Water and Environmental Services) coupled with lower needs in Construction, plus the payments for equity issues by Realia, which were subscribed for by FCC in the amount of €87.3 million, in line with its 36.9% stake.
Divestment receipts declined to €173.6 million, from €294.2 million in 2016. Some of the main items in 2017 were in Corporate Services, i.e. receipt of the second payment for the sale of GVI, amounting to €106.4 million, and the sale of the company's 3.4% stake in Xfera for €29.1 million.

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

(M€)	**Dec. 17**	**Dec. 16**	**Change (M€)**
Environment	(201.8)	(150.9)	(50.9)
Water	(67.1)	(55.0)	(12.1)
Construction	(10.7)	(22.7)	12
Cement	2.2	0.9	1.3
Corporate services and adjustments	117.9	73.3	44.6
Net investments *(Payments - Receipts)*	**(159.5)**	**(154.4)**	**(5.1)**

Other investing cash 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 €473.7 million in the period, compared with €1,091.3 million the previous year. The (payment)/receipt of financial liabilities item reflects the net effect of early repayment of a material amount of the Group parent company's syndicated loan using funds from the two bonds issued by FCC Aqualia in June, which amounted to a combined €1,350 million; last year, this item reflected debt repayment using funds from the capital increase performed in the first quarter of 2016.

Interest payments were reduced by 41.3% year-on-year to €185.6 million; this item continues to decline as a result of successive funding optimisation measures, particularly those completed in June by the parent company and the Water area, whose impact will be more evident at full financial year.

Payment/receipt of financial liabilities includes an outflow of €56.1 million in February 2017 to settle FCC's delisting bid for Cementos Portland Valderrivas, in which it increased its effective stake to 99.04% at 31 December 2017.

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

This item reflects a negative variation of €52.1 million in 2017, compared with a negative €38.3 million variation in 2016. The negative trend is attributable to the effect of exchange rate fluctuations on the Group's cash balance due to the euro's appreciation, which were concentrated in the Construction area.

2.1.6.5. Variation in cash and cash equivalents

Combining the various cash flows, the Group's cash position increased by €92.2 million with respect to 2016 year-end, to €1,238.3 million at 31 December 2017.

2.1.7. BUSINESS PERFORMANCE

2.1.7.1. Environment

The Environmental Services area accounted for 52.2% of Group EBITDA. The bulk of its activities (95% in 2017) involve municipal solid waste collection, treatment and disposal, along with other municipal services such as street cleaning and green area upkeep. The other 5% 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 waste management chain (collection, processing and disposal).In Portugal and other countries, such as the US, FCC is involved in both industrial and (principally) municipal waste management.

2.1.7.1.1. Results

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Revenues	2,736.0	2,728.1	0.3%
Environment	*2,598.8*	*2,598.7*	*0.0%*
Industrial Waste	*137.2*	*129.4*	*6.0%*
EBITDA	425.8	438.7	-2.9%
EBITDA margin	15.6%	16.1%	*-0.5 p.p.*
EBIT	203.4	221.8	-8.3%
EBIT margin	7.4%	8.1%	*-0.7 p.p.*

The Environmental Services area achieved €2,736 million in revenues in the year, 0.3% more than in 2016. This limited increase is broadly attributable to the depreciation of the pound sterling and the Egyptian pound; adjusting for the currency effect, this area's revenues would have increased by 2.2%.

Revenue breakdown, by region

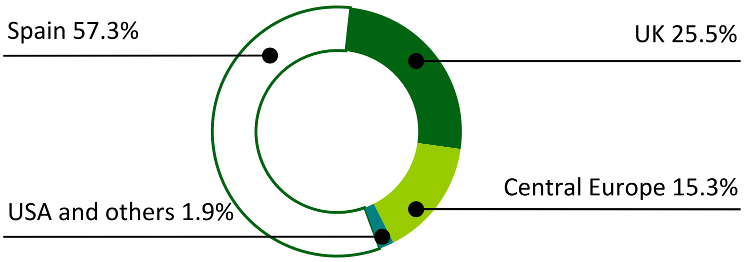
(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	1,568.5	1,526.0	2.8%
United Kingdom	698.3	776.0	-10.0%
Central Europe	418.6	381.6	9.7%
USA and others	50.6	44.5	13.7%
Total	**2,736.0**	**2,728.1**	**0.3%**

Revenues in Spain increased by 2.8% year-on-year to €1,568.5 million, favoured by contract renewals and extensions obtained in previous periods. Revenues in the UK fell 10% to €698.3 million, as a result mainly of sterling's depreciation (-6.5%) and, to a lesser extent, of the smaller contribution from landfill levies in the landfill business and the development of waste treatment plants for operation. At constant exchange rates and excluding the aforementioned factors, revenues in the UK would have increased by 3.6% in 2017.

Revenues in Central Europe increased by 9.7% to €418.6 million, mainly due to a larger volume of winter business in the Czech Republic and a general increase in activity in the other countries in the region, including notably Austria and Romania. Revenues in the USA and other markets increased by

13.7% due to the steadily rising contribution from new waste management contracts that have become operational in Texas and Florida, which offset the negative effect of the Egyptian pound's 48.9% depreciation year-on-year.

Revenue breakdown, by region



EBITDA amounted to €425.8 million, a 2.9% reduction year-on-year, due broadly to sterling's depreciation (equivalent to €8.8 million) and to other lesser effects such as the baseline effect of a number of extraordinary items booked in 2016 (default interest and the Spanish tax on the retail sale of hydrocarbons) plus higher energy costs.

EBIT declined by 8.3% year-on-year to €203.4 million due to the aforementioned EBITDA performance and a number of extraordinary expenses, including notably €13.3 million for settling a claim in connection with the sale of industrial waste management assets in the US in 2014.

Backlog breakdown, by region

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	6,129.9	6,663.9	-8.0%
International	4,156.0	4,487.8	-7.4%
Total	**10,285.9**	**11,151.7**	**-7.8%**

This area's backlog declined by 7.8% year-on-year to €10,285.9 million due broadly to delays in the award of certain contracts in Spain coupled with the negative impact of depreciation by the pound sterling and the US dollar. The total backlog amounts to close to 4 times revenues in the last twelve months.

2.1.7.1.2. Financial debt

(M€)	**Dec. 17**	**Dec. 16**	**Change (M€)**
Without recourse	374.4	439.0	(64.6)

The area's net interest-bearing debt without recourse declined by €64.6 million in the year.Of that amount, €299.3 million relate to the UK, €53.8 million to Central Europe, and the remaining €21.3 million to two waste treatment and recycling plants in Spain.

2.1.7.2. End-to-End Water Management

The Water area accounted for 29.6% of FCC Group EBITDA in the year.Public concessions and end-to-end water management (capture, potabilisation, distribution and sanitation) account for 90% of total revenues, and Technology and Networks (water infrastructure design, engineering and equipment) account for the other 10%.

This area serves more than 13 million people in over 850 municipalities in Spain. In Central Europe, it serves 1.3 million users, mainly in the Czech Republic. 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 Africa. Overall, the Water division supplies water and/or sewage treatment services to over 23.6 million people.

2.1.7.2.1 Earnings

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Revenues	1,025.9	1,009.8	1.6%
Concessions and services	*923.8*	*904.3*	2.2%
Technology and networks	*102.1*	*105.5*	-3.2%
EBITDA	241.5	231.4	4.4%
EBITDA margin	*23.5%*	*22.9%*	*0.6 p.p.*
EBIT	153.2	144.1	6.3%
EBIT margin	*14.9%*	*14.3%*	*0.7 p.p.*

This area's revenues amounted to €1,025.9 million, a 1.6% increase on 2016, due to the increase in revenues from concessions and services in a range of markets, principally Spain. This effect was partly offset by a reduction in the technology and networks business in the international arena.

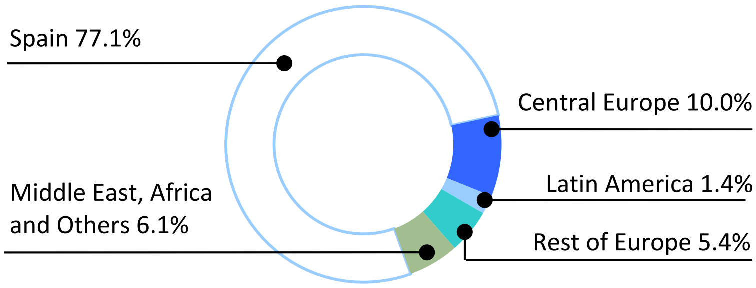
Revenue breakdown, by region

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	790.9	764.8	3.4%
Central Europe	103.0	93.2	10.5%
Latin America	14.5	31.7	-54.3%
Rest of Europe (Portugal and Italy)	55.8	54.4	2.6%
Middle East, Africa and Others	61.7	65.7	-6.1%
Total	**1,025.9**	**1,009.8**	**1.6%**

Revenues in Spain increased by 3.4%, basically as a result of growth in the concession business, which achieved a higher volume of billing, and the contribution by new contracts.

On the international front, revenues declined in Latin America as a result of a slower pace of project execution since several technology and network contracts, basically in Chile and Uruguay, entered the final phase or were concluded. In this respect, a number of new contacts obtained in this region in 2017 should change this trend as they are implemented.
Revenues increased by 2.6% in Portugal and Italy, but shrank by 6.1% in the Middle East and Africa due broadly to the progressive completion of ancillary works on Riyadh Metro.

Revenue breakdown, by region



EBITDA increased by 4.4% year-on-year, to €241.5 million, favoured by the increase in the EBITDA margin to 23.5% (from 22.9%). That performance was driven fundamentally by the increase in the contribution by the concession business, whose margins are higher than those of technology and networks, and by the aforementioned increase in consumption, which increases profitability.

Backlog breakdown, by region

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	8,274.9	8,753.0	-5.5%
International	6,516.7	6,202.9	5.1%
Total	**14,791.6**	**14,955.9**	**-1.1%**

The backlog declined by 1.1% with respect to 2016 year-end, to €14,791.6 million, as a result of a contraction of the domestic backlog (due broadly to a lower number of public tenders and renewals), which was offset to a great extent by growth in the international backlog. The area's backlog is close to 14 times the last year's revenues.

2.1.7.2.2. Financial debt

(M€)	**Dec. 17**	**Dec. 16**	**Change (M€)**
Without recourse	1,383.8	246.2	1,137.6

Net interest-bearing debt, all of which is without recourse to the Group parent company, increased sharply with respect to 2016 year-end, to €1,383.8 million. This strong increase is due to the issuance on 8 June of two bonds by the area's parent company, at 5 and 10 years, for a combined €1,350 million, With these new funds raised in the market, all the area's funding is without recourse to the Group parent company and is free-standing. The bond issue also made it possible to adapt the long-term capital structure in line with the area's nature and cash flow.
In addition to those bonds, the area's net debt at the end of the year also included €189.4 million related to the business in the Czech Republic, and €60.5 million is connected to an end-to-end water concession in Spain (Aquajerez).

2.1.7.3. Construction

The Construction area contributed 8.6% of FCC Group EBITDA in 2017. It is mainly involved in the design and construction of large civil engineering projects and, to a lesser extent, landmark buildings and industrial works in certain geographies. In particular, it undertakes highly complex public works such as railways, tunnels and bridges, which account for the bulk of its activity.

