

# **ACS, Actividades de Construcción y Servicios, S.A.**

Financial Statements for the year  
ended 31 December 2018 and  
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 and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework to the Company in Spain (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework to the Company in Spain (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.*

## **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

To the Shareholders of ACS, Actividades de Construcción y Servicios, S.A.,

### **Report on the Financial Statements**

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#### **Opinion**

We have audited the financial statements of ACS, Actividades de Construcción y Servicios, S.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.1 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

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#### **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 Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the 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.

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#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Impairment of ownership interests in Group companies and associates

### Description

Most of the Company's assets relate to ownership interests in the share capital of Group companies and associates that are not listed on regulated markets, with the exception of the investee Hochtief, A.G., as detailed in Note 9.3 to the accompanying financial statements.

The assessment of the recoverable amount of those ownership interests requires the use of significant judgements and estimates by management, both in determining the valuation method and in considering the key assumptions (estimate of future margins, levels of growth, discount rates, etc.).

As a result of the foregoing, as well as the significance of the investments held, which amounted to EUR 6,705 million at year-end, net of an impairment loss of EUR 1,924 million, we consider the situation described to be a key matter in our audit.

### Procedures applied in the audit

As part of our audit procedures, we performed substantive tests of details based on the obtainment of the valuation studies of the aforementioned ownership interests performed by Company management, verifying the clerical accuracy thereof and analysing the reasonableness of the assumptions used (basically those relating to future cash flow projections) and their consistency with the actual data relating to the performance of the ownership interests held and with historical information on the investees. In addition, we checked that the market price of Hochtief, A.G. was higher than its carrying amount.

Also, we involved our internal valuation specialists in evaluating, mainly, the methodology employed by the Company in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows.

In addition, we reviewed the sensitivity analyses of the key assumptions, which are those with the greatest effect on the determination of the recoverable amount of the assets.

Lastly, we checked that the disclosures included in Note 9.3 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

## Measurement of deferred tax assets

### Description

The accompanying balance sheet as at 31 December 2018 includes deferred tax assets amounting to EUR 101 million, of which EUR 11 million relate to tax credit carryforwards of the Spanish tax group. Also, the Spanish tax group headed by the Company has recognised at consolidated level EUR 690 million relating to tax assets (tax loss and tax credit carryforwards) that are recoverable in the context of the Spanish tax group.

At the end of the year, management of the Company, as head of the Spanish tax group, prepares financial models to assess the need to consider valuation adjustments to the deferred tax assets recognised, taking into consideration the most recently approved business plans for the various businesses (divisions) of the Spanish tax group.

We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, largely in connection with the projections of business performance, which affect the estimate made of the value of the deferred tax assets.

### Procedures applied in the audit

Our audit procedures included, among others, the review of the aforementioned financial models, including the analysis of the consistency of the actual results obtained by the various businesses compared with the results projected in the previous year's models, and the assessment of the tax legislation applicable, as well as the reasonableness of the projections for future years.

Lastly, we assessed whether Note 14.5 to the accompanying financial statements contains the disclosures required in this connection by the regulatory financial reporting framework applicable to the Company.

## Other Information: Directors' Report

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

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the information contained in the 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 certain information included in the Annual Corporate Governance Report, 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 directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those 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 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 directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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### **Responsibilities of the Directors and of the Audit Committee for the Financial Statements**

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

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

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

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### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

A further description of our responsibilities for the audit of the financial statements is included in Appendix I. This description forms part of our auditor's report.

## Report on Other Legal and Regulatory Requirements

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### Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 28 March 2019.

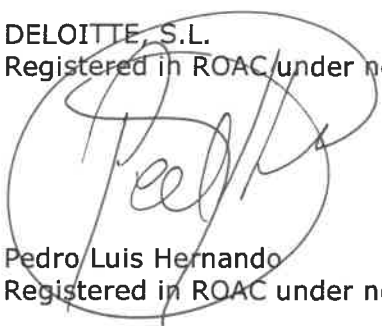
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### Engagement Period

The Annual General Meeting held on 4 May 2017 appointed us as auditors for a period of one year from the year ended 31 December 2017, i.e., for 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the 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



Pedro Luis Hernando  
Registered in ROAC under no. 21.339

28 March 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 financial statements.

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### Auditor's Responsibilities for the Audit of the 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 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

# **ACS, Actividades de Construcción y Servicios, S.A.**

Financial statements and  
Directors' Report  
for the year ended  
31 December 2018



**ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.**  
**BALANCE SHEET AT 31 DECEMBER 2018**

(Thousands of Euros)

ASSETS	Note	31/12/2018	31/12/2017	EQUITY AND LIABILITIES	Note	31/12/2018	31/12/2017
<b>NON-CURRENT ASSETS</b>		<b>6,816,021</b>	<b>5,121,523</b>	<b>EQUITY</b>	11	<b>3,507,190</b>	<b>2,802,911</b>
<b>Intangible assets</b>	5	<b>539</b>	<b>857</b>	<b>SHAREHOLDERS' EQUITY</b>		<b>3,522,617</b>	<b>2,809,720</b>
Computer software		539	857	Share Capital		157,332	157,332
<b>Tangible assets</b>	6	<b>6,299</b>	<b>6,644</b>	Share premium		897,294	897,294
Land and buildings		395	395	<b>Reserves</b>		<b>1,610,038</b>	<b>1,221,374</b>
Plant and other items of property, plant and equipment		5,904	6,249	Legal and statutory		35,287	35,287
<b>Investment property</b>	7	<b>983</b>	<b>1,012</b>	Other reserves		1,574,751	1,186,087
<b>Non-current investments in Group companies and associates</b>	9.3 and 17.2	<b>6,705,246</b>	<b>5,020,933</b>	Treasury shares and equity interests		<b>(221,505)</b>	<b>(120,775)</b>
Equity instruments		6,705,246	5,020,933	<b>Profit (loss) for the year</b>		<b>1,079,458</b>	<b>654,495</b>
<b>Non-current financial assets</b>	9.1	<b>1,935</b>	<b>4,339</b>	<b>ADJUSTMENTS FOR CHANGES IN VALUE</b>		<b>(15,427)</b>	<b>(6,809)</b>
Equity instruments		1,544	3,948				
Other financial assets		391	391	<b>NON-CURRENT LIABILITIES</b>		<b>2,812,278</b>	<b>2,047,484</b>
<b>Deferred tax assets</b>	14.5	<b>101,019</b>	<b>87,738</b>	<b>Non-current provisions</b>	12.1	<b>167,569</b>	<b>167,569</b>
				<b>Non-current liabilities</b>	13.1	<b>2,465,953</b>	<b>1,703,172</b>
				Bonds and other securities		498,161	496,690
				Bank borrowings		1,947,923	1,198,103
				Non-current liabilities relating to financial derivatives	10.1	19,869	8,379
				<b>Long term payables to subsidiaries and associates</b>	17.2	<b>43,213</b>	<b>42,515</b>
				<b>Deferred tax liabilities</b>	14.6	<b>135,543</b>	<b>134,228</b>
<b>CURRENT ASSETS</b>		<b>785,960</b>	<b>1,337,357</b>	<b>CURRENT LIABILITIES</b>		<b>1,282,513</b>	<b>1,608,485</b>
<b>Trade and other receivables</b>		<b>257,570</b>	<b>139,492</b>	<b>Current provisions</b>		<b>21,672</b>	<b>22,348</b>
Sundry accounts receivable		25,227	23,481	<b>Current liabilities</b>	13.2	<b>526,347</b>	<b>879,727</b>
Employee receivables		5	5	Bonds and other securities		432,461	607,787
Current tax assets	14.1	231,949	115,622	Bank borrowings		1,389	50,481
Other accounts receivable from public authorities	14.1	389	384	Derivative financial instruments	10.2	81,141	63,640
<b>Current investments in Group companies and associates</b>	17.2	<b>153,281</b>	<b>143,833</b>	Other financial liabilities		11,356	157,819
<b>Current financial assets</b>	9.2 and 10.2	<b>373,507</b>	<b>1,020,258</b>	<b>Current payables to subsidiaries and associates</b>	17.2	<b>712,859</b>	<b>696,316</b>
Prepayments and accrued income		1,524	1,391	<b>Trade and other payables</b>		<b>21,635</b>	<b>10,094</b>
<b>Cash and cash equivalents</b>		<b>78</b>	<b>32,383</b>	Sundry accounts payable		1,609	1,845
				Remuneration payable		12,779	6,791
				Current tax liabilities		2	-
				Other accounts payable to public authorities	14.1	7,245	1,458
<b>TOTAL ASSETS</b>		<b>7,601,981</b>	<b>6,458,880</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,601,981</b>	<b>6,458,880</b>

The accompanying Notes 1 to 21 are an integral part of the balance sheet at 31 December 2018.

## ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.

**INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2018**

(Thousands of Euros)

	Note	2018	2017
<b>Revenue</b>	16.1	<b>414.982</b>	<b>491.560</b>
<b>Procurements</b>		<b>(1.018)</b>	<b>(997)</b>
Contract work carried out by other companies		(1.018)	(997)
<b>Other operating income</b>		<b>2.581</b>	<b>11.927</b>
<b>Staff costs</b>		<b>(39.029)</b>	<b>(39.571)</b>
Wages, salaries and similar costs		(34.478)	(24.739)
Employee benefit costs	16.2	(4.551)	(14.832)
<b>Other operating expenses</b>	16.3	<b>(24.387)</b>	<b>(21.214)</b>
Outside services		(22.427)	(19.085)
Taxes other than income tax		(160)	(329)
Losses on, impairment of and change in provisions for trade receivables		(1.800)	(1.800)
<b>Depreciation and amortisation charge</b>	5, 6 and 7	<b>(1.013)</b>	<b>(61.013)</b>
<b>Impairment and profit / loss on disposal of fixed assets</b>		<b>4</b>	<b>-</b>
<b>OPERATING INCOME</b>		<b>352.120</b>	<b>380.692</b>
<b>Finance income</b>	16.4	<b>18.876</b>	<b>13.760</b>
From marketable securities and other financial instruments		18.876	13.760
<b>Finance costs</b>	16.4	<b>(89.868)</b>	<b>(127.926)</b>
On debts to subsidiaries and associates		(10.140)	(12.682)
On debts to third parties		(79.728)	(115.244)
<b>Change in fair value of financial instruments</b>	9.2, 10.2 and 16.6	<b>43.199</b>	<b>222.097</b>
<b>Exchange differences</b>	15	<b>(14)</b>	<b>16</b>
<b>Impairment and gains or losses on disposals of financial instruments</b>	9.3 and 16.5	<b>733.570</b>	<b>160.118</b>
Impairment and losses		(67.533)	157.253
Gains or losses on disposals and others		801.103	2.865
<b>FINANCIAL LOSS</b>		<b>705.763</b>	<b>268.065</b>
<b>PROFIT / (LOSS) BEFORE TAX</b>		<b>1.057.883</b>	<b>648.757</b>
Income tax	14.4	21.575	5.738
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>1.079.458</b>	<b>654.495</b>

The accompanying notes 1 to 21 are an integral part of the consolidated income statement for the year ended 31 December 2018.

**ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

(Thousands of Euros)

**A) Statement of Recognised income and Expenses for the year ended 31 December 2018**

	2018	2017
<b>A) Profit (loss) per income statement</b>	<b>1,079,458</b>	<b>654,495</b>
<b>B) Income and expenses recognised directly in equity</b>	<b>(14,057)</b>	<b>1,603</b>
I.- Measurement of financial instruments	-	-
II.- Arising from cash flow hedges	(18,743)	2,137
III.- Tax effect	4,686	(534)
<b>C) Transfers to profit or loss</b>	<b>5,439</b>	<b>5,999</b>
I.- Measurement of financial instruments	-	-
II.- Arising from cash flow hedges	7,252	7,998
III.- Tax effect	(1,813)	(1,999)
<b>Total recognised income and expense (A + B + C)</b>	<b>1,070,840</b>	<b>662,097</b>

**B) Statement of Changes in Total Equity for the year ended 31 December 2018**

	Shareholders' Equity					Adjustments for changes in value	Total Equity
	Share Capital	Share premium	Reserves	Treasury Shares and Equity Interests	Profit (loss) for the year		
<b>Balance at 01/01/2017</b>	<b>157,332</b>	<b>897,294</b>	<b>514,222</b>	<b>(120,981)</b>	<b>1,043,394</b>	<b>(14,411)</b>	<b>2,476,850</b>
<b>I. Total recognised income and expenses</b>	-	-	-	-	<b>654,495</b>	<b>7,602</b>	<b>662,097</b>
<b>II. Transactions with shareholders or owners</b>	-	-	<b>(338,536)</b>	<b>206</b>	-	-	<b>(338,330)</b>
1. Capital increases/(reductions)	3,440	-	(3,440)	-	-	-	-
2. 2016 acquisition of complementary bonus issue right	-	-	(76,498)	-	-	-	(76,498)
3. Remaining allotment rights from 2016 accounts	-	-	78,790	-	-	-	78,790
4. 2017 bonus issue rights	-	-	(141,284)	-	-	-	(141,284)
5. Treasury share and equity interest transactions (net)	(3,440)	-	(196,104)	206	-	-	(199,338)
<b>III. Other changes in equity</b>	-	-	<b>1,045,688</b>	-	<b>(1,043,394)</b>	-	<b>2,294</b>
1. Share-based payment	-	-	2,294	-	-	-	2,294
2. Other changes	-	-	1,043,394	-	(1,043,394)	-	-
<b>Balance at 31/12/2017</b>	<b>157,332</b>	<b>897,294</b>	<b>1,221,374</b>	<b>(120,775)</b>	<b>654,495</b>	<b>(6,809)</b>	<b>2,802,911</b>
<b>I. Total recognised income and expenses</b>	-	-	-	-	<b>1,079,458</b>	<b>(8,618)</b>	<b>1,070,840</b>
<b>II. Transactions with shareholders or owners</b>	-	-	<b>(267,508)</b>	<b>(100,730)</b>	-	-	<b>(368,238)</b>
1. Capital increases/(reductions)	4,006	-	(4,006)	-	-	-	-
2. 2017 acquisition of complementary bonus issue right	-	-	(98,148)	-	-	-	(98,148)
3. Remaining allotment rights from 2017 accounts	-	-	95,862	-	-	-	95,862
5. Treasury share and equity interest transactions (net)	(4,006)	-	(261,216)	(100,730)	-	-	(365,952)
<b>III. Other changes in equity</b>	-	-	<b>656,172</b>	-	<b>(654,495)</b>	-	<b>1,677</b>
1. Share-based payment	-	-	1,677	-	-	-	1,677
2. Other changes	-	-	654,495	-	(654,495)	-	-
<b>Balance at 31/12/2018</b>	<b>157,332</b>	<b>897,294</b>	<b>1,610,038</b>	<b>(221,505)</b>	<b>1,079,458</b>	<b>(15,427)</b>	<b>3,507,190</b>

The accompanying Notes 1 to 21 are an integral part of the statement of changes in total equity for the year ended 31 December 2018

## ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

(Thousands of Euros)

		2018	2017
<b>A)</b>	<b>Cash flows from operating activities (1+2+3+4)</b>	<b>295,079</b>	<b>356,752</b>
1.	<b>Profit/(Loss) before tax</b>	<b>1,057,883</b>	<b>648,757</b>
2.	<b>Adjustments to profit (loss)</b>	<b>(1,105,191)</b>	<b>(683,994)</b>
(+)	Depreciation and amortisation charge	1,013	61,013
(+/-)	Other adjustments to profit (loss) (net) (Note 2.7)	(1,106,204)	(745,007)
3.	<b>Changes in working capital</b>	<b>6,199</b>	<b>46,328</b>
4.	<b>Other cash flows from operating activities</b>	<b>336,188</b>	<b>345,661</b>
(-)	Interest payable	(88,264)	(85,109)
(+)	Dividends received	353,906	467,088
(+)	Interest received	18,876	7,061
(+/-)	Income tax payment/proceeds	51,670	(43,379)
<b>B)</b>	<b>Cash flows from investment activities (1+2)</b>	<b>(760,015)</b>	<b>1,890</b>
1.	<b>Investment payables:</b>	<b>(2,488,124)</b>	<b>(1,749)</b>
(-)	Group companies, associates and business units	(2,487,806)	(2)
(-)	Property, plant and equipment, intangible assets and property investments	(318)	(1,747)
2.	<b>Divestment:</b>	<b>1,728,109</b>	<b>3,639</b>
(+)	Group companies, associates and business units	1,318,312	774
(+)	Other financial assets	409,797	2,865
<b>C)</b>	<b>Cash flows from financing activities (1+2+3)</b>	<b>432,631</b>	<b>(326,347)</b>
1.	<b>Equity instrument proceeds (and payment)</b>	<b>(365,076)</b>	<b>(194,768)</b>
(-)	Acquisition	(365,518)	(194,768)
(+)	Disposal	442	-
2.	<b>Liability instrument proceeds (and payment)</b>	<b>941,277</b>	<b>6,155</b>
(+)	Issue	2,437,814	821,719
(-)	Refund and repayment	(1,496,537)	(815,564)
3.	<b>Dividends paid and remuneration relating to other equity instruments:</b>	<b>(143,570)</b>	<b>(137,734)</b>
<b>D)</b>	<b>Net increase (decrease) in cash and cash equivalents (A+B+C)</b>	<b>(32,305)</b>	<b>32,295</b>
<b>E)</b>	<b>Cash and cash equivalents at beginning of year</b>	<b>32,383</b>	<b>88</b>
<b>F)</b>	<b>Cash and cash equivalents at end of year (D+E)</b>	<b>78</b>	<b>32,383</b>

**CASH AND CASH EQUIVALENTS AT YEAR END**

(+)	Cash and banks	66	828
(+)	Other financial assets	12	31,555
<b>Total cash and cash equivalents at end of year</b>		<b>78</b>	<b>32,383</b>

The accompanying Notes 1 to 21 are an integral part of the statement cash flows for the year ended 31 December 2018.

# **ACS, Actividades de Construcción y Servicios, S.A.**

Notes to the financial statements for the year ended 31 December 2018

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## **1.- Company activities**

ACS, Actividades de Construcción y Servicios, S.A. was incorporated by public deed on 13 October 1942, for an indefinite period. Its registered office is at Avda. de Pío XII, 102, Madrid.

In accordance with Article 4 of its Bylaws, the Company's corporate purpose comprises:

1. The business of constructing all kinds of public and private works, as well as the provision of services, for the conservation, maintenance and operation of motorways, freeways, roads and, in general any type of public or private ways and any other type of works, and any kind of industrial, commercial and financial actions and operations which bear a direct or indirect relationship thereto.
2. The promotion, construction, restoration and sale of housing developments and all kinds of buildings intended for industrial, commercial or residential purposes, either alone or through third parties. The conservation and maintenance of works, facilities and services, whether urban or industrial.
3. The direction and execution of all manner of works, facilities, assemblies and maintenance related to production plants and lines, electric power transmission and distribution, substations, transformation, interconnection and switching centers, generation and conversion stations, electric, mechanical and track installations for railways, metros and light rail, railway, light rail and trolleybus electrification, electric dam installations, purifying plants, drinking water treatment plants, wharfs, ports, airports, docks, ships, shipyards, platforms, flotation elements, and any other elements for diagnostics, tests, security and protection, controls for interlocking, operating, metering - either directly remotely - for industries and buildings as well as those suited to the above listed, facilities, electrification, public lighting and illumination, electric installations in mines, refineries and explosive environments; and in general all manner of, facilities related to the production, transmission, distribution, upkeep, recovery and use of electric energy in all its stages and systems, as well as the operation repair, replacement and upkeep of the components thereof. Control and automation of all manner of electric networks and installations, remote controls and computer equipment required for the management, computerization and rationalization of all kinds of energy consumption.
4. The direction and execution of all manner of works, facilities, assemblies and maintenance related to the electronics of systems and networks for telephone, telegraph, signaling and S.O.S. communications, civil defense, defense and traffic, voice and data transmission and use, measurements and signals, as well as propagation, broadcast, repetition and reception of all kinds of waves, antennas, relays, radio-links, navigation aids, equipment and elements required for the execution of such works, assemblies and facilities.
5. The direction and execution of all manner of works, facilities, assemblies and maintenance related to the development, production, transformation, storage, transmission, channeling, distribution, use, metering and maintenance of any other kind of energy and energy product, and of any other energy that may be used in the future, including the supply of special equipment, elements required for installation and erection, and materials of all kinds.
6. The direction and execution of all manner of works, assemblies, facilities and maintenance of hydroelectric works to develop, store, raise, drive or distribute water, and its piping, transport and distribution, including water and gas treatment facilities.

7. The direction and execution of all manner of works, assemblies, facilities and maintenance for developing, transporting, channeling and distributing liquid and solid gases for all kinds of uses.
8. The direction and execution of all manner of works, assemblies, facilities and maintenance of ventilation, heating, air conditioning and refrigeration works and works to improve the environment, for all kinds of uses.
9. The direction and execution of all manner of works, facilities, assemblies and maintenance related to cable cars, gondola lifts, chair lifts and aerial lifts for both passenger and material transport by means of systems of cables or any type of mechanical element. The retrieval of ships and submerged elements, maritime salvages, ship breaking, naval fleet repairs, repairs and assembly of engines and mechanical elements for ships, and underwater work and sale of aquatic and sports material.
10. The manufacture, transformation, processing, handling, repair, maintenance and all manner of operations of an industrial nature for commercialization related to machinery, elements, tools, equipment, electric protection material, bare and insulated conductors, insulators, metal fittings, machines, tools and auxiliary equipment for assemblies and installation of railways, metros and light trains, electric power transmission and distribution plants, lines and networks and for telephone and telegraph communications, telecommunication, security, traffic, telematics and voice and data transmission systems; of elements and machines for the development, transformation, transmission and use of all kinds of energies and energy products; of fluid and gas lift pumps, piping and other elements, mechanisms, accessory instruments, spare parts and materials required for execution and performance of any industrial, agricultural, naval, transport, communication and mining works, facilities and assemblies and others listed in the preceding paragraphs. The production, sale and use of electricity and of other energy sources and the performance of studies relating thereto, and the production, exploration, sale and use of all manner of solid, liquid or gaseous primary energy resources, including specifically all forms and kinds of hydrocarbons and natural, liquefied or any other type of gas. Energy planning and rationalization of the use of energy and combined heat and power generation. The research, development and exploitation of communications and information technologies in all their facets.
11. The manufacture, installation, assembly, erection, supply, maintenance and commercialization of all kinds of products and elements pertaining to or derived from concrete, ceramics, resins, varnishes, paints, plastics or synthetic materials; as well as metal structures for industrial plants and buildings, bridges, towers and supports of metal or reinforced concrete or any synthetic material for all manner of communications and electric power transmission or distribution, or any other class of energy material or product related to all types of energy.
12. The manufacture, preparation, handling and finishing, diagnosis, treatment and impregnation for protection and preservation and sale of wood in general, and especially of posts used for electric, telephone and telegraph lines, impregnation or servicing for mine and gallery timbering, building supports, construction woodwork, crossties for railways and barricades, and the production and commercialization of antiseptic products and running of procedures for preserving wood, elements, tools and equipment of this nature. The acquisition, provision, application and use of paints, varnishes, coverings, plating and, in general, construction materials.
13. The management and execution of reforestation and agricultural and fishery restocking works, as well as the maintenance and improvement thereof. Landscaping, planting, revegetation, reforestation, maintenance and conservation of parks, gardens and accessory elements.
14. The manufacture, installation, distribution and use in any way of all manner of ads and advertising supports. The design, construction, fabrication, installation, maintenance, cleaning, upkeep and advertising use of all manner of street furniture and similar elements.

15. The provision of all manner of public and private services of an urban nature, including the execution of any necessary works and facilities, either by administrative concession or leasing. The treatment, recycling and recovery of all kinds of urban, urban-similar, industrial and sanitary waste; the treatment and sale of waste products, as well as the management and operation of waste treatment and transfer plants. Drafting and processing of all manner of environment-related projects.
16. The cleaning services for buildings, constructions and works of any kind, of offices, commercial premises and public places. Preparation, upkeep, maintenance, sterilization, disinfection and extermination of rodents. Cleaning, washing, ironing, sorting and transportation of clothing.
17. Furniture assemblies and installations, including tables, shelves, office material, and similar or complementary objects.
18. Transports of all kinds, especially ground transportation of passengers and merchandise, and the activities related thereto. Management and operation, as well as provision of auxiliary and complementary services, of all manner of buildings and properties or complexes for public or private use, intended for use as service areas or stations, recreational areas, and bus or intermodal transportation stations.
19. The provision of integral health care and social assistance services by qualified personnel (physicians, psychologists, educators, university graduates in nursing, social workers, physical therapists and therapists) and performance of the following tasks: home care service; tele-home care and social health care; total or partial running or management of homes, day care centers, therapeutic communities and other shelters and rehabilitation centers; transportation and accompaniment of the above-mentioned collectives; home hospitalization and medical and nursing home care; supply of oxygen therapy, gas control, electro-medicine, and associated activities.
20. Provision of auxiliary services in housing developments, urban properties, industrial facilities, roadway networks, shopping centers, official agencies and administrative departments, sports or recreational facilities, museums, fairgrounds, exhibition galleries, conference and congress halls, hospitals, conventions, inaugurations, cultural and sports centers, sporting, social and cultural events, exhibits, international conferences, annual general meetings and owners' association meetings, receptions, press conferences, teaching centers, parks, farming facilities (agricultural, livestock and fisheries), forests, rural farms, hunting reserves, recreational and entertainment areas, and in general all kinds of properties and events, by means of porters, superintendents, janitors, ushers, guards or controllers, console operators, auditorium personnel, concierges, receptionists, ticket clerks (including ticket collection), telephone operators, collectors, caretakers, first aid personnel, hostesses and similar personnel or personnel who complement their functions, consisting of the maintenance and upkeep of the premises, as well as attention and service to neighbors, occupants, visitors and/ or users, by undertaking the appropriate tasks, excluding in all cases those which the law reserves for security firms. Collection and tallying of cash, and the making, collection and charging of bills and receipts. The development, promotion, exhibition, performance, acquisition, sale and provision of services in the field of art, culture and recreation, in their different activities, forms, expressions and styles.
21. Provision of emergency, prevention, information, telephone switchboard, kitchen and dining hall services. Opening, closing and custody of keys. Turning on and off, running, supervision, maintenance and repair of engines and heating and air conditioning, electricity and lift installations, water, gas and other supply pipes, and fire protection systems. The operation of rapid communication systems with public assistance services, such as police, firemen, hospitals and medical centers. Fire fighting and prevention services in general, in woodlands, forests, rural farms, and industrial and urban facilities.
22. Integral management or operation of public or private educational or teaching centers, as well as surveillance, service, education and control of student bodies or other educational collectives.

23. Reading of water, gas and electricity meters, maintenance, repair and replacement thereof, monitoring and transcription of readouts, meter inspection, data acquisition and updating, and installment of alarms. Temperature and humidity measurements on roadways and, in general, all kinds of properties and real estate, and public and private facilities, providing all the controls required for proper upkeep and maintenance thereof, or of the goods deposited or guarded therein.
24. Handling, packing and distribution of food or consumer products; processing, flavoring and distribution of food for own consumption or supply to third parties; servicing, replacement and maintenance of equipment, machinery and dispensing machines of the mentioned products; and participation in operations with raw materials, manufactured goods and supplies.
25. Provision of ground services to passengers and aircraft. Integral logistic freight services, such as: loading, unloading, stowing and unstowing, transport, distribution, placement, sorting, warehouse control, inventory preparation, replacement, control of warehouse stocks and storage of all kinds of merchandise, excluding the activities subject to special legislation. Management and operation of places of distribution of merchandise and goods in general, and especially perishable products, such as fish exchanges and wholesale and retail markets. Reception, docking, mooring and service connections to boats.
26. Direct advertising services, postage and mailing of printed advertising and publicity material and, in general, all kinds of documents and packages, on behalf of the clients.
27. Management, operation, administration, maintenance, upkeep, refurbishment and fitting out of all kinds of concessions in the broadest sense of the word, including those that are part of the concessionary firm's shareholders and those that have any type of contractual relation to develop any of the above-listed activities.
28. The acquisition, holding, use, administration and disposal of all manner of own-account securities, excluding activities that special legislation, and in particular the legislation on the stock market, exclusively ascribes to other entities.
29. To manage and administer fixed-income and equity securities of companies not resident in Spain, through the related organization of the appropriate material and human resources in this connection.
30. Preparation of all manner of studies, reports and projects, and entering into contracts concerning the activities indicated in this article, as well as supervision, direction and consulting in the execution thereof.
31. Occupational training and recycling of people who provide the services described in the preceding points.

The activities included in the corporate purpose may be performed fully or partially indirectly by the Company through shares in other companies.

Grupo Dragados, S.A. was merged by absorption with ACS, Actividades de Construcción y Servicios, S.A. in 2003, effective for accounting purposes from 1 May 2003. This merger by absorption was subject to the tax neutrality system set forth in Chapter VIII of Title VIII of Corporation Tax Law 43/1995, of 27 December, and the applicable provisions of this law are outlined in the notes to financial statements for 2003.

The Company is the parent of a group of subsidiaries, and in accordance with the legislation in force, is required to separately prepare consolidated financial statements. The consolidated financial statements of the ACS Group for 2018 will be prepared by the directors at the Board of Directors Meeting held on 28 March 2019. The consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of ACS, Actividades de Construcción y Servicios, S.A. on 8 May 2018, and were filed at the Mercantile Registry of Madrid.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IAS/IFRS) as adopted by the European Union. Note 4.5.1 includes the consolidated information related to the main



assets and liabilities of the ACS Group's 2018 and 2017 financial statements prepared under the aforementioned international standards.

## **2.- Basis of presentation of the financial statements**

### **2.1 Regulatory Financial Reporting Framework**

The regulatory financial reporting framework applicable to the Company consists of the following:

- a) The Spanish Commercial Code and all other Spanish corporate law.
- b) The Spanish National Chart of Accounts and its industry adaptations.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and its supplementary rules.
- d) All other applicable Spanish accounting legislation.

### **2.2 Fair presentation**

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework and, accordingly, present fairly the Company's equity, financial position, results, changes in equity and cash flows for the corresponding financial year. These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes.

### **2.3 Non-obligatory accounting principles applied**

No non-obligatory accounting principles were applied. Additionally, the directors prepared these financial statements taking into account all the mandatory accounting policies and measurement bases with a material effect on these financial statements. All obligatory accounting principles were applied.

### **2.4 Key issues in relation to the measurement and estimation of uncertainty**

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment for determining possible impairment losses on certain assets (see Notes 4.2 and 4.5.1).
- The market value of certain financial instruments and derivatives (see Notes 4.5.1 and 4.5.4).
- The calculation of provisions (see Note 4.9).
- The assumptions used in the actuarial calculation of liabilities arising from pensions and other obligations to employees (see Note 4.12).
- The useful life of intangible assets and property, plant and equipment (see Notes 4.1 and 4.2).
- The recovery of deferred tax assets (see Note 14.5).
- Financial risk management (see Note 9.4).

Although these estimates were made on the basis of the best information available at 2018 year end on the facts analyzed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

#### *Going-concern principle of accounting*

The Company has a working capital deficiency amounting to EUR 496,553 thousand (see Note 9.4.2) due mainly to the recognition of a balance payable of EUR 712,859 thousand to subsidiaries of ACS, Actividades de Construcción

y Servicios, S.A. included within the ACS Group under "Current liabilities". Whether or not this balance is payable will depend on the decisions taken by the Company at the date of its maturity, since it may be renewed for periods of more than 12 months.

Based on the foregoing, and also taking into consideration the capacity of the Group companies to generate cash, with the consequent distribution of dividends to the Company, the directors believe that it will be able to adequately finance its transactions in 2019.

## 2.5 Comparative information

### *Comparative information*

As required by Spanish corporate and commercial law, in addition to the figures for 2018 for each item in the balance sheet, income statement, statement of changes in equity and statement of cash flows, the figures for the previous year are presented.

### *Changes in accounting policies*

There were no significant changes in accounting policies during 2018 from those used in 2017.

## 2.6 Correction of accounting errors

No material errors were detected in the preparation of the accompanying financial statements which gave rise to the restatement of the amounts included in the 2017 financial statements.

## 2.7 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and cash-flow statement are grouped together to aid their understanding although, to the extent that it is significant, the information has been included separately in the related notes to the financial statements.

In the statement of cash flows, the detail of items included under "Other adjustments to profit (net)" are as follows:

	Thousands of Euros	
	2018	2017
Dividend income	(381,869)	(449,312)
Interest expense	89,868	127,926
Interest income	(39,121)	(43,663)
Change in fair value of financial instruments	(43,199)	(222,097)
Impairment and gains or losses on disposals of financial instruments	(733,570)	(160,118)
Other	1,687	2,257
<b>Total</b>	<b>(1,106,204)</b>	<b>(745,007)</b>

## 3.- Distribution of profit

As in previous years, at the date of the call notice of the Annual General Meeting, the Board of Directors agreed to propose an alternative remuneration system allowing shareholders to receive bonus shares of the Company, or cash through the sale of the corresponding bonus issue rights. This option would be instrumented through an increase in paid-in capital, which will be subject to approval by the shareholders at the Annual General Meeting. In the event that it is approved, the increase in paid-in capital may be executed by the Board of Directors up to two times, in July and early the following year, coinciding with the times when dividends are customarily paid. During each capital increase, each shareholder of the Company receives a bonus issue right for each share. The free allotment rights will be traded on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. Depending on the alternative chosen,

shareholders would be able to either receive additional paid-in shares of the Company or sell their bonus issue rights on the market or sell them to the Company at a specific price calculated using the established formula. Note 11 specifies the various actions undertaken by the Directors as regards the compensation systems developed by the shareholders as well as the year-end accounting effects thereof.

The distribution of the profit for 2018 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting consists in the transfer of the total sum of the year's net income (EUR 1,079,458 thousand) to the voluntary reserves.

#### **4.- Accounting policies and measurement bases**

The principal accounting policies and measurement bases used by the Company in preparing its financial statements for 2018, in accordance with the Spanish National Chart of Accounts, were as follows:

##### **4.1 Intangible assets**

As a general rule, intangible assets are recognized initially at acquisition or production cost. They are subsequently measured at cost less any accumulated amortization and any recognized impairment losses. These assets are amortized over their useful life.

###### Computer software

The Company recognizes under "Computer Software" the costs incurred in the acquisition and development of software programs. Computer software maintenance costs are recognized with a charge to the consolidated income statement for the year in which they are incurred. Computer software is amortized on a straight-line basis over 4 years.

