

**REPORT ON THE ACTIVITIES OF THE AUDIT AND CONTROL COMMITTEE
OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.**

FOR 2018



Contents

1. INTRODUCTION.....	3
2. GOVERNING LAWS, REGULATIONS AND STANDARDS.....	3
3. COMPOSITION	3
4. FUNCTIONING	5
5. POWERS.....	6
6. ACTIVITIES.....	9
7. ASSESSMENT	12



1. INTRODUCTION

The Audit and Control Committee (hereinafter referred to as the “**Committee**” or the “**ACC**”) of Fomento de Construcciones y Contratas, S.A. (hereinafter referred to as “**FCC**” or the “**Company**”), as established in article 40.7 of the Company Bylaws and articles 37.7 of the Regulations of the Board of Directors, has drawn up this report on its activities and operations during 2018 (hereinafter referred to as the “**ACC Report**”), in accordance with CNMV Technical Guide 3/2017 published by the Spanish Securities Market Commission (CNMV) regarding the Audit Committees of Public-Interest Entities (hereinafter referred to as the “**CNMV Technical Guide**”) and generally accepted good corporate governance practices.

2. GOVERNING LAWS, REGULATIONS AND STANDARDS

The composition, powers and functions of the ACC are governed by the Company's Bylaws (article 40) and the Regulations of the Board of Directors (article 37) based on the provisions of article 529 *nonies* of the Corporate Enterprises Act, the Spanish Account Auditing Act (Law 22/2015), and the recommendations of the Code of Good Governance for Listed Companies published by the CNMV on 18 February 2015.

3. COMPOSITION

Articles 40.1 of the Company Bylaws and 37.1 of the Regulations of the Board of Directors stipulate that the Board of Directors must have an Audit and Control Committee, without executive functions but with the powers to report, advise and propose within its sphere of activity. The committee shall comprise a minimum of three (3) and a maximum of six (6) directors appointed by the Board of Directors in consideration of their knowledge and experience in accounting, auditing or risk management, following a prior report by the Appointments and Remuneration Committee (hereinafter referred to as the “**ARC**”), for a period not exceeding their term as directors and without prejudice to the possibility of being re-elected indefinitely, to the extent that this is also the case as directors.

As provided for under article 16.5 of the Regulations of the Board of Directors, the Board Secretary will provide every new Director with a copy of the Company Bylaws, these Regulations, the Code of Ethics of the FCC Group, the Internal Code of Conduct regarding the Securities Market, the most recent separate and consolidated financial statements and management reports approved at the General Meeting, the auditor's reports corresponding



thereto, and the latest financial information disclosed to the markets. New directors will also be informed of the identity of the statutory auditors and their contact persons.

ACC members must all be non-executive directors, with a majority of independent directors. One member shall be appointed on the basis of his/her knowledge and experience in accounting, auditing or both. Overall, ACC members shall have the pertinent technical knowledge in relation to the Company's sector of activity.

The ACC elects its Chairman from among its independent members and may also elect a Deputy Chairman. The duration of their mandates may not exceed four (4) years or the duration of their status as ACC members, and they may be re-elected after one year has elapsed since the end of their previous term at the post. The Committee must also have a Secretary and, where applicable, a Deputy Secretary, who may not be a Committee member.

At 31 December 2018, the composition of the ACC was as follows:

Name	Category	Post	Date of last appointment
Henri Proglío	Independent Director	Chairman	25/06/2015
Juan Rodríguez Torres	Proprietary Director	Voting Member	28/06/2016
Manuel Gil Madrigal	Independent Director	Voting Member	25/06/2015
Álvaro Vázquez de Lapuerta	Independent Director	Voting Member	25/06/2015
Felipe Bernabé García Pérez	Secretary	Non-voting Member	

In keeping with articles 529 quaterdecies of the of the Corporate Enterprises Act and 37.2 of the Regulations of the Board of Directors, at least one ACC member will have knowledge and experience in accounting, auditing or risk management for the diligent fulfilment of obligations. In this regard, the Independent Director Álvaro Vázquez de Lapuerta meets this requirement. Additionally all members of the committee must have the pertinent technical knowledge in relation to the sector in which the Company operates.

