REPORT OF THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. ON THE DISTRIBUTION OF THE SCRIP DIVIDEND, THROUGH (I) A SHARE CAPITAL INCREASE FOR A DETERMINABLE AMOUNT BY ISSUING NEW ORDINARY SHARES OF 1 EURO PAR VALUE EACH, WITHOUT ISSUE PREMIUM, OF THE SAME CLASS AND SERIES AS THOSE CURRENTLY IN CIRCULATION, CHARGED AGAINST RESERVES; AND (II) THE OFFER OF THE ACQUISITION OF FREE ALLOCATION RIGHTS AT A GUARANTEED PRICE. EXPRESS PROVISION FOR THE POSSIBILITY OF INCOMPLETE ALLOCATION. DELEGATION OF POWERS

The present report is issued by the Board of Directors of Fomento de Construcciones y Contratas, S.A. (the "**Company**" or "**FCC**") in compliance with the provisions of articles 286 and 296 of the consolidated text of the Spanish Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010 of July 2 (the "**Corporate Enterprises Act**"), by virtue of which the Board of Directors must draw up a report justifying the proposal submitted to the General Meeting, all of this to the extent that the approval of the aforementioned proposal of agreement necessarily implies the amendment of Article 5 of the Company's Bylaws regarding the share capital.

In this regard, it is proposed to implement a scrip dividend for a maximum value of €151,530,202.40 (dividend equivalent to 0.40 euros per share), through the offer to all the shareholders of the Company of newly issued shares or, where appropriate, to obtain cash by means of the transmission of the free allocation rights that they receive by the shares they hold.

Therefore, FCC shareholders will have the option, at their own discretion, of:

a) Not transferring their free allocation rights. In such a case, at the end of the trading period, the shareholder will receive the corresponding number of new shares depending on the proportion described below, fully released.

b) Transfer all or part of their free allocation rights to FCC under the Purchase Commitment (as defined below) at a guaranteed fixed price of 0.40 euros per right. In this regard, the shareholder may choose to monetise their rights and receive a cash amount instead of receiving shares.

c) Transfer all or part of their free allocation rights in the market. In this case, the shareholder may also choose to monetise the corresponding rights, although in this case the shareholder would receive no guaranteed fixed price, but the consideration for the rights would depend on the market conditions in general, and the quoted price of the referred rights in particular.

Shareholders of the Company who opt, partially or totally, to receive new shares will also receive a compensatory dividend in cash so that the options of transferring their free allocation rights to FCC under the Purchase Commitment and receiving this amount in shares released from the Company, i.e., though the economic terms shall neither favour nor penalise any of these options.

1. Justification of the proposal

The purpose of the proposed capital increase submitted to the Ordinary General Shareholders' Meeting is to allow the total or partial remuneration of a dividend to be instrumented, offering its shareholders an alternative that allows them to receive shares released from the Company and which is also neutral from the taxation perspective. Alternatively, it allows to receive in cash an amount equivalent to the aforementioned shares, with a tax treatment similar to the dividend payment.

Therefore, the purpose of the proposed capital increase submitted to the Ordinary General Shareholders' Meeting and subject of the present report, is to offer all Company shareholders newly issued shares or, as the case may be and through the transmission of free allocation rights that they receive for the shares of which they are holders, obtain a value equivalent to the dividend payment.

In this regard, this operation would allow the Company to carry out a dividend distribution in a flexible manner, through an issue of liberated shares, maintaining, in any case, the possibility that the shareholder may opt to obtain an amount in equivalent cash.

2. Structure of the capital increase and shareholder options

The proposal, consisting of offering the Company's shareholders the option of receiving, at their own option, released shares in FCC or an amount in equivalent money (the "**Option**"), was structured through an increase in share capital charged to reserves (the "**Capital Increase**"), which is subject to the approval of the Ordinary General Shareholders' Meeting.

In this regard, at the moment in which the Board of Directors decides to execute the Capital Increase:

i) Company shareholders will receive a free allocation right for each share of FCC they hold at that time. These rights may be traded and therefore transferred under the same conditions as the shares from which they arise on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia for a period of at least 15 calendar days, at the end of the which the rights will automatically be converted into newly issued shares of the Company, which will be attributed to shareholders who hold free allocation rights at that time. The number of rights required for the allocation of a new share will depend on the quoted price of the FCC share taken at the time the Capital Increase is agreed upon, in accordance with the procedure described in this report (the "**Listing Price**").

