

REPORT DRAFTED BY THE BOARD OF DIRECTORS OF FOMENTO DE CONSTRUCCIONES Y CONTRATAS SA IN RELATION TO THE PROPOSED RESOLUTION ON A CAPITAL INCREASE AGAINST CASH CONTRIBUTIONS, THE RECOGNITION OF PREEMPTIVE SUBSCRIPTION RIGHTS AND THE PREVISION OF INCOMPLETE SUBSCRIPTION (SECOND POINT ON THE AGENDA).

1. Purpose of the report

The Board of Directors of Fomento de Construcciones y Contratas, SA ("FCC" or the "Company") resolved at its meeting of October 19, 2014 to convene an Extraordinary General Meeting of Shareholders to be held on November 20, 2014, at first adjournment, and on November 21, 2014, at second adjournment and submit to the General Meeting, under the second point of the agenda, the approval of a capital increase against cash contributions and the subsequent amendment of the Bylaws.

In accordance with the provisions of Articles 286, 296, 297 and 299 of the Revised Text of the Spanish Corporation Act (*Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010, of 2 July and the related provisions of the Spanish Commercial Register Regulations (*Reglamento del Real Registro Mercantil*) approved by Royal Decree 1784/1996 of 19 July, the above mentioned proposal to the General Meeting requires the preparation by the Board of Directors of the following explanatory report.

2. Justification of the proposal to the General Meeting

On June 26, 2014 the Refinancing Agreement of most of the financial debt of the Company was signed and entered into force. The final refinanced amount is EUR 4.528 billion and replaces the existing debt up to that date of equal amount, both syndicated and bilateral (hereinafter, the "Refinancing Agreement"). Such Refinancing basically has two tranches: Tranche A, a loan amounting to EUR 3.178 billion and Tranche B, amounting to EUR 1.350 billion, consisting of a loan incorporating —under specific circumstances— the right to convert the outstanding balance due into shares at market price without discount. Tranche B bears an interest rate of Euribor plus a fixed annual margin (PIK) before maturity, increased by 11% the first year, 13% the second, 15% the third and 16% the fourth year. The Euribor rate is payable in cash and PIK is capitalized at the end of each interest period. In the event of early payment of Tranche B, the PIK will become due and be capitalized at the reduced rate of 6% on the amount of Tranche B that would have been paid and only with respect to interest accrued during the year in which such early payment occurs. Also, the Refinancing Agreement expressly contemplates that, in the event of a capital increase of the Company, the proceeds of such increase could be allocated to the redemption or purchase of the Tranche B of the debt, notwithstanding that such Refinancing Agreement also provides the possibility of allocating the proceeds of the capital increase to address other needs of the FCC Group.



In line with the provisions of the current Strategic Plan of the Company, which has as one of its main objectives the reduction of its debt level and leverage the generation of excess cash to address new growth opportunities, the Board of Director deems the early payment (total or partial) of the Tranche B advisable for the interests of the Company, given the variable and growing interest and the favourable terms in which such early payment is regulated.

In accordance with the foregoing, the Board of Directors understands that in the current situation, it is advisable for the interests of the Company to tackle without delay the recapitalization of the Company in order to be able to negotiate financing conditions more advantageous to the Company and facilitate the growth of FCC Group.

In view of the above, the Board considers advisable to convene an Extraordinary General Meeting and submit for approval a consistent operation for a capital increase against cash contributions which provides the shareholders with the right to pre-emptive subscription and incorporating the prevision of incomplete subscription in order to allocate the proceeds to the total or partial payment of the said Tranche B of the debt and meet other financial needs of the FCC group (i.e. financial support to Cementos Portland Valderrivas, FCC Environment Ltd., etc.).

By means of the above mentioned capital increase, the company would strengthen its capital structure and get greater financial stability and lower debt level and financial costs, giving the Company greater flexibility to undertake a new phase of business development. Furthermore, by recognizing pre-emptive subscription rights, this capital increase gives the opportunity to shareholders to maintain their shareholding percentage instead of increasing the share capital to cover the conversion into shares of Tranche B through the issuance of warrants under the resolution adopted by the General Meeting of the Company on June 23, 2014.