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Revenues	1,681.5	1,652.6	1.7%
EBITDA	70.3	55.0	27.8%
EBITDA margin	*4.2%*	*3.3%*	*0.9 p.p.*
EBIT	84.8	(47.4)	N/A
EBIT margin	*5.0%*	*-2.9%*	*7.9 p.p.*

This area's revenues increased by 1.7% to €1,681.5 million due to improved business in the domestic market, while international revenues were in line with the previous year.

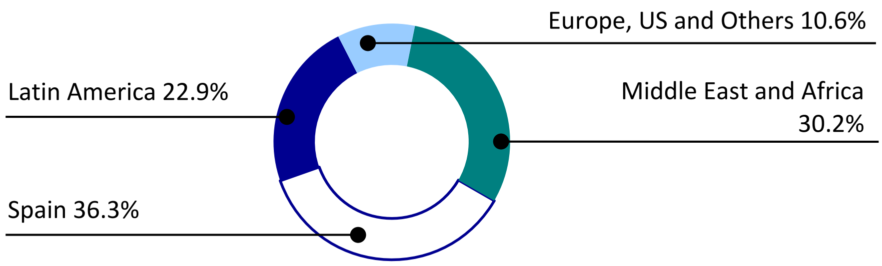
Revenue breakdown, by region			
(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	609.6	580.8	5.0%
Middle East and Africa	507.9	534.3	-4.9%
Latin America	384.8	295.5	30.2%
Europe, US, etc.	179.2	242.0	-26.0%
Total	**1,681.5**	**1,652.6**	**1.7%**

Revenues in Spain increased by 5% due broadly to greater progress with projects for private sector customers, which amply offset the persisting adverse situation of scant activity and low public investment in infrastructure.

Revenues in the Middle East and Africa fell by 4.9% due to a readjustment of the degree of progress with the Riyadh Metro project in Saudi Arabia. That decline was amply offset by 30.2% year-on-year growth in revenues in Latin America, attributable mainly to the larger contribution by Panama City Metro Line 2 and, to a lesser extent, by Lima Metro Line 2 (Peru).

Revenues in Europe, the US and other markets declined by 26% due to the smaller contribution from projects that have been completed or are nearing completion in the UK, Finland and the US, which were not fully offset by new projects in other markets, including notably the project to upgrade aircraft fuelling facilities at Dublin airport (Ireland) and railway projects obtained in Romania during 2017.

Revenue breakdown, by region



EBITDA amounted to €70.3 million, significantly higher than the €55 million registered in 2016, which included recognition of losses on certain international projects and of provisions for taxes. This substantial improvement was also supported by a sharp reduction in structural expenses achieved through the adjustments implemented the previous year.

EBIT amounted to €84.8 million in 2017, including €40 million profit on the sale of real estate subsidiary FCyC to the Group parent company in the first quarter, an internal transaction that has no impact on the FCC Group's consolidated results. The €47.4 million loss booked in 2016 included a €53.4 million provision to adjust production resources to the lower demand for infrastructure investment in Spain. But for those two effects, EBIT would have increased by €38.8 million year-on-year.

Backlog breakdown, by region

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	998.2	1,038.7	-3.9%
International	3,301.7	3,443.6	-4.1%
Total	**4,299.9**	**4,482.3**	**-4.1%**

The area's backlog increased by 4.1% in the year, to €4,299.9 million. The backlog in Spain shrank by 3.9% due to persisting low government expenditure on infrastructure. The trend in the international area was similar, as the backlog declined by 4.1% year-on-year, while the company applied a more selective approach, focused on profitability, when seeking and implementing projects. Nevertheless, the backlog at year-end amounted to 2.5 times the previous year's revenues.

Backlog breakdown, by business segment

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Civil engineering	3,366.7	3,467.2	-2.9%
Building	574.6	654.9	-12.3%
Industrial projects	358.7	360.2	-0.4%
Total	**4,299.9**	**4,482.3**	**-4.1%**

Civil engineering work accounts for 78.3% of the total backlog and building for 13.3% (a sharper decline with respect to last year because of the conclusion of certain landmark projects in Spain); industrial contracts account for the remaining 8.4%.

2.1.7.4. Cement

The Cement area accounted for 7.1% of FCC Group EBITDA in 2017, through Cementos Portland Valderrivas (CPV), in which the FCC Group parent company has a 99.04% effective stake. This area produces mainly cement; it has seven factories in Spain and one in Tunisia, as well as a 44.6% stake in Giant Cement, which has three cement factories on the Eastern Seaboard of the United States.

2.1.7.4.1. Results

(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Revenues	340.4	536.2	-36.5%
Cement	309.6	480.1	*-35.5%*
Other	*30.8*	*56.1*	*-45.1%*
EBITDA	57.8	89.2	-35.2%
EBITDA margin	*17.0%*	*16.6%*	*0.3 p.p.*
EBIT	26.1	(120.4)	-121.7%
EBIT margin	*7.7%*	*-22.5%*	*30.1 p.p.*

This area's revenues declined by 36.5% year-on-year to €340.4 million, mainly as a result of deconsolidating the US subsidiary, Giant Cement, as of 1 November 2016 and, to a lesser extent, of the depreciation of the Tunisian dinar.

Revenue breakdown, by region

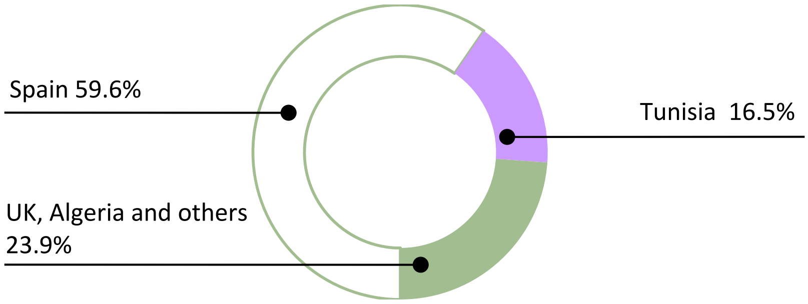
(M€)	**Dec. 17**	**Dec. 16**	**Chg. (%)**
Spain	202.9	185.5	9.4%
US and Canada	1.9	186.1	-99.0%
Tunisia	56.3	68.7	-18.0%
UK and others	79.3	95.9	-17.3%
Total	**340.4**	**536.2**	**-36.5%**

Revenues in Spain increased by 9.4% due to growth in demand volume and a slight improvement in selling prices, all driven by strong domestic demand for construction, which was concentrated in the private sector.

Revenues in Tunisia declined by 18% because of a combination of 12.8% year-on-year depreciation by the Tunisian dinar and a decline in volumes of both domestic sales and exports to Algeria.

Revenues from exports to the UK and other markets declined by 17.3% due to the sharp reduction in exports to certain countries in Africa. Hardly any revenues were recognised in the US or Canada in the period since the business in that region was deconsolidated in November 2016, as described in the preceding section.

Revenue breakdown, by region



EBITDA fell by 35.2% to €57.8 million, from €89.2 million the previous year. This difference is mainly due to the lack of a contribution from the US in 2017 and, to a lesser extent, to the aforementioned effects on revenues in Tunisia.

EBIT improved to €26.1 million despite lower EBITDA, contrasting with €-120.4 million in 2016. This change in performance is due to the €187.2 million impairment of goodwill recognised in 2016.

2.1.7.4.2. Financial debt

(M€)	Dec. 17	Dec. 16	Change (M€)
Without recourse	475.6	511.4	(35.8)

The area's net interest-bearing debt, which is entirely without recourse to the FCC Group parent company, consists mainly of a €419.7 million syndicated loan. The €35.8 million decline with respect to 2016 year-end is attributable mainly to the repayment of €36 million of that funding in 2017.

Explanatory note

EBITDA

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

Backlog

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

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

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

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

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

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

NET FINANCIAL DEBT

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

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.

- Controls 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 technology and 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 the end of 2017:

AREAS	SPAIN	ABROAD	TOTAL	%s of Total	% Chg. 2016
Environment	31,375	8,864	40,239	70%	1.95%
Water Management	6,100	1,777	7,877	14%	–0.94%
Construction	3,418	4.488	7,906	14%	39.41%
Cement	763	316	1,079	2%	–1.28%
Central Services and Other	303	1	304	1%	7.42%
TOTAL	**41,959**	**15,446**	**57,405**	**100%**	**5.39%**

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

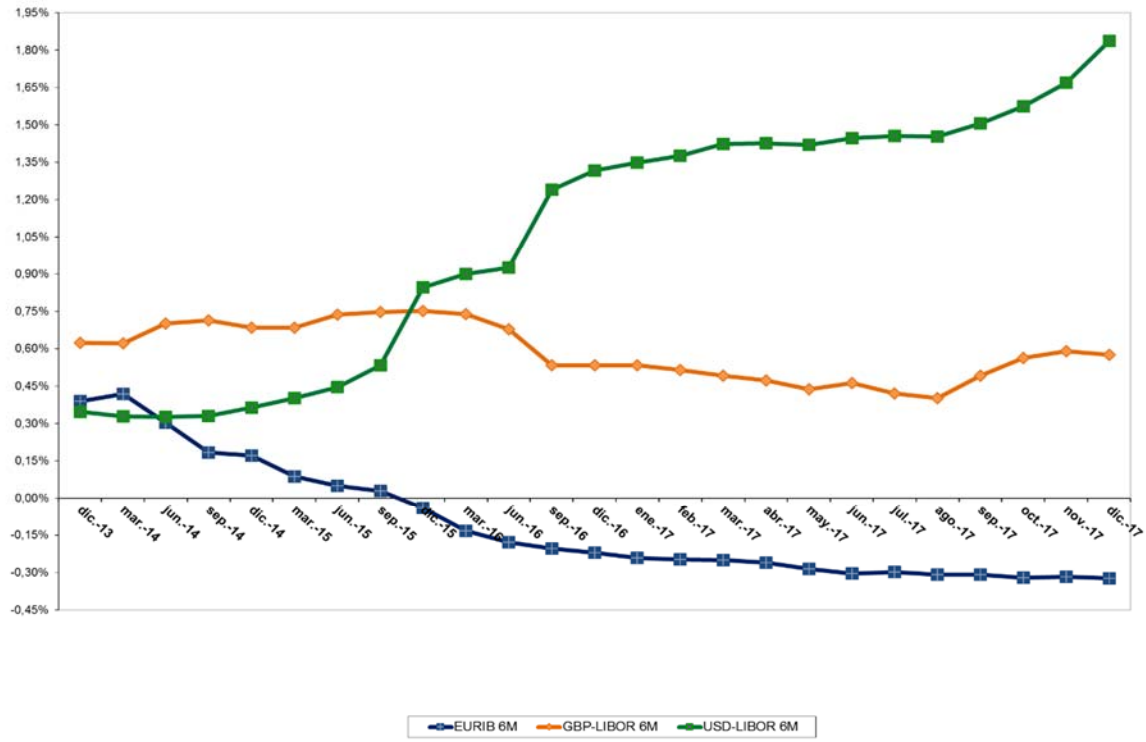
The Group manages its capital to ensure that the Group companies are capable of continuing as profitable and solvent businesses.