The professional profile and experience provided by ACC members are available on the Company's corporate website (www.fcc.es)

4. FUNCTIONING

Committee functioning is governed by the following basic principles: responsibility, scepticism, constructive dialogue promoting the freedom of expression and critical thinking of committee members, ongoing dialogue with internal audit, the statutory auditor and management, adequate analytical skills and a capacity to seek and secure external expert advice whenever deeming it to be appropriate.

Article 37.3 of the Regulations of the Board of Directors states that the ACC shall govern its own functioning in accordance with Company Bylaws and the Regulations of the Board of Directors. The ACC Secretary and, where pertinent, the Deputy Secretary, shall assist the Chairman and ensure the proper functioning of the ACC, ensuring that the minutes duly reflect the course of the ACC meetings, the content of the deliberations and resolutions adopted. The Secretary or individual handling that role shall keep the minutes of every meeting and have them signed by the ACC members in attendance.

The ACC shall be a valid quorum when the majority of its members are present in person or by proxy, and its decisions are adopted by absolute majority vote of those present in person or by proxy. In the event of a tie, the Chairman will have the casting vote as prescribed in article 37.4 of the Regulations of the Board of Directors and 40.6 of the Company Bylaws.

The Company Bylaws (article 40.5) and the Regulations of the Board of Directors (article 37.7) contemplate that the ACC shall meet at the discretion of the Chairman, or when convened by two ACC members, as many times as necessary to properly fulfil its functions and at least once every quarter.

Under article 37.5(d) of the Regulations of the Board of Directors, the internal audit function manager submits an annual work plan and directly reports any incidents arising in the implementation thereof to the Committee. Moreover, it is subject to reporting and tracking at the end of every period in a report summarising the activities carried out by the Audit and Control Committee.

5. POWERS

Pursuant to article 529 *quaterdecies* of the Spanish Corporate Enterprises Act and the Spanish Account Auditing Act, the powers attributed to the ACC are set out in articles 40.4 of the Company Bylaws and 37.5 of the Regulations of the Board of Directors.

The essential function of the ACC is to assist the Board of Directors in its supervisory duties by regularly reviewing matters and engagements, including yet not restricted to the financial reporting process, internal controls and the independence of the statutory auditor.

In particular, yet for the sake of guidance only and without prejudice to any other responsibilities and duties that the Board of Directors may ascribe to it, the ACC has the following purview:

- a) Reporting to the shareholders at the General Meeting regarding matters addressed in relation to the ACC's scope of expertise and, in particular, on audit results, explaining how it has contributed to the integrity of financial reporting and the role that the ACC has had in that process.
- b) Providing a channel of communication between the Board of Directors and the Statutory Auditor of the Company, assessing the results of each audit, and, regarding the Statutory Auditor:
 - (i) submitting proposals to the Board of Directors regarding the selection, appointment, re-election and replacement of statutory auditors, conducting the selection process in accordance with European Union legislation, and handling the terms and conditions of contracts with them;
 - (ii) regularly gleaning information from the statutory auditor regarding the audit plan and the results thereof, safeguarding the independence thereof in the discharge of its duties, and verifying that Senior Management has considered its recommendations;
 - (iii) address matters with the Company's statutory auditor regarding any significant weakness in the internal control system detected during the audit, without compromising the integrity of the auditor's independence.

For this purpose, and where necessary, the ACC may submit recommendations or proposals to the Board of Directors and the corresponding deadline for tracking and follow-up;

