

**REPORT OF THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES
Y CONTRATAS, S.A. ON THE AMENDMENT OF BOARD REGULATIONS**

9th May 2017

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1. INTRODUCTION AND PURPOSE OF THE REPORT

In accordance with article 4 of the Regulations of the Board of Directors of Fomento de Construcciones y Contratas, S.A. ("**FCC**" or the "**Company**"), the proposed amendments of the Regulations must be accompanied by a justifying report, which must be reported by the Company's Audit and Control Committee. Furthermore, article 9.c) of the Regulations of the General Shareholders' Meeting establishes that, in order to prepare the General Meeting, the reports of the Board of Directors on the merely informational points of the Agenda must be made available to shareholders from the date the General Meeting is called.

The Company's Ordinary General Meeting held on 28th June 2016 passed a series of amendments to the Company Bylaws in terms of the composition and operation of the Board of Directors and its Committees, which was partially due to the redrafting of the Capital Companies Act by Act 22/2015, of 20th July, on Accounts Auditing.

In this context, the Company's Board of Directors, at its meeting held on 28th July 2016, carried out a detailed review of the Regulations in order to, in addition to that mentioned above, complete or introduce technical improvements or rewordings in them, passing the amendments detailed in this report.

In this regard, the Board of Directors has drawn up this Report in order to inform of the amendments of articles 5 (Quantitative composition), 7 (Competencies of the Board of Directors. Catalogue of undelegable competencies) and 37 (Audit and Control Committee) of the Regulations of the Board of Directors of the Company.

2. RATIONALE FOR THE PROPOSED AMENDMENT

a) Amendments regarding the composition and operation of the Board of Directors

- With regards to the composition and operation of the Board, article 5 of the Regulations was amended in order to set the number of members of the Board of Directors at fifteen.
- Furthermore, a series of undelegable competencies were eliminated from the Board of Directors with regards to specific transactions involving contracting financial debt, buying or selling relevant assets and/or entering into contracts relevant for the Company (article 7 of RCA).

b) Amendments regarding the Company's Audit and Control Committee:

Act 22/2015, of 20th July, on Accounts Auditing, has included in article 529-four of the Capital Companies Act specific amendments on the **composition and functions of the Audit and Control Committee (which have been updated in FCC's Company Bylaws)**, resulting in the proposed amendment of article 37 of the Regulations with regards to, amongst others, the following matters:

- The requirement that Members of the Board must, overall, have *"sufficient technical knowledge of the sector of activity the audited company is involved in"* has been incorporated in article 37.2 of the Regulations, in accordance with article 529-four.1 of the Capital Companies Act.
- Article 37.5 of the Regulation on **competencies of the Committee** has been adapted and completed in the following terms:
 - With regards to the **accounts audits reports**, the competency of the Committee to report the results of the audit to the General Shareholders' Meeting, explaining how it has contributed to the integrity of the financial information, along with the functions which the Commission has adopted in this process (article 529-four.4 a) of LSC), is set out, in keeping with the provisions of the Act.
 - With regards to the **appointment, re-election or replacement** of the **accounts auditors**, the functions of the Commission for proposed

appointments, re-elections or replacements of the accounts auditors (article 529-four.4 d) of LSC) are incorporated.

- With regards to **competencies on the Company's internal control system**, this section is completed with, amongst other aspects, the faculty on the supervision of efficiency of internal control and the faculty of the Committee to present recommendations or proposals to the Board of Directors (article 529-four.4 b of LSC).
- With regards to the **independence of the external auditor**, different aspects are completed in accordance with the Capital Companies Act, and provisions on the external auditor's professional fees and the report on his or her independence are incorporated (article 529-four.4 e and f) of LSC), among others.
- With regards to the **process for drafting and presenting the Annual Accounts and other financial information**, the Committee's functions are completed by incorporating the function of presenting recommendations or proposals to the Board of Directors, aimed at safeguarding the integrity of the economic and financial information (article 529-four.4 c of LSC).

3. ANNEX

An **Annex** of the Regulations of the Board of Directors has been attached to this Report with the aforementioned amendments.