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

4.1. Risk-Management System and Policy

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

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

The risk scenarios considered have been classified into four groups: Strategic risks, operational risks, compliance risks, financial risks and reporting risks.

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

Details of the risk-management duties and responsibilities at the different levels of the organisation are provided in section E, on risk-control and management systems, of the Annual Corporate Governance Report.

4.2. Main risks and uncertainties

The FCC operates in a number of sectors worldwide. This means that its business is subject to diverse socioeconomic environments and regulatory frameworks, as well as different risks inherent to its operations and risks stemming from the complexity of the projects it is involved in, which could affect how its goals are accomplished.

Details of the main strategic, operational and compliance risks that could affect the Group's business and a description of the systems used to manage and monitor them are contained in section E of the Annual Corporate Governance Report.

With regard to financial risks, considered as variations in the financial instruments taken out by the FCC Group because of political, market-related and other factors, and their impact 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. The financial risks to which the Group is exposed are discussed in greater depth in note 30 of the consolidated financial statements and in section E of the Annual Corporate Governance Report.

The FCC Group is also subject to certain risks related to environmental and social issues, the management of which is explained in more detail in sections 8 and 9 of this Directors' Report.

5. ACQUISITION AND DISPOSAL OF TREASURY SHARES

On 31 December 2017 the FCC Group directly or indirectly held a total of 230,100 treasury shares, representing only 0.06% of the share capital.

The operations to acquire and dispose of treasury shares during the period are itemised in Note 18 of the consolidated Report.

6. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 17 November 2017 the companies FCC Aqualia and MIT Infrastructure Europe Ltd publicly certified an agreement entered into on that date under which the former acquired from the second 49% of the share capital held in the companies Aqualia Czech S.L. and Aqualia Infraestructuras Inzenyring s.r.o. for a price of €83,435,000 and €9,065,000, respectively.

On 9 January 2018, both these sums were paid up following receipt of the Protection of Competition authorities' authorisation for the share transfer to proceed.

On 20 February 2017 the Group reported that following the receipt of a bid by the investment fund IFM Global Infrastructure Fund ("IFM") to purchase a minority stake in the company FCC Aqualia S.A., exclusive negotiations between FCC and IFM are at advanced stages regarding the acquisition by IFM of a 49% stake in FCC Aqualia S.A.

7. COMPANY OUTLOOK

Set forth below are the prospects for 2018 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 2018, 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 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 2018, with similar renewal rates to those in 2017 expected, i.e. close to 100%, with a more active market this year offering better contracting opportunities. Also coming to an end are several major contracts operated by other firms in the sector: Lugo, San Cugat del Vallés (Barcelona), Manises (Valencia), Requena (Valencia), Santiago de Compostela (La Coruña), Fuengirola (Málaga), Orense, and Zamora.

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. As an example, in the wastewater-treatment area, the average proportion of water in Europe that is treated with tertiary treatments (thereby enabling it to be subsequently reused) stands at 67%, while in Spain – the European country with the greatest water stress, because if its climatic and hydrological characteristics — it is only 60%. In 2018 the “Castile–La Mancha Water Treatment Programme (PLAN DEPURACLM 100%)” is set to be called for tender, with 10 lots for the building or refurbishment of 556 WWTPs. The main object is the design and build, financing and operation of the works for a period of 25 years. The estimated value of these contracts is €1.742 billion. Other Spanish regional governments (e.g., Andalusia and Extremadura) are expected to undertake similar initiatives.

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.

The Public-Sector Contracts Act will come into force in early 2018. Its effects on the sector will mostly be related to the solvency to be required from tenderers, adaptations to concession terms, reviews of the cause of claims for financial imbalance in concessions, and regulation of the review system for tariffs in contracts.

Also, application of the Regulations of the De-Indexing Act has gradually been implemented across all public authorities, with little effect on the fixing of remuneration-review mechanisms.

In the international market:

- 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, development has begun on the El Salitre WWTP in Bogota and the San Silvestre WWTP in Barrancabermeja. The company is following up business opportunities to manage integrated services in major towns in the country under municipal concession models, and for the design, build and financing of infrastructure for wastewater treatment and new sources for drinking-water supplies in areas where these are needed.

- In Peru, the national government is currently assessing the efficiency of its utilities with a view to shifting to private initiatives for those presenting the worst management indicators. In 2017 five private wastewater-treatment initiatives were presented for the Trujillo, Cajamarca, Cusco, Chincha and Cañete districts, pending official declaration of interest in 2018. New business opportunities will arise promoted by PROINVERSION, which stimulates investment in the country, and outsourcing projects by SEDAPAL, Lima's municipal water utility.

- In Chile, the mining sector continues to offer some interesting business opportunities for the production of desalinated water for mines. Aqualia works with long-established clients in this sector to extend and refurbish their facilities. Business opportunities are also expected related to rotating assets at some of their utilities.

- In Panama, the national government is developing an ambitious water-infrastructure project in which Aqualia is playing an active role. One example is the recent award of the engineering design, build and operation for 10 years of Arraiján WWTP, which will treat water for a population of 130,000. The company has also submitted a bid for support and consulting on operational and commercial management for IDAAN, the country's water-management body. The contract was won in February 2017.

- 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 in 2017, the regulatory framework cancelled the tariff incentives that had been applied to investment by asset owners. This tariff component was recovered for 2018 and will bring with it an improvement in the EBITDA that will be used to increase investment. Tender processes are expected for the private-management contracts for water and sanitation in major urban areas in northern Bohemia and the southern Czech Republic, and new leasing contracts without including investment by the operator are also likely. The year's most significant event, however, has been the buy-back from Mitsui of its stake in SmVak and Aqualia Engineering.

- In North Africa, seawater desalination and wastewater purification constitute business opportunities in the countries in which Aqualia already has a presence, as is the case in Algeria, Tunisia and Egypt. In Algeria this year a major agreement has been closed with the client for the Mostaganem desalinisation plant, Sonatrach, to build a new capture facility to enable the plant's production capacity to be increased. These works will begin during the first quarter of 2018, lasting two years. Two O&M agreements have also been closed for the Mostaganem and Cap Djinet plants, regularising items not billed to the client since the beginning of operations and enabling the profitability of both projects to be increased. With regard to new opportunities, the government has announced new desalinisation projects in several coastal cities that will be developed in 2018.

- In Egypt, Aqualia has made significant progress in its execution of the contract for the design, build and operation of El Alamein desalinisation plant, with a capacity of 150,000 m^3/day under conditions that guarantee completion regardless of the economic instability that the country is suffering. Egypt's tax and trade deficit, high interest and inflation rates and limitations accessing strong foreign currency forced the Egyptian government to apply economic measures such as public-spending cuts and free flotation of the Egyptian pound. In 2017 the country has been more stable and market conditions have improved.

- Thus, the project to build, finance and operate the Abu Rawash treatment plant, which was awarded to a consortium including Aqualia via its subsidiary in partnership with the EBRD, has been turned into an EPC (engineering, procurement, construction) project, with an increased scope to be completed but financed against state funds. Owing to the limited availability of water in Egypt, the defence ministry is expected to call for tender several new large desalinisation plants to supply the population in the Mediterranean and Red Sea regions. Also, the extension of the Suez Canal and creation of new industrial and mining areas suggest that the demand for water for their development will continue to increase.

- In Tunisia, the Djerba practically has practically been completed this year. With a capacity of 50,000 m^3/day, it will assure the water supply for the island's population and further development of tourism. Also in 2018, SONEDE plans to call for tenders for new seawater-desalinisation plants for the towns of Zarat and Sfax. Projects will also be launched by ONAS for several WWTP refurbishment and O&M projects.

- 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 Saudi Arabia, progress has been made on the Riyadh Metro affected-services contract, where Aqualia has completed work on line 4 and is still working on lines 5 and 6, which will continue into 2018. With regard to new projects, the Saudi government has commissioned WEC (Water & Electricity Company) with the execution of an ambitious plan to build water infrastructure to include both the production of desalinated water for water supplies and wastewater treatment. These include the projects for Rabigh 3 (with a capacity of 600,000 m^3/d), Shuqaiq 3 (380,000 m^3/d) and Yanbu (450,000 m^3/d) in the desalinisation sector; and Damman and Jeddah (330,000 and 500,000 m^3/d, respectively) in treatment. The NWC (National Water Company), which manages the distribution of drinking water for major cities, will complete some of the concession projects that is has been designing for several years. These include renewal of the O&M contract for the Haddah and Arana plants, each with a capacity of 250,000 m^3/d, and extension of the treatment capacity at the Arana plant, completed in late 2017.

- Oman is also continuing to develop its desalinisation plan through public–private initiatives. In 2017 Aqualia has entered the country by winning the contract for management of the end-to-end water cycle in the Sohar port area, for a 20-year period, in partnership with the Omani public concessionaire company Majis.

- In the UAE tender processes are expected to be called for O&M contracts and the construction of desalinisation plants, most notably the BOT contract for Umm al Quwain desalinisation plant.

- In Qatar, even though the political and trade blockade by Saudi Arabia and the UAE has caused a slow-down in investment projects, in 2018 operations are expected to begin at Al Dhakhira WWTP, with a capacity of 55,000 m^3/d, where Aqualia won the O&M contract for the next 10 years.

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.

One objective of the Group in 2018 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 2018 will remain similar with respect to 2017, due mainly to budgetary restrictions in the public sector.

Revenue from abroad in 2018 is expected to be similar to that earned in 2017, with the performance of large infrastructure construction projects obtained over the 2015-2017 period and the contribution made by the 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 2017 the recovery of the Spanish economy has continued, thanks to increasing domestic demand, with expected GDP growth of 3.1%, a 31.6% increase in the number of public tender processes compared with last year (according to SEOPAN, the Association of Infrastructure Construction and Concessionaire Firms), and a 7.8% drop in the unemployment rate. This improvement in the Spanish economy can be seen in cement consumption, the demand for which has grown by 10% according to estimates in January 2018 by the sector's employers' association Oficemen.

Business in the construction sector in 2017 has been characterised by a continuing process of recovery in building and a slowing-down in the decline in public investment. The socio-political situation in 2016 meant that public-investment figures to fell back significantly.

According to Oficemen's 2017 year-end estimate, apparent cement consumption during the year rose by 10%, to 12.3 M tonnes, although this has been offset by a 10% fall in exports, to 8.9 M tonnes.

The IMF and Bank of Spain have both forecast 2.4% growth for Spain in 2018, as well as an increase in public investment and positive growth for building. In line with these trends, Oficemen expects, according to its estimate made in January 2018, growth in cement consumption of around 12%, to reach 13.7 M tonnes.

In Tunisia in 2017, the domestic market remained steady at around 7.2 M tonnes, with a 0.5% fall in sales compared with 2016. Exports to Algeria and Libya were also frozen during the year.

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.

8. SOCIAL AND HUMAN-RESOURCES POLICIES

8.1. Framework of integrity and respect for human rights

Due diligence at FCC

Respect for people's dignity and human rights is a key factor in how the FCC Group behaves. Guidelines for the behaviour of FCC professionals' actions and conduct in ethical, social and environmental matters are contained in the current Code of Ethics.