##### **4.2 Property plant and equipment**

Property, plant and equipment are initially recognized at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognized, as indicated below.

At year-end no indications of the impairment of the Company's property, plant and equipment were identified, and since the Company's directors estimate that the recoverable value of the assets is higher than their carrying amount, no impairment loss was recognized.

Property, plant and equipment upkeep and maintenance expenses are recognized in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Where the period required to put property, plant and equipment into operating conditions lasts more than one year, the capitalized costs include the borrowing costs incurred prior to the entry into operation of the asset and generated by the supplier or relating to loans or another specific or general type of external financing directly attributable to the acquisition or manufacturing thereof.

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

<b>Elements of property, plant and equipment</b>	<b>Years of Estimated Useful Life</b>
Plant and machinery	3 - 18
Buildings and other structures	33 - 60
Transport equipment	5 - 10
Computer hardware for information processes	1 - 5
Other items of property, plant and equipment	3 - 25

#### Impairment of intangible assets and tangible assets and property, plant and equipment

Where there are indications of depreciation in intangible assets with a defined useful life (which covers all the Company's intangible assets and tangible assets), any possible loss in value which would reduce the recoverable amount of these assets to an amount lower than its book value is estimated through impairment testing.

The recoverable amount is the greater of its fair value less costs to sell, and its value in use.

The procedure implemented by the Company's directors for performing the test consists of calculating cash flows projections based on historical experience and the best available estimates, which take into account periodically reviewed discount rates and growth rates.

Where an impairment loss subsequently reverses), the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income.

#### **4.3 Investment property**

"Investment Property" on the balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

These assets are measured in accordance with the criteria indicated in Note 4.2, in relation to property, plant and equipment.

#### **4.4 Leases**

##### Finance lease obligations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases. The Company had not entered into any finance lease agreements at 31 December 2018 or 31 December 2017.

##### Operating leases

*If the Company acts as lessor:*

Lease income and expenses from operating leases are charged to income in the year in which they are incurred.

Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the costs directly attributable to the lease, which are recognized as an expense over the lease term, applying the same method as that used to recognize lease income.

*If the Company acts as lessee:*

Expenses arising from operating leases are recognized in income on an accrual basis.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment which will be allocated to profit or loss over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

#### **4.5 Financial Instruments**

##### **4.5.1 *Financial assets***

###### *Classification*

The financial assets held by the Company are classified in the following categories:

- a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.
- b) Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Company has the positive intention and ability to hold to the date of maturity.
- c) Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.
- d) Assets held for trading: are assets purchased with the aim of selling them in the short-term or those which are included in a portfolio where there is evidence of recent actions with that aim.

###### *Initial recognition*

Financial assets are initially recognized at the fair value of the consideration given, plus any directly attributable transaction costs.

In the case of equity investments in Group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognized directly in profit or loss. In the case of associate companies, these costs are capitalized.

###### *Subsequent measurement*

Loans and receivables and held-to-maturity investments are measured at amortized cost.

Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealized gains existing at the date of measurement (including any goodwill).

The Company is the Parent of a Group of companies listed in Note 9.3. The financial statements do not reflect the effect that would arise from applying consolidation bases. The main aggregates in the ACS Group's consolidated financial statements for 2018 and 2017 prepared in accordance with Final Provision Eleven of Law 62/2003, of 30 December, applying the International Financial Reporting Standards approved by the European Union, are as follows:

	Thousands of Euros	
	2018	2017
<b>Total assets</b>	<b>34,295,358</b>	<b>31,339,475</b>
<b>Equity</b>	<b>6,055,705</b>	<b>5,164,029</b>
- Of the Parent	4,388,301	3,742,880
- Of minority interests	1,667,404	1,421,149
<b>Income</b>	<b>36,658,516</b>	<b>34,898,213</b>
<b>Profit / (loss) for the year</b>	<b>1,260,296</b>	<b>1,086,801</b>
- Of the Parent	915,021	802,010
- Of minority interests	345,275	284,791

The financial assets held for trading and financial assets at fair value with changes in the income statement are measured at fair value, and the gains and losses arising from changes in fair value are recognized in the income statement.

At least at each reporting date the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognized in the income statement.

With respect to any valuation adjustments related to trade and other receivables, in order to calculate such adjustments the Company takes into account the existence of events which might lead to a delay or a reduction in future cash flows which might be caused by the debtor's insolvency.

The Company derecognizes a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards incidental to ownership of the financial asset have been transferred, such as in the case of the outright sale of assets, factoring of trade receivables in which the Company does not retain any credit or interest rate risk, sale of financial assets under an agreement to repurchase them at their fair value or the securitization of financial assets in which the transferor does not retain any subordinated debt, provide any type of guarantee or assume any other type of risk.

However, the Company does not derecognize financial assets, and recognizes and maintains a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting, with-recourse factoring, sales of financial assets under an agreement to repurchase them at a fixed price or at the selling price plus interest and the securitization of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses.

#### **4.5.2 Financial liabilities**

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost.

Liability derivative financial instruments are measured at fair value, following the same criteria as for financial assets held for trading described in the previous section.

The Company derecognizes financial liabilities when the obligations giving rise to them cease to exist.

#### **4.5.3 Equity instruments**

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognized in equity at the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year are recognized at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognized directly in equity and in no case are they recognized in profit or loss.

#### **4.5.4 Derivative financial instruments**

The Company uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed. Basically, these risks relate to changes interest rates. The Company arranges hedging financial instruments in this connection.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e., that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

The Company uses hedges of the following types, which are accounted for as described below:

- Fair value hedges: In this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognized in profit or loss.
- Cash flow hedges: In hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognized temporarily in equity and is recognized in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognized in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains or losses reported in the income statement.

#### *Assessment*

The fair value of the various derivative financial instruments is calculated using techniques widely used in financial markets, by discounting the flows envisaged in each contract on the basis of its characteristics, such as the notional

amount and the collection and payment schedule based on spot and futures market conditions at the end of each year.

Interest rate hedges are measured by using the zero-coupon rate curve, determined by employing the Black-Scholes methodology in the case of caps and floors for the deposits and rates that are traded at any given time, to obtain the discount factors.

Equity swaps are measured as the result of the difference between the quoted price at year-end and the strike price initially agreed upon, multiplied by the number of contracts reflected in the swap.

Derivatives whose underlying asset is quoted on an organized market and are not qualified as hedges, are measured using the Black-Scholes methodology and applying market parameters such as implicit volatility and estimated dividends.

For those derivatives whose underlying asset is quoted on an organized market, but in which the derivative forms part of financing agreement and where its arrangement substitutes the underlying assets, the measurement is based on the calculation of its intrinsic value at the calculation date.

In accordance with the ICAC consultation dated 4 June 2013, in addition to the measurement indicated in the previous paragraphs, the Company measures the credit or default risk which reduces the value of the derivative, whereby the lesser value of the asset or liability derivative instrument is recognized as a change in income or in equity based on the hedge type. Therefore, when a derivative records an unrealized gain, this amount is adjusted downward according to the risk of the banking counterpart due to make payment to a Group company, whereas when there are unrealized losses, this amount is reduced on the basis of own credit risk, as it will be the Group entity that will have to pay the counterparty.

The evaluation of inherent and counterparty risk takes into account the existence of contractual guarantees (collateral), which can be used to compensate for a credit loss in the event of suspension of payments.

For impaired derivatives, the inherent credit risk that applies to adjust the market price is that of each individual company or project evaluated and not the Group or sub-group to which they belong. To do so, an internal rating is prepared for each company/project using objective parameters such as ratios, indicators, etc.

For derivatives with unrealized capital gains, since accounting standards do not provide a specific methodology that should be applied, an accepted *best practice* method has been used, which takes into account three elements to calculate the adjustment, to obtain the result by multiplying the level of exposure in the position by the probability of default and by the loss in the event of non-compliance.

The level of exposure level measures the estimated risk that a given position can reach, as a result of changes in market conditions. For this purpose, a Monte Carlo method can be applied, an exercise to simulate probability scenarios allocated exogenously, or the market value at any given time as a better reference. In the case of Group, for the sake of simplicity, this last criterion is applied. Specifically, in the case of IRS (interest rate swaps) and derivatives for exchange rate differences, the market price provided by the counterparties is used (revised by each company using its own valuation methods); while in the case of options and equity swaps, the market price of premiums on the options contracted is calculated applying a standard option valuation method that takes into account variables such as the price of the underlying asset, its volatility, time to exercise, interest rates, etc.

With regard to the likelihood of default, i.e. that the debtor counterparty will be unable to pay the contractual amounts at some point in the future, the figure used is calculated by dividing the credit differential by the anticipated loss rate. Where the loss rate is the unit minus the expected recovery rate in the event of default. The data used is obtained from estimates published by Moody's. With regard to the accuracy of the information on the credit differential, this depends on the extent to which the markets are liquid. Thus, for example,



- When a derivative has unrealized gains, to approximate the credit differential of the banking entity which would have to be paid to a Group entity, the price of its credit default swap (CDS) is used. When the term quoted does not match the specific position, it is interpolated. If the CDS market for a banking entity exists, but its liquidity is low, a corrective coefficient is applied to the market price. When the CDS market for the banking entity acting as counterparty simply does not exist, the probability of default is calculated by the correlation between the ratings published by the agencies and the historical cumulative default rates according deadlines, according to the estimates of Standard and Poor's.
- In the event that a derivative has unrealized losses, since there is not CDS market for the projects, the unlisted subsidiaries of the Group or for the holding company, the calculation of the probability of default distinguishes whether or not the company has issued listed bonds. If so, a reconciliation is performed between the credit differential of traded bonds issued by similar companies and a CDS index of companies for the different deadlines. When necessary, the deadlines are interpolated. Otherwise, a correlation between the assigned rating levels and the historical cumulative default rates is used. And for these purposes, shadow ratings prepared in-house or requested from third parties are employed.

Finally, to calculate the loss in the event of default,

- When there are unrealized capital gains in a derivative, the recovery rates for each banking entity are applied as published by Reuters or declared by the financial institution itself.
- If a derivative has unrealized losses, the recovery rate published by Moody's is used, according to the activity sector of the projects, subsidiaries or holding company. In the particular case of projects, correction factors are also applied according to the phase the project is at – the period of construction, launch (ramp-up) or consolidated exploitation.

#### **4.6 Foreign currency transactions**

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognized by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. The resulting gains or losses are recognized directly in profit or loss in the year in which they arise.

#### **4.7 Income tax**

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and except for those associated with investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is considered probable that the tax group, of which the Company is Parent, will have taxable profits in the future against which the deferred tax assets can be utilized.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognized in equity.

The recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

Since 1 January 1999, the Company has filed consolidated tax returns and is the head of the Tax Group 30/99.

#### **4.8 Income and expenses**

Revenue and expenses are recognized on an accrual basis, i.e., when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales is recognized when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the rendering of services is recognized by reference to the stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably.

Interest income from financial assets is recognized using the effective interest method and dividend income is recognized when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognized as income. Pursuant to the consultation published in Gazette No. 79 of the ICAC, dividends and finance income are to be recognized under "Revenue" in the accompanying income statement.

#### **4.9 Provisions and contingencies**

When preparing the financial statements of the Company, their respective directors made a distinction between:

- a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed in the notes to the financial statements, to the extent that they are not considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognized as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized.

#### **Provision for third-party liability**

The Company has recorded provisions for contingencies and charges relating to the estimated amount required for probable or certain third-party liability and to obligations outstanding whose exact amount cannot be determined or whose date of payment is uncertain, since it depends on compliance with certain conditions. A provision is made when the liability or obligation arises.

#### **4.10 Termination benefits**

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Accordingly, the termination benefits that are reasonably quantified are recognized as an expense in the year in which the decision to terminate is adopted. The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

#### **4.11 Environmental assets and liabilities**

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimize environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Due to their nature, the Company's activities did not have a significant environmental impact in 2018 or 2017.

#### **4.12 Pension obligations**

##### **Provisions for pensions**

The Company is required, under specific conditions, to make monthly payments to a group of employees to supplement the mandatory public social security system benefits for retirement, permanent disability, death of spouse or death of parent.

Additionally, the Company has obligations to certain members of the management team and the Board of Directors. These obligations have been formalized through several group savings insurance policies which provide benefits in the form of a lump sum.

The most relevant features of these plans are detailed in Note 12.1.1.

#### **4.13 Share-based payments**

The Company recognizes the services received as an expense when delivered, on the basis of their nature and also as an increase in equity, since the transaction is always settled with equity instruments.

The transactions are settled with equity instruments, and accordingly, the services recognized as an increase in equity are measured at the fair value of the equity instruments transferred on the concession agreement date. This fair value is calculated on the basis of the estimated market value at the date of the plan concession and is charged to profit and loss on the basis of the period in which these instruments are consolidated or are no longer revocable by the beneficiary.

The share-based payments of ACS, Actividades de Construcción y Servicios, S.A. are made to directors carrying out executive functions and to the senior executives of the ACS Group.

#### 4.14 Related-party transactions

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks, in this connection, that might give rise to significant liabilities in the future.

#### 4.15 Cash flow statement

The following terms are used in the cash flow statement, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of the Company and other activities that are not investing or financing activities.
- Investing activities. The acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

In preparing the statement of cash flows for 2018, the section on cash flows from investment activities "Divestment" includes the proceeds from the sale of Hochtief, A.G. shares to Atlantia S.p.A. net of investment in Hochtief, A.G. and of tax applicable to the Abertis transaction (see Note 9.3).

#### 5.- Intangible assets

The changes in "Intangible assets" in the balance sheet in 2018 and 2017 were as follows:

	Thousands of Euros				
	Balance at 01/01/2017	Additions / Charges for the Year	Balance at 31/12/2017	Additions / Charges for the Year	Balance at 31/12/2018
<b>Cost:</b>					
Goodwill	601,272	-	601,272	-	601,272
Computer software	4,841	-	4,841	8	4,849
<b>Total cost</b>	<b>606,113</b>	<b>-</b>	<b>606,113</b>	<b>8</b>	<b>606,121</b>
<b>Accumulated amortisation:</b>					
Goodwill	(541,145)	(60,127)	(601,272)	-	(601,272)
Computer software	(3,661)	(323)	(3,984)	(326)	(4,310)
<b>Total accumulated depreciation</b>	<b>(544,806)</b>	<b>(60,450)</b>	<b>(605,256)</b>	<b>(326)</b>	<b>(605,582)</b>
<b>Total net cost</b>	<b>61,307</b>	<b>(60,450)</b>	<b>857</b>	<b>(318)</b>	<b>539</b>

At the end of 2018, the Company had fully amortized intangible assets still in use relating to computer software whose gross carrying value amounted to EUR 3,229 thousand (EUR 3,229 thousand in 2017).

At the end of 2018 and 2017, the Company had no material firm commitments for the purchase of software.

With the change in the General Accounting Plan in 2016, there are no longer any assets with an indefinite useful life held by the Company at 31 December 2018 and 31 December 2017, and Goodwill is now considered to have a defined useful life, being amortized on a straight-line basis over 10 years, in line with the legally-established presumption.

At 31 December 2017, Goodwill was left fully amortized. The net change in the balance of “Goodwill” in 2017 was as follows:

	Thousands of Euros		
	Balance at 31/12/2016	Amortisation for year	Balance at 31/12/2017
<b>Goodwill</b>	<b>60,127</b>	(60,127)	-

The Goodwill arising from the merger with Grupo Dragados, S.A. referred to the excess of value paid on the value of the net assets at the date of acquisition and was allocated to the cash generating units in the areas of Construction (Dragados) and Industrial Services.

## 6.- Property, plant and equipment

In 2018 and 2017 under “Property, Plant and Equipment” in the balance sheet, the changes and the most significant information affecting this heading were as follows:

	Thousands of Euros					
	Balance at 01/01/2017	Additions / Charges for the Year	Balance at 31/12/2017	Additions / Charges for the Year	Disposals, cancellations or reductions	Balance at 31/12/2018
<b>Cost</b>						
Land	395	-	395	-	-	395
Tools	376	-	376	-	-	376
Transport equipment	414	-	414	100	(69)	445
Other	19,181	1,747	20,928	461	(247)	21,142
<b>Total cost</b>	<b>20,366</b>	<b>1,747</b>	<b>22,113</b>	<b>561</b>	<b>(316)</b>	<b>22,358</b>
<b>Accumulated depreciation</b>						
Tools	(376)	-	(376)	-	-	(376)
Transport equipment	(301)	(36)	(337)	(20)	69	(288)
Other	(14,258)	(498)	(14,756)	(639)	-	(15,395)
<b>Total accumulated depreciation</b>	<b>(14,935)</b>	<b>(534)</b>	<b>(15,469)</b>	<b>(659)</b>	<b>69</b>	<b>(16,059)</b>
<b>Total net cost</b>	<b>5,431</b>	<b>1,213</b>	<b>6,644</b>	<b>(98)</b>	<b>(247)</b>	<b>6,299</b>

In 2018, assets amounting to EUR 561 thousand were acquired and recorded under “Plant and other items of property, plant and equipment” on the accompanying balance sheet, of which EUR 54 thousand have been acquired from Group companies. During 2017, the Company acquired assets from Group companies in the amount of EUR 1,422 thousand, reflected under “Plant and other items of property, plant and equipment” on the accompanying balance sheet (see Note 17.1).

In 2018 and 2017 the Company did not capitalize any finance costs under “Property, Plant and Equipment”.

At 2018 and 2017 year end, the Company did not hold any property, plant or equipment outside Spain. Neither were there any significant property, plant and equipment firm purchase commitments at 31 December 2018 and 2017.

At the end of 2018, the Company had fully depreciated items of property, plant and equipment still in use (none relating to construction), amounting to EUR 11,902 thousand (EUR 10,683 thousand in 2017).

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2018 and 2017 year-end these risks were adequately covered.

**7.- Investment property**

The investment included under "Investment property" in the accompanying balance sheet relates to fully occupied offices rented to Group companies.

During 2018 and 2017, there has been no rental income from investment property owned by the Company (see Note 8).

The amortization recognized in 2018 amounted to EUR 28 thousand (EUR 29 thousand in 2017).

At the end of 2018 and 2017, there were no restrictions on carrying out new property investments, on the collection of income therefrom or in connection with the proceeds to be obtained from a possible disposal.

**8.- Leases****Operating leases**

During 2018 and 2017, the Company held no operating lease agreements (as lessor).

No contingent rent was paid in 2018 or in 2017.

The most significant operating leases held by the Company as lessee at the end of 2018 and 2017 related to the office rent to ACS Group companies. The annual minimum lease payments, without taking into account increases due to CPI reviews or common expenses or related taxes amount to EUR 2,407 thousand (EUR 2,407 thousand in 2017) (see Note 17.1). In addition, some smaller value lease agreements of EUR 76 thousand are held (EUR 75 thousand in 2017). Of this amount, EUR 30 thousand (EUR 30 thousand in 2017) was charged to various ACS Group companies in relation to subleases in 2018. In general the lease agreements mature annually and are renewable except in the case of termination by the parties thereto.

**9.- Financial assets (non-current and current)****9.1 Non-current financial assets**

The balance of "Non-current financial assets" at the end of 2018 and 2017 is as follows:

Categories	Thousands of Euros					
	Non-Current Financial Instruments					
	Equity instruments		Credits, derivatives, and others		Total	
	2018	2017	2018	2017	2018	2017
Assets held for trading	1,544	3,948	-	-	1,544	3,948
Other financial assets	-	-	391	391	391	391
<b>Total</b>	<b>1,544</b>	<b>3,948</b>	<b>391</b>	<b>391</b>	<b>1,935</b>	<b>4,339</b>

The equity instruments valued at cost reflect minority interests of the Company.

The difference between their face value and fair value is not material.

## 9.2 Current financial assets

The detail of “Current financial assets” at the end of 2018 and 2017 is as follows:

Classes  Categories	Thousands of Euros					
	Current Financial Instruments					
	Equity instruments		Credits, derivatives, and others		Total	
	2018	2017	2018	2017	2018	2017
Current financial assets	68,250	-	263,911	497,845	332,161	497,845
Short-term loans to companies	-	-	-	135,181	-	135,181
Derivatives (Note 10.2)	-	-	41,346	387,232	41,346	387,232
<b>Total</b>	<b>68,250</b>	<b>-</b>	<b>305,257</b>	<b>1,020,258</b>	<b>373,507</b>	<b>1,20,258</b>

### Equity instruments:

The Group’s most significant equity instruments relate to Masmovil. In previous years, this instead related to Iberdrola which was the subject of a prepaid forward sale in 2016.

#### *Masmovil*

At 8 November 2018, the Note the Company held with Masmovil, convertible into EUR 24.0 million company shares (after the split in the number of Masmovil shares approved on 13 December 2018), was sold, and the valuation of the loan at amortized cost and the derivative relating to Masmovil are recorded separately throughout 2018 until the date of sale, recognized in the balance sheet at 31 December 2017 for EUR 135,181 thousand under “Short-term loans to companies” initially at amortized cost at 31 December 2017 and for an amount of EUR 286,739 thousand recognized in the “Derivatives” heading, for the value of the conversion into Masmovil shares, respectively. For the above sale, net of costs, a total amount of EUR 406,533 thousand and 3.5 million company shares were received. Moreover, the valuation of the derivative throughout 2018 as a result of the rise in Masmovil’s market price up until the date of sale of the Note has recorded a profit in the amount of EUR 41,768 thousand under “Change in fair value of financial instruments” on the accompanying income statement. At year end, the Company has recorded its holding in Masmovil at its market price amounting to EUR 68,250 thousand under the Equity instruments section of the “Current financial assets” heading on the accompanying balance sheet with changes in the income statement (see Note 16.6).

#### *Iberdrola*

At the end of March 2016 the Company executed the prepaid forward sale of its entire holding in Iberdrola, S.A., totaling 89,983,799 shares representing 1.4% of the share capital of that company, at an average price of EUR 6.02 per share. All economic rights (including dividends) were transferred as a result of this transaction, and there is no future cash flow for the Company in relation to the investment sold. In this manner, all cash flow associated with the shares is directly attributable to the financial entity that made the forward purchase of the shares, although the legal ownership of the shares remains unchanged. There was a substantial change following the formal communication made to bondholders on 7 April 2016 to report that the Company’s method of payment to the bondholders will be exclusively in cash, reinforcing the transfer position of the assets and therefore of the risks and benefits thereof. In accordance with the terms of the issues, the Company had the ability to choose the form of bond payment, whether in cash or by delivery in shares. Given the mentioned communication, the second option will no longer be contemplated.

In relation to the amount received, at 31 December 2018, EUR 235,836 thousand (EUR 485,894 thousand at 31 December 2017) are held as collateral in guarantee of the transaction and are recorded under “Current financial instruments - Credits, derivatives and others” on the accompanying balance sheet. The Company is further bound to refrain from buying shares of Iberdrola during the “prepaid forward sale” period (associated with the bonds’ maturity

dates), which reinforces the asset transfer position and therefore the risks and benefits thereof. They are reflected as short-term instruments given that the bondholders may exercise their right to exercise early maturity at any time in accordance with the American option governing the bonds.

At the same time, and in order to mitigate the risk of an increase in the debt associated with the bonds that may arise as a result of the increase in Iberdrola's market value, the Company issued call options on an equal number of Iberdrola shares for an exercise price equal to the sale price of the option described above (EUR 6.02 per share), in order to eliminate the market risk associated with the exchangeable bonds issued during 2013 and 2014. The transaction was recorded in the books as a derivative financial asset for the amount of the premium paid at the time of purchase amounting to EUR 70.8 million. Since it is an American-style option that depends on the moment the bondholders exercise the maturity, it stands recorded as a current or short-term asset. The subsequent valuation of the derivative is made with changes in the income statement.

The amount of the collateral is used to guarantee the bond issues exchangeable for Iberdrola shares made through ACS Actividades Finance 2 B.V. (see Note 10.2) which at 31 December 2018 relates only to the issue maturing in March 2019 in the amount of EUR 235,300 thousand (since the October 2018 issue through ACS Actividades Finance, B.V. was totally amortized at maturity) and which gives the bondholder the option of early cancellation under certain conditions. During 2018, bondholders of bonds with final maturity in October 2018 requested the exchange of these bonds for an amount of EUR 244,900 thousand paid on maturity in the amount of EUR 5,300 thousand; accordingly, the bond was paid with the amount of the collateral plus the year of the derivative contracted, without any significant impact on the profit and loss statement. Following period close and up until the approval of these financial statements, the amount of EUR 235,300 thousand in bonds issued by ACS Actividades Finance 2 B.V. has been retired, reducing the corresponding capital by EUR 235,836 thousand.

This heading also includes the amounts contributed to cover certain derivatives arranged by the Group amounting to EUR 25,362 thousand at 31 December 2018 (31 December 2017: EUR 1,638 thousand) (see Note 11). These amounts earn interest at market rates and their availability is restricted depending on the compliance with the coverage ratios.

In the case of the options purchased, derivative financial instruments are held as assets on the balance sheet for an amount of EUR 41,346 thousand (EUR 80,859 thousand at 31 December 2017). These options have the same duration as the bond issues that are explained above.

In 2018 and 2017, the Company did not receive any dividends from Iberdrola, S.A. on transferring the significant part of the risks and benefits of the shares and all the shares having been lent to Statement Structure, S.L. and Funding Statement, S.L.

#### **Credits, derivatives and others:**

This heading mainly includes the balances at 31 December 2018 relating to current deposits at various financial institutions which accrue interest based on Euribor, of which EUR 261,198 thousand (EUR 487,530 thousand in 2017) are restricted in their use (see Note 10.2). In this last amount, it should be noted that EUR 235,836 thousand (EUR 485,894 thousand at 31 December 2017) as collateral in guarantee of the transaction for the sale and brought forward collection of Iberdrola shares.

#### **Impairment losses:**

During 2018, the Company recorded a loss from the marking to market of the Masmovil investment in the amount of EUR 1,750 thousand. The Company did not recognize any reduction for impairment in its current financial instruments in 2017.



### **9.3 Non-current investments in Group Companies and associates**

#### **Equity instruments:**

The most significant information relating to Group companies and associates at the end of 2018 is as follows:

Company Name	Registered Office	% of Ownership		Thousands of Euros								
		Direct	Indirect	Share Capital	Profit		Other Equity	Total Equity	Dividends (Note 16.1)	Carrying amount		
					From Operations	Net				Cost	Impairment Loss Recognised in the Year	Accumulated Impairment Losses
<b>GROUP</b>												
<b>CONSTRUCTION</b>												
Dragados, S.A.	Avda. Camino de Santiago, 50 - Madrid	100.00%	-	362,819	87,714	83,559	677,268	1,123,646	30,235	742,679	-	-
Comunidades Gestionadas, S.A. (COGESA)	Orense, 34 - Madrid	-	100.00%	63,105	8,127	5,664	170,367	239,136	-	-	-	-
Hochtief, A.G.	Essen - Alemania	50.41%	-	180,856	772,667	541,096	1,184,040	1,905,992	155,879	2,381,419	-	-
<b>INDUSTRIAL SERVICES</b>												
ACS Servicios, Comunicaciones y Energía, S.L.	Cardenal Marcelo Spínola, 10 - Madrid	100.00%	-	75,328	(4,665)	194,244	135,022	404,594	172,115	215,677	-	-
<b>SERVICES</b>												
ACS Servicios y Concesiones, S.L.	Avda. Camino de Santiago, 50 - Madrid	100.00%	-	386,249	24,968	25,112	217,423	628,784	23,008	476,880	-	-
<b>OTHER</b>												
Residencial Monte Carmelo, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 - Madrid	99.99%	-	1,000	387	(65,574)	838,330	771,756	-	2,554,672	(67,574)	(1,782,916)
Cariátide, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 - Madrid	100.00%	-	1,821	-	41	19,741	21,602	-	163,165	41	(141,563)
Funding Statement, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 - Madrid	100.00%	-	60	(15)	(77)	13,372	13,355	-	60	-	-
ACS Actividades Finance, B.V. (Inversiones en valores mobiliarios)	Amsterdam. Holanda	100.00%	-	90	(164)	260	3,663	4,014	-	5,150	-	-
Statement Structure, S. A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 - Madrid	100.00%	-	60	(11)	(133)	7,116	7,044	-	60	-	-
ACS Actividades Finance 2, B.V. (Inversiones en valores mobiliarios)	Amsterdam. Holanda	100.00%	-	90	(111)	50	2,219	2,358	-	2,100	-	-
Binding Statement, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 - Madrid	100.00%	-	60	-	-	(3)	57	-	60	-	(3)
<b>ASSOCIATES</b>												
Abertis Holdco, S.A.	Paseo de la Castellana, 39 - Madrid	30.00%	19.99%	100,060	(636)	(28,304)	6,658,735	6,730,491	-	2,087,806	-	-
<b>Total</b>									<b>381,237</b>	<b>8,629,728</b>	<b>(67,533)</b>	<b>(1,924,482)</b>

The most significant information relating to Group companies and associates at the end of 2017 was as follows:

Company Name	Registered Office	% of Ownership		Thousands of Euros								
		Direct	Indirect	Share Capital	Profit		Other Equity	Total Equity	Dividends (Note 16.1)	Carrying amount		
					From Operations	Net				Cost	Impairment Loss Recognised in the Year	Accumulated Impairment Losses
<b>GROUP</b>												
<b>CONSTRUCTION</b>												
Dragados, S.A.	Avda. Camino de Santiago, 50 - Madrid	100.00%	-	200,819	130,274	119,113	350,390	670,322	50,205	342,679	-	-
Comunidades Gestionadas, S.A. (COGESA)	Orense, 34 – Madrid	-	100.00%	63,105	4,920	3,205	171,970	238,280	-	-	-	-
Hochtief, A.G.	Essen – Alemania	71.72%	-	164,608	764,887	420,735	1,202,772	1,788,115	119,907	3,083,991	-	-
<b>INDUSTRIAL SERVICES</b>												
ACS Servicios, Comunicaciones y Energía, S.L.	Cardenal Marcelo Spínola, 10 - Madrid	100.00%	-	75,159	284,956	276,804	29,136	381,099	246,522	215,677	-	-
<b>SERVICES</b>												
ACS Servicios y Concesiones, S.L.	Avda. Camino de Santiago, 50 - Madrid	100.00%	-	386,249	26,095	30,759	209,672	626,680	31,685	476,880	-	-
<b>OTHER</b>												
Residencial Monte Carmelo, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 – Madrid	99.99%	-	1,000	(82)	5,024	866,693	872,717	-	2,588,059	159,087	(1,715,342)
Cariátide, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 – Madrid	100.00%	-	1,821	(2)	36	19,704	21,562	-	163,165	36	(141,603)
Funding Statement, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 – Madrid	100.00%	-	60	(20)	(237)	13,609	13,432	-	60	-	-
ACS Actividades Finance, B.V. (Inversiones en valores mobiliarios)	Amsterdam. Holanda	100.00%	-	90	(114)	694	2,969	3,753	-	5,150	-	-
Statement Structure, S. A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 – Madrid	100.00%	-	60	(4)	(243)	7,351	7,168	-	60	-	-
ACS Actividades Finance 2, B.V. (Inversiones en valores mobiliarios)	Amsterdam. Holanda	100.00%	-	90	(101)	72	2,154	2,316	-	2,100	-	-
Binding Statement, S.A. (Inversiones en valores mobiliarios)	Avda. Pío XII, 102 – Madrid	100.00%	-	60	-	-	(3)	57	-	60	-	(3)
<b>ASSOCIATES</b>												
TP Ferro Concesionaria, S.A. (Concesiones)	Ctra. de Llers a Hostalets GIP-5107 p.k. 1, s/n 17730 Llers (Girona) España	16.53%	33.47%	(*)	(*)	(*)	(*)	(*)		8,504	-	(8,504)
<b>Total</b>									<b>448,319</b>	<b>6,886,385</b>	<b>159,123</b>	<b>(1,865,452)</b>

(\*) No accounts are available as the company is in the hands of the bankruptcy administrator as the liquidation phase has begun.

The changes in the equity instruments of Group companies and associates in 2018 were as follows:

Item	(Thousands of Euros)									
	Beginning balance			Cost		Provision		Ending balance		
	Cost	Provision	Net Balance	Additions	Disposals	Disposals	Reversals	Cost	Provision	Net Balance
Group	6,877,881	(1,856,948)	5,020,933	400,000	(735,959)	(67,574)	40	6,541,922	(1,924,482)	4,617,440
Associates	8,504	(8,504)	-	2,087,806	(8,504)	-	8,504	2,087,806	-	2,087,806
<b>Total</b>	<b>6,886,385</b>	<b>(1,865,452)</b>	<b>5,020,933</b>	<b>2,487,806</b>	<b>(744,463)</b>	<b>(67,574)</b>	<b>8,544</b>	<b>8,629,728</b>	<b>(1,924,482)</b>	<b>6,705,246</b>

The changes in the equity instruments of Group companies and associates in 2017 were as follows:

Item	(Thousands of Euros)									
	Beginning balance			Cost		Provision		Ending balance		
	Cost	Provision	Net Balance	Additions	Disposals	Disposals	Reversals	Cost	Provision	Net Balance
Group	7,727,763	(2,106,083)	5,621,680	-	(849,882)	90,012	159,123	6,877,881	(1,856,948)	5,020,933
Associates	8,504	(8,504)	-	-	-	-	-	8,504	(8,504)	-
<b>Total</b>	<b>7,736,267</b>	<b>(2,114,587)</b>	<b>5,621,680</b>	<b>-</b>	<b>(849,882)</b>	<b>90,012</b>	<b>159,123</b>	<b>6,886,385</b>	<b>(1,865,452)</b>	<b>5,020,933</b>

The most significant changes in 2018 and 2017 were as follows:

### **2018 Financial Year**

#### **- Abertis Holdco, S.A.**

On 23 March 2018, the Company reached an agreement with Hochtief, A.G. and Atlantia, S.p.A. to carry out a joint investment operation in Abertis Infraestructuras, S.A., through a takeover bid launched by Hochtief, at a price of EUR 18.36 per Abertis Infraestructuras, S.A. share (which already included the adjustment for the dividend paid by Abertis in 2018) in cash.

On 14 May 2018, the National Securities Market Commission (CNMV) announced the result of the voluntary takeover bid for shares in Abertis Infraestructuras, S.A. made by Hochtief. This was accepted by shareholders holding 780,317,294 shares, representing 78.79% of the shares to which the Offer was addressed or 85.60% less the 78,815,937 shares of Abertis treasury stock, which were not tendered. The offer was therefore successful, as the condition of acceptance of the same had been met for shares representing 50% of the share capital of Abertis plus one share as well as the other conditions to which the offer had been subject.

