

Fomento de Construcciones y Contratas, S.A.

Financial Statements for the year ended 31
December 2018 and Directors' Report,
together with Independent Auditor's Report

*Translation of a report originally issued in Spanish based on
our work performed in accordance with the audit regulations
in force in Spain. In the event of a discrepancy, the Spanish-
language version prevails.*

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Fomento de Construcciones y Contratas, S.A.,

Report on the Financial Statements

Opinion

We have audited the financial statements of Fomento de Construcciones y Contratas, S.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of ownership interests in Group companies and associates

Description	Procedures applied in the audit
The Company has ownership interests in the share capital of Group companies and associates, most of which are not listed on regulated markets, as detailed in Note 10 to the financial statements. Determination of the recoverable amount of those ownership interests requires the use of significant judgements and estimates by management, with regard to both the valuation method and the consideration of the key assumptions established for each method in question (use of correction factors to adapt the comparable data considered, use of discount rates in determining the value by discounting future cash flows, etc.). As a result of the foregoing, as well as the significance of the investments held, which amounted to EUR 5,761 million at year-end and for which an accumulated impairment loss of EUR 3,002 million has been recognised, we considered the situation described to be a key matter in our audit.	Our audit procedures included, among others, obtaining and analysing the recoverability tests conducted by Company management on the main ownership interests, and verifying the clerical accuracy thereof and the appropriateness of the valuation method used in relation to the investment held. To this end, we analysed the recovery assumptions used by management and the ability of the investees to pay dividends, where appropriate, the value of the business of the investees on the basis of the Company's percentage of ownership and the sensitivity analyses of the key assumptions identified. Lastly, we focused our work on reviewing the disclosures made by the Company in relation to these investments. Notes 4-e.1 and 10 to the financial statements contain the disclosures relating to these matters required by the applicable accounting regulations.

Recoverability of deferred tax assets

Description	Procedures applied in the audit
The Company's balance sheet as at 31 December 2018 includes deferred tax assets of EUR 72 million, and the Company forms part of the tax group headed by it as the parent of the FCC Group. At year-end, Company management prepares financial models to assess the recoverability of the deferred tax assets, taking into account new legislation and the most recent business plans approved for the various divisions and geographical areas of the businesses forming part of the consolidated tax group, in addition to the estimated reversal periods for the temporary differences recognised in the balance sheet.	Our audit procedures included, among others, obtaining the financial models prepared by the Company to assess the recoverability of the deferred tax assets and the supporting documentation used as the basis for their preparation. We reviewed the financial models obtained, including the coherence of the pre-tax profits projected for the coming years and their consistency with the data for the current year. Also, we analysed the estimated reversal periods for the temporary differences recognised in the balance sheet and involved our internal tax experts in analysing the estimate of income tax for the current year.

Recoverability of deferred tax assets	
Description	Procedures applied in the audit
We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, basically in connection with the projections of business performance and the estimation of the reversal periods for the temporary differences recognised, which affect the assessment of the recoverability of the deferred and other tax assets recognised in the balance sheet.	Notes 4-h and 18 to the accompanying financial statements contain the disclosures relating to the Company's deferred taxes.

Provisions and contingent liabilities relating to Alpine	
Description	Procedures applied in the audit
As a result of the process of liquidating the Alpine Group that started in 2013, a series of lawsuits were initiated against the FCC Group, of which the Company is the parent, some of which are for a significant amount. Company management must assess whether these claims constitute contingent liabilities or whether, on the other hand, a provision should be recognised in the balance sheet. This was a key matter in our audit, since this assessment requires Company management to make significant judgements, especially regarding the probability of there being an outflow of resources in the future or the possibility of measuring the amount of the obligation reliably. These judgements and estimates are made by Company management based on the opinions of the internal legal advisory department and its external legal counsel, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.	Our audit procedures included, among others, the review of the evolution of each of the lawsuits which, resulting from the liquidation of the Alpine Group, affect the FCC Group of which the Company is the parent. To this end, we obtained confirmations from its external legal counsel in order to analyse the current status of the proceedings in progress and discussed with Company management its assessment of the related risk, classifying the risk as "remote", "possible" or "probable". Also, we assessed whether the Company's disclosures in the financial statements in relation to the claims currently in progress are adequate, in accordance with the applicable regulatory framework, and checked whether the details thereof were consistent with the evidence gathered in the course of our tests. Notes 14 and 19 to the accompanying financial statements contain the detail of the provisions and disclosures regarding the contingent liabilities relating to the claims associated with Alpine.

Other Information: Directors' Report

The other information comprises only the directors' report for 2018, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the information contained in the directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to the non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report (ACGR), as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report, or, as the case may be, that the directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the directors' report includes a reference to the fact that the non-financial information described in section a) above is presented in the consolidated directors' report of the FCC Group to which the Company belongs, that the information in the ACGR mentioned in that section is included in the directors' report, and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit and Control Committee for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit and control committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix I to this auditor's report. This description, which is on pages 7 and 8 below, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit and control committee dated 26 February 2019.

Engagement Period

The Annual General Meeting held on 28 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 1990, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Raquel Martínez Armendáriz
Registered in ROAC under no. 20755

26 February 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's audit and control committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit and control committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the entity's audit and control committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.