In particular, the FCC Group totally rejects child labour, slave labour and labour under unacceptable, extreme, subhuman or degrading conditions, being committed to respecting freedom of association and collective bargaining, as well as the rights of ethnic minorities and indigenous peoples wherever the group operates.

Finally, it is noteworthy that following approval of the 2020 CSR Plan, FCC seeks to strengthen respect for human rights, undertaking to carry out a diagnosis of the impact of its business on human rights in all societies and communicates where the group operates.

Control mechanisms: the Ethics Channel and Harassment Protocol

FCC has a Crime Prevention and Response Manual, which includes a control system, structured into different stages and responsibilities, with a view to reducing and hindering any potential crimes committed in the company's name. In this regard, FCC makes available to all the group's employees an in-house communication channel for reporting possible breaches of the Code of Ethics. For this purpose, employees are given an email address to contact (comitederespuesta@fcc.es) and a postal address to write to, for the attention of the chair of the Response Committee.

The Group also has a protocol for preventing situations of mobbing and sexual harassment to prevent, avoid, resolve and sanction any such cases. The protocol includes a list of behavioural guidelines that must be followed in order to assure dignity, safety and equal treatment and opportunities for everybody. An online mailbox and reporting form have also been set up for such reports to be handled in confidence.

In 2017 the FCC Response Committee received a total of 19 complaints via its reporting channels, mostly related to issues of respect between persons.

Ethics Channel

The group's website also features the Ethics Channel, which is a tool to enable any potentially irregular or even criminal activities or behaviour infringing the protocol for mobbing, sexual harassment and gender discrimination to be reported in confidence.

8.2. The FCC Group's employees

The tables below show all the group's employees at the end of 2017, broken down by sex, professional category and geographical area.

	Professional category	2017	2016
Men	Managers and university graduates	1,305	1,387
	Technicians and diploma holders	5,552	3,296
	Clerical and similar staff	1,041	1,464
	Other salaried employees	37,072	36,380
	TOTAL MEN	44,970	42,527
Women	Managers and university graduates	318	361
	Technicians and diploma holders	1,227	1,247
	Clerical and similar staff	1,858	1,739
	Other salaried employees	9,032	8,593
	TOTAL WOMEN	12,435	11,940
	TOTAL WORKFORCE	57,405	54,467

	Geographical region	2017	2016
Men	Spain	31,793	31,655
	Rest of EU	6,763	6,652
	US and Canada	186	370
	Latin America	1,717	1,207
	Rest of the World	4,511	2,643
	TOTAL MEN	44,970	42,527
Women	Spain	10,166	9,847
	Rest of EU	1,735	1,729
	US and Canada	21	13
	Latin America	171	171
	Rest of the World	342	180
	TOTAL WOMEN	12,435	11,940
	TOTAL WORKFORCE	57,405	54,467

The voluntary rotation rate of the group's employees is below 4%. Their geographical distribution is as follows:

Geographical Area	2017	2016
Spain	2.95%	2.42%
Rest of EU	9.68%	8.48%
US and Canada	18.36%	10.18%
Latin America	2.07%	4.35%
Rest of the World	2.84%	6.62%
TOTAL GROUP	3.96%	3.68%

The group's employees can be broken down into the following age groups:

	2017	2016
< 19 years	54	35
19–24 years	1,675	1,232
19–24 years	3,358	2,859
30–34 years	5,133	4,921
34–39 years	7,344	7.286
40–44 years	8,959	8.719
45–49 years	9,336	9,088
50–54 years	9,449	9,178
55–59 years	7,586	6,989
60–65 years	4,328	3,973
> 65 years	183	187
TOTAL WORKFORCE	57,405	54,467

The group's workforce broken down by business area and type of employment contract is as follows:

	Indefinite		Temporary		Contract assignment	
	2017	2016	2017	2016	2017	2016
Construction	2,319	2,195	4,403	2,261	1,184	1,215
Water	2,482	1,333	556	586	4,839	6,033
Environmental Services	1,600	1,925	1,412	1,761	37,227	35,782
Cement	1,062	1,087	17	5		1
Central Services	291	270	13	13		
TOTAL WORKFORCE	7,754	6,810	6,401	4,626	43,250	43,031

Personnel attached to works or services (contracts) can be considered as having “stable jobs”, since most of them are subject to compulsory subrogation.

8.3. Human-resources policy

At the FCC Group we seek simple structures (organisations with the fewest possible hierarchical levels), with primacy given to austerity, flexibility and speedy decision-making.

Behind every major FCC project is team of people capable of bringing it to a successful conclusion. This is why the goal of FCC's human-resources policy is excellence in performance and a commitment to our employees, fostering a healthy, discrimination-free environment to attract and encourage talent with a long-term vision.

Recruitment

FCC concentrates its efforts on creating the right environment to attract, motivate, develop and hold on to the best professionals.

Although the most frequently used recruitment sources are internal, FCC also turns to external sources, including LinkedIn, Infojobs, job-centre websites, universities and professional associations, which can offer a large number of potential candidates and enhance FCC's visibility as an employer.

Finally, we must also mention the in-house mobility programmes that FCC offers its professionals, giving them new opportunities to develop their careers by moving between business areas and countries, enhancing informal networking, transversal communication, greater synergies and the transfer of knowledge between businesses. In 2017 a total of 68 jobs were offered for in-house mobility within the FCC Group, with 182 employees involved in the corresponding recruitment processes. Finally, 38 vacancies at FCC were covered by means of this tool for developing and encouraging in-house talent

Training

The FCC Group has organised a total of 467,021 hours of training for a total of 45,772 participants. The percentage of hours of training per business area is as follows:

	2017	2016
Construction	11.3%	19.3%
Water	13.6%	15.5%
Environmental Services	72.1%	62.0%
Cement	2.6%	3.1%
Central Services	0.4%	0.1%

This training was given in 80.1% of cases to men (75.3% in 2016) and in 19.9% to women (24.7% in 2016).

Interns

FCC has partnership agreements in place with Spain's leading universities to contribute, from inside our business, to students' training and acquisition of job experience, while providing them with financial assistance during their internships and an assessment by their tutor at the end of the experience. The essential purpose of internships is to allow students to apply in a practical context the knowledge that they have acquired at university.

Our interns are university undergraduates, graduates and postgraduates as well as vocational-training students wishing to complete their training at a firm with global reach like FCC.

Special programmes

The group's Construction Area has launched its International Programme for Young Talent. The aim of this programme is to strengthen the development of recent graduates to ensure that positions on the company's international projects are covered optimally. The programme, which lasts 12 months, is divided into two stages: (i) theoretical corporate training on the organisation's different areas, and (ii) practical training on various domestic and international projects, with the supervision and support of a tutor, who, besides helping them, assesses their performance. At the end of the programme they are assigned to a job abroad.

Also worthy of note are several training initiatives to foster a better gender balance in management positions.

- FCC has been involved in the development programme for women with high potential of the Industrial Organisation School (EOI) since 2011. This integrated programme is designed to equip the participants with management skills, based on a multidisciplinary approach. In 2017, seven women from different business areas received this training.

- The company has taken part in four editions of the “Promociona project”, which specialises in preparing women to opt for senior management and board positions. The latest edition was run in 2017. The Promociona project is coordinated and co-funded by the CEOE, in partnership with the Ministry of Health, Social Services and Equality, and ESADE. In 2017 three of FCC's female executives took part in the project, with three other employees in mentoring roles.

Avanza Awards

This initiative was launched in 2017 to recognise the hard work and efforts by the organisation's personnel, who day by day make the company more competitive, improve our social integration and enhance the quality of our processes, environmental performance and the development and application of innovative solutions and practices. The awards are divided into four: categories Innovation, QA, CSR and Environment.

8.4. Industrial relations

Policy

FCC applies a policy of social liaison and interlocution with its workers, their legal representatives, trade unions and other social actors to foster agreements through collective bargaining and other collective processes, with transparency, setting up steering committees and providing employees and their representatives with all the necessary information. This openness to dialogue has also been reflected in a reduction in the number of disputes.

The Industrial Relations section handles collective procedures, collective bargaining and social liaison (the principal tool for identifying stakeholders' needs and sensitivities among stakeholders), and defining general criteria for action, monitoring and coordinating equality- and disability-management plans and efforts.

Collective bargaining

All FCC personnel in Spain are covered by a collective-bargaining agreement, regardless of the areas in which they work. In the Environmental Services and Water areas, besides the corresponding sector agreements, company and workplace agreements are also in place. The company directly negotiates, on its own behalf, a great many collective-bargaining agreements with the workers representatives at its subsidiaries and workplaces.

In 2017 the Environmental Services and Water areas sat on numerous negotiation boards regarding collective-bargaining agreements for contracts and workplaces, as well as collective-bargaining agreements for specific activities, on a provincial and national scale. In all, the company was involved in more than a hundred collective-bargaining processes, almost of them in Spain.

In the Construction and Cement areas, collective bargaining is mostly channelled through nationwide and provincial sector agreements, also participating through various business associations in negotiations regarding sector agreements related to FCC's different business areas and activities. In 2017 the sixth General Collective-Bargaining Agreement for the Construction Sector was signed.

Contentious industrial-relations procedures

In 2017 a total of 1,467 employment-related legal cases have been processed, mostly related to claims for money and social-security issues. Other common cases are those following employment inspections, dismissals and sanctions.

8.5. Equality and diversity within the FCC Group

Equal opportunities

At FCC the principle of equal opportunities is an unbreakable commitment to action, and the group's responsibilities in this area are clearly set out in the Code of Ethics. The undertakings made by FCC include the following:

- FCC has adhered to the principles of the UN Global Compact, which help employers to examine their policies and practices for the empowerment of women.

- FCC's main divisions, including Environmental Services, Construction and Aqualia, have signed an agreement with the Ministry of Health, Social Services and Equality to increase women's presence in management positions.

Equality plans

At FCC, women account for 22% of the company's total workforce global, many of them managers, and the group is firmly committed to steadily increasing the number of women in positions of responsibility. In 2017 four of the members of the FCC Group's Board of Directors were women, with three more women sitting on the Cements board (26.7% and 33.3%, respectively).

The equality plans at FCC's various companies develop the firm's commitment towards equal opportunities with specific measures adapted to their own businesses and the characteristics of the sectors where they operate. These plans are backed by the relevant monitoring bodies, with equal representation from employers and trade unions, which foster the development and integration of the various topics and measures that the plans contain.

Thanks to the application of equality and diversity policies at FCC, four group divisions (Environmental Services, Construction, Industrial and Aqualia) have earned the "Equality at Work" seal of excellence, awarded by the Spanish Ministry of Health, Social Services and Equal Opportunities in recognition of firms that have developed equal-opportunities policies in the workplace.

The book *Mujeres en Primera Persona* ("Women in First Person"), published by Aqualia in 2017, tells the experiences of more than 60 women — Aqualia employees working in different districts and public-sector representatives — in the day-to-day management of the end-to-end water cycle and from their positions in local authorities.

Finally, Aqualia has also been working in 2017 to provide people with a working environment that is compatible with their personal and family lives. The company has been awarded the Responsible Family Firm certificate by the Masfamilia Foundation.