In view of the result of the takeover bid, the formulation by Hochtief of a sustained share purchase order led to the purchase of up to 98.7% of shares in Abertis Infraestructuras, S.A. shares representing the entire share capital of Abertis were delisted on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges on the 6 August 2018.

On 29 October 2018, agreements were finalized with Atlantia through the incorporation of an SPV (Abertis Holdco, S.A.) with a capital contribution of EUR 6,909 million in which Atlantia holds a 50% ownership interest plus one share, ACS holds a 30% ownership interest and Hochtief a 20% ownership interest minus one share. A second company was also incorporated (Abertis Participaciones S.A.U.), 100% owned by Abertis Holdco, S.A., into which Hochtief has transferred its entire stake in Abertis share capital (standing at 98.7%) after the implementation of the takeover bid for the amount of EUR 16,520 million. The SPV Abertis Holdco, S.A. obtained bank borrowings of EUR 9,824 million for this transaction.

The same agreement also included the acquisition by Atlantia of a significant ownership interest of 16,852,994 shares in Hochtief. As a result, on the same day of 29 October, the Company sold to Atlantia 10,506,287 Hochtief shares at EUR 143.04 per share, receiving a total of EUR 1,503 million; the Company simultaneously formally

entered into a capital increase agreement in Hochtief for the emission of 6,346,707 shares at the same price of EUR 143.04 per share, representing a contribution of EUR 908 million paid by Atlantia, who obtained ownership of the new shares. It has been considered, in relation to the above newly subscribed shares and under the above agreement that the transfer of the risks and benefits of these subscribed shares occurred at the moment the agreement was signed. This transaction represented earnings for the Company of EUR 801 million, recognized under "Impairment and gains or losses on disposals of financial instruments" on the accompanying income statement. Following this transaction, ACS, Actividades de Construcción y Servicios, S.A.'s current stake in Hochtief is 50.4% while its stake in Atlantia is 23.9%.

- **Hochtief, A.G.**

At 31 December 2018 the Company held a total of 35,611,834 shares representing 50.41% of the share capital of that company (46,118,122 shares representing 71.72% of its share capital at 31 December 2017). The reduction in the ownership interest results from the agreements reached with Hochtief and Atlantia regarding the investment in Abertis mentioned in the previous section.

As regards the Company's ownership interest in Hochtief, A.G., a company listed on the Frankfurt Stock Exchange, because of the development in its listed price, which stood at EUR 127.30 per share in the last quarter of 2018 and EUR 117.70 per share at 31 December 2018, amounts that significantly higher than the Company's carrying value for the ownership interest which stands at EUR 66.87 per share, and although the Company has not considered the possibility of the existence of indications of impairment in the individual books of account referred to in this report, with the aim of determining the recoverability of the Goodwill in its Consolidated Annual Financial Statements, the ACS Group has prepared an impairment test.

To prepare the goodwill impairment testing, the Company carried out a valuation of Hochtief through the sum of the parts of its main business units: Hochtief Asia Pacific (Cimic) and Hochtief America. For the purpose of analyzing the measurement of Hochtief goodwill assigned to the business carried out by Hochtief Asia Pacific, the Company based its valuation on the internal projections for 2019 to 2021 made according to the Hochtief business plan for this line of business and estimates for 2022 and 2023, discounting the free cash flows at a weighted average cost of capital (WACC) of 8.3%, and using a perpetual growth rate of 2.5%. The weighted average cost of capital (WACC) represents a profitability premium on the long-term rate of interest (10-year Australian Bond) published by Bloomberg at 31 December 2018 and standing at 594 basis points. Similarly, the perpetual growth rate used corresponds to the estimated CPI for Australia for the year 2023 as published by the IMF in its World Economic Outlook report for October 2018.

Internal forecasts for the Asia Pacific business are based on historical data and internal estimates by Hochtief through to December 2021, and for the 2022-2023 period use has been made of estimates in line with the projections for previous years.

In the case of the sensitivity analysis for the impairment test relating to the goodwill assigned to Hochtief's Asia Pacific business, the most relevant aspects are that the goodwill test withstands a discount rate of up to approximately 11.6%, representing a range of approximately 330 basis points, as well as a perpetuity growth rate of minus 1%. Also, it would bear an annual drop in cash flows of approximately 48% with regard to the projected flows.

In addition, this value has been compared to the average target price determined by CIMIC analysts according to Bloomberg at 31 December 2018 and to CIMIC's market price at that same date, concluding that there is no deterioration in either of the scenarios analyzed.

In the case of Hochtief Americas business unit, the following basic assumptions have been made:

- Forecasts used for the division for 5 years, until 2021, according to the Hochtief Business Plan and estimates for the 2022-2023 period.

- Perpetual growth rate of 2.2%, according to the IMF estimate with regard to the CPI for the US in 2023, based on the World Economic Outlook report published by the IMF in October 2018.
- A discount rate of 8.1% has also been assumed.

As for the sensitivity analysis of the impairment test for the goodwill assigned to Hochtief Americas, the relevant aspects are that the goodwill test, even assuming a cash position of 0 euros, supports a discount rate of up to approximately 33%, representing a span of 2,488 basis points, and would withstand an annual fall in cash flows of more than 80% of the projections.

All the assumptions listed above are supported by the historical financial information for the different units, allowing for future growth lower than those obtained in previous years. Additionally, it should be noted that the main variables of fiscal year 2018 did not differ significantly from those used in the impairment test of the previous year, and in some cases were higher than the forecasts.

Furthermore, this value has been compared with the analysts' valuations for said division of Hochtief, and it has been concluded that it does not represent any impairment in any of the scenarios analyzed. Similarly, it should be mentioned that the stock market price at 31 December 2018 (EUR 117.70 per share) is significantly higher than the carrying cost; moreover, in 2018, in the context of the Abertis transaction, shares were sold at a price of EUR 143.04 per share.

Management considers that the impairment test is within reasonable sensitivity ranges for variations in its key assumptions allowing it to conclude that there is an absence of any impairment in the investment.

#### - **Dragados**

During 2018, the Company undertook a capital increase in Dragados, S.A. to strengthen the capital structure in the amount of EUR 400 million between capital and share premium.

#### - **Residencial Monte Carmelo, S.A.U.**

During 2018, the distribution of a dividend by Residencial Monte Carmelo, S.A.U. against the share premium in the amount of EUR 33,387 thousand, recorded as a lower value of the investment.

As a result of the changes to equity from this ownership interest, the Company has recorded a provision for additional portfolio impairment in the amount of EUR 67,574 thousand under "Impairment and gains or losses on the disposal of financial instruments - Impairments and losses" on the accompanying income statement.

### **2017 Financial Year**

#### - **Residencial Monte Carmelo, S.A.U., Mayor Assets, S.L. and Novovilla, S.L.**

On 6 July 2017, the merger by absorption was formalized of the companies Residencial Monte Carmelo, S.A.U., the absorbing company, with Mayor Assets, S.L. y Novovilla, S.L. (both pertaining to the Company), the absorbed companies, whereby the absorbed companies were dissolved and extinguished, without liquidation, effective for accounting purposes from 1 January 2017. In accordance with the equity arising from the merger, the Company reversed the related provisions for the asset portfolio amounting to EUR 159,087 thousand at 31 December 2017 (see Note 16.5).

During 2017, the distribution was actioned of a dividend by Residencial Monte Carmelo, S.A.U. against the share premium in the amount of EUR 758,987 thousand, recorded as a lower value of the investment.

- **ACS Telefonía Móvil, S.L.**

The dissolution and liquidation of the company ACS Telefonía Móvil, S.L. was formalized by deed on 21 November 2017, the sole shareholder ACS, Actividades de Construcción y Servicios, S.A. awarding itself the resulting assets and liabilities, among which the amount of EUR 774 thousand as "Cash and cash equivalents" is noteworthy. In the absence of any company debts or creditors except the sole shareholder itself, debtor in the amount of EUR 2,843 thousand resulting from the difference between the asset account balances under "Investments in group companies and associates (Actividades de Construcción y Servicios, S.A.) and in liabilities under "Payables to subsidiaries and associates (Actividades de Construcción y Servicios, S.A.) for the liquidated balance of ACS Telefonía Móvil, S.L. which were extinguished in confusion with the balances relating to the Company.

- **Hochtief, A.G.**

At 31 December 2017, the Company held a total of 46,118,122 shares representing 71.72% of the share capital of that company.

As regards the Company's ownership interest in Hochtief, A.G., a company listed on the Frankfurt Stock Exchange, because of the development in its listed price, which stood at EUR 147.19 per share in the last quarter of 2017 and EUR 147.60 per share at 31 December 2017, amounts that significantly higher than the Company's carrying value for the ownership interest which stands at EUR 66.87 per share, and although the Company did not consider the possibility of the existence of indications of impairment in the individual books of account referred to in this report, with the aim of determining the recoverability of the Goodwill in its Consolidated Annual Financial Statements, the ACS Group prepared an impairment test.

For goodwill impairment testing, the Company carried out a valuation of Hochtief through the sum of the parts of its main business units: Hochtief Asia Pacific (Cimic) and Hochtief America. For the purpose of analyzing the measurement of Hochtief goodwill assigned to the business carried out by Hochtief Asia Pacific, the Company based its valuation on the internal projections for 2018 to 2020 made according to the Hochtief business plan for this line of business and the estimates for 2021 and 2022, discounting the free cash flows at a weighted average cost of capital (WACC) of 9.5%, and using a perpetual growth rate of 2.5%. The weighted average cost of capital (WACC) represents a profitability premium on the long-term rate of interest (10-year Australian Bond) published by Bloomberg at 31 December 2017 and standing at 690 basis points. Similarly, the perpetual growth rate used corresponded to the estimated CPI for Australia for the year 2022 as published by the IMF in its World Economic Outlook report for October 2017.

Internal forecasts for the Asia Pacific business were based on historical data and internal estimates by Hochtief through to December 2020, and for the 2021-2022 period use has been made of estimates in line with the projections for previous years.

In the case of the sensitivity analysis for the impairment test relating to the goodwill assigned to Hochtief's Asia Pacific business, the most relevant aspects were that the goodwill test withstands a discount rate of up to approximately 14%, representing a range of approximately 450 basis points, as well as a perpetuity growth rate of minus 3%. Also, it would bore an annual drop in cash flows of approximately 55% with regard to the projected flows.

In addition, this value was compared to the average target price determined by CIMIC analysts according to Bloomberg at 31 December 2017 and to CIMIC's market price at that same date, concluding that there is no deterioration in either of the scenarios analyzed.

In the case of Hochtief Americas business unit, the following basic assumptions were made:

- Forecasts used for the division for 5 years, until 2020, according to the Hochtief Business Plan and estimates for the 2021-2022 period.
- Perpetual growth rate of 2.3%, according to the IMF estimate with regard to the CPI for the US in 2022, based on the World Economic Outlook report published by the IMF in October 2017.
- A discount rate of 9.6% has also been assumed.

As for the sensitivity analysis of the impairment test for the goodwill assigned to Hochtief Americas, the relevant aspects were that the goodwill test, even assuming a cash position of 0 euros, supports a discount rate of up to approximately 50%, representing a span of 4,040 basis points, and would withstand an annual fall in cash flows of more than 80% of the projections.

The above assumptions are each supported by historical financial data for the various units and project future growth trends that are lower than those obtained in previous years. Additionally, it should be noted that the main variables of fiscal year 2017 did not differ significantly from those used in the impairment test of the previous year, and in some cases were higher than the forecasts.

Furthermore, this value has been compared with the analysts' valuations for said division of Hochtief, and it has been concluded that it did not represent any impairment in any of the scenarios analyzed. Also, the stock market price at 31 December 2017 (EUR 147.60 per share) was significantly higher than the average carrying cost.

Management considered that the impairment test was within reasonable sensitivity ranges for variations in its key assumptions, allowing it to conclude that there is an absence of any impairment in the investment.

Of the interest in Group companies, associates and financial assets held for sale, the following are directly or indirectly listed on the stock exchange:

Company	Euros per share			
	Average Fourth Quarter of 2018	2018 Year end	Average Fourth Quarter of 2017	2017 Year end
Iberdrola, S.A.	6.548	7.018	6.627	6.460
Hochtief, A.G.	127.30	117.70	147.19	147.60

At 31 December 2018 and 2017, the Company had no firm purchase or sale commitments.

#### **9.4 Information on the nature and level of risk of financial instruments**

##### **9.4.1 Qualitative information**

The Company's financial risk management is centralized in its General Corporate management, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. The main financial risks that affect the Company are as follows:

a) *Credit risk:*

In general, the Company holds its assets from financial derivatives, other financial assets and current financial assets at financial institutions with high credit ratings.

b) *Liquidity risk:*

The ACS Group has a policy for the proactive management of liquidity risk through the comprehensive monitoring of cash and anticipation of the expiration of financial operations. The Group also manages liquidity risk through the efficient management of investments and working capital and the arrangement of lines of long-term financing.



The Company, for the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, has the cash and cash equivalents disclosed in its balance sheet, together with the credit and financing facilities detailed in Note 13.

c) *Market risk (includes interest rate, foreign currency and price risks):*

Both the Company's cash and its bank borrowings are exposed to interest rate risk, which could have an adverse effect on financial profit or loss and cash flows. Therefore, Company policy is to ensure that, at any given time, to the extent possible its non-current bank borrowings are tied to fixed interest rates.

In view of the Company's activities, it is not exposed to foreign currency risks. With regard to exposure to price fluctuations, these arise from exposure to the Iberdrola, S.A. listed price through its direct ownership in respect of the bonds exchangeable for shares in Iberdrola, from the market price of Masmovil through its ownership interest in that listed company and from ACS, Actividades de Construcción y Servicios, S.A. itself, due to both its treasury stock and to the derivatives related to the share option plans.

#### **9.4.2 Quantitative information**

a) *Interest rate risk:*

At 31 December 2018, the Company had a syndicated loan for a nominal amount of EUR 2,150 million divided in two tranches: Tranche A for the loan in the amount of EUR 1,200 million (EUR 1,200 million at 31 December 2017) and Tranche B, not drawn down at 31 December 2018, for a liquidity line in the amount of EUR 950 million (EUR 950 million at 31 December 2017), with a single maturity on 13 June 2022. The Company has entered into a derivative contract (interest rate swap) to hedge the interest rate risk of Tranche A. This cover is for 100% of the total nominal amount. It further issued fixed-interest rate bonds amounting to EUR 500 million which mature in 2020.

This cash flow hedge is detailed in Note 10.1.

b) *Liquidity risk:*

ACS, Actividades de Construcción y Servicios, S.A. has obtained a long-term credit rating of BBB and a short-term rating of A-2 ("investment grade"), with a stable outlook by the agency Standard & Poor's.

With regard to liquidity risk, in 2018 the ACS Group increased non-bank financing including the renewal of the Euro Commercial Paper (ECP) program for a maximum amount of EUR 750 million, which was registered with the Irish Stock Exchange and which is expected to be renewed in 2019, in addition to the formalization by ACS, Actividades de Construcción y Servicios, S.A. of a Negotiable European Commercial Paper (NEU CP) program for a maximum amount of EUR 300 million, with an maximum issue period of 365 days (see Note 13.2).

In addition, at 31 December 2018 the Company records EUR 261,198 thousand (EUR 487,530 thousand at 31 December 2017) in short-term investments with restricted availability (see Note 9.2). This amount includes an amount of EUR 235,836 thousand (EUR 485,894 thousand at 31 December 2017) that at 31 December 2018 is recorded as collateral in guarantee of transaction for the sale and brought forward collection of Iberdrola shares under the "Current financial assets" heading on the accompanying balance sheet. At 31 December 2018 and 2017 both the Company and the ACS Group were in compliance with the ratios required by their loan contracts.

The Company has a working capital deficiency amounting to EUR 496,553 thousand, primarily as result of its maintaining a balance of EUR 712,859 thousand in its current liabilities in debt to Group companies. The other bank borrowings relate mainly to short-term credit facilities and loans for an amount of EUR 1,389 thousand that the Company understands will be renewed at their maturity, some of which having been rolled over in 2018 for the long term (see Note 2.4).

The Company's directors have prepared these financial statements based on the going-concern principle, since they do not have any doubts with regard to the Company's and its Group's ability to refinance or restructure their financial debt, as well as to generate resources for their operations, through the disposal of non-strategic assets and recourse to the capital markets, enabling them to adequately finance their transactions in 2019.

## 10.- Derivative financial instruments

### 10.1 Hedging financial instruments

The Company uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed. Within the framework of these transactions, the Company has arranged hedging instruments consisting of an interest rate swap for the cash flows related to the syndicated loan (see Note 13.1) and other loans agreed during the year.

	Classification	Type	Amount Contracted (Thousands of Euros)	Maturity Date	Inefficient Portion Recognised in the Income Statement (Thousands of Euros)	Fair Value (Thousands of Euros)	
						2018	2017
Interest rate swap	Interest rate hedge	Floating to fixed	1,200,000	20/11/2021	-	(15,441)	(8,379)
Interest rate swap	Interest rate hedge	Floating to fixed	400,000	26/06/2023	-	(2,489)	-
Interest rate swap	Interest rate hedge	Floating to fixed	100,000	28/06/2023	-	(588)	-
Interest rate swap	Interest rate hedge	Floating to fixed	100,000	19/07/2023	-	(596)	-
Interest rate swap	Interest rate hedge	Floating to fixed	125,000	30/06/2023	-	(755)	-
			<b>1,925,000</b>		-	<b>(19,869)</b>	<b>(8,379)</b>

The Company has complied with all the requirements detailed in Note 4.5.4 on measurement bases in order to be able to classify the financial instruments as hedges; therefore all changes are recognized in the Company's equity. During the past fiscal year, although these instruments were formally designated as hedges, it was determined that their coverage is only partially effective because as a result of the amount contracted being EUR 450 million higher than the hedged amount of Tranche A of the syndicated loan there was an excess of coverage that was not effective and was cancelled in 2017. This led to the recognition on the 2017 income statement of a loss of EUR 21 thousand under "Changes in fair value of financial instruments".

### 10.2 Derivative Instruments which are not hedges

The assets and liabilities relating to financial instruments not qualified as hedges include the fair value of the derivatives which do not meet hedging conditions.

The most noteworthy income in this section relates to a conversion option on the fixed nominal amount of the Note for EUR 200 million that the Company had with Masmovil to be exchanged for a equally fixed number of 24 million shares (after the split) in Masmovil Ibercom S.A. This was an American-style option which, as it depended on the moment in which the Company exercised the conversion, it was recorded as a current asset at 31 December 2017. The subsequent valuation of the derivative was made with changes in the income statement. The value of the derivative amounted to EUR 286,739 thousand at 31 December 2017 (see Note 9.2) is recognized under "Current financial assets - Derivatives" in the balance sheet. During 2018 until its conversion it entailed a profit of EUR 41,768 thousand (EUR 286,739 in 2017) recorded under "Changes in the fair value of financial instruments" on the accompanying income statement (see Note 16.6).

Of note with regard to the loans received by the Company from ACS Actividades Finance 2 B.V., related to the issues of bonds exchangeable for shares in Iberdrola, S.A. for a nominal amount of EUR 235,300 thousand (see Note 9.2) is the existence of embedded derivatives in the issuance thereof, recognized at fair value with changes to their value in the income statement. The fair value of the derivatives related to the issue of convertible Iberdrola bonds amounted to EUR 39,459 thousand at 31 December 2018 (EUR 59,266 thousand at 31 December 2017) and was recognized under "Short-term financial instrument liabilities" in the accompanying consolidated statement of financial position.

With regard to this financing, in order for the Company to have been able to guarantee the possible future monetization of the Iberdrola, S.A. shares, and ensure their share options can be settled in cash, a future sales agreement was entered into in the first quarter of 2016 for the purchase of 52.9 million American-style purchase options falling due in the last quarter of 2018 on Iberdrola shares and a further 37.09 million American-style call options on Iberdrola shares falling due in the first quarter of 2019. These American purchase options were entered into at a reference value of EUR 6.02 per exercisable share, at the option of ACS, in the period between the signing of the prepaid forward and the maturity of each of the bond issues (fourth quarter of 2018 and first quarter of 2019) on an equal number of Iberdrola shares. This derivative was entered into with the aim of mitigating the risk of an increase in the debt associated with the bonds that might derive from a rise in the market price of Iberdrola shares. Doing so further strengthened the position for the transfer of all risks and benefits associated with Iberdrola's share price. The derivative financial asset in the amount of the first disbursement was recognized as a current asset at the moment of its contracting in an amount of EUR 70.8 million. Subsequent valuation of the derivative is recorded by means of changes in the income statement that are fully offset in the income statement by the value of the embedded derivatives of the bonds. The market value of the American-style purchase options on Iberdrola shares at 31 December 2018 amounted to EUR 41,346 thousand (EUR 80,858 thousand at 31 December 2017), recorded under "Current financial assets" on the accompanying balance sheet. The global effect on the income statement of all these derivatives in relation to the issues of convertible Iberdrola bonds in fiscal year 2018 has not been significant; nor was it in 2017.

In the second half of 2018, a new ACS share option plan was implemented which, similarly to the previous ones, has been outsourced to a financial institution. The financial institution holds these shares for delivery to executives who are beneficiaries of the plan in accordance with the conditions included therein and at the exercise price of the option (EUR 37.17 per share). These derivatives do not fulfill the accounting requirements to qualify for hedge accounting, therefore the changes in fair value of these instruments are recorded under "Changes in fair value of financial instruments" on the accompanying income statement. Pursuant to the contracts with the financing entities, the latter do not assume any risk arising from the decline of the share price below the call price. The fair value of the derivatives relating to ACS shares at 31 December 2018 amounts to EUR 41,682 thousand (EUR 15,261 thousand negative market value at 31 December 2017). The change in the fair value of these instruments is recognized under "Changes in fair value of financial instruments" on the accompanying income statement (see Note 16.6) and amounts to EUR 15,303 thousand (EUR 32,193 thousand in 2017).

The amounts provided as guarantees corresponding to the above-mentioned derivatives contracted by ACS, Actividades de Construcción y Servicios, S.A. amounted to EUR 261,198 thousand at 31 December 2018 (EUR 487,530 thousand at 31 December 2017) recorded under "Current financial investments" on the accompanying balance sheet. These amounts are remunerated at market rates, and there are restrictions on their availability.

The Company has recognized both its own credit risk and that of the counterparty based on each derivative, whereby the impact on the income statement was a profit of EUR 420 thousand (EUR 59 thousand loss in 2017) for all derivative instruments measured at fair value through profit or loss, in accordance with the ICAC consultation of 4 June 2013.

## 11.- Equity

At 31 December 2018 and 2017, the share capital of ACS, Actividades de Construcción y Servicios, S.A. amounted to EUR 157,332 thousand and was represented by 314,664,594 fully subscribed and paid shares of EUR 0.5 par value each, all with the same voting and dividend rights.

At 31 December 2018, the only shareholder with an ownership interest of over 10% in the share capital of the Company is Inversiones Vesán, S.A. with 12.52%.

The shareholders at the Annual General Meeting held on 29 May 2014 authorized, in accordance with that set forth in article 297 of the Consolidated Text of the Spanish Corporate Enterprises Act –Texto Refundido de la Ley de Sociedades de Capital–, the Company's Board of Directors to increase share capital by up to 50% at the date of this resolution on one or several occasions, and at the date, in the amount and under the conditions freely agreed in each case, within five years following 29 May 2014, and without having previously submitted a proposal to the shareholders at the Annual General Meeting. Accordingly, the Board of Directors may set all of the terms and conditions under which capital is increased as well as the features of the shares, investors and markets at which the increases are aimed and the issue procedure, freely offer the unsubscribed shares in the preferential subscription period; and in the event of incomplete subscription, cancel the capital increase or increase capital solely by the amount of the subscribed shares.

The share capital increase or increases may be carried out by issuing new shares, either ordinary, without voting rights, preference or redeemable shares. The new shares shall be payable by means of monetary contributions equal to the par value of the shares and any share premium which may be agreed.

Pursuant to that set forth in article 506 of the Consolidated Text of the Spanish Companies Law, the Board of Directors was expressly empowered to exclude preferential subscription rights in full or in part in relation to all or some of the issues agreed under the scope of this authorization, where it is in the interest of the company and as long as the par value of the shares to be issued plus any share premium agreed is equal to the fair value of the Company's shares based on a report to be drawn up at the Board's request, by an independent auditor other than the Company's auditor, which is appointed for this purpose by the Spanish Mercantile Registry on any occasion on which the power to exclude preferential subscription rights is exercised.

Additionally, the Company's Board of Directors is authorized to request the listing or delisting of any shares issued, in Spanish or foreign organized secondary markets.

Similarly, at the Annual General Meeting held on 29 May 2014, the shareholders resolved to delegate to the Board of Directors the power to issue fixed income securities, either simple and exchangeable or convertible, and warrants on the Company's, or other companies', newly issued shares or shares in circulation, as follows:

1. Securities which the Board of Directors is empowered to issue may be debt securities, bonds, notes, and other fixed-income securities of a similar nature, both simple and, in the case of debt securities and bonds, exchangeable for Company shares or shares in any other of the Group companies or other companies and/or convertible into Company shares or share in other companies, as well as warrants over newly issued shares or Company shares outstanding or shares outstanding of other companies.
2. Securities may be issued on one or more occasions within five years following the date of this agreement.
3. The total amount of the issue or issues of securities agreed under this delegation, whatever their nature, plus the total number of shares listed by the Company, plus the total number of shares listed by the Company and outstanding at the issue date may not exceed a maximum limit of EUR 3 billion.
4. By virtue of the authorization granted herein to the Board of Directors, the Board will establish, for every issue, without limitation, the following: its amount, within the aforementioned limit; the location, date, and currency of the issue, establishing its equivalent in euros, if applicable; its denomination, be they bonds or debt securities, subordinate or not, warrants, or any other lawful security; the interest rate, dates, and procedures for payment; in the case of the warrants, the amount and mode of calculation, if applicable, of

the premium and the exercise price; its nature as perpetual or amortizable; and, in the latter case, the term of amortization and the maturity dates; the type of repayment, premiums, and batches; guarantees; the form of representation, be they titles or annotations in account; right of preferential subscription, if applicable, and subscription system; applicable legislation; the request for admission to trading in official or non-official secondary markets, organized or not, national or foreign, of the securities issued; the appointment, if relevant, of the Commissioner and the approval of the rules governing the legal relationships between the Company and the Syndicate of the holders of the securities issued.

On the basis of these authorizations granted by the shareholders of the Annual General Meeting held on 29 May 2014 of ACS, Actividades de Construcción y Servicios, S.A., of note is the formalization in subsequent years, within the framework of its debt issue Program called the Euro Medium Term Note Program (EMTN Program), of the issue of Notes in the eurozone amounting to EUR 500 million, and admitted for trading on the Irish Stock Exchange. Similarly, the renewal of the Euro Commercial Paper program until maturity for a maximum amount of EUR 750 million (see Note 9.4.2) and the issuing of the Negotiable European Commercial Paper (NEU CP) for a maximum amount of EUR 300 million over a maximum period of 365 days, under Bank of France regulation (see Note 9.4.2).

The Shareholders of ACS, Actividades de Construcción y Servicios, S.A. in the Annual General Meeting held on 8 May 2018 resolved, among other matters, to make a share capital increase and reduction. In this regard, the Company resolved to increase the share capital to a maximum of EUR 441 million with a charge to voluntary reserves, whereby the first capital increase may not exceed EUR 299 million and the second increase may not exceed EUR 142 million, indistinctly granting the Executive Commission, the Chairman of the Board of Directors and the Director Secretary the power to execute the resolution. The capital increase is expected to take place, in the case of the first increase, within the three months following the date of the Annual General Meeting held in 2018 and, in the case of the second increase, within the first quarter of 2019, thereby coinciding with the dates on which ACS, Actividades de Construcción y Servicios, S.A. has traditionally distributed the final dividend and the interim dividend. With regard to the capital reduction, the resolution adopted by the Board consists of reducing share capital through the redemption of the Company's treasury shares for a nominal amount equal to the nominal amount for which the aforementioned capital increase was effectively carried out. The Board of Directors is granted the power to execute these resolutions, on one or two occasions, simultaneously with each of the share capital increases.

In this regard, on 11 June 2018, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first capital increase charged to reserves, approved at the Ordinary General Shareholders' Meeting held on 8 May 2018, so that once the process has concluded in July 2018, the definitive number of ordinary shares, with a par value of EUR 0.5 each, to be issued is 5,218,936, and the nominal value of the related capital increase is EUR 2,609,468, with a simultaneous capital reduction of EUR 2,609,468, through the retirement of 5,218,936 treasury shares charged to free reserves, for the same amount of EUR 2,609,468 of the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law, corresponding to the par value of the retired shares.

The Shareholders of ACS, Actividades de Construcción y Servicios, S.A. in the Annual General Meeting held on 4 May 2017 resolved, among other matters, to make a share capital increase and reduction. In this regard, the Company resolved to increase the share capital to a maximum of EUR 382 million with a charge to voluntary reserves, whereby the first capital increase may not exceed EUR 240 million and the second increase may not exceed EUR 142 million, indistinctly granting the Executive Commission, the Chairman of the Board of Directors and the Director Secretary the power to execute the resolution. The capital increase is expected to take place, in the case of the first increase, within the three months following the date of the Annual General Meeting held in 2017 and, in the case of the second increase, within the first quarter of 2018, thereby coinciding with the dates on which ACS, Actividades de Construcción y Servicios, S.A. has traditionally distributed the final dividend and the interim dividend. With regard to the capital reduction, the resolution adopted by the Board consists of reducing share capital through the redemption of the Company's treasury shares for a nominal amount equal to the nominal amount for which the aforementioned capital increase was effectively carried out. The Board of Directors is granted the power to execute these resolutions, on one or two occasions, simultaneously with each of the share capital increases.

In this regard, on 14 June 2017, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first capital increase charged to reserves, approved at the Ordinary General Shareholders' Meeting held on 4 May 2017,

so that once the process has concluded, the definitive number of ordinary shares, with a par value of EUR 0.5 each, to be issued is 4,344,623, and the nominal value of the related capital increase is EUR 2,172,311.50, with a simultaneous capital reduction of EUR 2,172,311.50, through the retirement of 4,344,623 treasury shares charged to free reserves, for the same amount of EUR 2,172,311.50 of the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law, corresponding to the par value of the retired shares.

On 9 January 2018, ACS Actividades de Construcción y Servicios, S.A., using the powers delegated by resolution of the Company's Shareholders in the Annual General Meeting held on 4 May 2017 and with the approval of the Board of Directors dated 19 December 2017, agreed to execute the second capital increase charged against reserves for a maximum of EUR 142 million (equivalent to approximately EUR 0.45 per share), which was approved by the aforementioned General Meeting for the purpose of allowing the shareholders to opt between continuing to receive remuneration in cash or in Company shares. Following the period of negotiation of the bonus shares corresponding to the second increase in paid-up capital, the irrevocable commitment to purchase the rights assumed by ACS was accepted by holders of 32.15% of the bonus rights, which has determined the acquisition by ACS of the rights for a total gross amount of EUR 45,423 thousand. The definitive number issued of ordinary shares, each with a nominal value of EUR 0.5, amounts to 2,793,785, with the nominal amount of the corresponding capital increase amounting to EUR 1,396,892.50. Simultaneously a reduction took place in capital for EUR 1,396,892.50 by means of the redemption of 2,793,785 treasury shares and an allocation of an equal amount of EUR 1,396,892.50 to the reserve provided for in paragraph c) of Article 335 of the Spanish Capital Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.5).

ACS, Actividades de Construcción y Servicios, S.A. recorded in the "Other financial liabilities" heading of the accompanying balance sheet at 31 December 2017 the maximum amount of potential liability at that date of 100% of the fair value of the approved dividend, which amounted to EUR 141,284 thousand, though the final amount was EUR 45,423 thousand. For that reason, EUR 95,862 thousand was reversed in the Company's equity in 2018.

On 9 January 2017, ACS Actividades de Construcción y Servicios, S.A., using the powers delegated by resolution of the Company's Shareholders in the Annual General Meeting held on 5 May 2016 and with the approval of the Board of Directors dated 22 December 2016, agreed to execute the second capital increase charged against reserves for a maximum of EUR 142 million (equivalent to approximately EUR 0.45 per share), which was approved by the aforementioned General Meeting for the purpose of allowing the shareholders to opt between continuing to receive remuneration in cash or in Company shares. Following the period of negotiation of the bonus shares corresponding to the second increase in paid-up capital, the irrevocable commitment to purchase the rights assumed by ACS was accepted by holders of 43.73% of the bonus rights, which has determined the acquisition by ACS of the rights for a total gross amount of EUR 61,236 thousand. The definitive number issued of ordinary shares, each with a nominal value of EUR 0.5, amounts to 2,534,969, with the nominal amount of the corresponding capital increase amounting to EUR 1,267,484.50. Simultaneously a reduction took place in capital for EUR 1,267,484.50 by means of the redemption of 2,534,969 treasury shares and an allocation of an equal amount of EUR 1,267,484.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.5).

The shares representing the capital of ACS, Actividades de Construcción y Servicios, S.A. are admitted for trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are listed on the continuous market.

### **11.1 Legal reserve**

Under Article 274 of the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At the end of 2018 and 2017 the balance of this reserve had reached the legally required minimum.

**11.2 Reserve for retired capital**

As a result of the retirement of the Parent's shares carried out in 2018 and 2017, in accordance with that established in Article 335.c) of the Consolidated Text of the Spanish Capital Companies Act, ACS, Actividades de Construcción y Servicios, S.A. arranged a restricted reserve for retired capital amounting to EUR 25,039 thousand (EUR 21,033 thousand at 31 December 2017), which is equivalent to the nominal value of the reduced share capital.

**11.3 Capitalization reserve**

The Company records on its balance sheet at 31 December 2018 a Capitalization Reserve account pursuant to the terms of Article 25 of Law 27/2014 on Corporate Income Tax in an amount of EUR 55,000 thousand (EUR 27,000 thousand at 31 December 2017) in relation to the calculation of that tax corresponding to fiscal year 2015 (see Note 14).

**11.4 Limitations on the distribution of dividends**

In Note 3 the interim dividend paid and the proposed distribution of profit is indicated, and included the allocation made to a restricted reserve in relation to goodwill and retired capital.