On the other hand, in relation to the issue price, it is proposed to delegate to the Board of Directors the power to determine the premium and, therefore, the issue price of the new shares so that the subscription of new shares can be maximized in order to achieve the intended purpose , depending on the circumstances of market at the time of execution of the agreement which is the subject of this report.

Based on the above, the agreement that the Board of Directors proposes for the approval of the General Meeting of shareholders (second point of the Agenda) is transcribed below:

PROPOSED RESOLUTION TO THE GENERAL MEETING OF SHAREHOLDERS

Increase in share capital by a maximum amount of EUR 1,000,000,000 through the issuance and circulation of up to 1,000,000,000 new common shares with a par value of EUR 1 each, with the premium determined by the Management Board. Shares will be fully subscribed and disbursed against cash contributions, with appreciation of pre-emptive subscription rights and the possibility of incomplete subscription. It is established the delegation to the Board of Directors, with power of substitution, of the necessary powers to implement the agreement and to set the terms thereof in all matters not provided for in the Agreement, pursuant to the provisions of Article 297.1 a) of the Spanish Corporation Act and to redraft Article 5 of the Bylaws.

The General Meeting of Shareholders of Fomento de Construcciones y Contratas SA ("FCC" or the "Company") resolved to increase the share capital against cash contributions in accordance with the terms and conditions set forth below.

1. Increase in share capital

Increase in share capital by a maximum amount of EUR 1,000,000,000 through the issuance and circulation of up to 1,000,000,000 new common shares of the same class and series as those currently existing. The consideration for the newly issued shares will consist of cash contributions. The final amount of increase in share capital is determined by the issue price established by the Board of Directors as provided in section 5 below, so that the maximum amount of the capital increase, as the sum of the par value and the issue premium will be EUR 1,000,000,000. The final amount of increase in share capital is determined by the issue price established by the Board of Directors as provided in section 5 below, so that the maximum amount of the capital increase, as the sum of the par value and the issue premium will be EUR 1,000,000,000.

It is explicitly delegated to the Board of Directors the power not to enforce the agreement if, in his opinion, considering the social interest, market conditions in general or the financial structure resulting from the transaction to increase capital or other circumstances that may affect the Company make it unwise or impede such implementation. The Board of Directors would inform in such case of the decision not to implement the capital increase by the corresponding publication as relevant information through the website of the CNMV.

It is also delegated to the Board of Directors the power to exceptionally reduce the amount of the capital increase mentioned above (i) if in view of the purpose of it or given the market conditions and the bookbuilding for the capital increase proves wise to decrease the number of shares to be issued in order to successfully complete the transaction; or (ii) if for purely technical reasons, this reduction become advisable in order to calculate the exchange ratio for the exercise of pre-emptive subscription rights, as indicated in the following paragraph 8.

This resolution is passed regardless of the delegation granted to the Board of Directors by the General Meeting of Shareholders of the Company held on 27 May 2010 under the fifth item on



the agenda of that meeting, to increase the share capital by maximum amount of up to half of the number of existing capital at the time of the adoption of that delegation, subsisting on its own terms. The Board of Directors is authorized to carry out the capital increase agreed at the General Meeting in a single issuance, in combination with any capital increase carried out under the delegation of powers defined in this paragraph in the amount and manner that it deems appropriate.

2. *Maximum execution time*

The Board of Directors shall determine the date on which the agreement is to be performed within a maximum period of one year from the date of its adoption by the General Meeting, after which, if it hasn't been executed, the agreement shall be null and have no effect.

3. *Target of the increase in capital*

The capital increase targets all shareholders of the Company who are entered in the corresponding accounting records at market close of that business day, immediately preceding the start of the pre-emptive subscription period, without prejudice to other investors that may subscribe shares by acquiring pre-emptive subscription rights, whether or not they are shareholders.