Commitment to combat domestic violence

FCC continues to maintain its public commitment against domestic violence, based on two fundamental principles: zero tolerance and support for victim's social and professional integration. The company works in partnership with the network of “Companies for a Domestic-Violence-Free Society” to support, foster and build awareness of access to the labour market for victims.

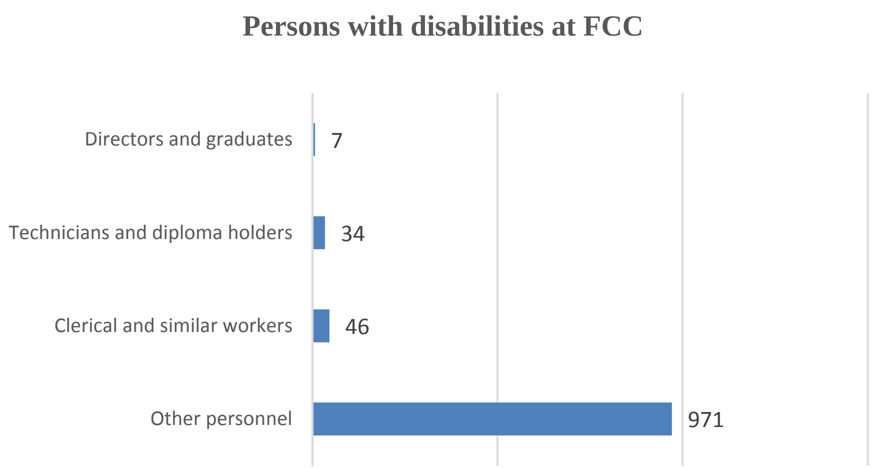
FCC also works with several foundations and other entities to foster access and integration to the labour market for women who are victims of domestic violence, including the Integra Foundation and the Spanish Red Cross's Employment Plan.

In 2017, at the Integra Foundation's annual meeting, Environmental Services' efforts were recognised at the Integra Foundation's annual meeting, having employed 200 people in situations of exclusion. The award was presented by the Minister of Employment and Social Security.

Finally, on 25 November every year the FCC Group calls up the company's employees to remember its principles and report on its commitment and vision: zero tolerance for domestic violence and fostering social and professional integration for women who are its victims. In 2017, FCC employees formed a hear shape at the corporate head offices in Las Tablas, Madrid, to show their solidarity with combating this social scourge, as part of the activities organised to commemorate the day, under the slogan "I'm With You".

Integrating people with disabilities

FCC is firmly committed to integrating people with disabilities into the labour market as a key factor in social integration and personal development. The number of employees with disabilities of 33% or higher in 2017 was as follows.



One of the most striking projects in the area of job integration for people with disabilities is FCC EQUAL CEE, driven by the Environmental Services area. FCC EQUAL is a special employment centre where 30 people with severe disabilities now work. The aim is not only to provide job opportunities for people with disabilities but also to provide them with skills, abilities and competencies for their career development within the company. In 2017 the centre was extended to the Valencia Region.

The Group also works actively with specialist organisations who advise on recruiting and supporting career opportunities for people with disabilities at FCC. Their advice facilitates understanding of the right profiles for each job and simplifies the company's standardised integration process. The main organisations that the firm is partnered with are:

- **ONCE Foundation** (*Inserta* Programme): FCC supports various projects and fosters social and labour inclusion through workshops, training courses and other actions, as well as awareness-building campaigns. The company is also involved in programmes to strengthen integration with functional diversity and improve the quality of life of people with disabilities.

An example of this is the partnership agreement with ONCE signed on 13 March 2017 to foster job insertion for people with disabilities. Over three years 125 people will be employed, to join the 294 already recruited under the previous partnership agreement (2014–2017).

- **Adecco Foundation** (Family Plan): This plan consists of an action programme to increase the independence, integration and subsequent access to the labour market for relatives with disabilities.

- **Prevent Foundation** ("*Aprende y Emprende*" programme): Once again this year, FCC has been involved in Madrid and Barcelona in a training and mentoring programme, in partnership with the ESADE business school, to equip entrepreneurs with disabilities with the necessary knowledge and preparation. Under this programme the students acquire the knowledge they need to launch their business plans, bringing their entrepreneurial initiatives to fruition and turning them into professional experiences. Besides sponsoring the programme, the company participates in workshops and teaching.

8.6. OHS

<u>Preventive management: Organisation, liaison with workers' representatives, and policy</u>

FCC gives priority to occupational health and safety (OHS), establishing an organisational model for preventive management and setting up its own shared OHS service within each of its areas of business to cover all four OHS specialist areas: safety at work, industrial hygiene, applied psychosociological ergonomics and health monitoring. Health-monitoring activities are covered by FCC's medical services in the provinces where they are present, arranging medical check-ups through an outsourced OHS service elsewhere.

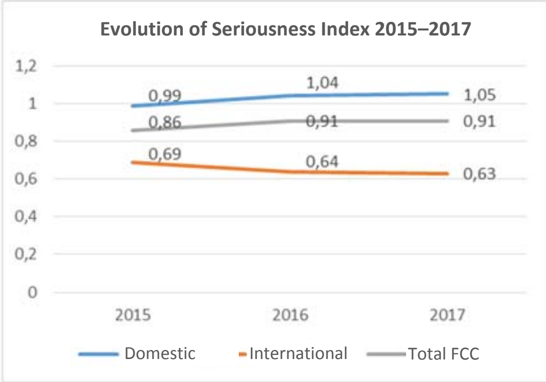
To enable employees to participate, OHS committees have been set up, the largest of which, at FCC S.A. and FCC Construcción S.A., are based at the corporate head offices at Las Tablas and Federico Salmón (Madrid) and Balmes (Barcelona). These OHS committees, which meet quarterly, are the bodies for OHS-related participation, analysis and decision-making at those workplaces.

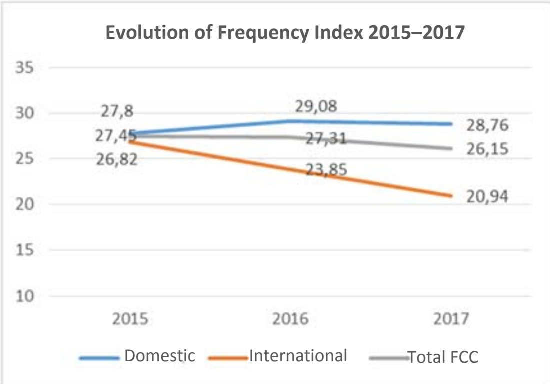
<u>Accident rates</u>

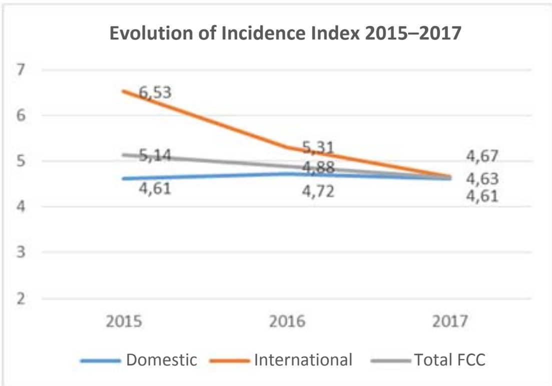
Compared with the previous year, in absolute terms the accident rate in 2017 presented 86 fewer cases of sick leave. In relative terms, the frequency index (number of cases of sick leave for work-related accidents per 106 hours worked) fell by 4.25 % to 26.15.

Over the last year how investigation processes for serious and fatal accidents are handled and monitored has been strengthened both technically and legally. In absolute terms, the number of accidents with serious consequences in 2017 has fallen by more than 50% compared with the year before. This improvement is particularly significant in Environmental Services.

Details of the accidents that occurred, their evolution and their frequency index are given below.







Frequency index: Number of accidents with sick leave per million hours worked
Seriousness index: Number of working days lost because of accidents per 1,000 hours worked
Incidence index Number of accidents with sick leave per 100 workers

A healthy company

In recent years management procedures and processes have been put in place based on recognised healthy-company management models, such as those of AENOR, based on the WHO model. The initiatives undertaken in this field include the following:

- In the Environmental Services area, in 2017 audits have been developed for healthy-company certification at the nine offices still pending, such that by early 2018 all 17 of the area's offices will have been certified by AENOR.

- Major actions to foster health have included working on the development and updating of FCC's OHS site, which makes available to employees content and resources related to the company's OHS activities and healthy eating habits, encouraging physical exercise and health recommendations.

- In late 2017 all the business areas were involved in design and preliminary tasks to address the assessment of psychosocial factors at FCC's main offices.

Also this year, actions have been undertaken related to workers' social and emotional welfare. These have included, for example mindfulness training in the Corporate and Construction areas. So far five mindfulness workshops (each with two sessions) have been organised, with 104 participants.

Finally, FCC has participated successfully in the eHealth Challenge. These inter-company Olympics involved 1,247 teams from 37 firms. More than 450 people from all FCC's areas of business took part, earning top rankings at both company and individual levels.

The “Water People Ávila” from Aqualia won the overall running category in the healthy-companies challenge, clocking up a total of 1666.82 kilometres. The four weeks of competition served to measure the energy that each firm generates through its employees' sporting activities. One third of the funds raised by this initiative will go to health-development projects organised by the Red Cross in Spain.

9. ENVIRONMENTAL AND CORPORATE SOCIAL RESPONSIBILITY POLICIES

9.1. Environmental policies

9.1.1. Business model

FCC is a worldwide public-service infrastructure operator, present in more than 35 countries. For over 115 years, FCC has been working to transform and modernise our cities while seeking to respond efficiently to the company's global challenges. All this is done by striving to respect the environment, contain the effects of climate change and efficiently manage water resources and the waste generated by urban areas.

Diversification of FCC's business model to respond to global challenges:

Containing climate change and fostering the circular economy	Pressure on water resources and the need to assure supplies in an efficient way	Demographic growth and increasing concentration of urban areas	
Environment	**Water**	**Construction**	**Cement**
▪ Urban- and industrial-waste collection, treatment and recycling ▪ Green-area conservation ▪ Sewerage-network maintenance ▪ Contaminated-soil recovery ▪ Street-cleaning	▪ Design, build and financing of water infrastructure ▪ O&M and technical-support services ▪ Full management of public services	▪ Civil Works ▪ Building ▪ Infrastructure maintenance ▪ Industrial ▪ Concessions ▪ Precasting	▪ Cement ▪ Other business (concrete, aggregates and mortar)

<u>Risks and how they are managed</u>

The global challenges that society faces today also pose a challenge for the company and its business going forward. The effects of global warming and pressure on water resources, such as extreme climatic events and more frequent droughts, have a direct impact on FCC's business.

FCC carries out a detailed analysis for all its business areas of the environmental risks to which each is exposed.

These are:

9.1.1.1. Construction

Building infrastructure is one of the solutions for mitigating and adapting to climate change, which is one of the concerns addressed each year in the Global Risks Report (World Economic Forum, 2018 (*) Global Risk Report 2018).