**11.5 Treasury shares**

The changes in "Treasury shares" in 2018 and 2017 were as follows:

	2018		2017	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
<b>At beginning of the year</b>	<b>3,756,460</b>	<b>120,775</b>	<b>4,677,422</b>	<b>120,981</b>
Purchases	10,711,385	366,394	5,958,630	199,337
Depreciation and sales	(8,024,854)	(265,664)	(6,879,592)	(199,543)
<b>At end of the year</b>	<b>6,442,991</b>	<b>221,505</b>	<b>3,756,460</b>	<b>120,775</b>

On 9 January 2018, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 4 May 2017, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,793,785, the corresponding nominal amount of the increase in capital being EUR 1,396,892.50. On the same date a capital reduction of ACS, Actividades de Construcción y Servicios, S.A. was executed for the amount of EUR 1,396,892.50 by means of the redemption of 2,793,785 treasury shares and an allocation of an equal amount of EUR 1,396,892.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.1).

On 11 June 2018, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 8 May 2018, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 5,218,936, the corresponding nominal amount of the increase in capital being EUR 2,609,468. On the same date a capital reduction of ACS, Actividades de Construcción y Servicios, S.A. was executed for the amount of EUR 2,609,468 by means of the redemption of 5,218,936 treasury shares and an allocation of an equal amount of EUR 2,609,468 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.1).

On 9 January 2017, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 5 May 2016, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,534,969, the corresponding nominal amount of the increase in capital being EUR 1,267,484.50. On the same date a capital reduction of ACS, Actividades de Construcción y Servicios, S.A. was executed for the amount of EUR 1,267,484.50 by means of the

redemption of 2,534,969 treasury shares and an allocation of an equal amount of EUR 1,267,484.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.1).

On 14th June 2017, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 4 May 2017, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 4,344,623, the corresponding nominal amount of the increase in capital being EUR 2,172,311.50. On the same date a capital reduction of ACS, Actividades de Construcción y Servicios, S.A. was executed for the amount of EUR 2,172,311.50 by means of the redemption of 4,344,623 treasury shares and an allocation of an equal amount of EUR 2,172,311.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.1).

On 9 January 2019, ACS, Actividades de Construcción y Servicios, S.A. made the decision to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 8 May 2018, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,965,728, the corresponding nominal amount of the increase in capital being EUR 1,482,864. On the same date, a reduction in the capital of ACS, Actividades de Construcción y Servicios, S.A. in the amount of EUR 1,482,864 was implemented, by way of the redemption of 2,965,728 treasury shares and an allocation of an equal amount of EUR 1,482,864 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, governing the nominal value of the redeemed shares.

At 31 December 2018, the Company held 6,442,991 treasury shares, with a par value of EUR 0.5 each, representing 2.0% of the share capital, with a net book value of EUR 221,505 thousand recognized under "Treasury shares" under equity in the balance sheet. At 31 December 2017, the Group held 3,756,460 treasury shares, with a par value of EUR 0.5 each, representing 1.2% of the share capital, with a carrying amount of EUR 120,775 thousand which was recognized under "Treasury shares" under equity in the balance sheet.

## 12.- Provisions and contingent liabilities

### 12.1 Non-current provisions

The detail of provisions in the balance sheet at the end of 2018, and of the main changes therein during the year are as follows:

Non-current provisions	Thousands of Euros			
	2018			
	Balance at 01/01/2018	Endowments	Reversals and applications	Balance at 31/12/2018
Liabilities and taxes	167,569	-	-	167,569
<b>Total non-current provisions</b>	<b>167,569</b>	<b>-</b>	<b>-</b>	<b>167,569</b>

Non-current provisions	Thousands of Euros			
	2017			
	Balance at 01/01/2017	Endowments	Reversals and applications	Balance at 31/12/2017
Liabilities and taxes	192,567	4,602	(29,600)	167,569
<b>Total non-current provisions</b>	<b>192,567</b>	<b>4,602</b>	<b>(29,600)</b>	<b>167,569</b>



The Company recognizes provisions for the estimated amount required for probable or certain third-party liability, and outstanding obligations the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfillment of certain conditions. These liabilities include, inter alia, the provision relating to the uncertain amount of tax obligations which depend on the final decisions handed down in relation thereto. This provision is recorded when the related liability matures.

The reversal in 2017 mainly related to the effect of the application of a small part of the extraordinary provision made in 2016 in the amount of EUR 155,000 thousand to obtain an estimate of the impact of the Spanish Royal Decree Law 3/2016 of 2 December on deferred tax assets and liabilities from impairments to subsidiary and investee companies for all the entities in the Tax Group. It was applied due to circumstances in 2017 establishing a more certain use of said deferred tax assets (see Note 14.4).

### 12.1.1 Employee benefit obligations

#### Long-term defined benefit obligations

The detail of the current value of the post-employment commitments assumed by the Company at the end of 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Retired employees	155,042	161,702
Serving employees	6,366	6,864

These defined benefit pension obligations are funded by group life insurance policies, in which investments have been assigned whose flows coincide in time and amount with the payment schedule of the insured benefits.

The current value of the obligations was determined by qualified independent actuaries, and the actuarial assumptions used are as follows:

Actuarial Assumptions	2018	2017
Technical interest rate (*)	0.98%	1.09%
Mortality tables	PERM/F – 2000 P	PERM/F – 2000 P
Annual rate of increase of maximum social security pension benefit	2%	2%
Annual wage increase	2.35%	2.35%
Retirement age	65 years of age	65 years of age

(\*) The technical interest rate ranged from 5.93% to 0.98% since the externalisation of the plan.

The pension obligations have given rise to an income of EUR 536 thousand under “Staff costs” in the income statement for 2018 (EUR 21 thousand in 2017). The contributions made by the Company to the insurance policy in relation to defined contribution and defined benefit pension plans amounted to EUR 3,376 thousand in 2018 (EUR 2,950 thousand in 2017), which are also recognized under “Staff costs” in the income statement.

At 31 December 2018 and 2017, there were no outstanding accrued contributions.

### 12.1.2 Share-based payment

As described in the measurement bases (see Note 4.13) in connection with the share-based employee remuneration plan, the Company recognizes, on the one hand, the services received as an expense, based on their nature, at the date on which they are obtained and, on the other, the related increase in equity upon settling the share-based payment plan.

### Share option plans

On 25 July 2018, the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A., in application of the authorizations granted by the Company's General Shareholders' Meetings held on 28 April 2015 and 4 May 2017, and after a favorable report from the Remuneration Committee held on the same date, agreed to establish an ACS, Actividades de Construcción y Servicios, S.A. Share Option Plan ("2018 Share Option Plan") to be governed as follows:

- a. The number of shares subject to the option plan will be a maximum of 12,586,580 shares, of EUR 0.50 par value each.
- b. The beneficiaries are 271 executives with options from 500,000 to 200,000.
- c. The acquisition price will be EUR 37.170 per share. This price will change by the corresponding amount should a dilution take place.
- d. The options will be exercised in two equal parts, cumulative if the beneficiary so wishes, during the fourth and fifth years after July 1, 2018, inclusive. However, in the case of an employee's contract being terminated for reasons without just cause or if it is the beneficiary's own will, the options may be proportionally exercised six months following the event in question in the cases of death, retirement, early retirement or permanent disability, and after 30 days in all other cases.
- e. For the execution by each beneficiary of the options that have been assigned to them, the operational, financial and sustainability-related performance of the ACS Group during the period 2018-2020 must exceed the average parameters of the main comparable companies on the market and, for this purpose, a selection has been made of the listed companies that compete in the same markets as the ACS Group (Europe, the Americas and Australia) with capitalization greater than EUR 1,000 million and whose international sales exceed 15% ACS, Actividades de Construcción y Servicios, S.A. of their total revenue. In order for the options to be exercisable by the beneficiaries, the following two criteria are established, one of which is financial in character and the other non-financial, and with different weightings:
  1. A financial criterion with a weighting of 85%: ROE: The objective set is to exceed average profitability in the sector over the period 2018-2020. If the ACS figure exceeds the sector average, 100% of the options foreseen will be allocated. If the ACS figure does not exceed the 25th percentile of the sector sample, 50% of the options will be allocated, with intermediate positions weighted proportionally between 50% and 85%.
  2. A non-financial criterion with a weighting of 15%: Sustainability: The objective set is to exceed for at least two years the 60th percentile in the world ranking table produced annually by RobecoSAM for the DowJones Sustainability Index.
- f. Tax withholdings and the taxes payable as a result of exercising the share options will be borne exclusively by the beneficiaries.

During 2017 the share option plan of ACS, Actividades de Construcción y Servicios, S.A. (Option Plan 2014) expired for a maximum of 6,293,291 shares with a purchase price of EUR 33.8992 per share. All the pending options in the 2014 Share Options Plan were executed during fiscal year 2017 with an average weighted market price to beneficiaries of EUR 33.9851 per share. The remuneration for directors under this plan amounted to EUR 78 thousand, while the remuneration for executives amounted to EUR 179 thousand in year 2017. Cover for the plan was provided through a financing entity (see Note 10.2).

The stock market price of ACS shares at 31 December 2018 and 31 December 2017 was EUR 33.830 and EUR 32.620 per share respectively.

### **12.2 Contingencies**

#### **Environment**

In view of the business activity carried on by the Company (see Note 1), it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and

results. Therefore, no specific disclosures relating to environmental issues are included in these notes to financial statements

### CO<sub>2</sub> emissions

Given the activities carried on by the Company, there are no matters relating to CO<sub>2</sub> emissions affecting the Company.

## 13.- Non-current and current payables

### 13.1 Non-current financial liabilities

The balance of "Non-current payables" at the end of 2018 and 2017 is as follows:

Categories \ Classes	Thousands of Euros							
	Non-Current Financial Instruments							
	Bonds and other securities		Bank borrowings		Derivatives and Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Accounts payable	498,161	496,690	1,947,923	1,198,103	-	-	2,446,084	1,694,793
Derivatives (Note 10.1)	-	-	-	-	19,869	8,379	19,869	8,379
<b>Total</b>	<b>498,161</b>	<b>496,690</b>	<b>1,947,923</b>	<b>1,198,103</b>	<b>19,869</b>	<b>8,379</b>	<b>2,465,953</b>	<b>1,703,172</b>

The detail, by maturity, of "Non-current payables - Accounts payable" is as follows:

	Thousands of Euros				
	2018				
	2020	2021	2022	2023 and forward	Total
Bonds and other securities	498,161	-	-	-	498,161
Bank borrowings	654	-	1,198,687	748,582	1,947,923

	Thousands of Euros				
	2017				
	2019	2020	2021	2022 and forward	Total
Bonds and other securities	-	496,690	-	-	496,690
Bank borrowings	102	9	-	1,197,992	1,198,103

During the second half of 2017, ACS, Actividades de Construcción y Servicios, S.A. retired EUR 200 million from the bank syndicate loan, leaving a total amount of EUR 2,150,000 thousand, divided into two tranches (with the tranche A loan amounting to EUR 1,200,000 thousand and the tranche B liquidity facility amounting to EUR 950,000 thousand) with a maturity in 13 June 2022 and a significant reduction in margins as a consequence of the rating obtained by the company in fiscal year 2017. Due to the importance of the contractual change in the syndicated loan, ACS, Actividades de Construcción y Servicios, S.A., wrote down the previous loan for accounting purposes and recognized a new loan which recorded an additional financial expense of EUR 22,462 thousand in fiscal year 2017, corresponding to the initial debt issue costs which were pending repayment. The reasons for this consideration of a material change were essentially qualitative in nature as, on obtaining the S&P rating, all guarantees were canceled,

all covenants removed, and the bank entity “pool” was modified in addition to extending the maturity and canceling part of the loan.

On 16 March 2015, under its debt issue Program called the Euro Medium Term Note Program (EMTN Program) and approved by the Central Bank of Ireland, ACS, Actividades de Construcción y Servicios, S.A. performed a Notes issue in the Eurozone for the amount of EUR 500 million. The issue matures at five years with an annual coupon of 2.875% and an issue price of 99.428%. The Notes are expected to be admitted to trading on the Irish Stock Exchange. The list price of the Note at 31 December 2018 was 103.13% (105.65% at 31 December 2017). The Company retired, on their maturity in October 2018, shares in the amount of EUR 113 million which had also been admitted to trading on the Irish Stock Exchange. At 31 December 2018, costs directly attributable to the above-mentioned financing in an amount of EUR 1,931 thousand (EUR 3,402 thousand at 31 December 2017) are pending posting to results. Similarly in 2018, it renewed the above debt issue Program called the Euro Medium Term Note Program (EMTN Program), which was approved by the Central Bank of Ireland.

After year end, the Company carried out an issue under the EMTN Program in the amount of EUR 120 million, maturing on 8 March 2021, with an annual coupon of 0.375% and an issue price of 99.936%. The Bonds have been admitted to trading on the Irish Stock Exchange.

At 31 December 2018, the Company had granted long-term credit policies of up to EUR 1,505,000 thousand (EUR 1,410,000 thousand at 31 December 2017) that at 31 December 2018 had been drawn down in the amount of EUR 874 thousand (EUR 113 thousand drawn down at 31 December 2017).

Regarding the acquisition of Abertis during the current fiscal year, the Company has formalized loan agreements with various entities in the amount of EUR 750 million with different maturities in 2023 (between 28 June and 12 December 2023) with market interest rates tied to Euribor.

### 13.2 Current financial liabilities

The balance of “Current payables” at the end of 2018 and 2017 is as follows:

Classes  Categories	Thousands of Euros							
	Current Financial Instruments							
	Bonds and other securities		Bank borrowings		Derivatives and Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Accounts payable	432,461	607,787	1,389	50,481	11,356	157,819	445,206	816,087
Derivatives (Note 10.1 and 10.2)	-	-	-	-	81,141	63,640	81,141	63,640
<b>Total</b>	<b>432,461</b>	<b>607,787</b>	<b>1,389</b>	<b>50,481</b>	<b>92,497</b>	<b>221,459</b>	<b>526,347</b>	<b>879,727</b>

In fiscal year 2018, ACS, Actividades de Construcción y Servicios, S.A. renewed the Euro Commercial Paper (ECP) program for a maximum amount of EUR 750 million, which was registered in the Irish Stock Exchange. Santander Global Banking & Markets is the arranger of program implementation, an entity that also acts as designated broker (dealer). Through this program, ACS may issue Notes maturing between 1 and 364 days, thus enabling the diversification of financing channels in the capital market. At 31 December 2018, the issues outstanding under the aforementioned programs amounted to EUR 283,050 thousand (EUR 415,495 thousand at 31 December 2017).

Furthermore, in 2018, ACS, Actividades de Construcción y Servicios, S.A. formalized the Negotiable European Commercial Paper (NEU CP) program for a maximum amount of EUR 300 million, with a maximum issue term of 365 days, under the regulation of the Bank of France (pursuant to article D.213-2 of the French Monetary and Financial Code) listed on the Luxembourg Stock Exchange. At 31 December 2018, the outstanding issues under this program amounted to EUR 138,700 thousand (EUR 68,000 thousand at 31 December 2017).

At 31 December 2018, the Company had short term credit facilities with a limit of EUR 34,780 thousand (EUR 139,651 thousand in 2017), of which EUR 6 thousand had been drawn down at 31 December 2018 (EUR 2 thousand in 2017).

At 31 December 2017, "Other financial liabilities" on the balance sheet includes the dividend payable amounting to EUR 141,284 thousand. At 31 December 2018, no final decision had been made in this regard and therefore no liability is recorded at that date.

Financial cost in 2018 for debts with third parties amounts to EUR 79,729 thousand (EUR 92,782 thousand in 2017) (see Note 16.4).

#### **14.- Tax matters**

##### **14.1 Current tax receivables and payables**

The detail of the current tax receivables and payables is as follows:

##### **Tax receivables**

	Thousands of Euros	
	31/12/2018	31/12/2017
Corporation tax receivable	231,949	115,622
Other taxes receivable	389	384
<b>Total</b>	<b>232,338</b>	<b>116,006</b>

The balance with the Tax Authorities at 31 December 2018 mainly includes the amount refundable for the estimate of the consolidated income tax of the Tax Group 30/99 for year 2018. The balance at 31 December 2017 included both the estimate of this tax for year 2017 as well as the amounts refundable for income tax arising in 2016, which were refunded in 2018.

##### **Tax payables**

	Thousands of Euros	
	12/31/2018	12/31/2017
Tax withheld	913	868
Social security taxes payable	68	67
Tax liabilities	6.264	523
<b>Total</b>	<b>7.245</b>	<b>1.458</b>

##### **14.2 Reconciliation of accounting profit to taxable profit**

The Company pays tax under the tax consolidation regime, as the controlling company of Tax Group 30/99.

The reconciliation of the accounting profit to the tax loss for income tax purposes is as follows:

	Thousands of Euros		
	2018		
	Increases	Decreases	Total
<b>Accounting profit / (loss) before tax</b>			<b>1,057,883</b>
Permanent differences on individual taxable base:			
Provisions for Group entities	67,533	-	67,533
Grupo Dragados merger goodwill	-	(8,932)	(8,932)
Exemption for Fiscal Group intra-Group dividends	-	(225,357)	(225,357)
Hochtief, A,G, dividend exemption	-	(155,879)	(155,879)
Exemption from capital gain Hochtief, AG	-	(800,248)	(800,248)
Non-deductible expenses and other differences	9,229	(389)	8,840
Timing differences:			
Arising in the year:			
Hochtief goodwill, AG (DT 14 <sup>a</sup> LIS)	-	(5,978)	(5,978)
Externalised pension commitments	3,182	-	3,182
Derivative financial instruments, not hedging	41,682	-	41,682
Other differences	7,817	-	7,817
Arising in prior years:			
Non-deductible financial expenses	-	(24,998)	(24,998)
Externalised pension commitments	-	(4,458)	(4,458)
Use of provisions	-	(2,476)	(2,476)
Other	-	(64)	(64)
<b>Taxable base</b>			<b>(41,453)</b>

	Thousands of Euros		
	2017		
	Increases	Decreases	Total
<b>Accounting profit / (loss) before tax</b>			<b>648,757</b>
Permanent differences on individual taxable base:			
Provisions for Group entities	-	(159,123)	(159,123)
Grupo Dragados merger goodwill	51,196	-	51,196
Exemption for Fiscal Group intra-Group dividends	-	(328,412)	(328,412)
Hochtief, A,G, dividend exemption	-	(119,907)	(119,907)
Non-deductible expenses and other differences	14,432	(288)	14,144
Timing differences:			
Arising in the year:			
Hochtief goodwill, AG (DT 14 <sup>a</sup> LIS)	-	(29,889)	(29,889)
Externalised pension commitments	3,014	-	3,014
Other differences	2,690	(53)	2,637
Arising in prior years:			
Financial instruments unrecognized in equity	-	(23,908)	(23,908)
Externalised pension commitments	-	(7,993)	(7,993)
Use of provisions	-	(26,958)	(26,958)
Other	-	(64)	(64)
<b>Taxable base</b>			<b>23,494</b>

Furthermore, in determining the consolidated Corporate Income Tax for the Fiscal Group corresponding to 2017, a negative adjustment was made to the consolidated taxable base as a Capitalization Reserve in accordance with the terms of Article 25 and 62 of Law 27/2014 on Corporate Income Tax for an amount of EUR 17,055 thousand, equivalent to 10% of the consolidated taxable base before the offsetting of negative taxable bases.

To fulfill the requirements of the above adjustment, the Company increased in the accounts its Capitalization Reserve in the amount of EUR 28,000 thousand from voluntary reserves, actioned at half-yearly closing on 30 June 2018 once the definitive information from the 2017 consolidated return became known.

The above increase of the Capitalization Reserve represents an amount lower than the 10% increase in equity of the Tax Group in 2017, meaning the Tax Group could, in future fiscal years and if it fulfilled the requirements to do so, action a new negative adjustment in the taxable base for the excess of the increase in Reserve recognized for the adjustment made in the 2017 return.

#### 14.3 Taxes recognized in equity

In addition, the detail of the taxes for adjustments for changes in value recognized directly in equity is as follows:

	Thousands of Euros		
	2018		
	Charge to Equity	Credit to Equity	Total
<b>Deferred taxes:</b>			
Measurement of interest rate hedging financial instruments	-	(2,873)	<b>(2,873)</b>
Measurement of available-for-sale financial assets	-	-	-
<b>Current taxes:</b>			
Measurement of available-for-sale financial assets	-	-	-
<b>Total deferred tax recognised directly in equity</b>	-	<b>(2,873)</b>	<b>(2,873)</b>

	Thousands of Euros		
	2017		
	Charge to Equity	Credit to Equity	Total
<b>Deferred taxes:</b>			
Measurement of interest rate hedging financial instruments	2,533	-	<b>2,533</b>
Measurement of available-for-sale financial assets	-	-	-
<b>Current taxes:</b>			
Measurement of available-for-sale financial assets	-	-	-
<b>Total deferred tax recognised directly in equity</b>	<b>2,533</b>	-	<b>2,533</b>

#### 14.4 Reconciliation of accounting profit/loss to the income tax expense

The reconciliation of accounting profit/loss from continuing operations to the income tax expense is as follows:

	Thousands of Euros	
	2018	2017
Accounting profit (loss) before tax from continuing operations	1,057,883	648,757
Accrual at 25%	264,471	162,189
Impact of the non-taxation of the capital gain from the sale of Hochtief, A.G.	(200,062)	-
Impact for non-taxation of Tax Group and Hochtief A.G. dividends	(95,309)	(112,080)
Impact due to the non-consideration of the internal provisions of the Tax Group	16,883	(39,781)
Impact of other permanent differences	(581)	15,571
Deductions	(2,081)	(1,683)
Adjustment to taxation	(4,896)	(29,954)
<b>Total income tax expense/(income) recognised in profit or loss account</b>	<b>(21,575)</b>	<b>(5,738)</b>

Income relating to adjustments to taxation in 2018 arises from the effect of the adjustment to the 2017 taxable base for the Capitalization Reserve discussed above. The income in 2017 mainly includes the effect of the application of a small part of the extraordinary provision made in 2016 to obtain an estimate of the impact of the Spanish Royal Decree Law 3/2016 of 2 December on deferred tax assets and liabilities from impairments to subsidiary and investee companies for the Tax Group. It was applied due to circumstances in 2017 establishing a more certain use of said deferred tax assets.

The breakdown of the Income tax expense is as follows:

	Thousands of Euros	
	2018	2017
<b>Continuing operations</b>		
Current income tax	(12,482)	1,319
Deferred tax	(9,093)	(7,057)
<b>Total income tax expense (profit) / loss</b>	<b>(21,575)</b>	<b>(5,738)</b>

There were no discontinued operations in 2018 or 2017.

#### **14.5 Non-current provisions**

The detail of the balance of this account at the end of 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Temporary differences (prepaid taxes):		
Pension obligations	23,849	24,252
Measurement of interest rate hedging financial instruments	5,477	2,604
Non-deductible finance charges	29,070	35,320
Unhedged derivative financial instruments	10,420	-
Non-deductible provisions	20,222	12,399
Other	923	2,212
Pending deductions	11,058	10,951
<b>Total deferred tax assets</b>	<b>101,019</b>	<b>87,738</b>

The aforementioned deferred tax assets were recognized because the Company's directors consider that, on the basis of the best estimate of the Company's future earnings, these assets will probably be recovered within the tax group in the period established by tax regulations.

The only deferred tax assets subject to the legal expiry term are the pending deductions that mainly include the deduction on extraordinary gains generated in 2013, 2014 and 2015, with a term to expiry of 15 years. For the purpose of analyzing the recoverability tax assets of the consolidated Group, the ACS Group has created a model which uses the latest earnings projections available for the tax group companies. According to this model, all of the tax assets arising from deductions will be recovered in full.

On the matter of the deduction because of the reinvestment of profits, in previous years the Company included in this deduction a portion of the gain obtained from the sale of the shares of Unión Fenosa S.A. in 2008 and 2009. As explained in the notes to the years in question, these reinvestments were made within the term of three years established by the law, initially concluding in 2012; nevertheless, as some of the assets resulting from the reinvestment were transferred to third parties in 2012 before the required period for them to be held had been completed, a new obligation to reinvest was generated that ended in 2015 and was covered in that year.

There were no significant unrecognized deferred tax assets.

#### **14.6 Deferred tax liabilities**

The detail of the balance of this account at the end of 2018 and 2017 is as follows:



	Thousands of Euros	
	31/12/2018	31/12/2017
Gains eliminated in the tax consolidation process	125,082	125,082
Merger financial goodwill and other	10,461	9,146
<b>Total deferred tax liabilities</b>	<b>135,543</b>	<b>134,228</b>

#### **14.7 Years open for review and tax audits**

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the statute-of-limitations period has expired. Consequently, at 2018 year end, the Company had all applicable taxes from returns submitted in the last four years open to inspection.

The Company's directors consider that the tax returns have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

#### **15.- Foreign currencies**

There were no significant foreign currency transactions either in fiscal year 2018 or in fiscal year 2017.

There were no significant exchange differences in 2018 and 2017.

#### **16.- Revenue and expense recognition**

##### **16.1 Revenue:**

The detail of revenue is as follows:

	Thousands of Euros	
	2018	2017
Dividends of subsidiaries and associates (Notes 9.3 and 17.1)	381,237	448,319
Dividends from non-current financial assets	632	993
Finance income of subsidiaries and associates (Note 17.1)	20,245	29,903
Service provision (Note 17.1)	12,868	12,345
<b>Total</b>	<b>414,982</b>	<b>491,560</b>

The Company did not receive any dividends from Iberdrola, S.A. in either 2018 or 2017, as all the risks and benefits from the investment in Iberdrola had been transferred (see Note 9.2) and the full amount of the shares was loaned to Statement Structure, S.L. and Funding Statement, S.L.

##### **16.2 Employee benefit costs**

The detail of "Employee Benefit Costs" in 2018 and 2017 is as follows:

Employee benefit costs	Thousands of Euros	
	2018	2017
Employer social security taxes	686	673
Contributions pension plans	2,877	13,143
Other employee benefit costs	988	1,016
<b>Total</b>	<b>4,551</b>	<b>14,832</b>

The balance under "Contributions to pension plans" in 2017 included an amount of EUR 10,171 thousand, relating to the division of the policy due to the sale of Urbaser in December 2016, charged to the said company as recorded under "Other operating income".

### **16.3 Other operating costs**

This heading in the accompanying income statement includes expenditure on leases, maintenance, advertising, etc.

### **16.4 Finance income and finance costs**

The detail of the finance income and finance costs calculated by applying the effective interest method is as follows:

	Thousands of Euros			
	2018		2017	
	Finance income	Finance costs	Finance income	Finance costs
Application of the effective interest method	18,876	89,868	13,760	105,464

This heading includes EUR 7,252 thousand (EUR 7,998 thousand in 2017) related to the settlement of hedging instruments. Additionally in 2017, EUR 22,462 thousand was recorded as a financial expense from the write-down of the previous syndicated loan and the recognition of a new loan for which the Company recorded an additional financial expense in 2017 for the said amount relating to the initial debt issue costs which were pending repayment (see Note 13.1).

### **16.5 Impairment and gains or losses on disposals of financial instruments**

This heading on the accompanying income statement for 2018 mainly includes the income from the sale of 21.3% of Hochtief within the Abertis transaction, in the amount of EUR 801 million (see Note 9.3).

This heading in the accompanying income statement for 2017 included mainly the reversal of the provision in the amount of EUR 159,087 thousand for the Residencial Monte Carmelo, S.A. ownership interest, resulting from the assessment of its net worth following its merger with Mayor Assets, S.L. and Novovilla, S.L. (all pertaining to the Company) effective for accounting purposes from 1 January 2017 (see Note 9.3).

### **16.6 Change in fair value of financial instruments**

This heading on the accompanying income statement mainly includes the gains from the market value of the embedded derivative corresponding to Masmovil in the amount of EUR 41,768 thousand (EUR 219,337 in 2017) (see Notes 9.2 and 10.2) as well as the Company's derivatives relating to ACS shares in the amount of EUR 15,303 thousand (EUR 32,193 thousand in 2017) (see Note 10.2).

**17.- Related party transactions and balances****17.1 Transactions with related parties**

The detail of the transactions with related parties during 2018 is as follows:

Income (-), Expense(+)	Thousands of Euros	
	2018	
	Subsidiaries	Associates
Services received (Note 16.3)	1,018	-
Operating lease agreements	2,407	-
Interest received	10,140	-
Interest expense	(20,245)	-
Dividends (Note 16.1)	(381,237)	-
Cost apportionment agreement	(2,577)	(23)
Service provision (Note 16.1)	(12,868)	-

The detail of the transactions with related parties during 2017 is as follows:

Income (-), Expense(+)	Thousands of Euros	
	2017	
	Subsidiaries	Associates
Services received (Note 16.3)	997	-
Operating lease agreements	2,407	-
Interest received	12,682	-
Interest paid (Note 16.1)	(29,903)	-
Dividends (Note 16.1)	(448,319)	-
Cost apportionment agreement	(1,670)	(21)
Service provision (Note 16.1)	(12,345)	-

Similarly, in 2018 assets have been acquired from Group companies in the amount of EUR 54 thousand (EUR 1,422 thousand in 2017).

**17.2 Balances with related parties**

The detail of the balances with related parties in the balance sheet at 31 December 2018 is as follows:

	Thousands of Euros	
	31/12/2018	
	Subsidiaries	Associates
<b>Non-current financial assets</b>	<b>4,617,440</b>	<b>2,087,806</b>
Equity instruments (Note 9.3)	4,617,440	2,087,806
<b>Sundry accounts receivable</b>	<b>21,975</b>	-
<b>Current financial assets</b>	<b>153,281</b>	-
Loans to companies	21,618	-
Other financial assets	131,663	-
<b>Non-current liabilities</b>	<b>43,213</b>	-
<b>Current liabilities</b>	<b>712,559</b>	<b>300</b>

The detail of the balances with related parties in the balance sheet at 31 December 2017 was as follows:

	Thousands of Euros	
	31/12/2017	
	Subsidiaries	Associates
<b>Non-current financial assets</b>	<b>5,020,933</b>	-
Equity instruments (Note 9.3)	5,020,933	-
<b>Sundry accounts receivable</b>	<b>20,232</b>	-
<b>Current financial assets</b>	<b>143,833</b>	-
Loans to companies	40,133	-
Other financial assets	103,700	-
<b>Non-current liabilities</b>	<b>42,515</b>	-
<b>Current liabilities</b>	<b>696,316</b>	-

The amount recorded under “Current investments in Group companies and associates - Other financial assets”, both at 31 December 2018 and 31 December 2017, relate in full to the accrued dividends payable at the year-end from ACS Group companies. Additionally, the Company recognized under “Other financial liabilities” an interim dividend payable at the end of 2017 amounting to EUR 141,284 thousand (see Note 13.2).

At 31 December 2018, as a result of the liquidation of ACS Telefonía Móvil, S.L. in 2017, the Company became creditor of all participatory loans with Residencial Monte Carmelo, S.A.U. in the initial amount of EUR 42,515 thousand, recorded under “Non-current payables to subsidiaries and associates” and with an annual variable interest rate of between 0% and 12% depending on the finance income obtained in the year and with maturities in 2021, 2022 and 2024.

The detail, at 31 December 2018 and 2017 of “Current loans to group companies” is as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
	Statement Structure, S.A.	21,618
Funding Statement, S.A.	-	24,228
<b>Total</b>	<b>21,618</b>	<b>40,133</b>

The detail of “Non-current payables to Group companies” at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
ACS Actividades Finance, 2 B.V.	237,692	237,657
Residencial Monte Carmelo, S.A.	182,611	53,576
Dragados, S.A.	167,007	2,166
Cariátide, S.A.	55,141	55,087
Statement Structure, S.A.	22,713	17,484
ACS Servicios y Concesiones, S.L.	16,623	18,565
Funding Statement, S.A.	13,335	31,201
ACS Servicios, Comunicaciones y Energía, S.L.	13,207	24,859
ACS Actividades Finance, B.V.	4,024	255,209
Other lesser amounts	506	512
<b>Total</b>	<b>712,859</b>	<b>696,316</b>

The debt with Residencial Monte Carmelo, S.A.U. relates to the amounts drawn down from its credit line with this company of EUR 167,440 thousand at 2018 year end, with maturity on 1 August 2019, at a variable interest rate based on three-month Euribor and automatically extendible. It additionally includes the balance corresponding to 2018 income tax amounting to EUR 13,432 thousand (EUR 20,304 thousand at 31 December 2017) included in the Tax Group 30/99. The accrued interest outstanding collection at the 2018 year end amounted to EUR 8 thousand (EUR 583 thousand outstanding payment at 31 December 2017).

The debt with Dragados, S.A. relates to amounts drawn down at year end from the credit line with this company maturing on 28 March 2019, renewable on maturity and with a variable interest rate based on three-month Euribor. Accrued interest pending collection at the end of 2018 amounts to EUR 7 thousand.

The debt with ACS, Actividades Finance, B.V. Related mainly to a loan granted by this company with the funds obtained from the issue of a bond exchangeable for Iberdrola, S.A. shares maturing on 22 October 2018 and bearing interest at a fixed rate (see Note 9.2).

The debt with ACS Actividades Finance 2, B.V. corresponds to a loan granted by this company in March 2014 with the funds obtained from the issue of a bond exchangeable for shares in Iberdrola, S.A. maturing on 27 March 2019 at a fixed rate (see Note 9.2).

The debt with Cariátide, S.A. corresponds to a credit line with a balance at 31 December 2018 of EUR 55,138 thousand (EUR 52,459 thousand at 31 December 2017) rolling over automatically annually with an interest rate tied to Euribor. The accrued interest outstanding payment at the 2018 year end amounted to EUR 3 thousand (EUR 2 thousand at 31 December 2017).

The debt with ACS Servicios, Comunicaciones y Energía, S.L. and with ACS Servicios y Concesiones, S.L. relates entirely to balances in relation to corporate income tax included in Tax Group 30/99 in both 2018 and 2017.

The transactions between Group companies and associates are performed on an arm's-length basis as in the case of transactions with independent parties.

**17.3 Remuneration of directors and senior executives**

The breakdown of the remuneration received in 2018 and 2017 by the members of the Board of Directors and senior executives of the Company is as follows:

	Thousands of Euros		
	2018		
	Wages (fixed and variable)	Bylaw-stipulated directors' emoluments	Other items
Board of Directors	11,793	3,110	-
Senior executives	6,146	-	-

	Thousands of Euros		
	2017		
	Wages (fixed and variable)	Bylaw-stipulated directors' emoluments	Other items
Board of Directors	9,040	3,008	-
Senior executives	4,511	-	-

Other amounts payable to the members of the Board of Directors and senior executives of ACS, Actividades de Construcción y Servicios, S.A. are as follows:

	Thousands of Euros		
	2018		
	Pension Plans	Insurance premiums	Other
Board of Directors	1,914	28	-
Senior executives	933	2	-

	Thousands of Euros		
	2017		
	Pension Plans	Insurance premiums	Other
Board of Directors	1,904	23	-
Senior executives	931	2	-

At 2018 and 2017 year end, no advances or loans had been granted to the members of the Board of Directors or to senior executives of the Company. Nor did members of the Board of Directors or senior executives receive any termination benefits.