   In any case, as explained below, the total number of shares to be issued will be such that the reference market value of these shares, calculated at the Listing Price, will in no case be greater than the amount of the *scrip dividend* (as defined below), which may not exceed €151,530,202.40.

ii) FCC, or an entity of its group, will assume, in front of the initial holders of free allocation rights, an irrevocable commitment to acquire the aforementioned rights at a fixed price (the "**Purchase Commitment**"). This fixed price will be calculated prior to the opening of the trading period of the free allocation rights according to the Listing Price (so that the price per right will be the result of dividing the Listing Price by the number of necessary rights to receive a new share). The Company thus guarantees all shareholders the possibility of monetising their rights, allowing them to receive the dividend in cash.

Therefore, as indicated above, FCC shareholders will have the option, at their own discretion, to:

a) No transmitir sus derechos de asignación gratuita. En tal caso, al final del periodo de negociación, el accionista recibirá el número de acciones nuevas que le correspondan, en función de la proporción que se describe más adelante, totalmente liberadas.

b) Transmitir la totalidad o parte de sus derechos de asignación gratuita a FCC en virtud del Compromiso de Compra (tal y como se define más adelante) a un precio fijo garantizado de 0,40 euros por derecho. De esta forma, el accionista optaría por monetizar sus derechos y percibir una cantidad en efectivo en lugar de recibir acciones.

c) Transmitir la totalidad o parte de sus derechos de asignación gratuita en el mercado. En este caso, el accionista también optaría por monetizar sus derechos, si bien en este supuesto no recibiría un precio fijo garantizado, sino que la contraprestación por los derechos dependería de las condiciones del mercado en general, y del precio de cotización de los referidos derechos en particular.

As indicated above, shareholders of the Company who opt, partially or totally, to receive new shares will also receive a compensatory dividend in cash so that the options of transferring their free allocation rights to FCC under the Purchase Commitment and receiving this amount in shares released from the Company, i.e., though the economic terms shall neither favour nor penalise any of these options.

3. Total amount of the dividend

The maximum aggregate market value of the released shares that would be offered to the shareholders of FCC will be calculated by the Board of Directors on the basis of the Listing Price, with the limit of €151,530,202.40 (the "**Scrip Dividend Amount**").

Given that, as indicated above, the Purchase Commitment is intended to allow shareholders to monetise the Scrip Dividend Amount and each outstanding share in the Capital Increase will grant its holder a free allocation right, the gross price by right to which the Purchase Commitment will be formulated (i.e., 0.40 euros) would be, once the compensatory mechanism described below is applied, equivalent to the amount per share of the Amount of the *scrip dividend*.

4. Main terms and conditions of the capital increase

The main terms and conditions of the Capital Increase proposed to the General Shareholders' Meeting are described below:

Capital Increase Amount

The capital increase would be made for the amount resulting from multiplying (a) the nominal value of 1 euro per share of FCC by (b) the number of new shares of FCC resulting from the application of the formula that is collected in the following sections (the "**New Shares**"), without which the sum of the reference market value of the New Shares may exceed a total of a maximum of 151,530,202.40 euros.

The New Shares would be issued at par, i.e. for their nominal value of 1 euro, without issue premium, and will be assigned free of charge to the shareholders of the Company.

New Shares to be issued

The number of New Shares to be issued would be calculated by the following formula, rounded to the next lower whole number:

$$NNS = \frac{NOS}{No. of\ rights}$$

where,

"NNS" = Number of New Shares to be issued;

"NOS" = Number of FCC shares outstanding at the date on which the Board of Directors agrees to carry out the capital increase; and

"No. of rights" = Number of free allocation rights necessary for the allocation of a New Share, which will be the one resulting from the application of the following formula, rounded to the upper whole number:

$$No. of\ rights = \frac{NOS}{No. of\ provisional\ shares}$$

where,

$$No. of\ provisional\ shares = \frac{Scrip\ dividend\ amount}{Listing\ price}$$

For this purpose:

"Scrip Dividend Amount" = the maximum value of the scrip dividend to be distributed among shareholders of the Company; and

"*Listing Price*" = the arithmetic mean of the weighted average prices of the Company's stock on the Spanish Stock Exchanges in the 5 trading sessions prior to the date of the Board of Directors resolution to carry out the Capital Increase, rounded to the thousandth of the nearest euro and, in the case of one-half of one thousandth of a euro, to the nearest thousandth of a euro.