- (iv) establishing appropriate relations with the statutory auditor to receive information regarding matters that could undermine their independence to be examined by the ACC, questions related to account auditing and, whenever pertinent, the authorisation of services other than banned services, on the terms provided for by the pertinent legislation regulating the activity of statutory auditors insofar as it relates to their independence, and any other communications and notifications contemplated in account auditing legislation and standards;
 - (v) ensuring the independence of the Statutory Auditor by establishing, in particular, appropriate measures: 1) so that the engagement of advisory and consulting services with the auditor or companies of its group entails no risk to its independence, in which regard the ACC will request and receive from the statutory auditor an annual statement of its independence with respect to the Company or entities directly or indirectly related thereto, and detailed and individualised information on additional services of any sort provided and the corresponding fees received from those entities by the statutory auditor or by persons or entities related thereto, according to the legislation regulating account auditing, and 2) so that the Company can report the change of auditor as a price-sensitive information disclosure to the CNMV accompanied by a statement on the possible existence of disagreements with the departing auditor, and, if so, the nature thereof; and in case of resignation of the external auditor, it must review the underlying circumstances thereof; and
 - (vi) ensure that the Company's auditor assumes responsibility for the audits of the companies in the Group.
- c) Issuing an annual report before the statutory auditor's report containing an opinion on whether the independence of the statutory auditors or auditing firms is compromised. This report should in any case contain a reasoned assessment of the provision of all additional services referred to in section b (v) 1) above, considered both individually and as a whole, in addition to statutory audits and how they relate to the requirement of independence or to the regulatory legislation on audits.
- d) Supervision of the Company's internal audit services to ensure that internal information and control systems work properly, in which regard the role responsible for the internal audit function must submit the function's annual work plan to the ACC, directly report incidents arising in the implementation thereof to

the ACC, and submit a report at the end of the year regarding its activities to the ACC.

- e) Supervising and analysing the effectiveness of the Company's internal control and risk control and management policy approved by the Board of Directors, ensuring that it identifies at least:
 - (i) the different types of risk that the Company faces, including contingent liabilities and off-balance sheet risks among the financial or economic risks;
 - (ii) setting the risk level that the Company deems to be acceptable;
 - (iii) the measures contemplated for mitigating the impact of the identified risks, should they materialise; and
 - (iv) the internal information and control systems that will be used to control and manage the cited risks, including contingent liabilities or off-balance-sheet risks, and submit them to the Board of Directors for approval.
- f) Supervising the process of drawing up and presenting the Financial Statements and Management Reports, separate and individual, and regular financial reporting disclosed to the markets; and submitting recommendations or proposals to the Board of Directors with a view to safeguarding the integrity thereof; taking steps to ensure compliance with legal requirements and the correct application of generally accepted accounting principles; informing the Board of Directors before it adopts the following decisions:
 - (i) financial information that, as a listed entity, the Company must disclose periodically, ensuring that all interim statements are drawn up with the same accounting criteria as the annual statements and, for that purpose, decide whether the statutory auditor should conduct a limited review; and
 - (ii) the creation of special purpose vehicles or entities registered in tax havens, or the acquisition of ownership interests therein, as well as any other transactions or operations of a similar nature that, given their complexity, could impair the transparency of the FCC Group.
- g) In relation to reporting and internal control systems: (i) supervising the process of drawing up and the integrity of the financial information concerning the Company and, where pertinent, its Group, reviewing compliance with legislative requirements,

the appropriate definition of the scope of consolidation, and the correct application of the applicable accounting criteria; (ii) regularly supervising the internal control and risk management systems, including tax-related risks, so that the main risks are identified, managed and sufficiently understood; (iii) ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and removal of the head of the internal audit function, and the budget thereof; receiving periodic information regarding its activities and confirming that senior management considers the conclusions and recommendations of the reports thereof; receiving periodic information from the Response Committee and Management Control and Risk Management Division, respectively, regarding their activities and the operation of internal controls; and (v) ensuring that internal codes of conduct and corporate governance rules comply with legislative requirements and are appropriate for the Company, and reviewing compliance by the individuals affected by such codes and governance rules with their obligations to disclose information to the Company.

- h) Issuing the reports and proposals as requested by the Board of Directors or Chairman thereof, and any others considered to be pertinent for the proper performance of its functions and, in particular, (i) issuing the report on the proposals to amend these Regulations as established in article 4.3 herein; (ii) deciding in relation to the requests for information that the directors, as established in article 26.3 of these Regulations, submit to this Committee; and (iii) requesting, where pertinent, the incorporation of items onto the Agenda for meetings of the Board of Directors within the time limits and in the manner contemplated in article 34.3 of these Regulations.
- i) Apprising the Board of Directors in advance of all matters contemplated by Law, these Bylaws and the Board Regulations, and, in particular, of:
 - (i) information that the Company is required to periodically disclose, and
 - (ii) the creation or acquisition of interests in special purpose vehicles or entities domiciled in tax havens.