The amount recognized in the income statement as a result of the share options granted to the directors with executive duties amounted to EUR 229 thousand (EUR 591 thousand in 2017) for the directors and EUR 131 thousand (EUR 372 thousand in 2017) for senior executives. This amount relates to the proportion of the value of the plan at the date on which it was granted.

**17.4 Further information on the Board of Directors**

No situations have come to light of conflicts of interest, whether direct or indirect, with the Company as set out in current regulations (currently in accordance with that set forth in article 229 of the Spanish Corporate Enterprises Act), all without prejudice to the information on related party transactions reflected in the annual report. The amount corresponding to the civil liability insurance premium, among others, for the Directors amounts to EUR 454 thousand in 2018 (EUR 375 thousand in 2017).

In 2018 and 2017, the Company had commercial relationships with companies in which certain of its directors perform management functions. All these commercial relationships were carried out on an arm's-length basis in the ordinary course of business, and related to ordinary Company transactions.

**18.- Discontinued operations**

At 31 December 2018 and 2017 there were no balances, income or expenses relating to discontinued operations.

**19.- Other disclosures****19.1 Staff**

The average number of employees at the Company in 2018 and 2017, by category and gender, is as follows:

Category	2018		
	Men	Women	TOTAL
University graduates	23	8	31
Further education college graduates	3	-	3
Non-graduate line personnel	-	-	-
Other staff	4	14	18
<b>Total</b>	<b>30</b>	<b>22</b>	<b>52</b>

Category	2017		
	Men	Women	TOTAL
University graduates	24	8	32
Further education college graduates	3	-	3
Non-graduate line personnel	-	-	-
Other staff	4	14	18
<b>Total</b>	<b>31</b>	<b>22</b>	<b>53</b>

Also, the distribution by sex at the end of 2018 and 2017, by category, is as follows:

Category	2018		
	Men	Women	TOTAL
University graduates	23	8	31
Further education college graduates	3	-	3
Non-graduate line personnel	-	-	-
Other staff	4	14	18
<b>Total</b>	<b>30</b>	<b>22</b>	<b>52</b>

Category	2017		
	Men	Women	TOTAL
University graduates	24	8	32
Further education college graduates	3	-	3
Non-graduate line personnel	-	-	-
Other staff	4	14	18
<b>Total</b>	<b>31</b>	<b>22</b>	<b>53</b>

The Company has not employed during 2018 or during 2017 any persons with a disability equal to or exceeding thirty three per cent.

### **19.2 Auditor's fees**

During 2018, the fees relating to statement audit services provided by the auditor Deloitte, S.L. are as follows:

	Thousands of Euros	
	2018	2017
Audit Services	764	619
Other Verification Services	70	70
<b>Total Audit and Related Services</b>	<b>834</b>	<b>689</b>
Tax Services	-	-
Other Services	56	14
<b>Total Professional Services</b>	<b>890</b>	<b>702</b>

### **19.3 Guarantee commitments to third parties and other contingent liabilities**

The Company basically acts as a guarantor for Group companies and associates with regard to government agencies and private customers, mainly in certain concession projects, to ensure the success of the execution of the projects. The surety bonds and guarantees granted at 31 December 2018 amounted to EUR 30,817 thousand (EUR 30,564 thousand at 31 December 2017). The Company's directors consider that any unanticipated liabilities that might arise from the guarantees provided would not be material.

Regarding the investment of ACS Group in Alazor and the accounts receivable for Alazor, these have been fully provided for in the consolidated annual accounts of the ACS Group for 2018. With regard to opening brief the lodged by the financial entities and communicated to shareholders in October 2013, it should be noted that, after waiving its right in September 2018 to the appeal that it had lodged against its dismissal, the acquiring funds from the loans submitted a new opening brief which was presented to ACS, Actividades de Construcción y Servicios, S.A. and to Desarrollo de Concesiones Viarias Uno, S.L. in January 2019, and the reply brief has already been submitted to Madrid Court No.13 of First Instance.



Regarding the executive order communicated in February 2014, after the enforcement delivery was overturned and the EUR 278.37 million consigned to the Court account returned (of which EUR 87.85 million correspond to the ACS Group), the shareholders have claimed EUR 31.71 million in compensation for interest on arrears and damages (EUR 11.32 million corresponding to the ACS Group); the pronouncement of the Provincial High Court of Madrid is pending.

Regarding the insolvency proceedings pursued through the Madrid Juzgado de lo Mercantil No. 6 (Commercial Court), it should be noted that the Insolvency Proceedings for Accesos de Madrid and Alazor were ruled to be accidental by judicial edicts dated 4 July and 17 October 2018 respectively. The Bankruptcy Administration for Accesos de Madrid handed the operation of the motorways R3 and R5 to the State by deed on 9 May 2018. Its management will be undertaken by the Spanish Ministry of Development through Sociedad Estatal de Infraestructuras del Transporte Terrestre, S.A. (SEITTSA) through an agreement signed in August 2017 which was recently extended until 2022.

The judge ruled that TP Ferro should enter into liquidation in 2016 and, therefore, at the end of that same year, the States (France and Spain) gave notice to commence administrative termination proceedings of the concession contract, ending the concession and assuming management of the infrastructure from 2017. Following several delays, the States concluded in July 2018 that in their interpretation of the concession contract, the Concessionaire should pay the Grantor States slightly more than EUR 75 million. This resolution favors further litigation by TP Ferro and its creditors against the States, essentially without repercussions for the Company.

#### **19.4 Average period of payment to suppliers**

##### **Disclosures on deferred payments to suppliers. Final Provision Two of Law 31/2014, of 3 December**

The following is a summary of the disclosures required under Final Provision Two of Law 31/2014 of 3 December, which was prepared in application of the Resolution of 29 January 2016 of the Institute of Accounting and Auditing, in respect of disclosures to be included in the annual financial statements report with respect to the average payment periods for suppliers in commercial transactions and which is applicable to financial statements prepared from 1 January 2015:

	<b>2018</b>	<b>2017</b>
	<b>Days</b>	<b>Days</b>
Average period of payment to suppliers	23	23
Ratio of transactions paid	22	22
Ratio of transactions pending payment	41	38
	<b>Thousands of Euros</b>	<b>Thousands of Euros</b>
Total payments made	22,289	18,730
Total payments pending	1,164	893

The above data on supplier payments relates to those suppliers which, due to their nature, are trade payables to suppliers of goods and services, such that the information includes data relating to "Sundry accounts payable" under current liabilities in the attached balance sheet.

"Average payment period for suppliers" is understood to mean the term that elapses from the delivery of goods or rendering of services by the provider and the effective payment for the transaction. This "Average payment period for suppliers" is calculated as the quotient resulting from the numerator as the sum of the ratio of transactions paid versus the total amount of payments plus the ratio of outstanding payment transactions versus the total amount of outstanding payments, and in the denominator, by the total amount of payments made and outstanding payments.

The ratio of paid transactions is calculated as the quotient resulting from the numerator as the sum of the products corresponding to amounts paid, by the number of days until payment, and from the denominator, the total amount of payments. Days until payment is understood to mean the number of calendar days that have elapsed from the start date of the effective payment term for the transaction.

Likewise, the ratio of outstanding payment transactions corresponds to the quotient resulting from the numerator as the sum of the products corresponding to payable amounts by the number of days during which the payment is outstanding, and in the denominator, the total amount of payable amounts. The number of days in which an amount is payable is understood to mean the number of calendar days that have elapsed from the start date of the payment period to the last day of the period in the annual financial statements.

The Company will use the date of receipt of the goods or provision of services as the start date of the term for both the number of payment days and the days outstanding payment. In the absence of reliable information as to when this circumstance occurs, the Company will use the date of receipt of the invoice.

## **20.- Events after the reporting date**

On 9 June 2019 ACS, Actividades de Construcción y Servicios, S.A. agreed to carry out the second capital increase with a charge to reserves approved by the Ordinary General Meeting of Shareholders held on 8 May 2018. The purpose of the transaction is to implement a flexible formula for shareholder remuneration ("optional dividend"), so that shareholders may choose to continue to receive cash remuneration or to receive new shares in the Company.

The Company also agreed to carry out the second capital reduction through redemption of treasury shares approved at the same Ordinary General Meeting, the maximum amount being the same as the amount of capital increase resulting from the second capital increase discussed in the above paragraph.

- The maximum number of new shares to be issued in the second capital increase charged against reserves agreed by the Ordinary General Meeting of 8 May 2018 (through which an optional stock or cash dividend will be paid) was set at 4,140,323 on 17 January 2019.
- In relation to the above second capital increase, ACS, Actividades de Construcción y Servicios, S.A. has committed to a purchase price for the shareholders' free allocation rights set at a total gross amount of EUR 0.45 per bonus issue right.
- The second capital reduction through redemption of treasury shares approved at the same Ordinary General Meeting of 8 May 2018 was set at the same as the amount resulting from the second capital increase and took place simultaneously, i.e. also a maximum of 4,140,323 shares.

Subsequently on 20 February 2019, the 2,965,728 new ACS, Actividades de Construcción y Servicios, S.A. shares issued through the second capital increase as agreed at the Company's Ordinary General Shareholders Meeting held on 8 May 2018 for the optional dividend system were admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. Equally, and with effect from the same date, the same number of shares were written off as a result of the agreed capital reduction.

## **21.- Explanation added for translation to English**

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.



*Directors' Report for ACS, Actividades de  
Construcción y Servicios, S.A. for year ended  
31 December 2018*

28 March 2019

## 1. Company Evolution in 2018

ACS, Actividades de Construcción y Servicios, S.A. is the Parent of the ACS Group, a world leader in the infrastructure construction sector. The Group comprises several companies which operate in three different business lines: Construction, which mainly centers on the development of infrastructures; Industrial Services, which focuses on activity related to applied industrial engineering; and Services as a provider of integral maintenance services for buildings, public spaces or organizations as well as personal assistance. 86% of the ACS Group's revenue comes from the international market, its strategic markets being North America and Australia.

The following table summarizes the Group's consolidated financial data (reported in line with EU-IFRS):

<b>Highlights of Consolidated Operating and Financial Data</b>			
<i>Millions of Euros</i>	<b>2018</b>	<b>2017</b>	<b>Var.</b>
<b>Sales</b>	<b>36,659</b>	<b>34,898</b>	<b>+5.0%</b>
<b>Portfolio</b>	<b>72,223</b>	<b>67,082</b>	<b>+7.7%</b>
Months	23	22	
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)<sup>(1)</sup></b>	<b>2,437</b>	<b>2,279</b>	<b>+6.9%</b>
Margin	6.6%	6.5%	
<b>Earnings before interest and taxes (EBIT)<sup>(1)</sup></b>	<b>1,791</b>	<b>1,626</b>	<b>+10.1%</b>
Margin	4.9%	4.7%	
<b>Attributable net earnings</b>	<b>915</b>	<b>802</b>	<b>+14.1%</b>
<b>EPS (in euros)</b>	<b>€ 2.94</b>	<b>€ 2.57</b>	<b>+14.4%</b>
<b>Net Investments</b>	<b>1,538</b>	<b>283</b>	<b>n.a</b>
Investments	4,803	915	
Divestments	3,264	632	
<b>Net borrowing</b>	<b>(3)</b>	<b>153</b>	<b>n.a</b>
Net business debt	(120)	(42)	
Project Financing	117	195	

Data presented according to ACS Group management criteria.

(1) Includes the Net Revenue from the Joint Operating Entities (companies implementing jointly managed projects), not consolidated globally in the Group.

Consolidated attributable net earnings amounted to EUR 915 million, representing an increase of 14.1% broken down by business line as follows:

<b>Breakdown of Net Earnings by Business Line</b>			
<i>Millions of Euros</i>	<b>2018</b>	<b>2017</b>	<b>Var.</b>
Construction <sup>(1)</sup>	410	387	+6.1%
Industrial Services	325	319	+2.0%
Services	37	37	-0.2%
<b>Net Profit from Operations</b>	<b>772</b>	<b>743</b>	<b>+4.0%</b>
Abertis Contribution	175	-	
Corporate and Extraordinary	(32)	59	
<b>TOTAL Net Earnings</b>	<b>915</b>	<b>802</b>	<b>+14.1%</b>

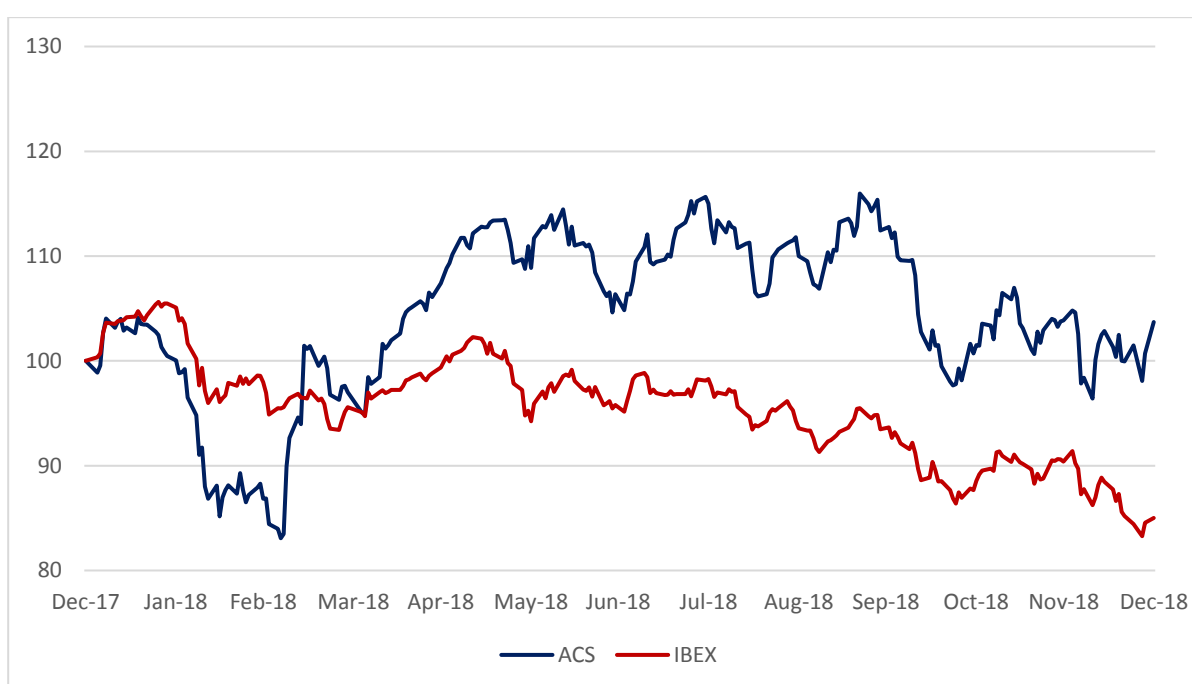
(1) Excludes the Abertis contribution through HOCHTIEF.

ACS, Actividades de Construcción y Servicios, S.A. includes revenue and dividends received from companies that make up its consolidated group as a separate income headings and they are detailed in the following table:

Millions of Euros	2018	2017
Dividends from Group Companies and Associates	381	448
Dividends from non-current financial assets (Note 9.1)	1	1
Finance income of subsidiaries and associates	20	30
Services provision	13	13
<b>Total</b>	<b>415</b>	<b>492</b>

## 2. Evolution on the Stock Market

The ACS, Actividades de Construcción y Servicios, S.A. share price has performed well during the year. The share price in 2018 rose by 3.71%, which together with the dividend paid sets yearly profitability to the shareholder at 7.96%. The benchmark Spanish stock market index, IBEX 35, fell in the same period by 15.0% and, adjusted for dividends, profitability was -11.5%.



The table here below summarizes the main stock market performance data for the ACS share:

ACS Share Performance	2018	2017
Closing Price	€ 33.83	€ 32.62
Evolution	3.71%	8.66%
Maximum during the period	€ 38.36	€ 36.75
Date Maximum reached during the period	27 Jul	19 Jun
Minimum during the period	€ 26.67	€ 28.34
Date Minimum reached during the period	07 Mar	31 Jan
Period Average	€ 33.73	€ 32.49
Total share volume (thousands)	175,727	189,001
Average daily volume (thousands)	689	738
Total money flow (million €)	5,928	6,140
Average daily money flow (million €)	23.25	23.99
Number of shares (millions)	314.66	314.66
Market capitalization (million €)	10,645	10,264

At 31 December 2018, ACS, Actividades de Construcción y Servicios, S.A. held 6,442,991 treasury shares on the balance sheet, representing 2% of capital. The detail of the transactions made during the year is as follows:

	2018		2017	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
<b>At beginning of the year</b>	<b>3,756,460</b>	<b>120,775</b>	<b>4,677,422</b>	<b>120,981</b>
Purchases	10,711,385	366,394	5,958,630	199,337
Redemption and sale	(8,024,854)	(265,664)	(6,879,592)	(199,543)
<b>At end of the year</b>	<b>6,442,991</b>	<b>221,505</b>	<b>3,756,460</b>	<b>120,775</b>

### 3. Risk Management Policies

#### 3.1 Main risks and uncertainties ACS, Actividades de Construcción y Servicios, S.A. faces

The ACS Group undertakes its activity in sectors, countries and socio-economic and legal environments which entail the assumption of different risk levels arising from these circumstances.

The ACS Group monitors and manages such risks with the aim of avoiding that they should cause any reduction in profitability for its shareholders, any danger to its employees or its company reputation, any problem to its customers or any negative impact on society in general.

In order to manage risk in this way, the ACS Group makes use of tools which allow it to identify risk sufficiently in advance, to avoid it altogether or to minimize risks, prioritizing their impact as required.

The ACS Group's Corporate Governance Report for 2018 details these risk management tools as well as the risks and the uncertainties to which it has been exposed during the year.

#### 3.2 Financial risk management

The ACS Group is similarly exposed to various financial risks, whether from changes in interest rates or exchange rates, liquidity risk or credit risk.

The risks derived from changes in interest rates, which impact cash flows, are mitigated by securing rates through financial instruments that cushion the respective fluctuation. For example, the Company uses interest rate swaps to reduce exposure from non-current loans.

The management of the exchange rate fluctuation risk is performed by taking debt in the same operating currency as that of the assets that the Group finances abroad. For the coverage of net balances in currencies other than the Euro, the Group contracts a variety financial instruments in order to cushion the exposure to the exchange rate risk.

To mitigate liquidity risk arising from the timing differences between borrowing requirements and generating funds, a balance is maintained between timeframe and flexibility of the arranged borrowing through the use of staggered financing that matches the Groups fund requirements. In this manner, a capital management that maintains an optimum financial and net worth structure to reduce borrowing costs is combined with appropriate debt ratios which safeguard its capacity to continue its operations.

Lastly, credit risk arising from the non-payment of trade receivables is tackled through the preventative assessment of the solvency rating of the Group's potential clients, both at the start of the business relationship for each set of works or project and during the contract term, by evaluating the credit rating of the outstanding amounts receivable and reviewing the estimated recoverable amounts which are considered doubtful receivables.

The management mechanisms for all these financial risks and the financial instruments which mitigate the risks are fully detailed in both the Company's individual annual financial statements and the consolidated statements for the Group for 2018.

#### **4. Human Resources**

ACS, Actividades de Construcción y Servicios, S.A. employed 52 staff during 2018. The HR policy follows the same line as that ACS Group's and is directed at retaining and recruiting teams of dedicated people, who have a high level of knowledge and expertise and are capable of providing the best service to our customers and rigorously and effectively generating business opportunities.

At 31 December 2018, the Consolidated Group employed a total of 195,461 staff, of whom 24,097 are university graduates.

#### **5. Corporate Social Responsibility and Non-financial Information**

The ACS Group's Corporate Social Responsibility policy, revised and approved by the Board of Directors at its meeting held on 25 February 2016, establishes basic principles and actions on this topic as well as for the Group's relationship with its surroundings.

The detail of the outcomes of the Corporate Social Responsibility policy, its basic principles and actions by the ACS Group are collated and published regularly on the ACS Group's website ([www.grupoacs.com](http://www.grupoacs.com)) and the comprehensive annual report accessible on the same website. Similarly, the annual report from Hochtief ([www.hochtief.com](http://www.hochtief.com)) details the most relevant aspects relating to Corporate Social Responsibility for that company and its subsidiaries.

Moreover, in compliance with Article 49 of the Spanish Commercial Code, in relation to the Company's "Statement of Non-financial Information", and given that the Company is the Parent of the ACS Group, this information is included in chapter 6 of the consolidated Directors' Report for ACS, ACS, Actividades de Construcción y Servicios, S.A. and Subsidiaries which makes up the Comprehensive Report, prepared in accordance with Global Reporting Initiative standards. The "Statement of Non-financial Information" is an integral part of the Directors' Report and has passed through the same criteria for approval, submission and publication as the Directors' Report.

#### **6. Significant Events After Year End**

During February, the interim dividend was paid out at EUR 0.450 per share. 26.04% of free allocation rights opted for a cash dividend, which determined the acquisition by ACS of 81,946,314 rights for a total gross amount of EUR 36,875,841.

#### **7. Forecasts for 2019**

The ACS Group has good growth forecasts for 2019 based on a solid portfolio of projects in developed markets with growth potential. Similarly, the Group has identified a portfolio of potential PPP infrastructure projects of more than EUR 230,000 million to invest over the next few years. Its efficient and slimline financial structure together with its excellent strategic positioning, reinforced by the acquisition of Abertis, are driving its capacity for investment and contributing to profitable growth.

Equally, the investment in Abertis, a world group leader in toll highway and infrastructure management, enables full integration into the infrastructure development value chain and improved visibility and recurrence of cash flows for the ACS Group.

#### **8. Average Payment Period to Suppliers**

The above data on supplier payments relates to those suppliers which, due to their nature, are trade payables to suppliers of goods and services, such that the information includes data relating to "Trade and other payables - Suppliers" under current liabilities in the attached balance sheet.

	2018 Financial Year	2017 Financial Year
	Days	Days
Average payment period to suppliers	23	23
Ratio of payments made	22	22
Ratio of payments pending	41	38
	Thousands of Euros	Thousands of Euros
Total payments made	22,289	18,730
Total payments pending	1,164	893

Note 23 of the Group consolidated Notes provide additional information regarding the average payment period to suppliers.

## 9. Annual Corporate Governance Report

In accordance with commercial laws, the enclosed Annual Corporate Governance Report is provided for your reference, which is also available from the Spanish CNMV website and forms an integral part of the Directors' Report for the year ended 31 December 2018.





# ANNUAL CORPORATE GOVERNANCE REPORT

# 2018

*“Translation of original document issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails”*



**A. OWNERSHIP STRUCTURE****A.1 COMPLETE THE FOLLOWING TABLE ON THE COMPANY'S SHARE CAPITAL:**

Date of last change	Share capital (€)	Number of shares	Number of voting rights
8/6/2015	157,332,297.00	314,664,594	314,664,594

Indicate whether there are different classes of shares carrying different rights:

Yes	No
	X

**A.2 LIST THE DIRECT AND INDIRECT HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS IN THE COMPANY AT YEAR-END, EXCLUDING BOARD MEMBERS:**

Name or company name of the shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting
	Direct	Indirect	Direct	Indirect	
MR. ALBERTO CORTINA ALCOCER		2.59%			2.59%
MR. ALBERTO ALCOCER TORRA		2.54%			2.54%
BLACKROCK		3.01%			3.01%
NORGES BANK	2.74%				2.74%

Name or company name of the indirect shareholder	Held through: Name or company name of the direct shareholder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting
MR. ALBERTO CORTINA ALCOCER	PERCACER, S.L.	1.40%		1.40%
MR. ALBERTO CORTINA ALCOCER	CORPORACION FINANCIERA ALCOR, S.L.	0.15%		0.15%
MR. ALBERTO CORTINA ALCOCER	IMVERNELIN PATRIMONIO, S.L.	1.04%		1.04%
MR. ALBERTO ALCOCER TORRA	COMERCIO Y FINANZAS, S.L.	1.35%		1.35%
MR. ALBERTO ALCOCER TORRA	CORPORACION FINANCIERA ALCOR, S.L.	0.15%		0.15%
MR. ALBERTO ALCOCER TORRA	IMVERNELIN PATRIMONIO, S.L.	1.04%		1.04%
BLACKROCK	BLACKROCK, INC	3.01%		3.01%



### A.3 COMPLETE THE FOLLOWING TABLES ON THE MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS WHO HOLD VOTING RIGHTS THROUGH COMPANY SHARES:

Name or company name of the Board Member	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting	% voting rights that can be transmitted	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. FLORENTINO PÉREZ RODRÍGUEZ		12.52%			12.52%		
MR. MARCELINO FERNÁNDEZ VERDES	0.01%	0.26%			0.27%		
MR. ANTONIO GARCIA FERRER	0.03%				0.03%		
MR. JOSE MARIA LOIZAGA VIGURI	0.06%				0.06%		
MR. AGUSTÍN BATUECAS TORREGO	0.35%	0.24%			0.60%		
MR. ANTONIO BOTELLA GARCÍA							
MR. JOSE LUIS DEL VALLE PÉREZ	0.09%				0.09%		
MR. MANUEL DELGADO SOLÍS							
MR. JAVIER ECHENIQUE LANDIRIBAR	0.01%				0.01%		
MRS. CARMEN FERNÁNDEZ ROZADO							
MR. EMILIO GARCÍA GALLEGO							
MR. JOAN DAVID GRIMA TERRE							
MR. MARIANO HERNANDEZ HERREROS							
MR. PEDRO JOSE LÓPEZ JIMENEZ		0.18%			0.18%		
MRS. CATALINA MIÑARRO BRUGAROLAS							
MRS. MARÍA SOLEDAD PÉREZ RODRÍGUEZ							
MR. MIGUEL ROCA JUNYENT							
MR. JOSE ELADIO SECO DOMÍNGUEZ							
<b>% of total voting rights held by the Board of Directors</b>						<b>13.75%</b>	

Detail of the indirect participation:

Name or company name of the indirect shareholder	Name or company name of the direct shareholder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting	% voting rights that can be transmitted through financial
MR. FLORENTINO PÉREZ RODRÍGUEZ	INVERSIONES VESAN, S.A.	12.52%		12.52%	
MR. MARCELINO FERNÁNDEZ VERDES	GESGUIVER, S.L.	0.26%		0.26%	
MR. AGUSTÍN BATUECAS TORREGO	CARCALODÓN, S.L.	0.35%		0.35%	
MR. PEDRO JOSE LÓPEZ JIMENEZ	FAPIN MOBI, S.L.	0.18%		0.18%	

**A.4 INDICATE, AS APPLICABLE, ANY RELATIONSHIPS OF A FAMILY, COMMERCIAL, CONTRACTUAL OR CORPORATE NATURE EXISTING BETWEEN THE HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS, INsofar AS THEY ARE KNOWN TO THE COMPANY, UNLESS THEY HAVE SCANT RELEVANCE OR ARISE FROM THE ORDINARY COURSE OF BUSINESS:**

**A.5 INDICATE, AS APPLICABLE, ANY RELATIONSHIPS OF A COMMERCIAL, CONTRACTUAL OR CORPORATE NATURE EXISTING BETWEEN THE HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS AND THE COMPANY AND/OR THE GROUP, UNLESS THEY HAVE SCANT RELEVANCE OR ARISE FROM THE ORDINARY COURSE OF BUSINESS:**

**A.6 DESCRIBE THE RELATIONSHIPS, UNLESS OF LITTLE RELEVANCE FOR BOTH PARTIES, WHICH EXIST BETWEEN SIGNIFICANT SHAREHOLDERS OR SHAREHOLDERS REPRESENTED ON THE BOARD AND THE DIRECTORS OR THEIR REPRESENTATIVES, IN THE CASE OF CORPORATE MANAGERS.**

If applicable, explain how significant shareholders are represented. Specifically indicate in its case, those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specific mention of the nature of said linkages. Indicate in particular, the existence, identity and position of members of the Board of Directors or representatives of directors of the listed company, who are, in turn, members of the governing body, or their representatives, of companies with significant shares in the listed company or in group entities of the aforementioned significant shareholders.

Name or company name of the related Board Member	Name or company name of the related significant shareholder	Description of relationship
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	INVERSIONES VESAN, S.A.	SISTER OF MR. FLORENTINO PÉREZ RODRÍGUEZ, SOLE ADMINISTRATOR OF INVERSIONES VESÁN, S.A.
MANUEL DELGADO SOLÍS	ALBERTO CORTINA ALCOCER	LAWYER OF PERCACER, S.L.
MANUEL DELGADO SOLÍS	ALBERTO ALCOCER TORRA	LAWYER OF INVERNELIN PATRIMONIO, S.L.
MARIANO HERNÁNDEZ HERREROS	INVERSIONES VESÁN, S.A.	BROTHER-IN-LAW OF MR. FLORENTINO PÉREZ RODRÍGUEZ, SOLE ADMINISTRATOR OF INVERSIONES VESAN, S.A.

**A.7 DESCRIBE THE RELATIONSHIPS, UNLESS OF LITTLE RELEVANCE FOR BOTH PARTIES, WHICH EXIST BETWEEN SIGNIFICANT SHAREHOLDERS OR SHAREHOLDERS REPRESENTED ON THE BOARD AND THE DIRECTORS OR THEIR REPRESENTATIVES, IN THE CASE OF CORPORATE MANAGERS.**

Yes	No
	X

Indicate whether the company is aware of any concerted actions between its shareholders. If so, provide a brief description:

Yes	No
	X

**A.8 INDICATE IF THERE IS ANY INDIVIDUAL OR LEGAL ENTITY THAT EXERCISES OR COULD EXERCISE CONTROL OVER THE COMPANY UNDER ARTICLE 4 OF THE SECURITIES MARKET LAW. IF SO, IDENTIFY THEM:**

Yes	No
	X

**A.9 COMPLETE THE FOLLOWING TABLES ON THE COMPANY'S TREASURY SHARES:**

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
6,442,991	0	2.05%

**(\*) Through:**

In accordance with the provisions set forth in Royal Decree 1362/2007, detail any significant changes during the financial year:

Notification of acquisitions:

Notification date	Total direct shares acquired	Percentage of total share capital
5/21/2018	3,157,000	1.00 %
11/23/2018	3,158,180	1.00 %

Notification of redemptions:

Notification date	Total direct shares redeemed	Percentage of total share capital
2/15/2018	2,793,785	0.89 %
7/16/2018	5,231,069	1.66 %

**A.10 GIVE DETAILS OF THE CONDITIONS AND TIME PERIODS GOVERNING ANY RESOLUTIONS OF THE GENERAL SHAREHOLDERS' MEETING AUTHORISING THE BOARD OF DIRECTORS TO ISSUE, ACQUIRE OR TRANSFER TREASURY SHARES.**

The following resolution was adopted at the Ordinary General Shareholders' Meeting held on 8 May 2018:

In rendering the authorization granted through the resolutions of the Company's General Shareholders' Meeting held on May 4, 2017 null and void and in accordance with the provisions of Articles 146 and related articles and 509 of the Consolidated Text of the Spanish Companies Law, the Board of Directors of the Company and those of its subsidiaries are authorized, during a period of one year from the date of this meeting, which shall be automatically extended for periods of equal duration up to a maximum of five years, unless stipulated otherwise by the shareholders at the General Meeting, and in accordance with the conditions and requirements envisaged in the legal provisions in force at the time, to acquire, at any given time and as many times as deemed advisable and through any of the means admitted by law, with a charge to profit for the year and/or unrestricted reserves, shares of the Company, the nominal value of which when added to those already owned by the Company or by its subsidiaries does not exceed 10% of the share capital issued or, where applicable, the maximum amount authorized by the legislation applicable at any given time. The minimum price and the maximum price, respectively, will be the nominal value and the weighted average price relating to the last trading day prior to the transactions increased by 20%.

The Board of Directors of the Company and those of its subsidiaries are also authorized, within the period and in accordance with the conditions established above to the extent that it is possible, to acquire shares of the Company through loans, for a consideration or otherwise, on an arm's-length basis, taking into account market conditions and the characteristics of the transaction.

Express authorization is given for the treasury shares acquired by the Company or its subsidiaries to be earmarked, in full or in part: (i) for sale or retirement, (ii) for delivery to workers, employees or Board Members of the Company or its Group, when there is a right recognized either directly through or as a result of exercising the options they hold, for the purposes envisaged in the last paragraph of Article 146.1.a) of the Consolidated Text of the Spanish Companies Law, and (iii) for reinvestment plans for dividends or similar instruments.

In order to retire treasury shares and granting the execution of this task to the Board of Directors in accordance with that indicated below, the Board resolved to reduce share capital, with a charge to profit or unrestricted reserves, for an amount equal to the total nominal value of the treasury shares which the Company directly or indirectly holds at the date of adoption of this resolution by the Board of Directors.

In accordance with Article 7 of the Company By-laws, the Board of Directors is empowered (with express powers of substitution) to execute this resolution to reduce share capital, which may be carried out once or several times within the maximum period of five years from the date of this resolution, performing such formalities, taking such steps and providing such authorizations as might be necessary or required by the Spanish Companies Law and other applicable provisions. In particular, the Board of Directors is authorized to, by the deadline and with the aforementioned limits, (i) set the date or dates for the specific share capital reduction or reductions, taking into account market conditions, the share price, the Company's economic-financial position, its cash, reserves, business performance and any other matter that is reasonable to consider; (ii) specify the amount of each share capital reduction; (iii) use of the amount of the reduction, either to restricted reserves or to unrestricted reserves, providing such guarantees as might be required and complying with the related legal requirements; (iv) amend Article 6 of the Company By-laws to the new share capital figure; (v) apply for the delisting of the retired shares; and, in general, adopt any resolutions as might be necessary to ensure the full effectiveness of the retirement of these shares and the concomitant capital reduction, designating the persons empowered to implement these resolutions.

The execution of this share capital reduction shall be subordinate to the execution of the capital reduction through the retirement of treasury shares proposed to the shareholders at the Ordinary General Shareholders' Meeting under item 7 on the Agenda, such that under no circumstances may the execution of this resolution be prevented in accordance therewith.