Free allocation rights

Each outstanding Company share would grant one free allocation right.

The number of free allocation rights needed to receive a New Share ("*No. rights*") would be determined automatically according to the proportion existing between the Number of New Shares ("*NNS*") and the Number of Outstanding Shares ("*NOS*"). Specifically, FCC shareholders would be entitled to receive one New Share for every so many free allocation rights as determined in accordance with the provisions of the previous section of the holders.

If the number of free allocation rights required for the allocation of an action ("*No. of rights*") multiplied by the Number of New Shares ("*NNS*") results in a number lower than the Number of Outstanding Shares ("*NOS*"), FCC (or an entity of its group that, as the case may be, owns shares in FCC), would renounce a number of free allocation rights equal to the difference between both figures, for the exclusive purposes that the NNS is a whole number.

The free allocation rights would be assigned to FCC shareholders who had acquired their respective shares until the day of publication of the announcement of the capital increase in the Official Gazette of the Companies Registry (inclusive) and appear as such in the accounting records of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) on the corresponding date in accordance with the applicable rules of compensation and liquidation of securities.

The free allocation rights may be traded in the market during the term determined by the Board of Directors (with express powers of substitution), with a minimum of 15 calendar days. During the trading period of the free allocation rights, sufficient free allocation rights may be acquired in the market in the necessary proportion to subscribe New Shares.

Irrevocable commitment to acquire the free allocation rights

The Company or, with its guarantee, the designated group company, will assume an irrevocable commitment to purchase, at the price indicated below, the rights received free of charge by the shareholders, without it extending to the rights of purchase purchased or otherwise acquired in the market.

The Purchase Commitment will be valid and may be accepted during the term, within the period for trading the rights, as determined by the Board of Directors (with express powers of substitution). For this purpose, it is agreed to authorise the Company, or the corresponding company of its group, to acquire such free allocation rights (and their corresponding shares), with the maximum limit of the total of the rights that are issued, though legal limitations must be complied with in all cases.

The "***Purchase Price***" of each free allocation right will be equal to 0.40 euros.

Compensatory mechanism

In order to ensure the economic equivalence of the options for (i) transferring the free allocation rights to FCC under the Purchase Commitment and (ii) receiving that amount in New Shares, i.e., without favouring or penalising any options in economic terms, the Company will in turn pay shareholders of the Company who choose to receive New Shares, whether partially or totally, a compensatory dividend in cash to offset the lower economic value that, as a consequence of the application of the above exchange formulas, such New Shares would have with respect to the amount received in cash by the shareholders under the Purchase Commitment.

The compensatory dividend ("*Compensatory dividend*" or "*CD*") that the Company will pay to its shareholders through this equity mechanism will be equal to the results of the following formula, rounded to the lowest thousandth of a euro:

$$CD = (0.40 - Theoretical\ value\ of\ the\ right)\ x\ (No.of\ exercised\ rights + NNS\ subscribed)$$

where,

$$\text{Theoretical value of the right} = \text{Listing Price} - \frac{(\text{Listing price x No. of rights})}{(\text{No. of rights } + 1)}$$

The "*Theoretical Value of the Right*" will be rounded to the lowest thousandth of a euro.

"No. of exercised rights" = Total number of free allocation rights exercised by the shareholder.

“NNS subscribed” = Total number of New Shares received by the shareholder.

Balance for the operation and reserve with charge to which the increase is made

The balance sheet that would serve as the basis for the operation corresponds to 31 December 2018, duly audited and approved by the Ordinary General Shareholders' Meeting.

The capital increase would be made entirely charged to reserves pursuant to article 303.1 of the Corporate Enterprises Act. On the occasion of the execution of the increase, the Board of Directors (with express powers of substitution) will determine the reserve or reserves to be used and the amount in accordance with the balance sheet that serves as the basis for the operation.

Representation of the New Shares

The shares that are issued would be represented by book entries, whose accounting record is attributed to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) and its participating entities.