4. *Purpose of the increase in capital.*

As indicated in the report prepared by the Board of Directors in connection with this agreement, which has been made available to shareholders from the date of publication of the notice of the General Meeting, the capital increase falls on the provisions of the current Strategic Plan of the Company, which has as one of its main objectives the reduction of its debt and take advantage of excess cash generation to meet new opportunities for growth, so that the proceeds from the capital increase are allocated to early full or partial repayment of Tranche B of the financial debt of the Company regulated by the refinancing agreement signed on June 26, 2014 and to meet other financial needs of the FCC group (i.e. support Cementos Portland Valderrivas and FCC Environment Ltd., etc.).

Thus, the company would strengthen its capital structure and get greater financial stability and lower debt level and financial costs, giving the Company greater flexibility to undertake a new phase of business development. Also, by recognizing the right of pre-emptive subscription, this capital increase gives the opportunity for shareholders to be able to maintain their participation percentage, as compared to other alternatives like the capitalization of financial debt in the terms currently anticipated in refinancing agreements.

5. *Issue Rate*

The new shares will be issued at the same par value as the other shares of the Company, which is one (1) euro. The issue premium will be determined by the Board. For this purpose, it is



expressly delegated to the Board of Directors, with express powers of substitution, the power to determine the premium and, therefore, the issue price of the new shares.

6. Representation of the new shares

The new shares will be represented by book entry and the record will be kept by the Company Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores S.A.U. (IBERCLEAR) and its participating entities.

7. Rights attaching to new shares

The new shares give their holders, as of the date on which they are registered in their name in the corresponding accounting records, the same political and economic rights as the existing shares of the Company. In particular, in terms of economic rights, the new shares will entitle to company dividends, interim or final, according to the distribution to be agreed thereafter.

8. Pre-emptive subscription rights

All shareholders of the Company who are entered in the accounting records at market close of the business day immediately preceding the start of the pre-emptive subscription period will have pre-emptive subscription rights on the new shares. The determination of the exchange ratio for the exercise of pre-emptive rights is delegated to the Board of Directors.

The pre-emptive subscription rights will be transferable in the same terms as the shares from which they derive and will be tradable on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as through the Spanish Stock Exchange Interconnection System (SIBE).

The subscription of the issuance will take place in one or more successive subscription periods under the terms and conditions determined by the Board of Directors. To this end, it is agreed to expressly delegate to the Board of Directors the power to establish successive subscription periods and to fix the terms and conditions thereof, including the duration and conditions of each of the periods.

The subscription period will last a minimum of fifteen (15) days, beginning on the day following publication of the notice of the agreement that put into effect the capital increase in the Official Bulletin of the Spanish Commercial Registry. In any case, the Board of Directors may fix a longer subscription period if the circumstances so advise at the time of execution of the capital increase.

9. *Incomplete subscription*

The possibility of incomplete subscription of the capital increase is expressly provided, as set out in Article 311 of the Consolidated Text of the Spanish Corporation Act approved by the Royal Legislative Decree 1/2010, of 2 July ("LSC"). Consequently, the capital increase will be limited to the amount corresponding to the par value of the Company's shares actually subscribed and disbursed, and will have no effect as to the remainder.

10. *Admission to trading*

It is hereby resolved to seek admission to trading of the new shares on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia and any other markets in which the shares of the Company are listed at the time of the execution of this Agreement, as well as its integration in the Spanish Stock Exchange Interconnection System (SIBE). It is hereby stated that the Company shall abide by the applicable rules that exist now or could be enacted in the future with regard to the Stock Exchange and particularly in regard to trading, and maintenance of and suspension from trading.

Additionally, in accordance with the provisions of paragraph 8 above, the admission to trading of the pre-emptive subscription rights in the said Stock Exchanges and any other markets in which the shares of the Company are listed at the time of execution of this Agreement will be requested.

11. *Amendment of Article 5 of the Bylaws*

The adaptation of the wording of Article 5 of the Bylaws in regard to share capital following the capital increase is expressly delegated to the Board of Directors, and the wording will depend on the final outcome of the capital increase.