#### **A.11 ESTIMATED PERCENTAGE FREE FLOAT**

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**Estimated free float**

**82.29 %**

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**A.12 INDICATE, AS APPLICABLE, ANY RESTRICTIONS (STATUTORY, LEGISLATIVE OR ANY OTHER KIND) ON THE TRANSFER OF SECURITIES AND/OR ANY RESTRICTIONS ON VOTING RIGHTS. IN PARTICULAR, INDICATE THE EXISTENCE OF ANY TYPE OF RESTRICTIONS WHICH MAY MAKE IT DIFFICULT TO TAKE OVER THE COMPANY VIA THE MARKET ACQUISITION OF ITS SHARES, IN ADDITION TO THOSE PREVIOUS AUTHORIZATION OR COMMUNICATION REGIMES ON THE ACQUISITIONS OR TRANSMISSIONS OF FINANCIAL INSTRUMENTS OF THE COMPANY, THAT ARE APPLICABLE BY THE SECTORIAL STANDARDS.**

<b>Yes</b>	<b>No</b>
	X

**A.13 INDICATE WHETHER THE SHAREHOLDERS AT THE GENERAL MEETING HAVE RESOLVED TO TAKE MEASURES TO NEUTRALIZE A TAKEOVER BID PURSUANT TO LAW 6/2007.**

<b>Yes</b>	<b>No</b>
	X

**A.14 INDICATE WHETHER THE COMPANY HAS ISSUED SHARES THAT ARE NOT TRADED IN A REGULATED MARKET IN THE EUROPEAN COMMUNITY.**

<b>Yes</b>	<b>No</b>
	X



**B GENERAL SHAREHOLDERS' MEETING**

**B.1 INDICATE AND, IF APPLICABLE, DESCRIBE THE DIFFERENCES BETWEEN THE MINIMUM REQUIRED UNDER THE SPANISH COMPANIES LAW (*LEY DE SOCIEDADES DE CAPITAL – LSC*) AND THE QUORUM REQUIRED FOR HOLDING THE GENERAL SHAREHOLDERS' MEETING.**

Yes	No
	X

**B.2 INDICATE AND, IF APPLICABLE, DESCRIBE ANY DIFFERENCES BETWEEN THE RULES ESTABLISHED IN THE SPANISH COMPANIES LAW (LSC) FOR ADOPTING RESOLUTIONS AND THE COMPANY'S RULES.**

Yes	No
	X

**B.3 INDICATE THE RULES APPLYING TO AMENDING THE COMPANY'S BY-LAWS. IN PARTICULAR, INDICATE THE MAJORITIES ANTICIPATED FOR MODIFYING THE BY-LAWS, AS WELL AS, WHERE APPROPRIATE, THE RULES ANTICIPATED FOR PROTECTING PARTNERS' RIGHTS ON MODIFYING THE BY-LAWS.**

Article 32 of the By-laws states that for the General Meeting to validly agree to increase or reduce the capital, or any other modification of the by-laws, the issue debentures, withdrawal or limitation of pre-emption rights for new shares and the transformation, merger, spin-off or global assignment of assets and liabilities, transfer of residence abroad or voluntary dissolution by agreement of the General Meeting, it will be necessary at first call, for the shareholders holding at least fifty percent of the share capital with voting rights to attend in person or by proxy, and in second call, the attendance of twenty-five percent of the share capital. These corporate resolutions shall be adopted by absolute majority on first call and with the favorable vote of two thirds of the capital present or represented at the Meeting on the second call.

In addition, as set out in Articles 286 and 287 of the Capital Companies Act, the Board of Directors shall draft the full text of the proposed amendment to the By-laws as well as a written report justifying the same. In the call of the General Meeting the points which are to be amended shall be expressed with sufficient clarity with an affirmation of the right of all partners to examine the full text of the proposed amendment and the corresponding report at the registered office and to request delivery or free shipping of said documents.

Article 24. ("Separate voting on matters") the General Meeting Regulations stipulates that:

Separate votes shall be taken at the General Meeting on all matters which are substantially independent. In any event, separate votes shall be taken on the following matters, even if they are included in the same item on the agenda:

- Appointment, ratification, reselection or dismissal of each Director
- Amendment of the by-laws for each substantially independent article or group of articles

**B.4 INDICATE THE DATA ON ATTENDANCE AT THE GENERAL MEETINGS HELD IN THE YEAR TO WHICH THIS REPORT REFERS AND IN THE TWO PREVIOUS YEARS:**

## Attendance information

Date of the General Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic voting	Other	
5/5/2016	6.85%	63.15%	0.00%	0.00%	70.00%
Of which is floating Capital:	0.96%	37.70%	0.00%	0.00%	38.66%
5/4/2017	1.90%	62.54%	0.01%	0.00%	64.45%
Of which is floating Capital:	0.71%	44.39%	0.01%	0.00%	45.11%
5/8/2018	1.59%	59.91%	0.01%	59.53%	61.51%
Of which Free Float:	20.40%	41.66%	0.01%	0.00%	42.07%

**B.5 INDICATE WHETHER THERE HAVE BEEN ANY ITEMS ON THE AGENDA THAT FOR WHATEVER REASON, HAVE NOT BEEN APPROVED BY THE SHAREHOLDERS AT THE GENERAL MEETINGS HELD DURING THE YEAR.**

Yes	No
	X

**B.6 INDICATE WHETHER THERE HAVE BEEN ANY ITEMS ON THE AGENDA THAT FOR WHATEVER REASON, HAVE NOT BEEN APPROVED BY THE SHAREHOLDERS AT THE GENERAL MEETINGS HELD DURING THE YEAR.**

Yes	No
X	

Number of shares required to attend the General Meeting	100
Number of shares required to Electronic voting	100

Article 26 of the By-laws, stipulates that: The General Meeting is composed of all the holders of at least one hundred shares, whether present or represented. The owners or holders of less than one hundred shares can be grouped in order to arrive at that number, being represented, either by one of them, or by another shareholder who owns by itself the number of shares necessary to be part of the General Meeting.

**B.7 INDICATE IF IT HAS BEEN ESTABLISHED THAT CERTAIN DECISIONS, OTHER THAN THOSE ESTABLISHED BY LAW, INVOLVING AN ACQUISITION, SALE OR CONTRIBUTION TO ANOTHER COMPANY OF ESSENTIAL ASSETS OR OTHER SIMILAR CORPORATE TRANSACTIONS SHOULD BE SUBJECT TO THE APPROVAL OF THE GENERAL SHAREHOLDERS' MEETING.**

Yes	No
	X

**B.8 INDICATE IF IT HAS BEEN ESTABLISHED THAT CERTAIN DECISIONS, OTHER THAN THOSE ESTABLISHED BY LAW, INVOLVING AN ACQUISITION, SALE OR CONTRIBUTION TO ANOTHER COMPANY OF ESSENTIAL ASSETS OR OTHER SIMILAR CORPORATE TRANSACTIONS SHOULD BE SUBJECT TO THE APPROVAL OF THE GENERAL SHAREHOLDERS' MEETING.**

The address is <http://www.grupoacs.com/corporate-governance/>

Once in the ACS Group's website, several appear at the top, one of which is "CORPORATE GOVERNANCE"; if you click on this link, the following appear: Company By-laws, Rules of the General Meeting, Code of Conduct, Regulation of Proceedings for the Code of Conduct Monitoring Committee, Rules of Conduct for Securities Markets and Diversity Policy. Each sub-section contains pertinent information.

The drop-down menu within CORPORATE GOVERNANCE shows two sections:

- Board of Directors. If you click on this link you will find the Board of Director Regulations and the Composition of the Board of Directors with information on each Board Member.
- Annual Corporate Governance Report. If you click on this link, following a brief introduction there is a specific instruction to click on it and download the annual reports since 2006 in PDF format.

On the other hand, in the drop-down menu of the COMPLIANCE tab, there is a section "Policies and Procedures Compliance" containing the Code of Conduct, Code of Conduct for Business Partners, General Control and Risk Management Policy, Criminal Compliance and anti-bribery Policy, Human Rights Policy, Diversity Policy, Corporate Social Responsibility Policy, Policy for Communication and Contact with shareholders, institutional investors and proxy (voting) advisors, Treasury Stock Policy, Code of Conduct in Securities Markets, Rules of Procedure of the Monitoring Committee of the Code of Conduct and Environmental Policy.

Finally, the "Shareholders" section of the "Investor Relations" tab contains information concerning the General Shareholders' Meetings since 2013.

## C. STRUCTURE OF THE COMPANY ADMINISTRATION

### C.1 BOARD OF DIRECTORS

#### C.1.1 Maximum and minimum number of Board Members provided for in the Company By-laws:

<b>Maximum number of Board Members</b>	21
<b>Minimum number of Board Members</b>	11
<b>Number of directors determined by the board</b>	18

#### C.1.2 Complete the following table with the Board Members:

Name or company name of the Board Member	Class of Board Member	Position on the Board	Date of first appointment	Date of last appointment	Appointment procedure
MR. FLORENTINO PEREZ RODRIGUEZ	Executive	Executive Chairman	6/28/1989	4/28/2015	General Shareholders' Meeting
MR. MARCELINO FERNÁNDEZ VERDES	Executive	CEO	5/4/2017	5/4/2017	General Shareholders' Meeting
MR. ANTONIO GARCIA FERRER	Executive	Executive Deputy Chairman	10/14/2003	4/28/2015	General Shareholders' Meeting
MR. JOSE MARIA LOIZAGA VIGURI	Other External	Deputy Chairman	6/28/1989	4/28/2015	General Shareholders' Meeting
MR. AGUSTIN BATUECAS TORREGO	Executive	Board Member	6/29/1999	4/28/2015	General Shareholders' Meeting
MR. ANTONIO BOTELLA GARCÍA	Independent	Board Member	4/28/2015	4/28/2015	General Shareholders' Meeting
MR. JOSE LUIS DEL VALLE PEREZ	Executive	Board Member - Secretary	6/28/1989	4/28/2015	General Shareholders' Meeting
MR. MANUEL DELGADO SOLIS	Proprietary	Board Member	5/20/2004	5/5/2016	General Shareholders' Meeting
MR. JAVIER ECHENIQUE LANDIRIBAR	Proprietary	Board Member	5/20/2004	5/5/2016	General Shareholders' Meeting
MRS. CARMEN FERNÁNDEZ ROZADO	Independent	Board Member	2/28/2017	2/28/2017	Board of Directors' Resolution
MR. EMILIO GARCIA GALLEGRO	Independent	Board Member	11/13/2014	4/28/2015	General Shareholders' Meeting
MR. JOAN DAVID GRIMA TERRE	Other External	Board Member	10/14/2003	4/28/2015	General Shareholders' Meeting
MR. MARIANO HERNANDEZ HERREROS	Proprietary	Board Member	5/5/2016	5/5/2016	General Shareholders' Meeting
D. PEDRO LÓPEZ JIMENEZ	Other External	Board Member	6/28/1989	4/28/2015	General Shareholders' Meeting
MRS. CATALINA MIÑARRO BRUGAROLAS	Independent	Board Member	4/28/2015	4/28/2015	General Shareholders' Meeting
MRS. MARIA SOLEDAD PEREZ RODRÍGUEZ	Proprietary	Board Member	11/13/2014	4/28/2015	General Shareholders' Meeting
MR. MIGUEL ROCA JUNYENT	Other External	Board Member	10/14/2003	4/28/2015	General Shareholders' Meeting

Name or company name of the Board Member	Class of Board Member	Position on the Board	Date of first appointment	Date of last appointment	Appointment procedure
MR. JOSE ELADIO SECO DOMINGUEZ	Independent	Board Member	12/22/2016	12/22/2016	Board of Directors' Resolution
<b>Total number of Board Members</b>					<b>18</b>

### C.1.3 Complete the following tables on the Board Members and their positions:

#### Executive directors

Name or company name of the Board Member	Position per company organization	Profile
MR. FLORENTINO PEREZ RODRIGUEZ	Executive Chairman	<p>Born in Madrid in 1947, he holds a degree in Civil engineering from Universidad Politécnica de Madrid.</p> <p>Professional experience:</p> <p>He began his professional career in 1971 in the private sector, rising to head the Spanish Highway Association, until switching to the public business sector. From 1976 to 1982 he held various positions in the Public Administration, such as Delegate for Sanitation and Environment for the City of Madrid, Deputy Director-General at the Ministry of Industry and Energy, Director-General of Transport Infrastructure at the Ministry of Transport, and President of the National Institute for Agrarian Reform and Development (IRYDA) at the Ministry of Agriculture.</p> <p>In 1983 he returned to the private sector, when he headed Construcciones Padrós, S.A., as well as being one of its leading shareholders. Since 1993 he has been the Chairman of ACS, Actividades de Construcción y Servicios, S.A. He is also the Chairman of Real Madrid.</p>
MR. MARCELINO FERNÁNDEZ VERDES	CEO	<p>Born in Oviedo (Asturias) in 1955. Graduated as a Civil Engineer from the Escuela Superior de ICCP de Barcelona [Barcelona School of Engineering].</p> <p>Professional experience:</p> <p>He joined the group in 1987, being appointed general director of OCP Construcciones in 1994. In 1998, he assumed the position of CEO of ACS Proyectos, Obras y Construcciones S.A., and in 2000 he was appointed Chairman of the same. In 2004 he was appointed Chairman and CEO of Dragados, as well as responsible for the Construction area. In 2006, he was appointed Chairman and CEO of ACS Servicios y Concesiones, as well as responsible for the group's Concessions and Environment areas, a responsibility he held until March 2012. In April 2012, he was appointed to the executive Committee of Hochtief Ag and its Chairman in November of that same year, a position he continues to hold today, and he assumed the responsibility of the HOCHTIEF Asia Pacific Division. From March 2014 to October 2016, he was Chief Executive Officer (CEO) of the CIMIC Company of the Australian HOCHTIEF Group, and has been executive Chairman of CIMIC since June 2014. In May 2017, he was appointed CEO of the ACS group.</p>
MR. ANTONIO GARCIA FERRER	Executive Deputy Chairman	<p>Born in Madrid in 1945, he holds a degree in Civil engineering from the Universidad Politécnica de Madrid, Class of 1971.</p> <p>Professional experience:</p> <p>He joined Dragados as a student in 1970 and subsequently worked as site manager for various jobs in the peninsula, until he was named Civil Engineering Works Director in Madrid and subsequently Director of the Central Region for Dragados until 1997. Later he was appointed Director of Construction Works in Spain until 2001, when he became Director-general of Industrial Works and Environmental Services. In 2002 he was appointed Chairman of the Dragados Group until December 2003 when, following the merger with ACS, he became the Executive Vice Chairman of the ACS Group.</p>
MR. AGUSTIN BATUECAS TORREGO	Board Member	<p>Born in Madrid in 1949. Civil engineer</p> <p>Professional experience:</p> <p>He has been CEO and Chairman and CEO of Continental Auto S.A., Chairman and CEO of Continental Rail S.A. and a Director of Construrail S.A. Member of the Board of Directors of the ACS, Actividades de Construcción y Servicios, S.A. Group since 1999.</p>
MR. JOSE LUIS DEL VALLE PEREZ	Secretary-Board Member	<p>Born in Madrid in 1950. Graduate in law from the Universidad Complutense and State Attorney, Class of 1974 and a member of the Madrid Bar Association since 1976.</p> <p>Professional experience:</p> <p>As State Attorney he carried out his duties at the Tax and Courts Service in Burgos and Toledo and at the Ministries of Health and Consumer. He was National Director of Legal Counsel for the UCD. Deputy in the Congress of Deputies in the 1979/1982 legislative period and Under-Secretary at the Ministry of Territorial Administration.</p> <p>He has been Member of the Board and/or Board Secretary of numerous companies such as Continental Hispánica S.A. (subsidiary of US company Continental Grain), Continental Industrias del Caucho S.A., FSC Servicios de Franquicia S.A. and Continental Tyres S.L., (Spanish subsidiaries of German group Continental A.G.), Ercros, Banesto, etc. And is currently Board Secretary and General Secretary of the ACS Group and Board Secretary of its main subsidiaries (Dragados S.A., ACS Servicios Comunicaciones y Energía S.A. and ACS Servicios y Concesiones S.L.), as well as being a member of the Supervisory Board of Hochtief, A.G. and Member of the Board of CIMIC (before Leighton). He is a practicing lawyer.</p>
<b>Total number of Executive Board Members</b>		<b>5</b>
<b>% over total Board</b>		<b>27.78%</b>

## External proprietary board members

Name or company name of the Board Member	Name or company name of significant shareholder represented or proposing appointment	Profile
MRS. MARIA SOLEDAD PEREZ RODRIGUEZ	INVERSIONES VESAN, S.A.	<p>Born in Madrid in 1943, Graduate in Chemical Sciences and Graduate in Pharmacy from Universidad Complutense de Madrid.</p> <p>Professional experience:</p> <p>She has taught at schools in Madrid and acted as technical advisor to GEBLASA, S.A., a company importing and exporting chemical products, as well as being a pharmacist attached to a Madrid Pharmacy. Currently, in addition to being a Director of ACS, Actividades de Construcción y Servicios, S.A., she is also on the Board of its subsidiaries ACS Servicios Comunicaciones y Energía, S.L and DRAGADOS, S.A.</p>
MR. JAVIER ECHENIQUE LANDIRIBAR	CORPORACION FINANCIERA ALCOR, S.L.	<p>Born in Isaba (Navarra) in 1951. Graduate in Economic and Actuarial Sciences.</p> <p>Professional experience:</p> <p>He has been a Board Member and General Manager of Allianz-Ercos and Managing Director of the BBVA Group. He is currently Vicechairman of Banco Sabadell and a Member of the Board of REPSOL YPF S.A., Actividades de Construcción y Servicios (ACS) S.A., Grupo Empresarial ENCE S.A., Telefónica Móviles Mexico and Celistics S.L. Likewise, he is a Member of the Board of Trustees of the Novia Salcedo Foundation and the Altuna Foundation. In turn, he is a member of Telefónica de España's Advisory Board and a Board Director for Telefónica S.A. in the Basque Country"</p>
MR. MANUEL DELGADO SOLIS	CORPORACION FINANCIERA ALCOR, S.L.	<p>Born in 1948. Graduate in both Pharmacy and Law</p> <p>Professional experience:</p> <p>Mr. Delgado Solís is currently a Member of the Board of ACS Actividades de Construcción y Servicios, Dragados, and Refinería Balboa, as well as Chairman of Profesionales de la Medicina y de la Empresa, SA (Hospital de Madrid Group). He practices the law in his own law firm</p>
MR. MARIANO HERNANDEZ HERREROS	INVERSIONES VESAN, S.A.	<p>Born in Torrelavega (Cantabria), in 1943. Degree in medicine and surgery from the Complutense University and specialized in Psychiatry at the same University.</p> <p>Professional experience:</p> <p>He has developed all his professional activity as a psychiatrist at Lopez-Ibor clinic. He is also author of numerous research reports in scientific journals and presentations at international congresses. Former Board member of Grupo Dragados, Iberpistas S.A. and Autopistas AUMAR, S.A. He is currently Board member of Dragados, S.A. and ACS, Servicios y Concesiones, S.L.</p>

**Total number of Proprietary Board Members**

**4**

**% over total Board**

**22.22%**

## External independent board members

Name or company name of the Board Member:	Profile
MR. ANTONIO BOTELLA GARCÍA	<p>Born in Orihuela in 1947. Holder of a Law degree from the Universidad de Murcia and State Attorney (Class of 1974).</p> <p>Professional experience:</p> <p>As State Attorney he was provide his services at the State Attorney's Office of the High Court, having previously worked in the Treasury Department and Courts of Oviedo, the Treasury Department and Courts of Albacete, in the Government Presidency attached to the Deputy Minister for Parliament Relations, in the Legal Department of the Ministry of Transport, Tourism and Communications, and at the National High Court. He has been General Technical Secretary at the Ministry of Transport, Tourism and Communications and the Ministry of Agriculture, Fisheries and Food and Undersecretary at the Ministry of Agriculture and Nature Conservation.</p> <p>He has been Law Professor at the Instituto de Empresa at Universidad de Oviedo and at the Universidad a Distancia de Albacete. He has been a Board Member of the Caja Postal de Ahorros (subsequently Argentaria and then merged with BBVA), of AVIACO (subsequently merged with IBERIA LAE) and ALDEASA and Secretary of the Board of various companies. He is a practising lawyer.</p>
MRS. CARMEN FERNÁNDEZ ROZADO	<p>Graduated in Economics and Business, Graduated in Political Science and Sociology and Doctor in Public Finance at the University Complutense of Madrid, Inspector of Treasury of the State. He has completed the Senior Management Program (PADE) at the IESE Business School (University of Navarra). State Tax Inspector and Auditor of Accounts.</p> <p>Professional experience:</p> <p>She began her professional career in 1984 at the Ministry of Finance, where she held various positions in the State Agency for Tax Administration. In 1999, she was appointed member of the Board of Directors of the National Energy Commission, a position she held until 2011. Since then, she is an international consultant for the development and execution of Energy and Infrastructure business plans in different countries of Latin America and Asia. During the years 2012 and 2013 she was a member of the Advisory Board of Ernst &amp; Young; member of the Advisory Board of Beragua Capital Advisory and, since April 2015, she is a member of the Audit Committee of EDP (Energías de Portugal) in Lisbon. Professor in different universities and business schools in Spain and abroad, as well as author of numerous articles and publications on Taxation, Energy and Sustainability.</p>
MR. EMILIO GARCÍA GALLEGO	<p>Born in Cabreiró (Orense) in 1947. Civil engineering degree (Madrid 1971) and Law degree (Barcelona 1982) as well as Phd courses at the Universidad Politécnica de Catalunya. He has also attended the following official courses: Subterranean Hydrology (Escuela Superior de Ingenieros Industriales de Barcelona); Management Skills (1984-1985) (Escuela de Administración Publica de Catalunya); Coast Engineering (Escuela Técnica Superior de Ingenieros de Caminos, Canales y Puertos de Catalunya (ETSICCP)); and Port and Oceanographic Engineering (ETSICCP, Catalonia).</p> <p>As a teacher, he has been professor in charge of the course on "Soil Mechanics and Special Foundations" at the Escuela Técnica Superior de Arquitectura in Barcelona (from 1974 to 1982) and professor in charge of the doctoral course on "Consolidation of Soft and Loose Ground" at the Escuela Técnica Superior de Arquitectura in Barcelona in 1979-1980.</p> <p>Professional experience:</p> <p>He has been an engineer for the River Policing Authority of the eastern Pyrenees, engineer for Fomento de Obras y Construcciones, representative for the Catalonia area of the company Grandes Redes Eléctricas, S.A., Head of the Ports Service of the Regional Government of Catalonia and co-director of the Plan de Puertos de Catalunya, general manager for Infrastructure and Transportation of the Regional Government of Galicia, general manager for Transportation of the Regional Government of Catalonia, deputy manager of the Sanitation Council and deputy manager of the Water Board of the Regional Government, general manager of Public Works of the Regional Government of Galicia and chairman of the Water Board of Galicia, chairman of the Entity Managing Railway Infrastructures, adhered to the Ministry of Development and responsible for executing the entire High Speed railway infrastructure, chairman of Puertos de Galicia.</p> <p>He is currently an independent civil engineering consultant.</p>
MRS. CATALINA MIÑARRO BRUGAROLAS	<p>Born in Spanish in 1963, with a degree in Law from the Universidad Complutense de Madrid (1986) and State Attorney (Class of 1989).</p> <p>Professional experience:</p> <p>As State Attorney she currently provides her services at the State Attorney's Office of the National High Court, having previously MR.e so in the Court of Auditors, the Treasury and Financial Policy Directorate-General, as Secretary to the Regional Economic and Administrative Tribunal in Madrid, in the State Attorney's Office at the Ministry of Health and Consumer Affairs, and at the State Attorney's Office of the High Court of Madrid.</p> <p>She has been the General Technical Secretary of the Presidential Council of the Community of Madrid, Director of Legal Matters of the State Asset Ownership Corporation, Secretary to the Board of the State Tourism Parador Hotels Company, Secretary to the Board of the State Corporation for Transition to the Euro, Secretary to the Board of Saeta Yield, S.A. and Board Member of Autoestradas de Galicia, S.A.</p> <p>She is currently an Independent Director on the Boards of MAPFRE, S.A.</p>
MR. JOSE ELADIO SECO DOMINGUEZ	<p>Born in Veguellina de Órbigo (León), in 1947. He holds a degree in Civil engineering by the High School of ICCP of Madrid, in the speciality of Transport, Ports and Urbanism.</p> <p>Professional experience:</p> <p>He began his professional career in 1972 in the state-owned engineering company INECO where he held various positions. In 1988 he became International Director joining RENFE where he held various positions. In 2000 he was appointed Executive Chairman of INECO until 2002 when he was appointed Chairman-CEO of AENA until 2004 when he was appointed Adviser to the Presidency of RENFE.</p> <p>He has worked as Senior Advisor to OCA, S.A., PRINTEC, COLLOSA, INCOSA, NATIONAL EXPRESS-ALSA and MENZIES AVIATION and has been Chairman of the Spanish Consortium for the concession and exploitation of Rio Janeiro-Sao Paulo-Campinas' (Brazil) high-speed line.</p> <p>He is currently as Senior Advisor to INDRA, AT KEARNEY and STADLERRAIL.</p>
<b>Total number of Independent Board Members</b>	<b>5</b>
<b>Total % of the Board</b>	<b>27.78%</b>



## Other external board members

Identify the other external board members and indicate the reasons why they cannot be considered proprietary or independent and their relations, either to the company, its management or its shareholders:

Name or company name of the Board Member	Reasons	Company, executive or shareholder with whom there is a relation:	Profile
MR. JOAN DAVID GRIMA TERRE	Mr. Joan David Grima Terre went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A	<p>Born in 1953 in Sabadell (Barcelona) on 1953. He has a PhD in Economics and Business (UAB) and has studied at the Universidad Autónoma de Barcelona (UAB), Baylor and Harvard Business School.</p> <p>Professional experience:</p> <p>Between 1982 and 1992 he worked at McKinsey &amp; Co, of which he was a partner. From 1992 to 2010 he was the general manager of Banco Santander. In January 2002 he was appointed Deputy Chairman and CEO of the Auna Group, a position he held in addition to his responsibilities at the Bank up to November 2005.</p> <p>He is a member of the Boards of ACS, Actividades de Construcción y Servicios, S.A., Cory Environmental Holdings Limited (UK). Patron of the Fundación Pluralismo y Convivencia (Ministry of Justice), and a Director of Golf La Moraleja.</p>
MR. JOSE MARIA LOIZAGA VIGURI	Mr. José María Loizaga went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	<p>Born in Bilbao in 1936.</p> <p>Professional experience:</p> <p>He began his career in Banco Vizcaya where he held various executive positions. In 1968, he was General Manager of Zardoya and played a role in 1972 in the merger with Schneider Otis. Up to 1980, he was the head of Otis Elevator for Southern Europe. In 1980 he founded Banco Hispano Industrial (Grupo BHA) and in 1982 he was appointed Deputy Chairman and CEO of Banco Union which merged with Banco Urquijo where he held a position until 1985. In 1985 he founded Mercapital, S.A. and was Chairman of this group until 2008.</p> <p>He has held various positions including Chairman of Bodegas Lan and Bodegas Barón de Ley and, as well as being a Board Member of Banque Privée Edmond de Rothschild, Suez International, Otis International, Amorim Investment, Lácteos G. Baquero and Union Fenosa, Mecalux, etc.</p> <p>He is currently as a Board Member of Cartera Industrial Rea and Deputy Chairman of Zardoya Otis. He is Commandeur de l'Ordre de Léopold II.</p>
MR. PEDRO JOSE LOPEZ JIMENEZ	Mr. Pedro López Jimenez went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	<p>Born in Málaga in 1942. Degree in Civil Engineering (1965). Journalism and Social Sciences (partial) at I.S. Leo XIII (1960-62). (ACNdeP scholarship)</p> <p>Senior Business Management Programme, IESE (1995/1996). Knight Grand Cross, Order of Isabella the Catholic</p> <p>Professional experience: Chairman of ENDESA (1979-82); Board Member, ENHER; Vice-Secretary of MOPU; Director General of Ports, Board Member, INI (1978-79); Board Member and Director General, Empresarios Agrupados; Director, Construcción Centrales Térmicas. Hidroeléctrica Española (1965-70); Board Member, ATLAS COPCO, SEMI, TECMED, CONTINENTAL AUTO, VIAS Y CONSTRUCCIONES, ENAMSA, TRACTEBEL ESPAÑA, HILATURA DE PORTOLIN; Chairman of UNION FENOSA; Vice-Chairman of INDRA; Board Member, CEPESA; Board Member, LINGOTES ESPECIALES; Chairman, GTCEISU CONSTRUCCIÓN S.A; Board Member, ENCE; Board Member, KELLER GROUP, plc, and member of the Council of the UNIVERSITY OF ALCALÁ DE HENARES.</p> <p>Currently: Member and Vice-Chairman of the Executive Committee and spokesperson for the Nomination Committee of ACS Actividades de Construcciones y Servicios S.A. Vice-Chairman and Acting Chairman of Dragados S.A., Vice-Chairman and Acting chairman of ACS Servicios y Concesiones S.A., Vice-Chairman of ACS Servicios, Comunicaciones y Energía. Chairman, Supervisory Council of Human Resources Committee and Nomination Committee of HOCHTIEF; Member of the Board of Directors, Compensation and Nomination Committee and Ethics, Compliance and Sustainability Committee of CIMIC.</p>
MR. MIGUEL ROCA JUNYENT	Mr. Miguel Roca Junyet went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	<p>Born in Cauderan (France) in 1940. Degree in Law from Universitat de Barcelona and Doctorate Honoris Causa from the Distance Education Universities of León, Girona and Cádiz.</p> <p>Professional experience:</p> <p>Professor of Constitutional Law at the Universidad Pompeu Fabra in Barcelona; Deputy representing Barcelona and Chairman of the Catalan Parliamentary Group in the Chamber of Deputies (1977-1995). Member of the Panel that drafted the 1978 Constitution, as well as of the Committee that drafted the Catalonia Statute of Autonomy.</p> <p>He has been a practising lawyer since 1962: Chairman and Partner of the firm of Roca Junyet, with offices in Barcelona, Madrid, Palma de Mallorca, Girona, Lleida and Shanghai. Customer Ombudsman at Seguros Catalana Occidente since March 1996. Board Secretary of Banco Sabadell, Abertis Infraestructuras, TYPSA and Accesos de Madrid, S.A. Director of ENDESA. Member of the Board of ACS.</p>

**Total number of external Board Members**

**4**

**% of total Board**

**22.22%**



C.1.4 Complete the following table with information relating to the number of women Board Members during the last 4 financial years, as well as the nature of those Board Members:

	Number of Directors				% of total Board Members of each type			
	Year 2018	Year 2017	Year 2016	Year 2015	Year 2018	Year 2017	Year 2016	Year 2015
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	1	1	1	2	5.56%	5.56%	6.25%	28.57%
<b>Independent</b>	2	2	1	1	11.11%	11.11%	6.25%	20.00%
<b>Other</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>16.67%</b>	<b>16.67%</b>	<b>12.50%</b>	<b>16.67%</b>

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors of the company with regard to issues such as age, gender, disability, or training and professional experience. Small and medium-sized entities, in accordance with the definition contained in the Accounts Auditing Act, will have to provide information on, at least, the policy they have in place regarding gender diversity.

Yes	No	Partial Policies
		X

If yes, describe these diversity policies, their objectives, the measures and the manner in which they have been applied and their results in the year. The specific measures adopted by the board of directors and the appointments and remuneration committee should also be indicated in order to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons for this.

**Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained**

The ACS Group promotes the implementation and development of diversity and inclusion of all kinds of groups and awareness in different areas and levels of the Group, establishing guidelines that govern the actions of the Group on the matter of diversity.

In this regard, ACS' Diversity Policy approved by the group's Board of Directors at its meeting of February 27th 2019, defines the objectives and commitments on the matter of diversity, including, inter alia, the promotion of integrating people with different profiles in all areas of business and Group levels; the identification of talent in the selection process, promotion and integration within the Group; the selection of professionals with alternative capacities; generational diversity in the teams to foster collaboration among older and younger professionals; integration and inclusion of vulnerable groups; promoting implementation of systems for measuring progress in diversity; communication and extension of the commitment to diversity to all employees, suppliers, customers, administrations, social partners and other stakeholders; and maintaining a neutral and inclusive language in internal and external communications. All this in line with the ACS Code of Conduct and the Corporate Social Responsibility and Human Resources Policy.

In addition, the Board of Directors of the ACS Group, in accordance with its Rules of Procedure, will also ensure that the selection procedures of its members promote diversity on issues such as age, gender, disability, or training and professional experience and does not entail any bias or discrimination and, in particular, facilitates the selection of women and men, informing shareholders and markets through the appropriate channels.

In turn, the Board of Directors of ACS, in its capacity as parent company of the Group, will promote the dissemination and application of those principles and guidelines in the governing bodies and executives of the Group companies, ensuring the dissemination of objectives, actions and results.

With regard to the implementation of diversity policies and measures in relation to the Board of Directors of ACS, during 2018 there have not been any vacancies on the Board as a result of which the governing bodies of the Company have not been able to apply such policies.

In any case, the Board of Directors of ACS, with the support and collaboration of the Appointments Committee maintains a policy on renewals of appointments on the Board of Directors based on coordination of the principles of representativeness with those of diversity and independence, taking into account the recommendations of good national and international governance.

**C.1.6 Explain the measures, where appropriate, the Nominations Committee has decided to ensure that the selection processes do not suffer from implicit biases that hinder the selection of women Board Members and that the company deliberately seeks and includes women who meet the professional profile sought among the potential candidates, and that allows reaching a balanced presence of men and women:**

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#### Explanation of the measures

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Article 3.2 of the Regulations of the Board of Directors of ACS expressly establishes that the Board should ensure that the selection procedures of its members promote diversity of gender, experience and knowledge and does not entail any bias or any kind of discrimination and, in particular, facilitates the selection of women directors in sufficient number to allow a balanced representation of women and men, whereby the Appointments Committee has the responsibility of informing the Board of Directors regarding "issues relating to gender diversity on the Board of Directors". Article 1.3 of the Code of Conduct of the ACS Group expressly establishes that "any kind of discrimination based on race, nationality, social background, age, sex, marital status, sexual orientation, ideology, political or trade union views, religion or any other personal, physical or social condition will not be tolerated", thus ensuring equal opportunities through its action policies.

In this regard, the Appointments Committee favors the inclusion of women among potential candidates, making sure that appropriate professional profiles are combined with the objective criteria of merit and ability.