Rights of the New Shares

New Shares would give their holders the same political and economic rights as ordinary shares of FCC currently in circulation as of the date they are registered in their name in the corresponding accounting records.

Application for admission to trading

Admission to trading of the New Shares would be requested on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia through the Stock Exchange Interconnection System (Continuous Market) and, for this purpose, the necessary or advisable steps, procedures and actions would be carried before the competent bodies.

5. The applicable tax regime in Spain

The Spanish tax regime applicable to shareholders will be the following in general (notwithstanding the specialities applying to non-resident shareholders or those subject to taxation in the Basque Country's provincial territories or in the Autonomous Community of Navarre, and potential future regulatory developments that could also affect the applicable tax regime):

a) *Receive new fully released shares*

For shareholders, taxpayers for the purposes of the Personal Income Tax ("**IRPF**") or the Non-Resident Income Tax ("**IRNR**") without a permanent establishment in Spain, the delivery of the fully released shares will not constitute income. However, for the purposes of future transfers, the acquisition value, both of the delivered shares and the shares from which they come, will be the amount resulting from dividing the total cost by the number of corresponding securities, both old and released. The acquisition date of the fully released shares will correspond to the date for their pertinent shares.

Regarding shareholders, taxpayers for the purposes of the Corporate Income Tax ("**IS**") or the Non-Resident Income Tax ("**IRNR**") and acting through a permanent establishment in Spain, given that the applicable tax regulations contain no specific criterion for this purpose, the criterion established by the accounting standard will be applied. For these purposes, the accounting treatment of these operations is included in consultation 1 of BOICAC 88/2011 (ICAC), by virtue of which, for cases in which the credit derived from the accrual of a dividend is paid with released shares issued to that effect, if the old shares and the received released shares have equal rights, the total value of the portfolio will not be altered, all the shares, both old and new, are valued at the weighted average price. In conclusion, the subscription of the capital increase charged to reserves does not determine the integration of any income in the tax base of the shareholders, so that the received values retain the seniority of the securities from which the cited allocation rights originated, distributing the value of all the shares between old and newly subscribed.

As regards the amount received by the Company's shareholders in the form of the compensatory Dividend detailed in section 4 of this report, the provisions set forth below shall apply to the amount obtained in the transfer of rights to the Company under the Purchase Commitment.

b) *Transfer all or part of their free allocation rights to the Company under the Purchase Commitment*

Should the holders of free allocation rights opt for the Purchase Commitment, the tax regime applicable to the amount obtained in the transfer to FCC or its subsidiary of the free allocation rights held in its capacity as shareholders shall be equivalent to the regime applicable to dividends distributed directly in cash and, therefore, will be subject to withholding on account of the appropriate tax and the corresponding taxation.

c) *Transfer all or part of their free allocation rights in the market*

Should shareholders sell their free allocation rights in the market, the amount obtained in the transfer to the market of said rights will have the tax regime indicated below:

For the purpose of income taxes (IRPF or IRNR) for taxpayers without a permanent establishment in Spain, the amount obtained in the market transfer of the free allocation rights will be considered as a capital gain for the transferor. For shareholders subject to income tax (IRPF), this capital gain will be subject to withholding on account of the IRPF at the corresponding tax rate. This withholding will be carried out by the corresponding depository entity and, failing that, by the financial intermediary or notary public intervening in the transfer. For shareholders subject to IRNR liabilities without a permanent establishment in Spain, the gain will be subject to taxation for this tax, notwithstanding a possible application of the exemption included in the internal regulations or, as the case may be, the agreement to avoid double taxation in force.

Regarding IS and IRNR with a permanent establishment in Spain, to the extent that a complete business cycle is completed, it will be taxed according to the results from the applicable accounting regulations and the regulations applicable to said taxes.

It should be taken into account that this summary does not specify all the possible tax-related consequences of the different options related to the dividend or Capital Increase. The consequences that may occur in the countries of residence of shareholders who do not reside in Spain for tax purposes, or the variations that may result as a consequence of, as the case may be, the application of an Agreement to avoid double taxation entered into between Spain and the shareholder's state of declared fiscal residence. For this reason, it is recommended that shareholders consult with their tax advisors on the specific tax impact of the proposed compensation system, considering the particular circumstances of each shareholder or holder of free allocation rights, and also check for developments made in the legislation in force at the date of this report and the criteria of interpretation thereof.

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