Global undertakings (the 2015 Conference of Parties to the UN Framework Agreement on Climate Change, "COP21", held in Paris, and the 2016 conference, "COP22", held in Marrakesh) to halt the advance of climate change and threat to the natural environment call for changes in how we conceive infrastructure to minimise its impact and improve its robustness, which in the short term will mean both increasing investment in innovation to reduce consumption and , increasing the efficiency of processes and optimising the use of resources, by using efficient new materials, for example.

Other risks identified in the construction field that are built into FCC's management are:

- Vulnerability of infrastructure to extreme climate events.
- Changing transport patterns associated with climate changes.
- Changing regulatory frameworks related to environmental issues.
- Rising prices of the resources used.
- Developing infrastructure in geographical markets that present greater vulnerability and environmental exposure.
- Boom in technology and new production models.

To mitigate these risks, FCC Construcción defines areas of action for infrastructure design and build, such as the use of strengthening and reinforcement systems for structures and materials or innovation applied to the identification, monitoring and management of structural risks in buildings and infrastructure.

9.1.1.2. Water

Water is an essential resource for human development, and its end-to-end cycle is FCC Aqualia's *raison d'être.*

Changing rainfall patterns and their consequences, such as scarce supplies or droughts, present a set of risks for the company's business, particularly regarding efficient management and guaranteed supplies. Thus:

- Potential risk of supplies cut off because of the lack of water and periods of drought.
- Potential conflicts over water use (e.g., as the demand for water increases).
- Implementation of a more restrictive regulatory framework on water uses.

Water stress means that greater investment is called for to assure water supplies, developing innovative solutions to make this possible, particularly in areas where the resource is already scarce.

FCC Aqualia is also committed to seeking alternatives to optimise water reuse in distribution, supply and consumption.

9.1.1.3. Environment

FCC Medio Ambiente's services aim to improve quality of life for people living in cities by providing services that include the cleaning and maintenance of streets, sewers and green areas and the handling and treatment of waste.

The company has identified a set of risks with direct impact on the division's activities:

- Surface water polluted as a result of overloaded treatment systems.
- Failures in sewerage systems owing to extreme climate events.
- Pressure on the availability and efficient management of water and increasing water tariffs.

- Potential conflicts over water use (e.g., as the demand for water increases).
- Stricter regulation of waste treatment and energy-recovery processes.

FCC Medio Ambiente is also committed to a circular-economy approach, which in turn will open up new business areas and opportunities, supported by greater efficiency in processes in terms of the reuse of wastewater and waste.

9.1.1.4. Cement

The cement business is one with considerable environmental impact, mostly during the limestone-decarbonation process and the burning of fossil fuels, which involves significant CO_2 emissions. Both during the preliminary stages and during the course of business in this sector, a set of risks related to this impact can be identified:

- Likely increase in pressure regarding the availability of water resources and competition with other uses.
- Changes in the regulatory framework and price of the resource.
- Development of emergency action protocols to deal with extreme climate events.
- Restrictions on business as a result of climate-related regulation in the sector.
- Rising costs of production and O&M processes.
- Legal or reputational risks related to operations in sensitive areas or involving sensitive resources.
- Management of these risks focuses on mitigating greenhouse-gas emissions (GGEs) by replacing natural raw materials with decarbonated ones, replacing fossil fuels with alternative biomass fuels, with the energy valuation of waste as a priority option, complementary to recycling, rather than landfill tipping or elimination.

9.1.2. Policies and due diligence

The Group's environmental commitment and ultimate responsibility for enforcing regulation compliance in this regard lies with the Board of Directors.

In 2009, the FCC Board approved the group's environmental policy, which sets out its commitment for the conservation of the environment and the use of the available resources in terms of:

- Continuous improvement:
- Controls and monitoring:
- Climate change and prevention of pollution:
- Care for the environment and innovation:
- Life cycle of products and services:

Respect for the environment and minimising any negative impact of the group's activities are also covered in the FCC Code of Ethics (2008, revised in 2012) and CSR Policy (2016).

Also, in 2012, as part of its environmental-commitment policies, FCC its Climate Change Strategy (currently under review), with reducing GGEs being the priority goal of this strategy, by improving efficiency in the use of resources.

With regard to environmental-management systems, FCC's current goal is to achieve certification of 100% of its business under the standard UNE-EN ISO 14001:2015. In 2016 this figure stood at 84.5%. Also in 2017, efforts have been made to extend the scope of the Energy Management System under the standard UNE-EN ISO 50001:2011.

FCC has also implemented Energy Efficiency Technical Guidelines at its corporate offices, fostering energy efficiency and savings to reduce pollutant emissions.

The fourth CSR Master Plan (PDRSC2020), approved in October 2017, strengthens the company's environmental positioning to respond to global changes (in line with the UN Sustainable Development Goals), from the viewpoint of the circular economy as an umbrella for driving efforts to combat climate change, respond to water stress and protect biodiversity.

9.1.3. Indicators and results

The group's experience and specialisation in key business areas like Construction, Cement, Water and Environmental Services enables FCC to ally with city in their environmental challenges, providing solutions for such concerns as mobility, waste generation and the need for high-quality water supplies Nevertheless, these activities also involve environmental impact that must be measured in order to minimise it and manage it as efficiently as possible.

The group manages, controls and monitors more than 50 performance indicators associated with its main environmental issues. As part of its commitment to transparency with its stakeholders, these are published annually in accordance with the Global Reporting Initiative (GRI) standard in the group's CSR Report.

This report focuses on the environmental issues involved in FCC's business that are the most significant because of their size or impact, and these figure prominently in the group's management, control and mitigation systems.

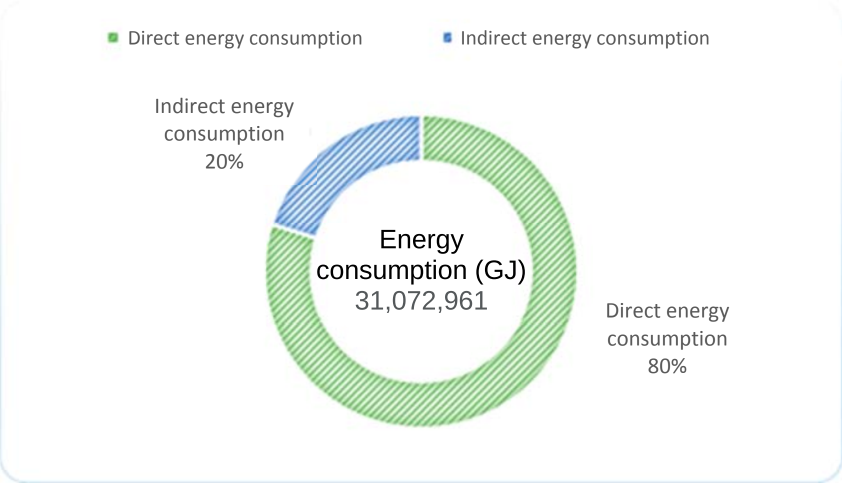
The performance indicators associated with these environmental issues, chosen as being representative for reporting here, are: energy consumption, water consumption, waste generation, GGEs and consumption of materials.

The 2017 values are currently under review. The values, once verified by an independent outside firm, will be published in the group's annual CSR Report in the first half of 2018.

- **Energy consumption**

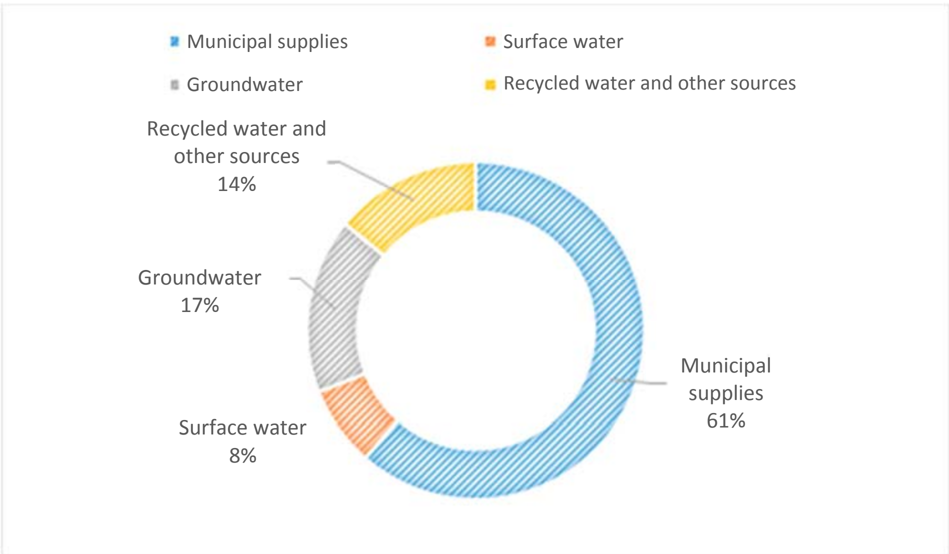
(giga-Joules)	***2017***	***2016***
Direct energy consumption	24,815,763	31,338,961
Indirect energy consumption	6,257,197	5,714,895
TOTAL	31,072,961	37,053,856

The reduction in direct energy consumption is largely due to the deconsolidation of the Giant subgroup resulting from the loss of control that followed the capital-increase operation described in note 5 of the 2017 financial statements.



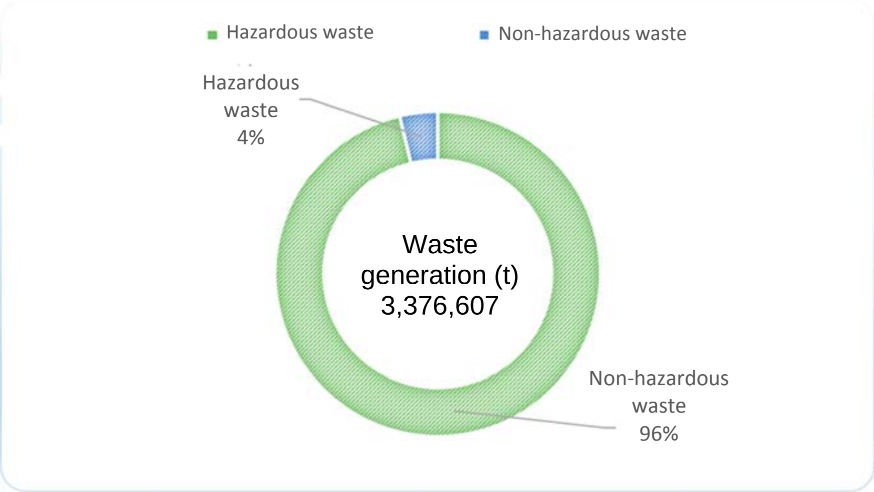
- **Water consumption**

(cubic metres)	***2017***	***2016***
Municipal supplies	6,823,182	6,558,811
Surface water	852,911	963.744
Groundwater	1,874,624	2,777,199
Recycled water and other sources	1,567,107	1,534,708
TOTAL	11,117,824	11,834,462



- **Waste generation**

(tonnes)	***2017***	***2016***
Non-hazardous waste generated	3,249,785	3,009,739
Hazardous waste generated	126,822	93,493
TOTAL	3,376,607	3,103,232



Although at the time of issuing this report the following indicators for 2017 are still being reviewed by an independent external verifier and will not be reported until the CSR Report is published, below we cite information from previous information to show how they have evolved.

