

**REPORT BY THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. REGARDING THE PROPOSAL UNDER ITEM 4 OF THE AGENDA OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS CONVENED ON 23 MAY 2013, AT FIRST CALL, AND 24 MAY, AT SECOND CALL (PROPOSAL TO AMEND THE ARTICLES OF INCORPORATION)**

**1. Purpose of the report**

This report was drawn up by the Board of Directors of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A. (hereinafter the "**Company**") in support of the motion submitted to the Ordinary General Meeting of Shareholders convened for 23 May 2013, at 16:00 hours, at first call, and for 24 May 2013, at the same time, at second call, under item **4** of the agenda.

In order for the motion to be submitted for approval to the General Meeting of Shareholders, the Board of Directors of the Company is required to draft a written report, as provided in article 286 of the Consolidated Text of the Capital Companies Act and, to that end, this report is hereby issued.

**2. Justification of the proposal**

The Board of Directors considers it necessary to amend the Articles of Incorporation with the fundamental goal of shortening directors' terms and regulating the mechanism for convening the Executive Committee and for the exercise of the functions of Chairman where the Chairman is absent or the position is vacant.

Below are indicated the articles of the Articles of Incorporation that it is proposed to amend:

**2.1.- Article 29 ("Requirements and term") of the Articles of Incorporation:**

It is proposed to amend this article so as to reduce the directors' term from five (5) to three (3) years so as to allow for greater rotation of Board members, thereby making it possible to adapt the Board of Directors to changes in the Company's needs in line with the development of its business.

The Board of Directors also considers that a shorter term (as is now proposed) is more in line with best practices in corporate governance and allows shareholders to express their opinion on director appointments with greater frequency.

**2.2.- Article 36 ("Operation of the Executive Committee") of the Articles of Incorporation:**



It is proposed to amend this article to provide coverage in the Articles of Incorporation for the system of convening meetings of the Executive Committee and the exercise of the functions of its chair in the event that the Chairman is absent or the position is vacant.

Attached as an annex to this report is the text of Articles of Incorporation whose amendment is proposed, in two columns, with the current wording and proposed wording, highlighting the amendments.

Madrid, 10 April 2013.

**ANNEX**

ORIGINAL WORDING	PROPOSED WORDING
<p><b>Article 29. Requirements and Term.</b></p> <p><i>In order to be a board member it will not be necessary to be a shareholder. Both natural and legal persons may be directors but, in the case of the latter, the legal person must designate one natural person as its permanent representative for the purpose of discharging the duties inherent to the office. Removal of the representative by the legal person that is a director shall not take effect until their replacement is appointed.</i></p> <p><i>Those affected by any of the circumstances of incapacity or incompatibility provided by law, particularly those set forth in Act 5/2006, of 10 April, and Act 53/1984, of 26 December, and any others which may be enacted in the future, are prohibited from being board members.</i></p> <p><i>Board members will hold office for five (5) years, but may be re-elected indefinitely, one or more times, for terms of equal length.</i></p>	<p><b>Article 29. Requirements and Term.</b></p> <p><i>In order to be a board member it will not be necessary to be a shareholder. Both natural and legal persons may be directors but, in the case of the latter, the legal person must designate one natural person as its permanent representative for the purpose of discharging the duties inherent to the office. Removal of the representative by the legal person that is a director shall not take effect until their replacement is appointed.</i></p> <p><i>Those affected by any of the circumstances of incapacity or incompatibility provided by law, particularly those set forth in Act 5/2006, of 10 April, and Act 53/1984, of 26 December, and any others which may be enacted in the future, are prohibited from being board members.</i></p> <p><i>Board members will hold office for <del>five (5)</del> <b>three (3)</b> years, but may be re-elected indefinitely, one or more times, for terms of equal length.</i></p>
<p><b>Article 36. Operation of the Executive Committee.</b></p> <p><i>The Board of Directors, when setting up the Executive Committee, will determine its powers and appoint the directors who will sit on the Committee.</i></p> <p><i>The Executive Committee will be convened by the Chairman himself or upon the request of two Committee members. The notice will be sent by letter, telegram, e-mail or fax to each of the Committee members at least 48 hours in advance of the meeting date. The Executive Committee may be convened immediately for reasons of urgency, in which case the meeting agenda will be limited to the issues which caused the urgency.</i></p> <p><i>Meetings shall be held at the Company's registered offices or any other location designated by the Chairman and indicated in the announcement.</i></p>	<p><b>Article 36. Operation of the Executive Committee.</b></p> <p><i>The Board of Directors, when setting up the Executive Committee, will determine its powers and appoint the directors who will sit on the Committee.</i></p> <p><i>The Executive Committee will be convened by its Chairman or upon the request of two Committee members. The notice will be sent by letter, telegram, e-mail or fax to each Committee member at least 48 hours in advance of the meeting date. The Executive Committee may be convened immediately for reasons of urgency, in which case the meeting agenda will be limited to the issues which caused the urgency.</i></p> <p><i><u>In the absence of the Chairman of the Executive Committee, or if that position is vacant, meetings may be convened by the longest-standing member of the Committee and, in the event of there being two or more members with the same seniority, by the one who is oldest. In the case of directors that are legal persons, the age of the natural person representing them shall be used.</u></i></p> <p><i>Meetings shall be held at the Company's registered offices or any other location designated by the Chairman and indicated in the announcement.</i></p>



<p><i>In order for the Executive Committee to be quorate, there must be a majority of members present or represented.</i></p> <p><i>Absent members may be represented by another member of the Executive Committee, by notifying the Chairman in writing.</i></p> <p><i>The deliberations will be directed by the Chairman. If the Chairman is absent, the meeting will be chaired by a committee member chosen by majority vote of those in attendance. The Chairman will give the floor to those attendees who wish to speak.</i></p> <p><i>Resolutions shall be passed by absolute majority of the Committee members.</i></p> <p><i>In the event of a tie, the matter will be forwarded to the Board of Directors. In this case, the members of the Executive Committee will request that a meeting be convened as provided for in article 30 of the Articles of Association, unless a Board meeting is already scheduled to be held within the next thirty calendar days, in which case the Committee will ask the Chairman of the Board to include the matters on which the Committee is tied on the meeting agenda.</i></p>	<p><i>In order for the Executive Committee to be quorate, there must be a majority of members present or represented.</i></p> <p><i>Absent members may be represented by another member of the Executive Committee, by notifying the Chairman in writing.</i></p> <p><i>The Chairman. <del>The Chairman will shall direct debates and</del> give the floor to those attendees who wish to speak.</i> <u><i>In the absence of the Chairman of the Executive Committee, or if that position is vacant, his functions shall be performed by the Committee member designated for this purpose by the majority of members in attendance.</i></u></p> <p><i>Resolutions shall be passed by absolute majority of the Committee members.</i></p> <p><i>In the event of a tie, the matter will be forwarded to the Board of Directors. In this case, the members of the Executive Committee will request that a meeting be convened as provided for in article 30 of the Articles of Association, unless a Board meeting is already scheduled to be held within the next thirty calendar days, in which case the Committee will ask the Chairman of the Board to include the matters on which the Committee is tied on the meeting agenda.</i></p>
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