6. ACTIVITIES

a) Meetings held.



The ACC held eight (9) meeting in 2018, thus complying with the requirements of the Company Bylaws (article 40.5) and Regulations of the Board of Directors (article 37.7), which require the ACC to meet at least quarterly.

The calendar of ACC meetings in 2018 is as follows:

First quarter	Second quarter	Third quarter	Fourth quarter
31 de enero	10 de abril	30 July	6 de noviembre
27 February	9 de mayo	11 September	18 de diciembre
	27 de junio		

ACC member attendance has been adequate. Most ACC members attended every meeting.

ACC meetings were convened with the notice prescribed by regulations. ACC members have proven to have prior and sufficient dedication to analyse and assess the information and hold specific meetings with internal and statutory auditors and management officers.

The Company provides Committee members with the necessary resources to responsibly examine the matters to address at their meetings and actively participate therein, and for the due fulfilment of the functions and powers of the Committee.

In particular, for the effective discharge of the duties of the ACC, the members have the right and obligation to obtain information from the different executives of the Company and, in particular, the officers responsible for internal governance areas. Thus, during 2018, the ACC formally met with the following executives and professionals:

- Administration Department, on seven occasions.
- Internal Audit Department, on nine occasions.
- Company legal counsel, on four occasions.
- Corporate Selection, Training and Labour Relations Department, on two occasions.
- Tax Department, on two occasions.
- The representative of the audit firm, on six occasions.
- Real Estate Department, on three occasions.

Through its Secretary, the ACC duly complies with its obligation to keep minutes of its meetings, which duly reflect the course thereof and the content of the deliberations and adopted resolutions. Resolutions have been unanimously adopted in all cases.

b) Significant activities

(i) In relation to the statutory audit

- Report on the independence of the statutory auditor.
- Report on the proposal to authorise auditing services and other services rendered by auditing firms.
- Approval of the statutory audit fees.
- Analysis of the scheduling and status of the 2018 statutory audit.
- Proposal for appointing the 2019 statutory auditor for the FCC Group.

(ii) In relation to corporate governance

- Reporting on the annual corporate governance report.
- Compliance information concerning the resolutions of the Board of Directors and Executive Committee.
- Reporting on the financial information of the refinancing perimeter.
- Reporting to the Board of Directors on the approval of the new FCC Code of Ethics and implementation of the new compliance system.
- Submission of the information required by legislation in force to the CNMV and Stock Exchanges.
- Approval of the ACC operational self-assessment report.

(iii) In relation to financial and non-financial reporting, and the internal control-related mechanisms

- Favourable report on annual, half-yearly and quarterly financial reporting, and on the reporting process itself.
- Favourable report on the 2018 Annual Budget.
- Report on the Communication to the CNMV, analysts and financial markets.

(iv) In relation to risk management and control

- Examination of Tax, Legal and Labour Risk Reports.
- Examination of the manual on the prevention of money laundering and terrorist financing.
- Examination of the statutory auditor's report regarding the prevention of money laundering and terrorist financing.

(v) In relation to the internal audit

- Examination of the statutory audit summary report.
- Examination of the Annual Internal Audit Plan and implementation thereof.
- Acknowledgement of the Report on the activities of the General Internal Audit Division.
- Tracking and review of Logical and Physical IT Security.
- Review of the Inventory Process and critical responses to the Allington incineration plant.

7. ASSESSMENT

The ACC has issued this report on its activities and operation during 2018 to the Board of Directors for assessment as prescribed in article 34.9 of the Regulations of the Board of Directors, which incorporates recommendations 36 and 42 to 44 of the Code of Good Governance for Listed Companies published by the CNMV on 18 February 2015, and article 529 *nonies* of the Corporate Enterprises Act.

The aforementioned assessment has concluded that the ACC duly fulfils its formal obligations and is organised and operates effectively for discharging its duties and fulfilling its overall purpose. Notwithstanding the foregoing, this committee will apprise the Board of Directors, whenever deemed to be appropriate, of all aspects that could contribute to improving the Committee's performance of its functions.

21 March 2019