- **Greenhouse-gas emissions (GGE)**

(tonnes CO_2eq)	***2016***	***2015***
***Direct emissions** (scope 1)*	*9,950,467*	*9,711,807*
***Indirect emissions** (scope 2)*	*521,105*	*681,449*
TOTAL	*10,471,572*	*10,393,256*

The 2017 values are currently under review. The values, once verified by an independent outside firm, will be published in the group's annual CSR Report in the first half of 2018.

- **Materials consumption**

(tonnes)	***2016***	***2015***
Raw materials	22,502,320	30,919,538
Auxiliary materials	58,201	77,043
Semi-finished products	3,668,146	4,214,457
Containers and packaging materials	280	287
TOTAL	26,228,947	35,211,325

9.2. Corporate social responsibility

9.2.1. Business model

FCC, because of its business mission, is committed to the priority goal of working on the welfare and development of the community where it offers and provides its services.

FCC's business cannot be conceived without its permanent links to the public, fostering better understanding and connection with their actual needs and expectations. This interaction enables the company to play a leading role in the changes that are happening in our cities in the areas that FCC specialises in.

The social involvement that FCC has always shown with regard to the local communities where it operates also extends to its employees, their families and other groups, through the many projects that the company develops year after year at each of its businesses, sites or contracts.

FCC, following the trends for digital transformation and transparency, uses the latest communication tools to further enhance its closeness to the public, which is one of the group's signature values.

9.2.2. Risks and how they are managed

In view of recommendation 12 of the CNMV's Code of Good Governance for listed companies, the FCC Board of Directors works with a single purpose and independent view, guided by social interest, which is understood to mean achieving a business that is profitable and sustainable in the long term, fostering its continuity and maximising the firm's economic value.

FCC balance social interest with the legitimate interests of its employees, suppliers, clients and other stakeholders potentially affected, and the impact of the company's activities on the community at large and on the environment. It also upholds the principles under its Code of Ethics, which are reviewed on a regular basis.

9.2.3. Policies and due diligence

- Reaching out to stakeholders

As established under recommendation 53(f) of the Code of Good Governance for listed companies, supervising and assessing processes in relation to different stakeholders is a role that corresponds to the company's governing body and its Executive Committee, to which all CSR-related competencies have been delegated.

To achieve an appropriate relationship and active communication with stakeholders, FCC makes available to its employees numerous in-house communication channels:

- Corporate intranet, “FCC ONE”: the company's main channel for multidirectional communication and a tool for conveying relevant information to employees.
- Employee's site: contains specific information and provides an in-house communication channel to facilitate dialogue between employees and the company.
- Digital publication of the in-house journal *Red de Comunicación* ("Communication Network"): includes relevant information on recent events at FCC and news articles on the group's activities.
- Friday news bulletin: a weekly publication that compiles the company's news.
- News capsules: flashes containing relevant information disseminated by mass mailing.
- Awareness-building campaigns on environmental issues and support for groups at risk of exclusion.
- Internal competitions to strengthen employees' pride in belonging to the company, including a Christmas drawing competition for their children.

FCC also participates in numerous forums and conferences organised by authorities, universities, research centres and public organisations, with a view to exploring the challenges facing cities in the future and the need to integrate greater digitisation and more active communication with end users into public services.

Some examples of such involvement in 2017 are related to equality, women's leadership and diversity, sustainable living i cities, and the movement to develop smart communities that can drive innovative, sustainable cities.

- <u>Impact on local communities</u>

Besides its dialogue with the public, FCC works to maximise the positive impact of its activities on the community. And the group sees measuring this impact as a key part of this. The company works to develop and apply methodologies and systems to measure, assess and mitigate any impact that its activities may have on people or the environment.

FCC cooperates with the communities where it works through diverse projects targets at the most disadvantaged groups.

These actions can be grouped into the following areas:

- Social inclusion and access to basic services: initiatives that foster social development and reducing inequality in communities where the group operates.
- Creating value in communities: actions links to growth of the business fabric in areas where the company works.
- Cooperation in environmental education and awareness-building: working with educational institutions to disseminate information and build awareness regarding matters related to sustainability and business in communities.
- Assessing the social and environmental impact of operations: analysing the impact that company causes on the communities where it operates, identifying their main concerns, with a view to developing actions that best meet their needs.
- Corporate volunteering: involvement by FCC employees in social-action projects promoted by the company.
- Equality policies and initiatives for the recruitment, training and remuneration of the Group's professionals.

9.2.4. Indicators and results

FCC accepts the importance of putting into practices all policies and actions by creating different indicators to show what has been done in this field, acting transparently towards stakeholders with regard to the targets reached. The management indicators used at FCC to measure corporate civic responsibility include:

- Millions of euros invested in social action
- Number of initiatives developed
- Number of employees participating in training
- Number of employees participating in corporate volunteering projects
- Beneficiary population social-inclusion and employment projects
- Beneficiary population of actions to combat inequality (water access and other initiatives)
- Number of partnership agreements for training with universities, business schools and secondary schools

In 2017 the FCC Group allocated €5,133,000 to invest in CSR projects.

10. MEASURES TO COMBAT CORRUPTION AND MONEY-LAUNDERING

The purpose of the FCC Group's ethics and compliance model is to detect risks of non-compliance, including those associated with criminal activity, and to minimise any impact. This model is developed through policies, procedures and internal controls to be reviewed and updated on a regular basis.

The Board of Directors is responsible for approving the Code of Ethics and Conduct and the Compliance Model, and ultimately for assuring an in-house ethical climate, assisted by the Auditing and Control Committee, which in turn is supported by different sections within the organisation, such as the Response Committee.

The Code of Ethics, as the basis of the Compliance Model, sets out the FCC Group's undertaking to strictly comply with the applicable legislation in its areas of operations, and it serves as a key tool for guiding actions by employees in such matters as preventing fraud, corruption, money-laundering and irregular payments, the use and protection of assets, the handling of information, the management of potential conflicts of interest and management of sponsorships, patronage and partnerships

This code is published on the corporate intranet and also on the group's website, where it can be accessed by everybody. All FCC Group employees, regardless of what kind of employment contracts they have, the positions they hold or the geographical area where they work, are obliged to comply with the Code of Ethics, which, in addition to any specific clauses in contracts, can be extended to cover suppliers whenever it is advisable to do so.

The FCC Group company has established a procedure to allow its employees to communicate confidentially any irregularities or improper practices observed in contravention of the Code of Ethics, reporting them to the Response Committee.

This committee operates as a joint body composed of the Internal Auditing, Risk Management and Compliance Director, the Legal Director, the HR Coordination and Development Director, and the Corporate Responsibility Director. Its duties, as set out in the Crime Prevention and Response Manual, include handling and investigating complaints received over the ethics channel. In 2017 the Response Committee received 19 complaints, none of which were related to corruption or fraud.

As another fundamental component of the FCC Group's Compliance Model, in 2016 the Board of Directors approved the Criminal Compliance Policy and System, which sets out the group's commitment to zero tolerance towards any kind of non-compliance related to bribery or corruption, together with tools for preventing, detecting and responding to risks of criminal offences being committed. These tools include identifying and prioritising conduct with a risk of committing crimes, such as those related to bribery, corruption, influence-peddling, fraud, money-laundering and swindling, the prevention and mitigation of which, through specific controls and actions, is a priority for the group.

The FCC Group considers that communication and training are basic parts of strengthening the culture of compliance within the group. In this regard, training given in 2017 included a course on preventing money-laundering and the financing of terrorism that was given to all employees working at companies bound by Spanish law.

In addition, the FCC Group's Internal Rules of Conduct for the Securities Market establishes that directors and senior executives are obliged to report regularly on any operations in which they or their associates are involved to subscribe, buy or sell securities or affected instruments.

11. RDI ACTIVITIES

In 2017 the FCC Group's RDI activities encompassed more than 40 projects.

These projects aim to meet the challenges in each area of business, while at the same time keeping the FCC Group's different business areas in step with one another.

Set forth below is a description of the activities of the various business Areas and of the main projects carried out in 2017.

SERVICES

In the environmental services area, aside from continuing with the research work in various projects that commenced in previous years, including a new project titled **AERIAL ROBOT FOR SEWER INSPECTION (ARSI)** has been launched in the framework of the project European Coordination Hub for Open Robotics Development (Echord++), with the involvement of FCC Medio Ambiente and Eurecat, in a consortium with other firms.

This project is developing an innovative automated aerial vehicle (drone) equipped with multiple sensors, to streamline, facilitate and improve inspection tasks in Barcelona's sewers. A pioneering smart, efficient robotics solution is being used in the city for the first time.

Other significant projects in 2017 included:

- **SEEUS:** Consists of developing software based on the results and experience acquired from the R&D project **"EFFICIENT-MANAGEMENT INDICATORS".**

  The **SEEEUS®** application is intended to serve as technological consulting tool that is compatible with regulatory requirements for the design and implementation of smart platforms.

  The project also aims to demonstrate the suitability of **SEEEUS®** as a tool to help decision-making (KPIs) so that local authorities (district councils and municipal federations) can have the relevant information at hand when it comes to assessing the environmental efficiency of urban services and planning appropriate measures for improving it, The aim is to use TICs to associate al the stakeholders (management company, public and private institutions, the public, etc.) with a model for sustainable resources management and GGE reduction, fostering cities' adaptation to climate change while preserving criteria of quality of life and welfare for beneficiary populations of the services provided.

- **METHAMORPHOSIS:** The objective is to obtain biogas-upgrading to biomethane for vehicles, with tests on Seat vehicles and FCC collection trucks, as well as anaerobic effluent treatment.

- **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.

No research projects have been carried out on industrial waste in 2017.

END-TO-END WATER MANAGEMENT

Aqualia's innovation activities have continued to grow in 2017, partnering for the development of the company's technology proposal in the following work areas: sustainability, QA, smart management and eco-efficiency.

Significant projects in 2017 included:

- **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 project aims to build a facility on one hectare of land to grow microalgae and test the production of new biofertilisers and biopesticides, and then going on to build a biorefinery on fie hectares of land to enable alternative products to be obtained from microalgae, as an environment-friendly model that is safer for consumers.

- **RUN4LIFE:** Led by FCC Aqualia, this project has 14 partners in seven different countries. Its objective is to implement, in four demonstration locations (Sneek in Holland, Ghent in Belgium, Helsingborg in Sweden and Vigo in Spain), new concepts for nutrient recovery from the separation of grey water and black water. In parallel, new ways of valuing the water–energy nexus and controlling decentralised management models will be developed.

- **LIFE MEMORY:** This project has demonstrated, at a 50 m^3 reactor in Alcázar de San Juan (Ciudad Real), the technical and economic feasibility of an innovative technology: an anaerobic membrane bioreactor (AnMBR). This new technology enables the organic matter contained in wastewater to be converted directly into biogas, skipping the conventional primary decanting and secondary aerobic treatment stages. What is obtained is disinfected, fertiliser-rich water for reuse, with a reduction in energy consumption and CO_2 emissions of up to 80%, reducing the space required by about 25% and silt production by approximately 50%.