**When, in spite of the measures which have been adopted, where applicable, the number of women Board Members is few or zero, explain the reasons justifying this:**

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#### Explanation of the reasons

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As noted above, the selection procedures of Board members seek to facilitate the selection of women directors in sufficient number to allow a balanced representation of women and men, and as such, the Appointments Committee favors the inclusion of potential women candidates when vacancies occur on the Board.

However, as gender diversity is a key issue to be taken into account in the selection process, the Appointments Committee must also ensure that other diversity criteria is taken into account such as training and professional experience as well as age and other issues that may be relevant to economic sectors and international character of the ACS Group and must ensure that candidates have the appropriate professional profile taking into account the objective criteria of merit and ability, with the candidates prior knowledge of the Company, its Group and the sector to which it belongs being valued very highly.

**C.1.7 Explain the appointments committee's findings on its verification of compliance with policy for the selection of Board Members. In particular, describe how the policy contributes to the goal of achieving a number of female directors representing at least 30% of the total Board Members by 2020.**

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#### Explanation of findings

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Eight of the members of the Board of Directors at December 31, 2018 have joined in the last 3 years, and these (representing forty percent of the incorporations) are women.

C.1.8 If applicable, explain the reasons for appointing Proprietary Board Members at the request of shareholders who have a holding of less than 3% of share capital.

Indicate whether any formal requests by a shareholder to have a Board Member appointed were denied although the shareholder holds the same or a higher number of shares than another shareholder at whose request Proprietary Board Members were appointed. In this case, explain the grounds for denying this request:

Yes	No
	X

C.1.9 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Name or company name of the Board Member:	Brief description:
MR. FLORENTINO PEREZ RODRIGUEZ	ALL POWERS CORRESPONDING TO THE BOARD EXCEPT THOSE THAT CANNOT BE TRANSFERRED
MR. MARCELINO FERNÁNDEZ VERDES	ALL POWERS CORRESPONDING TO THE BOARD EXCEPT THOSE THAT CANNOT BE TRANSFERRED

C.1.10 Identify, if applicable, the Board Members who hold office as Board Members or executives at other companies forming part of the listed company's group:

Name or company name of the Board Member	Company name of the group entity	Position	Executive functions?
MR. MARCELINO FERNANDEZ VERDES	HOCHTIEF AG	CHAIRMAN AND CEO	YES
MR. MARCELINO FERNANDEZ VERDES	CIMIC GROUP LIMITED	EXECUTIVE CHAIRMAN	YES
MR. ANTONIO GARCIA FERRER	DRAGADOS. S.A.	BOARD MEMBER	NO
MR. ANTONIO GARCIA FERRER	ACS SERVICIOS. COMUNICACIONES Y ENERGÍA S.L.	BOARD MEMBER	NO
MR. ANTONIO GARCIA FERRER	ACS SERVICIOS Y CONCESIONES S.L.	BOARD MEMBER	NO
MR. JOSE LUIS DEL VALLE PEREZ	HOCHTIEF AG	MEMBER OF THE SUPERVISORY BOARD	NO
MR. JOSE LUIS DEL VALLE PEREZ	DRAGADOS. S.A.	BOARD MEMBER/SECRETARY	NO
MR. JOSE LUIS DEL VALLE PEREZ	CIMIC GROUP LIMITED	BOARD MEMBER	NO
MR. JOSE LUIS DEL VALLE PEREZ	ACS SERVICIOS. COMUNICACIONES Y ENERGÍA S.L.	BOARD MEMBER/SECRETARY	NO
MR. JOSE LUIS DEL VALLE PEREZ	ACS SERVICIOS Y CONCESIONES S.L.	BOARD MEMBER/SECRETARY	NO
MR. JOSE LUIS DEL VALLE PEREZ	COBRA GESTIÓN DE INFRAESTRUCTURAS, S.L.	BOARD MEMBER/SECRETARY	NO
MR. MANUEL DELGADO SOLIS	DRAGADOS. S.A.	BOARD MEMBER	NO
MR. JAVIER ECHENIQUE LANDIRIBAR	ACS SERVICIOS. COMUNICACIONES Y ENERGÍA S.L.	BOARD MEMBER	NO
MR. MARIANO HERNANDEZ HERREROS	DRAGADOS, S.A.	BOARD MEMBER	NO

Name or company name of the Board Member	Company name of the group entity	Position	Executive functions?
MR. MARIANO HERNANDEZ HERREROS	ACS, SERVICIOS Y CONCESIONES, S.L.	BOARD MEMBER	NO
MRS. MARIA SOLEDAD PEREZ RODRÍGUEZ	DRAGADOS, S.A.	BOARD MEMBER	NO
MRS. MARIA SOLEDAD PEREZ RODRÍGUEZ	ACS SERVICIOS. COMUNICACIONES Y ENERGIA S.L.	BOARD MEMBER	NO
MR. PEDRO JOSE LOPEZ JIMENEZ	HOCHTIEF AG	CHAIRMAN OF THE SUPERVISORY BOARD	NO
MR. PEDRO JOSE LOPEZ JIMENEZ	DRAGADOS. S.A.	DEPUTY CHAIRMAN	NO
MR. PEDRO JOSE LOPEZ JIMENEZ	CIMIC GROUP LIMITED	BOARD MEMBER	NO
MR. PEDRO JOSE LOPEZ JIMENEZ	ACS SERVICIOS. COMUNICACIONES Y ENERGIA S.L.	DEPUTY CHAIRMAN	NO
MR. PEDRO JOSE LOPEZ JIMENEZ	ACS SERVICIOS Y CONCESIONES S.L.	DEPUTY CHAIRMAN	NO

C.1.11 List, if applicable, any Board Members or legal representatives of Members of the company who are members of the Boards of Directors or legal representatives of Members of other non-group companies that are listed on official securities markets in Spain, as disclosed to the company:

Name or company name of the Board Member	Company name of the Group company	Position
MRS. CATALINA MIÑARRO	MAPFRE, S.A.	BOARD MEMBER
MR. JOSE MARIA LOIZAGA VIGURI	ZARDOYA OTIS. S.A.	DEPUTY CHAIRMAN
MR. JOSE MARIA LOIZAGA VIGURI	CARTERA INDUSTRIAL REA. S.A.	BOARD MEMBER
MR. JAVIER ECHENIQUE LANDIRIBAR	BANCO SABADELL. S.A.	DEPUTY CHAIRMAN
MR. JAVIER ECHENIQUE LANDIRIBAR	GRUPO EMPRESARIAL ENCE. S.A.	BOARD MEMBER
MR. JAVIER ECHENIQUE LANDIRIBAR	TELEFONICA, S.A.	BOARD MEMBER
MRS. CARMEN FERNÁNDEZ ROZADO	ENERGÍAS DE PORTUGAL (EDP)	BOARD MEMBER
MR. MIGUEL ROCA JUNYENT	ENDESA, S.A.	BOARD MEMBER
MR. MIGUEL ROCA JUNYENT	AIGUES DE BARCELONA	BOARD MEMBER

C.1.12 Indicate, and if applicable, explain whether the Company has established any rules about the number of Boards on which its Board Members may sit:

Yes	No
	X

C.1.13 Indicate the overall remuneration for the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	27,905
Amount of rights accumulated by current Board Members as regards pensions (thousands of euros)	74,804
Amount of rights accumulated by former Board Members as regards pensions (thousands of euros)	0

**C.1.14 Identify the Senior Executives who are not Executive Board Members and indicate the total remuneration paid to them during the year:**

<b>Name or company name</b>	<b>Position</b>
Mr. Ángel Manuel García Altozano	Corporate General Manager of ACS, Actividades de Construcción y Servicios, S.A.
Mr. Ángel Manuel Muriel Bernal	Deputy Director General Manager to CEO of ACS, Actividades de Construcción y Servicios, S.A.
Mrs. Cristina Aldámiz-Echevarria Gonzalez de Durana	Finance and Corporate Development Manager of ACS Actividades de Construcción y Servicios, S.A.
Mr. Alejandro Mata Arbide	Administration Manager of ACS, Actividades de Construcción y Servicios, S.A.
Mr. Alfonso Esteban Moreno García	Chief Fiscal Consulting of ACS, Actividades de Construcción y Servicios, S.A.
Mr. Adolfo Valderas Martínez	Chief Executive Officer of Dragados, S.A.
Mr. Enrique José Pérez Rodríguez	Chief Executive Officer of Cogesa, S.A.
Mr. Luis Nogueira Miguelsanz	Secretary General for Construction, Concessions and Environment
Mrs. Marta Fernández Verdes	Finance Director of Dragados, S.A.
Mr. Ricardo Cuesta Castiñeyra	Head of the Legal Department of Dragados, S.A.
Mr. Eusebio Arnedo Fernández	Head of Human Resources of Dragados, S.A.
Mr. Diego Miguel Zumaquero García	Manager Canadá in Dragados, S.A.
Mr. Ricardo García de Jalón Morga	Manager of Building at Dragados, S.A.
Mr. Santiago García Salvador	Manager for Europe of Dragados, S.A.
Mr. Ricardo Martín de Bustamante Vega	Contract Manager, Dragados, S.A.
Mr. Ricardo Franco Barberán	Manager for Civil Work in Dragados, S.A.
Mr. Alejandro Emilio Canga Botteghelz	Manager for rest Europe of Dragados, S.A.
Mr. Gonzalo Gómez-Zamalloa Baraibar	Manager of Iberoamérica en Dragados, S.A.
Mr. Julián Garí Munsuri	Risk and Management Control Manager in Dragados, S.A.
Mr. José Antonio López-Monís Plaza	Studies and International Developments Manager of Dragados, S.A.
Mr. José María Aguirre Fernández	Sole Director of Vías y Construcciones, S.A.
Mr. Gustavo Tunell Ayuso	Manager of Gravity, INC
Mr. Pablo Fernández Fernández	General Manager of Geotecnia y Cimientos, S.A. (Geocisa)
Mr. Eloy Domínguez-Adame Bozzano	General Manager of Drace Infraestructuras, S.A.
Mr. Francisco Reinoso Torres	Administration and Finance Manager of ACS Servicios y Concesiones, S.L.
Mrs. Nuria Haltwanger	Chairman of Iridium, Concesiones de Infraestructuras, S.A.
Mr. David Cid Gueso	Administration Manager of Iridium, Concesiones de Infraestructuras, S.A.
Mr. Carlos Royo Ibáñez	Operations Manager of Iridium, Concesiones de Infraestructuras, S.A.
Mr. Cristóbal Valderas Alvarado	Natural person representing the Sole Administrator of Clece, S.A.
Mr. Javier Román Hernando	General Manager of Clece, S.A.
Mr. Raúl Gutierrez Rodríguez	Administration and Finance Manager of Clece, S.A.
D <sup>a</sup> . Purificación González Pérez	Human Resources Manager of Clece, S.A.
Mr. Eugenio Llorente Gómez	Chairman and CEO of the Industrial Services Area
Mr. José Alfonso Nebrera García	General Manager of ACS Servicios Comunicaciones y Energía, S.L.
Mr. Epifanio Lozano Pueyo	Corporate General Manager of ACS Servicios Comunicaciones y Energía, S.L.
Mr. Cristobal González Wiedmaier	Finance Manager of ACS Servicios Comunicaciones y Energía, S.L.
Mr. Andrés Sanz Carro	Manager in ACS, Servicios Comunicaciones y Energía, S.A.
Mrs. Aída Pérez Alonso	Head of the Legal Department of ACS Servicios Comunicaciones y Energía S.L.
Mr. José María Castillo Lacabex	General Manager of Cobra Instalaciones y Servicios, S.A.
Mr. José Reis Costa	Chairman of Procme LTD
Mr. Miguel Ángel Martínez Anguita	Chairman of Sociedad Española de Montajes Industriales, S.A. (SEMI).
Mr. Carlos Díaz Hidalgo	Chairman of Imesapi, S.A.
Mr. Marco Antonio Rodriguez	Chairman of CYMI

Name or company name	Position
Mr. José M <sup>a</sup> Pau	Chairman of Masa
Mr. José Antonio Fernández García	General Manager of Grupo Etra y Cobra Energía
Mr. Raúl Llamazares de la Puente	CEO of Intecsa, Initec and Makiber
Mr. José Luis Celorrio García	General Manager of Maetel, S.A.
Mr. Pedro Ascorbe Trian	Chairman of Dragados Off Shore, S.A.
Mr. Antonio Pérez Hereza	Chairman of Sice, Tecnología de Sistemas, S.A.
<b>Total Senior Executive remuneration (thousand euros)</b>	
	33,392

The list of senior management members provided in this section does not include executives of the ACS Group whose activities are concerned with listed companies like Hochtief and Cimic.

**C.1.15 Indicate whether any amendments have been made to the Rules of the Board of Directors during the year:**

	Yes	No
		X

**C.1.16 Indicate the procedures for selection, appointment, re-election, evaluation and removal of Board Members. List the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.**

Procedures for selection, appointment, reappointment and removal of members of the Board of Directors of the Company are governed by the Rules of Procedure of the Board of Directors. The Board of Directors of the Company is composed of a minimum of eleven members and a maximum of twenty. In accordance with this guideline, the Board of Directors of the Company (having previously informed the Appointments Committee) is responsible for proposing to the General Shareholders' Meeting both the number of directors and the appointment or reappointment of natural or legal persons, except in the case of independent directors, whose nominations are submitted to the Appointments Committee. The appointment nominations must include the category of the proposed Directors and must in any case be accompanied by a report justifying the competence, experience and merits of the nominee to the Board, as well as the diversity criteria as referred to in the diversity policy (Articles 3 and 5 of the RCA).

In addition, in the event of any vacancies, the Board of Directors may provisionally appoint Directors by co-optation until the next General Shareholders' Meeting, following a report or at the proposal of the Appointments Committee depending on the category of director and applying the aforementioned procedures (Art. 3 of the RCA).

In this regard, the Board of Directors, with the collaboration and support of the Appointments Committee, must ensure that the selection procedures of its members promote diversity in its various aspects and does not entail any bias or any kind of discrimination and, in particular, facilitate the selection of Board Members in sufficient number to allow a balanced representation of men and women, taking into account the fact that the criteria established in the Diversity Policy of the Company was reviewed by the Board of Directors on February 27, 2019.

The appointment of the Board Members shall expire when their term has ended and the next General Meeting has been held, or following the legal period within which the Meeting is to be held to resolve on whether or not to approve the financial statements for the previous fiscal year. However, the Proprietary Directors must offer the Board of Directors their resignation when the shareholder they represent fully transfers their shareholder position for any other title (art. 13 RCA).

**C.1.17 Explain to what extent the annual assessment of the Board led to significant changes to its internal organization and to the procedures applicable to its activities.**

Description of amendments

In accordance with article 9 of the regulation of the Board of Directors, the ACS board will evaluate its functioning each year.

The self-assessment process of the Board carried out in 2018 with respect to 2017, which included questionnaires and personal interviews with members of the Board, included the collaboration of an external consultant. This assessment resulted in a work plan aimed at strengthening the areas for improvement identified by the Board Members.

Moreover, the assessment of the 2018 financial year, including questionnaires and personal interviews with members of the Board, is currently underway. In any case, the result of the assessment will be reported in next year's Annual Corporate Governance Report.

Describe the assessment process and the areas assessed by the Board of Directors with the assistance, where applicable, of an external consultant, with regard to the functioning and composition of the board and its conditions, any other area or aspect that has been the subject of evaluation.

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**Description of the evaluation process and areas evaluated**

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The Board performs an annual evaluation of its operation and that of its Committees (Executive Committee, Audit Committee, Appointments Committee and Remunerations Committee) consisting of a broad-ranging written survey addressed by the Secretary of the Board to all its members and to all the members of the respective Committees, commenting subsequently on their results and any measures to be taken in order to improve their operation.

As noted above, the self-assessment process of the Board carried out in 2018 with respect to 2017, which included questionnaires and personal interviews with members of the Board, included the collaboration of an external consultant. Among other issues, the composition of the Board and its Committees, its organization and functioning and performance of responsibilities and the performance of the Chairman, the CEO and the Secretary General was evaluated. Following the self-assessment process, a work plan was developed to make progress in the areas for improvement identified by board members.

Also as part of the self-assessment process, an analysis of the recommendations was carried out on the corporate governance of the relevant investors for the company, in order to identify the degree of alignment of ACS' practices and policies with external reference standards.

**C.1.18 Provide a breakdown for those financial years in which the assessment process involved an external consultant, of the business relationships that the consultant or any company in its group maintains with the company or any company in its group.**

The external consultant commissioned to participate in the assessment process of the Company provides services to the Company on non-financial information and has collaborated on the design of its compliance system. The members of the external team carrying out the work do not have any personal or family relationships with the directors of the Company, are not significant shareholders and there are no conflicts of interest that could impair their objectivity.

**C.1.19 Indicate the cases in which the Board Members must resign.**

In accordance with Article 13 of the Rules of the Company's Board of Directors, the Proprietary Board Members shall resign from the Board of Directors when the shareholder they represent fully disposes of its shares by any means.

**C.1.20 Are qualified majorities, other than statutory majorities, required for any type of decision?**

Yes	No
	X



C.1.21 State whether there are specific requirements, other than those related to Board Members, to be nominated as Chairman.

Yes	No
	X

C.1.22 Indicate whether the By-laws or the Rules of the Board of Directors set any age limit for Board Members:

Yes	No
	X

C.1.23 Indicate if the Company By-laws or the Rules of the Board of Directors establish a limited mandate or other additional stricter requirements than those set forth in law for Independent Board Members, differing from that laid down in the regulations:

Yes	No
	X

C.1.24 Indicate whether the Company By-laws or the Rules of the Board of Directors establish specific rules for delegating votes on the Board of Directors, the form of doing so and, in particular, the maximum number of delegations that a Board Member can hold, as well as any limitations established with regard to the classes of Board Member to whom votes may be delegated above and beyond the legal restrictions established. Where applicable, give a brief description of these rules.

In accordance with article 11 of the Rules of the Board of Directors, and without prejudice to attendance obligations, Board Members who are unable to attend Board meetings in person may be represented and cast a vote through another Board Member. This delegation must be in writing to the Chairman and must be in the form of a letter, email or any other written means that acknowledges receipt by the addressee. Non-executive Board Members may only delegate their votes to other non-executive Directors.

C.1.25 Indicate the number of meetings that the Board of Directors held during the year. In addition, indicate the number of times the Board has met without the presence of the Chairman, if applicable: In this calculation, Board Members who have granted proxies without specific instructions shall be considered to present:

Number of Board meetings	9
Number of Board meetings without chairman's attendance	0

If the chairman is also an executive director, indicate the number of meetings held under the chairmanship of the coordinating director without the attendance in person or by proxy of any executive director:

Number of meetings	8
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Indicate the number of meetings held by the coordinating director with the other directors, without the assistance or representation of any other board member:

Number of meetings	0
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Indicate the number of meetings held during the year by the different board committees:

Commission	Nº de Meetings
Executive Committee	11
Audit Committee	7
Appointments Committee	2
Remuneration Committee	2

C.1.26 Indicate the number of meetings held by the Board of Directors during the year and the data about attendance with all members present.

Number of meetings attended by at least 80% of the directors	8
Number of attendances as a % of the total votes during the year	97.2%
Number of meetings with attendance in person or representations made with specific instructions of	8
Number of votes cast with attendance in person and representations made with specific instructions as a % of the total votes during the year	97.2%
Number of meetings attended by all Board Members	4
Number of attendances as a % of the total votes during the year	97%

C.1.27 Indicate whether the individual and consolidated financial statements are certified before being presented to the Board of Directors for approval:

Yes	No
X	

Identify, if applicable, the person(s) who certified the company's individual and consolidated financial statements for authorization by the Board:

Name	Position
ÁNGEL MANUEL GARCÍA ALTOZANO	CORPORATE GENERAL MANAGER

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being presented at the General Shareholders' Meeting without a qualified auditors' report.

As established in the current Article 24 of the Rules of Procedure of the Board of Directors, meetings shall be held with the Audit Committee at the beginning and end of the audit of the Company's and the Group's individual and consolidated financial statements, and before the issue of the pertinent audit reports. The Committee shall also meet on the occasion of the preparation of the mandatory financial information which the Company is required to publish.

The meetings of the Audit Committee shall be attended, when expressly summoned, where appropriate, by the auditor of the Company for the purposes of explaining the more salient aspects of the audits, which allows the Commission to compare, with sufficient notice, any divergences between the accounting policies of the Company and its Group of Companies and the interpretation of the Auditor.

In addition, the functions of the Audit Committee are:

- To supervise the preparation and integrity of the company's, and where applicable the group's, financial information, reviewing compliance with regulatory requirements and ensuring appropriate definition of the scope of consolidation and proper application of accounting criteria and, in particular, to know, understand and monitor the effectiveness of the internal financial reporting control system (ICFR).

To inform, in advance to the Board of Directors on all matters provided for in the law, the By-Laws and the Rules of Procedure of the Board of Directors and in particular on the financial information that the company must periodically make public.

#### C.1.29 Is the Secretary of the Board a Board Member?

	Yes	No
	X	

#### C.1.30 Indicate the mechanisms, if any, established by the company to preserve the independence of the external auditors, of financial analysts, investment banks and of rating agencies.

The mechanisms established by the Company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies are part of the functions of the Audit Committee referred to in Article 24 of the Rules of Procedure of the Board of Directors, which was amended by the Board of Directors on February 27, 2019 in order to adapt it essentially to Guideline 3/2017 of the CNMV on audit committees of public interest entities.

Regarding the auditor, Article 24 of Rules of Procedure of the Board of Directors expressly provides that the functions of the Audit Committee include that of establishing appropriate relations with the external auditor to receive information, for consideration by the Committee, on any issues that could jeopardize their independence and any other issues related to the conduct of the audit and, where appropriate, the authorization of services other than those prohibited under the provisions of the applicable regulations, as well as any other communications provided for in the audit legislation and auditing standards.

The Audit Committee is also responsible for raising any proposals for the selection, appointment, reappointment and removal of the external auditor with the Board of Directors. In so doing, it assumes responsibility for the selection process and the conditions of their employment, and to this end shall: (i) define the procedure for selecting the auditor; and (ii) issue a reasoned proposal containing at least two alternatives for the appointment of the auditor, except in the case of reelection thereof and collect information on the audit plan from the external auditor on a regular basis, as well as on its implementation and any other matters related with the audit process, particularly any discrepancies that may arise between the auditor and management of the Company, in addition to preserving their independence in the exercise of their functions.

In turn, the Audit Committee, which is responsible for relations with the external auditors of the Company, shall refrain from proposing to the Board of Directors, and this to raise it at the general meeting, the appointment of any auditing company that is in a situation of incompatibility under the audit legislation.

#### C.1.31 Indicate whether the company changed its external auditors during the year. If so, identify the incoming and outgoing auditors:

	Yes	No
		X

#### C.1.32 Indicate whether the audit firm performs other non-audit work for the company and/or its group and, if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

	Yes	No
	X	

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	126	1,052	1,178
Amount of other non-audit work/total amount billed by audit firm (as a %)	14.15%	8.88%	9.25%

C.1.33 Indicate whether the Auditors' report on the financial statements for the previous year had any reservations or qualifications. If so, indicate the reasons given by the chairman of the Audit Committee to explain the content and scope of the reservations or qualifications.

	Yes	No
		X

C.1.34 Indicate the number of uninterrupted years that the current auditing firm has carried out the audit of the financial statements of the Company and/or its Group. Also indicate the percentage that the number of years audited by the current auditing firm represents of the total number of years which the financial statements have been audited:

	Company	Group
Number of uninterrupted years	17	17
Number of years audited by current auditing firm /Number of years that the company has been audited in %	58.62%	58.62%

C.1.35 Indicate whether there is a procedure for Board Members to be able to receive outside advisory services, and if so, give details:

	Yes	No
	X	

#### Detail of procedure

In the performance of his duties, the Director of the Company is under the obligation to request, and has the right to obtain from the company, adequate and necessary information to help fulfill his obligations. Unless the Board of Directors has been exceptionally convened for reasons of urgency, the Directors must be furnished with information relevant to the performance of their duties with sufficient notice and in the right format (Articles 17 and 21.2.c) of the Rules of Procedure of the Board of Directors).

In relation to this, and given the importance that the company gives to adequate information from the Directors for its decision-making process, Article 7 of the Rules of Procedure of the Board of Directors states that any observations made by members of the Board, particularly those that could affect the availability of the necessary information to issue their opinion and vote must be included in the Minutes of the Board of Directors in which the accounts are formulated.

C.1.36. Indicate if the company has established rules which oblige the Board Members to report and, where applicable, to resign in cases which may involve causing damage to the company's credit and reputation, and if so explain said rules:

	Yes	No
	X	

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Explanation of rules

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The rules are included in Articles 14 and 15 of the Regulations of the Board of Directors, and make reference to the duties of the Directors and govern any potential conflicts of interest. Specifically, Article 14.2. details the duty of loyalty of the Directors and requires the necessary measures to be taken to avoid any situations in which their interests may conflict with corporate interests and their duties to the Company.

In this regard, the Board Members must inform the Company of the most significant changes that occur in their professional situation, especially those that affect the qualities taken into account for their designation as such. In addition, they will inform the Company of any procedure, legal or administrative, that due to their importance, may seriously affect the Company's reputation.

In turn, article 15 specifies the obligation of directors to notify the Board of Directors of any situation of conflict, direct or indirect, that they or persons related to them may have with the company's interest.

C.1.37 Indicate whether any member of the Board of Directors has informed the Company that legal action has been taken or that a lawsuit had been filed against him or her for any of the crimes set forth in Article 213 of the Spanish Companies Law:

Yes	No
	X

C.1.38 Detail the significant agreements entered into by the Company that will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid, and the effects thereof.

- Issue by ACS Actividades Finance 2 B.V. of bonds convertible into Iberdrola shares for an outstanding face value of EUR 235 million at December 31, 2018, maturing on March 27, 2019 and bearing nominal annual interest at a fixed rate of 1.625%. These bonds are listed on the unregulated Freiverkehr market of the Frankfurt Stock Exchange. The bonds may be redeemed early at the discretion of bondholders under certain conditions.
- Issue by ACS, Actividades de Construcción y Servicios, S.A. of Euromarket Notes for a total of EUR 500 million on March 16, 2015 under its Euro Medium Term Note Program (EMTN Program) authorized by the Central Bank of Ireland. This issue matures in five years and was paid on April 1, 2015. The annual coupon is 2.875% and the issue price was 99.428%. The Notes are listed on the Irish Stock Exchange.

C.1.39 Identify, in form, and indicate, in detail, the agreements between the Company and its executive and management posts or employees who have termination benefits, guarantee or golden parachute clauses, when they resign or are dismissed unfairly or the contractual relationship ends due to a takeover bid or other type of operation.

The General Meeting shall be deemed to have been informed of the clauses to the extent that they may be mentioned in the Annual Remuneration Report submitted for approval at the General Meeting on a consultative basis only.

**Number of beneficiaries: 0**

**Type of beneficiary:**

Members of senior management, including Executive Board Members.

**Description of agreement:**

The contracts expressly envisaged the right to compensation when dismissed without due cause from their executive duties, or if the employment relationship was concluded as a result of a change in control of the

Company, with maximum compensation of between 3 and 5 years of their remuneration. These contracts were signed on the basis of market conditions at the time and with an age limit for each executive. As this age limit has been exceeded, at the date of this report there is no possibility of such compensation being paid. Furthermore, the terms of current legislation are now applicable to senior management contracts.

In the case of Marcelino Fernández Verdes, Managing Director of ACS since his appointment at the General Shareholders' Meeting of May 4, 2017, he is also a member of the Executive Board of Hochtief A.G. As a result of his membership on the board, he is entitled to compensation equivalent to one year of his fixed annual salary in the event that his contract is not extended. In order for this departing compensation to be paid, as a member of the Executive Board of Hochtief A.G. he must be in at least his second term as member of the committee and less than 65 years old at the time that the contract is terminated.

If the contract is terminated early, the compensation shall not exceed the amount of his annual salary for two years (compensation cap) and the compensation shall not be paid for an amount greater than the remaining time on the contract.

For further details on this item you may refer to the Hochtief 2017 annual report at <http://www.hochtief.com/>

**Indicate whether or not besides the cases set forth by the standards, these contracts have to be disclosed to and/or approved by the bodies of the Company or of its Group. Indicate whether, beyond the cases stipulated in the regulations, these contracts have to be disclosed to and/or approved by the bodies of the Company or of its Group. If so, specify the procedures and scenarios and the nature of the bodies responsible for their approval or disclosure:**

	Board of Directors	General Meeting
Body authorizing the clauses	Yes	No

	Yes	No
Is the General Meeting informed about the clauses?	X	

## C.2 COMMITTEES OF THE BOARD OF DIRECTORS

C.2.1 Detail all the Committees of the Board of Directors, their members and the proportion of executive, proprietary, independent and other external Board Members on them:

### Executive Committee

Name	Position	Type
MR. FLORENTINO PÉREZ RODRÍGUEZ	CHAIRMAN	Executive
MR. MARCELINO FERNÁNDEZ VERDES	MEMBER	Executive
MR. PEDRO JOSÉ LÓPEZ JIMÉNEZ	VICE CHAIRMAN	Other External
MR. JOSÉ MARÍA LOIZAGA VIGURI	MEMBER	Other External
MR. ANTONIO GARCÍA FERRER	MEMBER	Executive
MR. JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Proprietary
<b>% Executive Board Members</b>		50.00%
<b>% Proprietary Board Members</b>		16.67%
<b>% Other External Members</b>		33.33%

**Explain the functions delegated or assigned to this committee which differ from those already described in section C.1.10 and describe the procedures and rules of organization and operation thereof. For each of these functions, indicate the most important actions during the year and how each of the functions assigned, either in the law, bylaws or other corporate agreements has worked in practice.**

The Executive Committee will exercise all duties delegated to it by the Board of Directors, except for those that by Law or the Company By-laws are considered non-transferable. However, the Board of Directors may address and decide on any matters of its competence, while the Executive Committee, on the other hand, may submit any matter requiring a decision to the Board of Directors should the Committee consider that the Board of Directors should decide on the issue, even if it is the responsibility of the Executive Committee.

The Committee shall meet as often as it is convened by its Chairman, on his or her own initiative or at the request of at least two of its members. It shall be deemed to be in session when the majority of its members attend, present or by proxy, and, unless the legislation in force, the Corporate Bylaws or the Regulations of the Board of Directors provide otherwise, it shall adopt its agreements by majority vote of those attending, in person or by proxy.

The Secretary of the Board of Directors serves as Secretary of the Committee and with voice but not vote.

To the extent that it is necessary and with the natural adaptations, the functioning of the Executive Committee shall be governed by the provisions of the Board of Directors Regulations.

During the 2018 financial year, the Executive Committee met 11 times to analyze in depth the financial information of the Company, and took decisions in the various areas of its competence, particularly in relation to the objectives and strategies to be followed when conducting business.

### Audit Committee

Name	Position	Class
MRS. CARMEN FERNÁNDEZ ROZADO	CHAIRMAN	Independent
MR. EMILIO GARCÍA GALLEGO	BOARD MEMBER	Independent
MR. JOSE MARIA LOIZAGA VIGURI	BOARD MEMBER	Other External
MR. CATALINA MIÑARRO BRUGAROLAS	BOARD MEMBER	Independent
MR. MARÍA SOLEDAD PÉREZ RODRÍGUEZ	BOARD MEMBER	Proprietary
<b>% Proprietary Board Members</b>		20.00%
<b>% Independent Board Members</b>		60.00%
<b>% Other External Board Members</b>		20.00%

**Explain the functions assigned to this committee, including, where appropriate, any additional functions to those provided for in the law, and describe the procedures and rules of organization and operation thereof. For each of these functions, indicate the most important actions during the year and how each of the functions assigned, either in the law, bylaws or other corporate agreements has worked in practice.**

The functions of the Audit Committee are as follows:

Regarding supervision of financial information:

- a) To report to the General Shareholders' Meeting on the issues arising in relation to those matters within the competence of the Committee and, in particular, on the outcome of the audit, explaining how this has contributed to the integrity of the financial information and the function that the Committee has played in this process.
- b) To oversee the preparation and integrity of the company's, and where applicable the group's, financial information, reviewing compliance with regulatory requirements and ensuring appropriate definition of the scope of consolidation and proper application of accounting criteria and, in particular, to know, understand and monitor the effectiveness of the internal financial reporting control system (ICFR). The Committee may submit recommendations or proposals to the Board of Directors, aimed at safeguarding the integrity of financial information.
- c) To report, in advance, to the Board of Directors on the financial information that the Company must periodically make public.

- d) To ensure that the Board of Directors submit the accounts to the General Shareholders' Meeting without any limitations or qualifications in the audit report and that, in exceptional cases in which there are exceptions, both the Chairman of the Committee and the auditors should clearly explain to the shareholders the content and scope of such limitations or exceptions.

Regarding the supervision of internal controls and audit:

- e) To monitor the effectiveness of the Company's internal controls and audit, and discuss any significant weaknesses in the internal control system detected during the audit with the auditors, without compromising their independence, with a view to reaching conclusions on the level of trust and reliability of the system. For this purpose, and if applicable, the Committee may submit recommendations or proposals to the Board of Directors and the relevant period for follow up.
- f) To oversee the independence of the internal audit unit; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the budget for the service; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on internal activities; and ensure that senior management takes the conclusions and recommendations of internal audit reports into consideration; and evaluate the functioning of the internal audit unit and the performance of its duties by their manager.
- g) To establish and supervise a mechanism allowing employees to report any irregularities of potential importance confidentially, particularly financial and accounting irregularities within the company, receiving regular information on its operation and with the power to propose appropriate actions to improve these and reduce risk irregularities in the future.

Regarding the supervision of risk management and control:

- h) To monitor the effectiveness of the risk management systems.
- i) To re-evaluate, at least annually, the list of most significant risks, both financial and non-financial, to assess the tolerance level, and propose, where appropriate, their adjustment to the Board of Directors. To this end, the Committee shall meet with senior officials of the business units at least annually in which they explain the business trends and associated risks.
- j) To directly oversee the performance of the internal control and risk management functions carried out by any unit or Department of the Company.

In relation to the external auditor:

- k) To raise any proposals for the selection, appointment, reappointment and removal of the external auditor to the Board of Directors. In so doing, assuming responsibility for the selection process and the conditions of their employment, and to this end shall:
  - 1. To define the procedure for selecting the auditor; and
  - 2. To submit a reasoned proposal containing at least two alternatives for selecting the auditor, except in the case of reelection of the same.
- l) To collect information on a regular basis from the external auditor on the audit plan and its implementation, and any other issues related to the audit process, particularly regarding any discrepancies that may arise between the auditor and management of the Company, in addition to preserving their independence in the exercise of their functions.
- m) To establish appropriate relations with the external auditor to receive information, for consideration by the Committee, on any issues that could jeopardize their independence and any other issues related to the conduct of the audit and, where appropriate, the authorization of services other than those prohibited under the provisions of the applicable regulations, as well as any other communications provided for in the audit legislation and auditing standards.