12. *Delegation of powers*

Without prejudice to the specific delegation of powers contained above (which must be understood to be granted with express powers of substitution on the bodies and persons detailed here) it is hereby resolved to authorize the Board of Directors, with the amplitude required by law and with express powers for substitution by the President of the Board of Directors, the Chief Executive Officer, the Executive Committee, of one or more directors to execute this agreement, and may in particular but will not be limited to:

- i. Expand and develop this agreement, setting the terms and conditions of the issuance in all matters not provided herein. In particular, without limitation, determining the premium of the new shares and, therefore, setting the issue price of the new shares, establishing the number that is to be executed after the capital increase subscription period, as well as the manner, conditions and procedure for subscription and payment in each of the periods, the exchange ratio for the exercise of pre-emptive rights, including the power to propose to one or more shareholders to waive the number of pre-emptive subscription rights of ownership that is necessary to ensure that the number of shares to be issued remain



exactly the same as the proportion resulting from the application of the exchange ratio agreed and, in general, any other circumstances necessary to the implementation of the increase and the issuance of shares in exchange of cash contributions.

- ii. Agree with the broadest powers, but subject to the terms of this agreement, the placement procedure of the issue, setting the start date and, if necessary, modify the duration of the subscription periods, and declaring the anticipated closure of the capital increase.
- iii. Draft, sign and submit, where appropriate, to the Spanish National Securities Market Commission (CNMV) or any other supervisory authorities, in connection with the issuance and admission to trading of the new shares issued as a result of increased capital, the Prospectus and any other necessary supplements, taking responsibility for them, as well as other documents and information required pursuant to the provisions of Law 24/1988 of 28 July on the Market securities and Royal Decree 1310/2005 of 4 November, on the admission of securities to trading on official secondary markets, public offerings or subscription and the prospectus required for this purpose, to the extent resulting from implementation; also carry out on behalf of the Company any action, statement or management that is required before the CNMV, IBERCLEAR, the governing bodies of the Stock Exchanges and any other public or private agency or entity, in Spain and abroad, to carry out the successful completion of the offer of the shares.
- iv. Agree not to implement this agreement if attending to social interest, market conditions in general or the resulting financial structure of the transaction to increase capital or other circumstances that may affect the Company and do unwise or impede the execution of the agreement.
- v. Draft, sign and submit, if necessary or appropriate, an international prospectus in order to facilitate the dissemination of information relating to the capital increase to shareholders and international investors, assuming, on behalf of the Company, the responsibility for their content.
- vi. Negotiate and sign, if appropriate, on the terms it deems most appropriate, the agreements necessary for the success of the implementation of the increase, including the agency agreement and the placing and underwriting agreements, if applicable.
- vii. Declare the capital increase executed, issuing and circulating the new shares which have been subscribed and paid, as well as to amend the Article 5 of the Bylaws relating to the bylaws, nullifying part of the capital increase that hasn't been subscribed and paid in the established terms.
- viii. Apply for admission to trading on the Spanish Stock Exchanges and any other markets in which the shares of the Company are listed at the time of the execution of this Agreement, as well as their integration into the Spanish Stock Market Interconnection System (SIBE).



- ix. Carry out together and combined into a single issuance the capital increase referred to herein and any resolution of the Board of Directors under the delegation granted to the Board of Directors by the General Meeting of Shareholders of the Company held on 27 May 2010 under the fifth item on the agenda, and to set a single exchange ratio in the event that, as provided in paragraph 1 of this Agreement and in this paragraph, such capital increases are jointly implemented and combined into a single issuance.
- x. Grant on behalf of the Company such public or private documents necessary or appropriate for the issuance of new shares and their admission to trading under this Agreement and, in general, perform the steps as may be necessary to execute the Agreement and rectify, clarify, interpret, specify or supplement the resolutions adopted by the General Meeting of shareholders, and in particular, any defects, omissions or errors of substance or form, resulting from their verbal or written presentation, that may prevent the registration of these resolutions and their consequences in the Spanish Commercial Register, the official registers of the CNMV or any other applicable registers.

This report has been prepared and approved unanimously by those present at the meeting of the Board of Directors held in Madrid on October 19, 2014.