- **BIOWAMET BESTF2:** 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 WWTP in the Lower Ebro to obtain bio-energy and reusable water.

- **LIFE BIOSOL (BIOSOLAR WATER REUSE AND ENERGY RECOVERY):** Project led by the French SME Heliopur with the objective of solar disinfection of water for reuse, while also recovering the organic waste produced in the process. After an initial demonstration stage at the Centa Foundations facilities in Seville, a larger-scale installation is being implemented at Toyo WWTP in Almería.

- **PIONEER:** This project is part of the European ERA-NET Cofund Water Works project under the WATER JP Initiative. It is led by the USC, bringing FCC Aqualia together with a network of leading universities (Verona in Italy, DTU in Denmark and KTH in Sweden) to seek processes that improve the elimination of micro-pollutants. In parallel, ELAN and struvite-precipitation technologies are also being optimised at plants managed by FCC Aqualia, with a view to reducing the environmental impact of the wastewater-treatment process.

- **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 Galician SMEs and led by the University of Santiago de Compostela, compact automated wastewater-treatment models are being developed, integrated into a rural environment, with low installation and maintenance costs and minimal environmental impact.

- **SMART GREEN GAS:** The project is funded as part of the National Enterprise Research Consortia (CIEN) programme, supported by the CDTI. FCC Aqualia leads a consortium with four other firms (Gas Natural Fenosa, Naturgas/EDP, Ecobiogas, Diagnostiqa and the Dimasa Group). This project has featured the implementation of several new methodologies for increasing the production and quality of biomethane at WWTPs managed by FCC Aqualia (Seville, Jerez and Aranda de Duero) to improve electricity generation or power vehicles. Conditions are expected to eventually enable electricity to be injected into the grid.

- **ALL-GAS:** 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. After commissioning, up to 2,000 m3/d of municipal effluent will transformed into water for reuse and algae biomass, generating biomethane to power up to 20 vehicles/ha, with a positive energy balance. The entire process chain will be validated over the course of one year, and the biofuel will be used to power several vehicles to confirm its quality.

- **LIFE METHAMORPHOSIS:** This is project run by a consortium of six entities (Greater Barcelona, FCC SA, Gas Natural, Icaen and Seat, led by FCC Aqualia), which is completing the construction of a large demonstration plant at the Besós Ecopark, managed by the FCC Group. The process uses three technologies recently developed by FCC Aqualia — AnMBR, ELAN (autotrophic nitrogen elimination and biogas-washing — to convert urban-waste leachate into biomethane. The fuel will be tested for injection into the natural-gas network and use for cars.

- **LIFE ICIRBUS (INNOVATIVE CIRCULAR BUSINESSES):** led by the Intromac technology centre, this project brings together eight firms to demonstrate the reuse of treatment-plant waste for building materials and generating bio-fertilisers at a plant managed by FCC Aqualia in Extremadura.

- **LIFE ANSWER:** This project, led by Mahou, installs microbe treatment cells (fluidised MFC – previously developed by FCC Aqualia in partnership with the University of Alcalá de Henares) at the consortium leader's brewery in Guadalajara. The main objective of the project is to save energy in the process and recycle the aluminium found in the flow treated by combining the process with pretreatment based on electro-coagulation.

- **H2020 INCOVER:** This project is led by the Aimen technology centre with FCC Aqualia as the largest firm in a consortium of 18 entities from seven different countries, based on knowledge acquired from the All-gas project. The use of algae biomass in higher-value products (e.g., biofertilisers and bioplastics) is being extended and the production of water for reuse improved.

- **H2020 MIDES:** The objective of this project is to achieve a tenfold reduction in the energy cost of desalinisation 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.

- **RENOVAGAS:** Cofunded by the Innpacto del Mineco project and led by Enagas, a prototype catalytic reactor developed by Technalia has been operated at Jerez WWTP. By using new online instrumentation, the quality of the enriched methane has been shown to be such that it can be used as biofuel, by using the CO_2 in the biogas and the hydrogen produced with renewable electricity.

- **CLEANWATER:** This project, funded by the EU's Eco-Innovation programme, has tested a new way of producing hypochlorite on site for disinfection at water-treatment plants, avoiding the risks involved in using and transporting chlorine gas, at the facilities of the water services in Almería (reuse of wastewater) and Denia (pre-oxidation at the desalinisation plant). A third machine was introduced at Nigrán in early 2017.

- **MOTREM:** supported by the WATER JPI initiative, is a project led by Rey Juan Carlos University in Madrid, together with three other universities in Finland, Italy and Germany. The project has assessed new technologies for the control and treatment of emerging pollutants at urban-wastewater reuse plants.

- **INNOVA E3N:** This project consists of the energy-efficient elimination of nitrogen. It follows on from the Innova Impactar project funded by the Cantabria Regional Government, seeking to optimise the membrane-aeration pilot plant installed at San Claudio WWTP (Asturias), with a view to using it as a compact small-scale WWTP at decentralised facilities.

Also in 2017 a European patent has been obtained for the production and purification of biomethane (EP 15382087.3 - biogas washing and removal of H_2S and CO_2) and the corresponding ABAD (Absorption-Adsorption Bioenergy) mark.

Also, in partnership with the University of Valladolid and thanks to SGC funding, patent application EP 17382699.1 has been filed for digestion under pressure to obtain a methane-enriched biogas.

CONSTRUCTION

FCC Construcción continues to champion 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.

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.

Some of the projects are undertaken in partnership with public entities, such as the European LIFE **ZERO IMPACT** project, *Development and demonstration of an anti-bird strike tubular screen for High Speed Rail lines*, which involves the Spanish rail-infrastructure management entity, ADIF.

In 2017 various new projects were approved:

- **WPDRON:** The objective of this project, presented to CDTI 2017 (Industrial Technological Development Centre) is to develop an automated monitoring system for civil-works infrastructure based on the use of drones.

- **BICI SENDAS:** A project under the CIEN 2017 programme with the objective of developing a sustainable, energetically self-sufficient, smart, non-pollutant, integrated, safe cycling lane.

- **REFORM2:** This objective this project, presented for funding by the Catalan Waste Agency, is to value a by-product (0/6 porphidic, a by-product of the ballast- and gravel-manufacturing process) from quarrying by integrating it into thermo-stable and thermo-plastic matrices for different applications.

Significant projects in 2017 included:

- **IN2RAIL** (Innovative Intelligent Rail), a project under the H2020 programme, 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. 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), a project under the H2020 programme. 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, part of the H2020 programme, includes the design, construction and monitoring of new residential and non-residential buildings in Sweden, Ireland and Spain.

- **ZERO IMPACT:** The objective of this project is to develop an anti-collision screen for birdlife based on the concept of equally-spaced tubular screens.

- **ASPHALTGEN:** A project developed by Serviá 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:** A project developed by Serviá Cantó that is developing innovative methodologies to evaluate and manage human and environmental health risks of nano-enabled products, considering the whole product life cycle.

- **DOVICAIM:** A project developed in conjunction with the "IH Cantabria" Environmental Water Institute to develop 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:** A 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.

- **DANAE:** approved by the CDTI (Industrial Technological Development Centre) with the objective of achieving smart regulation of tunnel lighting, led by MATINSA.

- **CALA:** A project from the Retos-Colaboración tender process. Its objective is to improve water security and increase the reservoir capacity of brick dams by implementing lateral spill-collection channels. Calculation code, experimental validation and construction process. Participating in this project are FCC Construcción and MATINSA.

- **ROBIM:** As part of the CIEN programme, the objective of this project is to build 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:** project 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 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 CO_2 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 2017 the company renewed its commitment to combat climate change by researching new advanced technologies for CO_2 capture and driving energy valuation at most of its plants, with a view to reducing CO_2 emissions.

In the R&D area, the Cementos Portland Valderrivas Group launched the process to join an international consortium under the European **BIORECO2VER** project, with the overall objective of creating alternative processes for producing chemicals (isobutene and lactic acid) on a commercial scale in a more sustainable way, by capturing industrial CO_2 emissions as the raw material, and exploring alternative non-fossil-dependent production technologies.

With a view to overcoming some of the technical and economic barriers involved in CO_2 capture and bio-conversion on an industrial scale, the project will focus on minimising production costs and improving industrial scalability as an important step in making the product commercially viable.

All the activities will be carried out by a well-balanced, experienced group made up of two research and technology institutions, two universities, four SMEs and four large industrial firms. Specifically, GCPV will lead the work package for CO_2 capture and enrichment for valuation as raw material for high-productivity processes.

In the environment area, the group's strategy includes the co-processing of fuels derived from waste in our production process, actively contributing towards the implementation of the circular economy and enabling CO_2-emissions savings to be obtained by permanently eliminating waste in a safe, effective way.

This year the Cementos Portland Valderrivas Group maintained energy valuation of alternative fuels in its clinker furnaces, achieving an average value of 12% across all its plants. In Spain this heat-replacement ratio has been consolidated with a 4% increase compared with 2016, now reaching around 15%. Part of these fuels consist of biomass, thereby avoiding emissions into the atmosphere of approximately 127,400 tonnes of CO_2, equivalent to the average annual emissions produced by 70,850 cars, i.e. approximately 0.3% of the cars in Spain.

The firm commitment towards this growing trend in Europe continues, with energy valuation now a standard, consolidated practice in countries such as Germany, Austria, Belgium, Denmark, the Netherlands, Sweden and Switzerland. Thanks to this environmental policy, landfills have practically disappeared, unlike the current situation in Spain, where more than half the waste generated ends up at a landfill.

In addition, GCPV 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 2017, the consumption of raw materials was 294,755 tonnes of industrial by-products.

12. OTHER RELEVANT INFORMATION STOCK MARKET PERFORMANCE AND OTHER INFORMATION

12.1 Stock Market Performance

Following is a detail of FCC's share performance in 2017 compared to 2016.

	Jan. – Dec. 2017	Jan. – Dec. 2016
Closing price (€)(1)	8.626	7.5510
Change in the period	14.2%	10.8%
High (€)(1)	9.879	9.3820
Low (€)(1)	7.551	6.0387
Average daily trading (shares)	75,231	1,679,079
Average daily trading (M€)	0,7	12.3
Market capitalisation at end of period (M€)	3,268	2.861
Number of shares outstanding	378,825,506	378,825,506

(1) Figures adjusted by the capital increase performed in 2016, amounting to EUR 118.25 million shares.

12.2 Dividends

In accordance with the principle of prudent management and in the best interest of all the Company's shareholders, in December 2012 FCC's Board of Directors resolved not to pay any dividends. This resolution remained unchanged in 2017.

This decision, included within the framework of the restructuring in progress since 2013, the purpose of which is to enhance operating efficiency and strengthen the balance sheet, must be ratified by the shareholders at the Annual General Meeting to be held in the first half of 2018.

13. 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.

NET FINANCIAL DEBT

To obtain the net financial debt the total gross financial debt (current and non-current) is considered, minus current financial assets, cash and bank and other current financial assets.

VOLUNTARY ROTATION INDEX

The ratio between the employees who have left voluntarily during the year and the total workforce. Both employees leaving the company permanently and those going on sabbatical are included.

14. ANNUAL CORPORATE GOVERNANCE REPORT