Fomento de Construcciones y Contratas, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2018 and Consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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 Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test on Corporación Uniland and FCC Environment (UK) goodwill	
Description	**Procedures applied in the audit**
The consolidated balance sheet includes goodwill totalling EUR 1,078 million relating to certain ownership interests (see Note 7), mainly those associated with the Corporación Uniland cash-generating unit (CGU) of the Cement area (EUR 396 million) and the FCC Environment (UK) Group CGU of the Services area (EUR 292 million). The Group tests these assets for impairment each year. Management's assessment of the possible impairment is a key matter in our audit since the assessment is a complex process that requires a significant number of estimates, judgements and assumptions to be made, mainly in relation to: Goodwill of the FCC Environment (UK) Group of the Services area: discount rate, backlog, estimate of future margins and perpetuity growth rate. Goodwill of Corporación Uniland of the Cement area: discount rate, projected production levels, estimate of future margins and perpetuity growth rate. In particular, it should be noted that the recoverable amount is highly sensitive to the assumptions regarding growth and projected earnings and, therefore, any potential variances therein in the future might have significant impacts on the test results.	Our audit procedures included, among others, the obtainment of the impairment tests performed by the Group and the supporting documentation used as the basis for their preparation. For the review of the tests, we involved our internal valuation experts to help us evaluate the methodology and financial assumptions used by the Group to determine the recoverable amount of the cash-generating units. Also, we analysed the reasonableness of the projected operating assumptions and the consistency of the assumptions included in the previous year's tests with the actual figures of the CGUs concerned in the current year. Furthermore, we focused our work on reviewing the disclosures made by the Group in relation to these assets, especially the disclosures relating to the sensitivity analyses of the key assumptions. Notes 3-e and 7-b to the accompanying consolidated financial statements contain the disclosures relating to the impairment tests performed on these assets and, in particular, the detail of the main assumptions used, the analysis of the consistency of the assumptions from prior years with actual figures on activity and a sensitivity analysis of changes in the key assumptions in the tests carried out.

Recoverability of deferred tax assets of the Spanish tax group	
Description	**Procedures applied in the audit**
The Group has recognised deferred tax assets in relation to the Spanish tax group which amounted to EUR 646 million (see Note 24) at 31 December 2018. At year-end, Group 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 business divisions and geographical areas, in addition to the estimated reversal periods for the temporary differences recognised in the consolidated balance sheet. 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 consolidated balance sheet.	Our audit procedures included, among others, obtaining the financial models prepared by the Group 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 consistency of the pre-tax profits projected for the coming years with the actual data for the current year. Also, we analysed the estimated reversal periods for the temporary differences recognised in the consolidated balance sheet and involved our internal tax experts in analysing the estimate of income tax for the current year. Notes 3-q and 24 to the accompanying consolidated financial statements contain the disclosures relating to the Group'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 Group, some of which are for a significant amount. Group management must assess whether these claims constitute contingent liabilities or whether, on the other hand, a provision should be recognised in the consolidated balance sheet. This was a key matter in our audit, since this assessment requires Group 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 Group 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 affecting the Group as a result of the liquidation of the Alpine Group. 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 Group management its assessment of the related risk, classifying the risk as "remote", "possible" or "probable". Also, we assessed whether the Group'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 19 and 26 to the accompanying consolidated financial statements contain the detail of the provisions and disclosures regarding the contingent liabilities relating to the claims associated with Alpine.

Recognition of long-term contract revenue in the Construction area	
Description	**Procedures applied in the audit**
The Group uses the percentage of completion method to recognise revenue from long-term contracts in the Construction area. This revenue recognition method was a key matter in our audit, as it affects a very significant amount of total consolidated revenue, as well as the measurement of the amounts to be billed for work performed, and requires Group management to make highly significant estimates relating mainly to the expected outcome of the contract, the amount of costs yet to be incurred, the measurement of work completed in the period and the accounting, where appropriate, for modifications to the initial contract, all of which fall within the framework of the criteria established in IFRS 15, Revenue from Contracts with Customers that the Group applied for the first time effective from 1 January 2018 (see Note 2-a). These judgements and estimates are made by the persons in charge of performing the construction work, are subsequently reviewed at the various levels of the organisation and are submitted to controls to ensure the consistency and reasonableness of the criteria applied.	Our audit procedures included, among others, the performance of tests on the design and implementation of the relevant controls that mitigate the risks associated with the process of recognising contract revenue by reference to the stage of completion, as well as verification that the aforementioned controls operate effectively. We also performed an in-depth, itemised analysis of the main projects in order to evaluate the reasonableness of the hypotheses and assumptions made by the Group with an impact on the revenue recognised in the year which include, among others and as applicable, the determination of the transaction price, the allocation of the transaction price to the various performance obligations, the accounting for modifications and the recognition of variable consideration. As regards the amounts to be billed for work performed, we analysed the recognition of revenue from work in progress and its recoverability for a sample of contracts, selected on the basis of qualitative and quantitative factors. Lastly, we focused our work on verifying that the accompanying consolidated financial statements include the related disclosures required by the applicable financial reporting framework. In this connection, Note 3-s discloses the fact that the percentage of completion method is used to recognise revenue from long-term contracts, and Note 16-a includes additional disclosures in relation to balances recognised corresponding to amounts to be billed for work performed in the Construction area.

Other Information: Consolidated Directors’ Report

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

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated 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 consolidated 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 consolidated directors' report, or, as the case may be, that the consolidated 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 consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated 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 consolidated 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 information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on pages 9 and 10 below, forms part of our auditor’s report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent'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 consolidated 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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent'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 Parent'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 Parent's audit and control committee, we determine those matters that were of most significance in the audit of the consolidated 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.