In any case, a declaration of independence must be received annually from the external auditors in relation to the entity or entities directly or indirectly related to the Company, as well as information on any additional services of any kind provided and the corresponding fees received from said entities by the auditor, or by persons or entities related thereto, in accordance with the provisions of the applicable legislation on auditing.



- n) To issue an annual report before the issuance of the audit report, expressing an opinion on whether the independence of the auditor has been compromised or not. This report shall in any case address the reasoned assessment of each of the additional non-audit services referred to in the preceding paragraph, considered both individually and as a whole, and the system in place to assure the auditor independence and compliance with prevailing audit regulations.
- ñ) To examine the circumstances and reasons in the event of resignation of the external auditor.
- o) To ensure that the remuneration of the external auditor for their work does not compromise its quality or independence, and establish a guide on the fees that the auditor can receive annually for non-audit services.
- p) To oversee reporting by the company of any change of auditor to the CNMV (Spanish national securities exchange), and to ensure that it is accompanied by a statement with regard to the possible existence of disagreements with the outgoing auditor, if any, and the content thereof.
- q) To ensure that the external auditor holds an annual meeting with the whole of the Board of Directors to report on the audit work carried out and on the evolution of accounting matters and the risks to which the company is exposed.
- r) To ensure that the Company and the external auditor respect prevailing regulations governing the provision of services other than auditing, the limits on the concentration of the auditor's business and all other regulations governing auditor independence in general.
- s) To perform a final assessment of the auditor's actions and how they have contributed to the quality of the audit and the integrity of the financial information.

Other functions:

- t) To report to the Board of Directors on all matters where so required by Law, the By-Laws and the Board Regulations, in particular with regard to:
  - 1. the economic conditions and the accounting impact and, where appropriate, on the proposed exchange ratio, and the operations and corporate structural changes that the Company plans to carry out.
  - 2. the creation or acquisition of investments in special purpose entities or registered in countries or territories listed as tax havens; and
  - 3. related-party transactions.

In addition, the Audit Committee shall supervise compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policies, being assigned the following functions:

- a) To supervise compliance with internal codes of conduct and with the company's corporate governance rules.
- b) To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) To periodically assess the alignment of the company's corporate governance system in order to ensure that it fulfills its mission of furthering the corporate interest and takes the legitimate interests of other stakeholders into account where appropriate.
- d) To review the Company's corporate responsibility policy, ensuring that it is oriented to the creation of value;
- e) To monitor corporate social responsibility strategy and practices, and to assess the level of compliance.
- f) To supervise and evaluate processes affecting different stakeholder groups.
- g) To assess all matters connected with the non-financial risks to which the Company is exposed, including operational, technological, legal, corporate, environmental, political and reputational risks.
- h) To coordinate procedures for reporting non-financial information and on matters of diversity in accordance with applicable legislation and the relevant international standards.



The Audit Committee shall be deemed duly convened when the majority of its members are present, and adopts its resolutions by the majority vote of those present, the Chairman shall have the casting vote in the event of a tie. The Audit Committee shall meet as often as it may be convened by the Chairman, and it shall in any event meet at the beginning and end of the audit of the Company's and the Group's individual and consolidated financial statements, and before the issue of the pertinent audit reports. The Committee shall also meet on the occasion of the preparation of the mandatory financial information which the Company is required to publish. The Company's Auditor may attend meetings of the Audit Committee where specifically summoned to explain key issues arising from the audit procedures carried out.

The Secretary of the Company's Board of Directors shall attend meetings with voice but not vote, and shall take the minutes, copies of which shall be sent upon approval to each of the members of the Board of Directors.

To the extent that it is necessary and with the natural adaptations, the functioning of the Audit Committee shall be governed by the provisions of the Regulations regulating the functioning of the Board of Directors.

In 2018, the Audit Committee met 7 times, and performed, inter alia, the following functions within the scope of its powers:

- Within the framework of its duty of information to the General Meeting, the report on the performance of the Audit Committee was made available to the shareholders when the meeting was convened.
- With regard to monitoring the effectiveness of the internal controls, internal audit and risk management systems:
  - o the Internal Corporate Audit Management presented the 2017 Activities Report and Audit Plan for 2018 to the Audit Committee, in addition to presenting a summary of the reports already made and the situation of the internal audits of the various business areas to the Audit Committee at each of its meetings.
  - o The external auditors issued the "Auditor's report on the internal control system of ACS financial reporting (ICFR)" for 2017.
  - o Regarding internal audits and, in particular, those relating to the ICFR and internal fiscal control standard, the conclusions are included in the audit reports that the Internal Audit Management periodically presented to the Audit Committee.
- In relation to monitoring the preparation and presentation process of financial information, particularly with regard to the individual and consolidated financial statements for 2017:
  - o At its February and March 2018 meetings, with the active presence of the external auditors and CEO, the Audit Committee examined the individual and consolidated financial statements for 2017 and issued a favorable report. The Audit Committee did not identify any significant incidents for which it was necessary to make any recommendations to the Board of Directors to safeguard the integrity of financial information.
  - o Also at the March meeting, the Audit Committee unanimously agreed to issue a favorable opinion on the Annual Corporate Governance Report and the Directors' Remuneration Report.
- The Audit Committee decided to re-elect Deloitte, S.L. as auditor of the Company and its consolidated group, since it considered that its performance had been guided by the principles of independence and professionalism, and proposed that the Board raised to the General Meeting that the appointment be extended for a further year, 2019, in accordance with the legal provisions and internal regulations.
- Regarding the independence of the auditor, it has informed the Audit Committee in writing of its independence.
- Regarding the periodic financial information, the Audit Committee reviews, prior to submission, the quarterly financial information sent to the CNMV. The scope of this review covers both information contained in the official formats of the CNMV and the information that the Company submits to the same in the publication of its quarterly results, verifying that the information expressed therein is coherent, and analyzing the rationality of the criteria applied and the accuracy of its figures.
- Regarding the transactions with related parties reported both in the corresponding Annual Corporate Governance Report for the 2017 financial year (Section D) and under the epigraph of the consolidated annual accounts for the 2017 financial year, which were examined and reported favorably by the Audit Committee, at its meetings on February 28 and March 22, 2018, reference is made to the Transactions and balances with related parties.

- As part of the Board's assessment, the external consultant who took part in said assessment interviewed members of the Audit Committee to review the questionnaires and collate areas for improvement identified by directors. The functioning of the Audit Committee received a positive assessment from its members.

**Identify the Board Member appointed to a seat on the audit committee in view of his/her knowledge and expertise in accounting and audit matters, and indicate the number of years for which the audit committee's chairman has held office.**

<b>Name of Board Member with relevant expertise</b>	MRS. CARMEN FERNÁNDEZ ROZADO MR. JOSÉ MARÍA LOIZAGA
<b>Number of chairman's years in office</b>	2/28/2017

### Appointments Committee

<b>Name</b>	<b>Position</b>	<b>Class</b>
MRS. CATALINA MIÑARRO BRUGAROLAS	CHAIRMAN	Independent
MR. JAVIER ECHENIQUE LANDIRIBAR	BOARD MEMBER	Proprietary
MRS. CARMEN FERNÁNDEZ ROZADO	BOARD MEMBER	Independent
MR. JOAN DAVID GRIMA TERRE	BOARD MEMBER	Other External
MR. JOSE MARIA LOIZAGA VIGURI	BOARD MEMBER	Other External
MR. PEDRO LÓPEZ JÍMENEZ	BOARD MEMBER	Other External
<b>% Proprietary Board Members</b>		28.57%
<b>% Independent Board Members</b>		28.57%
<b>% Other External Board Members</b>		42.85%

**Explain the functions assigned to this committee, including, where appropriate, any additional functions to those provided for in the law, and describe the procedures and rules of organization and operation thereof. For each of these functions, indicate the most important actions during the year and how each of the functions assigned, either in the law, bylaws or other corporate agreements has worked in practice.**

In accordance with Article 26 of the Rules of Procedure of the Board of Directors, the Appointments Committee is responsible for proposing and/or reporting to the Board of Directors on:

- Appointments of Directors and the Secretary of the Board of Directors.
- Appointments of senior managers, especially those who will be part of the Group's Steering Committee, as well as the conditions of their contracts.
- Issues relating to gender diversity on the Board of Directors.

To the extent that it is necessary and with the natural adaptations, the functioning of the Appointments Committee shall be governed by the provisions Regulations regarding the functioning of the Board of Directors.

The Appointments Committee shall meet, when convened by the Chairman, at least twice a year. The meeting shall only be deemed to be convened when the majority of its members attend and agreements are adopted by majority vote of those attending, with the Chairman having the casting vote in the event of a tie.

The Secretary of the Company's Board of Directors shall attend meetings with voice but not vote, and shall take the minutes, copies of which shall be sent upon approval to each of the members of the Board of Directors.

During 2018, the Appointments Committee met on 2 occasions, and took decisions in its various areas of competence.

## Remuneration Committee

Name	Position	Class
MR. ANTONIO BOTELLA GARCÍA	CHAIRMAN	Independent
MR. MANUEL DELGADO SOLIS	BOARD MEMBER	Proprietary
MR. EMILIO GARCÍA GALLEGO	BOARD MEMBER	Independent
MR. MARIANO HERNÁNDEZ HERRERO	BOARD MEMBER	Proprietary
MRS. MARÍA SOLEDAD PÉREZ RODRÍGUEZ	BOARD MEMBER	Proprietary
MR. MIGUEL ROCA JUNYENT	BOARD MEMBER	Other External
MR. JOSE ELADIO SECO DOMINGUEZ	BOARD MEMBER	Independent
<b>% Proprietary Board Members</b>		33.33%
<b>% Independent Board Members</b>		50.00%
<b>% Other External Board Members</b>		16.67%

**Explain the functions assigned to this committee, including, where appropriate, any additional functions to those provided for in the law, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate the most important actions during the year and how each of the functions assigned, either in the law, bylaws or other corporate agreements has worked in practice.**

In accordance with Article 27 of the Regulations of the Board of Directors, the Remunerations Committee is responsible for proposing and/or reporting to the Board of Directors on:

- The remuneration system of the Chairman of the Board of Directors and other senior executives of the Company.
- The distribution among the members of the Board of Directors of the overall remuneration agreed upon by the shareholders at the General Meeting and, if applicable, the establishment of supplementary remuneration and other payments corresponding to executive Board Members in relation to their functions.
- Remuneration of Board Members.
- Long-term plans that may be established in accordance with the value of the share, such as stock option plans.

The Remunerations Committee shall meet, when convened by the Chairman, at least twice a year. The meeting shall only be deemed to be convened when the majority of its members attend and agreements are adopted by majority vote of those attending, with the Chairman having the casting vote in the event of a tie.

The Secretary of the Company's Board of Directors shall attend meetings with voice but not vote, and shall take the minutes, copies of which shall be sent upon approval to each of the members of the Board of Directors.

During 2018, the Remunerations Committee met on 2 occasions, and took decisions in its various areas of competence.

**C.2.2 Complete the following table with information relating to the number of women Board Members on the Committees of the Board of Directors during the last four financial years.**

	Number of women Board Members							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	3	60.00%	3	60.00%	2	40.00%	1	20.00%
Appointments Committee	2	33.33%	2	33.33%	1	14.30%	0	0.00%
Remuneration Committee	1	16.67%	1	14.30%	1	14.30%	0	0.00%

Indicate, if applicable, if there are Rules of the Board Committees, where they can be consulted and amendments made during the year. Also indicate whether any annual report on the activities of each committee has been prepared voluntarily.

The Board Committees are governed by Articles 19 to 23 of the Company By-laws and Articles 22 to 26 of the Rules of the Board of Directors. Both documents are available on the corporate website.

Name or company name	Brief description
EXECUTIVE COMMITTEE	The Executive Committee is regulated in articles 19 and 20 Articles of Incorporation in Article 23 of the Rules of the Board of Directors.
AUDIT COMMITTEE	The Audit Committee is regulated in article 21 of the Articles of Incorporation and articles 24 and 25 of the Rules of the Board of Directors, which prepares an annual report on its activities.
APPOINTMENTS COMMITTEE	The Appointments and Remuneration Committee is regulated in article 22 of the Articles of Incorporation and in article 26 of the Rules for the Board of Directors.
REMUNERATION COMMITTEE	The Appointments and Remuneration Committee is regulated in article 22 bis of the Articles of Incorporation and in article 27 of the Rules for the Board of Directors.

## D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

### D.1 EXPLAIN THE PROCEDURE FOR APPROVING TRANSACTIONS WITH RELATED PARTIES AND WITHIN THE GROUP.

#### Procedure for approving related party transactions

In accordance with article 5.2.t) of the Rules of the Board of Directors, corresponding to the Board of Directors, subject to a report from the Audit Committee, the approval of the transactions carried out by the Company or group companies with directors under the terms established by prevailing legislation, or with shareholders owning significant shareholdings either individually or in concert, including shareholders represented on the Company's Board of Directors or shareholders of other companies forming part of the same group, or persons related with the same. To this end, Article 24.6.t) in force of the Regulations of the Board of Directors assigned the Audit Committee the function of informing the Board of Directors, in advance, of any transactions with related parties.

Directors linked, representing or related to the shareholders affected shall abstain from participating in deliberations and voting on the resolution in question. The only exception shall be made in the event of approval of transactions simultaneously meeting the following three conditions:

1. They are carried out under contracts entered based on standard terms and conditions applied en masse to large numbers of customers;
2. They are carried out at prices or rates established in general by the provider of the good or service in question; and
3. The sum involved does not exceed one per cent of the Company's annual revenues.

### D.2 LIST THOSE TRANSACTIONS, WHICH ARE SIGNIFICANT DUE TO THEIR MAGNITUDE OR RELEVANT DUE TO THEIR SUBJECT, CARRIED OUT BETWEEN THE COMPANY OR GROUP COMPANIES AND THE COMPANY'S SIGNIFICANT SHAREHOLDERS:

Does not apply

### D.3 LIST ANY MATERIAL TRANSACTIONS ENTAILING A TRANSFER OF FUNDS OR OBLIGATIONS BETWEEN THE COMPANY OR GROUP COMPANIES AND THE COMPANY'S ADMINISTRATORS OR EXECUTIVES:

Personal or corporate name of the managers or directors	Personal or corporate name of the related party	Link	Nature of the relationship	Amount (thousands of euros):
Pedro López Jiménez	Fidalsar, S.L.	Shareholder	Leases	203
Pedro López Jiménez	Fidalsar, S.L.	Shareholder	Services Received	66
Pedro López Jiménez	Terratest Técnicas Especiales, S.A.	Shareholder	Management or collaboration agreements	1,014
Pedro López Jiménez	Terratest Técnicas Especiales, S.A.	Shareholder	Services Received	3,512
Pedro López Jiménez	Fapin Mobi, S.L.	Shareholder	Dividends and other profit distributed	759
Javier Echenique	Banco Sabadell	Vice chairman	Financing Agreements: Loans and capital contributions (lender)	462,491
José María Loizaga	Zardoya Otis, S.A.	Board Member	Services Received	1,820

Personal or corporate name of the managers or directors	Personal or corporate name of the related party	Link	Nature of the relationship	Amount (thousands of euros):
José María Loizaga	Zardoya Otis, S.A.	Board Member	Services rendered:	29
Florentino Pérez	Rosán Inversiones, S.L.	Shareholder	Services rendered:	19
Florentino Pérez	Comunidad de Propietarios Pablo Aranda, 24	Shareholder	Services rendered:	193

In the epigraph “Other transactions” included all transactions not related to the specific sections included in the periodic public information reported in accordance with the regulations published by the CNMV.

All these commercial transactions were carried out on an arm’s length basis in the ordinary course of business and relate to the normal operations of the Group companies.

No information is included on specific transactions made by subsidiaries listed in countries other than the group parent company, Hochtief and CIMIC in particular (as well as their own subsidiaries) that are subject to their own regulations on corporate governance and transparency for listed companies. Such regulations could restrict the majority shareholder’s ability to determine and publish specific elements that were not made public because of the application of such rules.

In any case, any intragroup transaction carried out with entities established in countries or territories considered to be tax havens will be reported.

#### **D.4 REPORT ANY SIGNIFICANT TRANSACTIONS BY THE COMPANY WITH OTHER ENTITIES IN THE SAME GROUP, WHERE SUCH TRANSACTIONS ARE NOT ELIMINATED IN THE PROCESS OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS AND FROM THE STANDPOINT OF THEIR SUBJECT-MATTER OR TERMS AND CONDITIONS ARE NOT PART OF THE COMPANY’S ORDINARY BUSINESS.**

No information is included on specific transactions made by subsidiaries listed in countries other than the group parent company, Hochtief and CIMIC in particular (as well as their own subsidiaries) that are subject to their own regulations on corporate governance and transparency for listed companies. Such regulations could restrict the majority shareholder’s ability to determine and publish specific elements that were not made public because of the application of such rules.

In any case, report any intragroup transaction carried out with entities established in countries or territories considered to be tax havens:

#### **D.5 INDICATE THE VALUE OF THE TRANSACTIONS CARRIED OUT WITH OTHER RELATED PARTIES.**

Does not apply

#### **D.6 LIST THE MECHANISMS IN PLACE FOR DETECTING, IDENTIFYING AND RESOLVING ANY POTENTIAL CONFLICTS OF INTEREST BETWEEN THE COMPANY AND/OR ITS GROUP AND ITS BOARD MEMBERS, EXECUTIVES OR SIGNIFICANT SHAREHOLDERS.**

Article 15 of the Rules of the Board of Directors regulates such matters, establishing that the duty to prevent conflicts of interest obliges Board Members to refrain from the following:

- a) Entering into transactions with the Company, except in the case of minor, ordinary transactions carried out under standard terms and conditions applicable to customers, understood as those which it is not necessary to report to present fairly the equity, financial situation and results of operations of the Company;
- b) Using the Company's name or invoking the condition of Board Member in order improperly to influence private transactions.
- c) Using corporate assets, including confidential information belonging to the Company, for private purposes.
- d) Seeking to benefit from the Company's business opportunities.
- e) Receiving benefits or compensation from third parties outside the Company and its group associated with the discharge of the office of director, unless they consist merely of items.
- f) Undertaking any activities either personally or on behalf of any third party which might result in effective competition, whether actual or potential, with the Company, which might otherwise give rise to any permanent conflict of interests with the Company.

This above obligation to refrain shall be where the beneficiary of the prohibited actions and activities is a person relate to a Board Member. In this regard, the following persons shall be deemed to be related to the Board Members:

- a) A Board Member's spouse or persons with a like affective relationship.
- b) The ancestors, descendants and siblings of any Board Member and/or of his/her spouse.
- c) The spouses of a Board Member's ancestors, descendants or siblings.
- d) Companies with respect to which a Board Member is affected by any of the situations mentioned in article 42.1 of the Spanish Commercial Code, either personally or via any intermediary.

In the case of a legal entity acting as Board Member, the following shall be deemed to be related persons:

- a) Partners affected by any of the situations mentioned in article 42.1 of the Commercial Code with respect to the corporate Board Member.
- b) The *de jure* and *de facto* directors, the liquidators, or representatives holding general powers of attorney granted by the corporate Board Member.
- c) Companies forming part of the same group and their partners.
- d) Persons deemed related parties of Board Members in accordance with paragraph 2 above, standing in such relationship towards the natural person representing the corporate Board Member.

In any event, Board Members shall notify the Board of Directors of any situation of conflict of interests, whether direct or indirect, which they or their related parties might have with the Company.

Any situations of conflict affecting Board Members shall be disclosed in the Annual Report in accordance with prevailing legislation.

#### D.7 IS MORE THAN ONE GROUP COMPANY LISTED IN SPAIN?

Yes	No
	X



## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 EXPLAIN THE SCOPE OF THE COMPANY'S RISK MANAGEMENT SYSTEMS, INCLUDING TAX RISKS.

The ACS Group's risk control system is based on a range of strategic and operational actions designed to mitigate risks and fulfil the objectives established by the Board of Directors. The diversity and complexity of the sectors in which the Group carries out its activities implies a variety of risks; the Corporate Unit is responsible for defining basic guidelines in order to homogenize performance criteria in each of the divisions to guarantee an adequate level of internal control. The General Policy for Risk Control approved July 29, 2016 and amended by the Company's Board of Directors on July 25, 2018, has the objective of appropriately managing those with a risk level that will enable:

- a) Attaining of the strategic objectives established by the group with controlled volatility;
- b) Providing the highest possible level of guarantees to shareholders;
- c) Protecting the results and the reputation of the Group;
- d) Defending the interests of shareholders, customers and other stakeholder groups in the progress of the Company and society in general; and
- e) Ensuring business stability and financial strength in a sustained manner over time.

The Group's companies and divisions are responsible for developing the required and appropriate internal regulation to govern the implementation of any necessary internal controls, which, in turn, shall guarantee optimum performance of such internal control in accordance with the special circumstances of their activities.

The Corporation approved its organization and management model on July 25, 2018 for the prevention of crimes referred exclusively to the activities carried out directly ACS, Actividades de Construcción y Servicios, SA, which is represented in the following key documents:

- Reference document of the Compliance Management System
- Criminal and Anti-bribery Compliance Policy
- General Risk Control and Management Policy

The adequacy and effectiveness of the model were recognized on December 11, 2018 through obtaining the following certifications:

- ASO-2018/0018, in recognition and certification of the conformity of the management system with the ISO 37001 UNE: 2017 standard.
- GCP-2018/0044, in recognition and certification of the conformity of the management system with the UNE 19601:2017 standard.

When these risks have been identified, a risk map is prepared which is updated regularly based on the different variables involved and the types of activities in which the Group is involved, assessing them on the basis of their impact and the probability of their occurrence.

The risk control systems adopt the Group's decentralized nature, enabling each business unit to exercise its own risk control and evaluation policies, being designed to control and mitigate risks and comply with the following basic principles: Definition of risk appetite and risk limits.

- a) Maximum assumable in each business in accordance with the characteristics and profitability expected from it, and that are considered from the origin of the transactions.
- b) Establishment of the procedures of identification, approval, analysis, control and information of the different risks for each business area.
- c) Coordination and communication so that the policies and procedures of risks of the activity areas are consistent with the overall risk policy of the Group.

The systems provide the necessary information to supervise and evaluate the risk exposure of each business area and develop the corresponding management information required for decisions with the monitoring of the appropriate indicators.

Tax risks are subject to control both within the context of the general risk control system and via specific procedures. At its meeting held on March 24, 2015, ACS' Board of Directors approved the Corporate Tax Policy for the ACS Group, which sets out the tax strategy of the Company and the key criteria underlying the management of tax risks,



establishing specific guidelines to define the best tax practices applicable. In addition, at its meeting of May 12, 2016 it approved an Internal Tax Control Policy that contains specific tax management and internal control procedures to be followed by the companies making up the group, as well as guidelines for review of the correct following of such procedures and the definition of plans for a response in the event of any breach of such rules. The procedures that have been established include a series of standard rules to be observed by all areas of the business, with special emphasis on the identification of parties responsible, as well as a detail of aspects that must be developed by each area, given the uniqueness of the business activity of each one. Such developments was approved in 2016 by the Board of Directors of the three area parent companies in Spain.

Hochtief, the German listed company which has been fully consolidated by the ACS Group since 2011, has defined its risk control policy to be consistent with its business activity and in line with the ACS Group's policies. The detail of these policies and systems is included in the 2018 (2018 Annual Report) on pages 113 to 126 (both inclusive), available on the website [www.hochtief.com](http://www.hochtief.com)

## **E.2 IDENTIFY THE COMPANY BODIES RESPONSIBLE FOR PREPARING AND EXECUTING THE RISK MANAGEMENT SYSTEM, INCLUDING TAX RISK MANAGEMENT.**

The ACS Group's Management Committee defines the Group's risk management policy and, if appropriate, sets up the appropriate management mechanisms to ensure that the risks are kept within the approved levels by the Board of Directors.

The Board of Directors entrusts the Audit Committee with the task of monitoring compliance with the established procedures and effective general supervision of compliance with the established risk levels for each business activity.

The Board of Directors approves the general policy of control and global risk management and its control and management system. The different areas concerned also include management of tax risks.

## **E.3 INDICATE THE MAIN RISKS, INCLUDING TAX RISKS THAT MAY AFFECT THE ACHIEVEMENT OF THE BUSINESS OBJECTIVES.**

The ACS Group's Risk Management System identifies and evaluates various risk scenarios grouped into two categories: business risks and corporate risks.

Business risks are those specifically affecting each of the businesses. These vary according to the characteristics of each activity and are grouped in turn into:

- Operational Risks that correspond to the risks associated with the key business processes, which include risks relating to contracting and tendering for works and projects, to planning and control of execution of the various works and projects, to client and credit risks, to product quality, environmental, purchasing and subcontracting risks.
- Non-Operational Risks, which correspond to the risks associated with the business support processes, including risks relating to risk prevention and health and safety at work, with Human Resources, compliance with the specific legislation and tax regulations applicable to the business, the reliability of accounting and financial information and the management of financial resources and indebtedness.

Corporate risks affect the Group as a whole and the listed Company in particular and can be summarized as:

- Strategic Risks are risks that may emerge as a result of opting for a certain strategy, which may directly or indirectly significantly influence achieving the long-term objectives of the ACS Group.
- Regulatory or Standard Compliance Risks, which include those derived from the Corporate Governance (which among others, include those derived from the reliability of Financial Information published), the litigation of the Company, the regulatory standards of the Securities Market, the Data Protection Law, and the possible changes in the fiscal standards (national and international) and in the civil liability about the integrity of property.

This risk includes fiscal risks (a Corporate Fiscal Policy has been approved), for which two types of tax risk may exist:

- On the one hand, there is the risk of changes in tax legislation which either could not be foreseen at the time when investment decisions involving a relevant tax factor were taken, impacting the attainment of objectives, or which affect the effective application of tax credits carried forward, in turn affecting forecasts of future taxes payable.

- On the other, tax regulations are frequently subject to differing interpretations, which can result in additional appraisals by the tax authorities, even though the corporate tax policy established by ACS prioritizes prudence in the tax practices followed.
- Financial Risks, are those which include the level of indebtedness, liquidity risk, credit risk, risks resulting from fluctuations in exchange rates, risks derived from the fluctuation of interest rates, risks from the use of derivative financial instruments, market risks from investments and exposure to risk from variable yields from investments made in listed companies.
- Reputational Risks, are those with a potential negative impact that may affect the Group's image, such as that of transparency and relations with analysts, investors and the respective stakeholders with expectations regarding the behavior of the Company and the Group.

#### **E.4 IDENTIFY WHETHER THE ENTITY HAS A LEVEL OF RISK TOLERANCE, INCLUDING TAX RISKS.**

The ACS Group's Management Committee has defined a framework for action in order to homogenize the identification, classification, evaluation, management and tracking of the risks of the different divisions. Once the risks have been identified and their magnitude and probability have been evaluated, as well as the indicators for measuring them, these form the basis for preparing the Risk Map, in which all the heads of each of the Divisions or business units are involved, determining the level of tolerance for each variable.

Periodic updating of the Risk Map, both at corporate level and in each of the businesses, is carried out by each of the Heads of the different divisions by tracking the indicators measuring exposure to risk.

#### **E.5 INDICATE WHAT RISKS, INCLUDING TAX RISKS, HAVE ARISEN DURING THE FINANCIAL YEAR.**

The risks inherent in the business model and the different activities engaged in by the ACS Group may occur to some extent throughout any annual reporting period. These risks are mitigated due to the follow-up and monitoring performed by the various management entities of the Group, depending on their importance.

In the current fiscal year, the most cogent risk that has appeared has been the Madrid Radial Motorways. In relation to the participation of the ACS Group in the R3 and R5 Radials (through Madrid and Alazor Accesses) regarding the insolvency proceedings, it is noted that although the agreement proposal corresponding to Accesos de Madrid obtained support in excess of 75%, as it also wanted the agreement to be approved with the parent Alazor but did not obtain the necessary support, the judge of the Juzgado de lo Mercantil No. 6 (Commercial Court) ordered the entry into liquidation of the two concessionaires on November 2, 2017. The Judge declared the company administrators should cease the dissolution of the Companies and the early maturity of all credits, requesting the respective liquidators to present their Liquidation Plans, which they did on November 24, 2017 for Accesos de Madrid and on December 28, 2017 for Alazor. In the plans of both liquidators, the effective delivery of the operation to Sociedad Estatal de Infraestructuras del Transporte Terrestre, S.A. will take place during the first quarter of 2018.

The Company currently values this investment at zero, and does not consider it necessary to record additional provisions.

#### **E.6 EXPLAIN THE PLANS FOR RESPONDING TO AND SUPERVISING THE ENTITY'S MAIN RISKS, INCLUDING TAX RISKS.**

The ACS Group's geographic and business diversification, together with the high level of operating decentralization and autonomous management that characterizes the organization, makes it necessary for it to have a dual system for risk control and supervision. Added to the corporate risk management framework is the system belonging to each business unit or listed company, consistent with the guidelines of the latter, in which each management level is responsible for complying with the standards and the applicable internal procedures.

Their effectiveness is evaluated and verified periodically by the different business areas and divisions and by Corporate Internal Audit, which also contributes to the supervision of the general risks the Group faces in achieving its objectives. The alerts, recommendations and conclusions generated are reported both to Group Management and to the heads of the business areas and companies assessed.

To carry out their duties, the Business and Corporate Internal Audit departments have qualified, expert personnel who are independent of the lines of production.

In the case of taxation, the above-mentioned internal controls on tax approved in 2016 establish in a specific manner the plans for response that identify the person responsible in each group company for taking action upon the appearance of any tax risk, proceeding to perform a diagnosis. It has been established that when the risk cannot be eliminated within the context of regular tax management, it must be reported to senior management of the company with a proposal for action, including, by way of example, the filing of complementary returns, the restructuring of operations, changes in practices, adoption of new procedures, performance of a specific internal audit review, or the assuming of the risk taking specified precautions. In addition, it is established that in certain instances, a report should be made to the senior management of the business area, or if appropriate, of the Group.

## **F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS REGARDING THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFR)**

Describe the mechanisms which make up the risk control and management systems regarding the process of issuing financial information (ICFR) for the entity.

### **F.1 COMPANY'S CONTROL ENVIRONMENT**

Indicate its main characteristics, of the following as a minimum:

#### **F.1.1. WHICH BODIES AND/OR FUNCTIONS ARE RESPONSIBLE FOR: (I) THE EXISTENCE AND MAINTENANCE OF AN ADEQUATE AND EFFECTIVE ICFR; (II) ITS IMPLEMENTATION; AND (III) ITS SUPERVISION.**

The Internal Control over Financial Reporting System hereinafter ICFR is part of the ACS Group's overall internal control system and is set up to provide reasonable assurance regarding the reliability of the financial information published. As stipulated in the Regulations of the ACS Group Board of Directors in its latest version dated February 27, 2019, which will be distributed at the next General Shareholders' Meeting, the Board of Directors is responsible for this system and has delegated the supervisory function thereof to the Audit Committee in accordance with its rules.

In accordance with Article 5 of its Regulations, the Board of Directors is empowered to approve "the financial information to be "periodically" made public by the Company given that it is listed on the stock exchange". In this regard, article 7 of the Regulations establish that "The Board of Directors shall prepare the individual and consolidated Annual Accounts and Management Reports in view of the report issued by the Audit Committee, in order to comply with the prevailing legislation and to facilitate its understanding by shareholders and by the general public."

In accordance with the aforesaid article 5, among the nondelegable functions of the Board are "preparing the financial statements and submitting them for approval at the General Shareholders' Meeting" and approving the "determination of risk management and control policy, including tax risk, and oversight of the internal reporting and control systems".

The ACS Group's General Corporate Management is responsible for the Group's ICFR. This entails defining, updating and monitoring the system to ensure that it operates correctly.

The head of each business area is responsible for designing, reviewing and updating the system in accordance with its own needs and characteristics. General Corporate Management validates these designs and their operation to guarantee compliance with the objectives set to assure the reliability of the financial information reported.

In relation to the above, in accordance with Article 23 of the Regulations of the Board of Directors, the Audit Committee is responsible, inter alia, for the following:

Regarding the supervision of financial information:

a) To report to the General Shareholders' Meeting on the issues arising in relation to those matters within the competence of the Committee and, in particular, on the outcome of the audit, explaining how this has contributed to the integrity of the financial information and the function that the Committee has played in this process.

- b) To oversee the preparation and integrity of the company's financial information and in its case of the group, reviewing the compliance of the regulatory requirements and ensuring appropriate definition of the scope of consolidation and correct application of accounting criteria and, in particular, to know, understand and monitor the effectiveness of the internal financial reporting control system (ICFR). The Committee may submit recommendations or proposals to the Board of Directors, aimed at safeguarding the integrity of financial information.
- c) To report, in advance, to the Board of Directors on the financial information that the Company must periodically make public.
- d) To ensure that the Board of Directors submit the accounts to the General Shareholders' Meeting without any limitations or exceptions in the audit report and that, in exceptional cases in which there are exceptions, both the Chairman of the Committee and the auditors clearly explain to the shareholders the content and scope of such limitations or exceptions.
- e) To monitor the effectiveness of the Company's internal controls and internal audit and discuss any significant weaknesses in the internal control system detected during the audit with the auditor, without compromising their independence, with a view to reaching conclusions on the level of trust and reliability of the system. For this purpose, and if applicable, the Committee may submit recommendations or proposals to the Board of Directors and the relevant period for follow up.
- f) To oversee the independence of the internal audit unit; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the budget for the service; approve its orientation and work plans, ensuring their activities are directed principally towards key risks of the company; receive regular information on their activities; and ensure that senior management takes the conclusions and recommendations of internal audit reports into consideration; and annually evaluate the functioning of the internal audit unit and the performance of its duties by their manager.
- g) To establish and supervise a mechanism allowing employees to report any irregularities of potential importance in a confidential manner, particularly financial and accounting irregularities within the company, receiving regular information on its operation and with the power to propose appropriate actions to improve these and reduce the risk of irregularities in the future.

Regarding the supervision of risk management and control:

- h) To monitor the effectiveness of the risk management systems.
- i) At least once a year, to reassess the list of most significant risks, both financial and otherwise, and evaluating their tolerance level, proposing adjustments to the Board of Directors where necessary. For these purposes, the Committee shall, at least once a year, hold a meeting with the heads of the various business lines, for those managers to explain trends in their line of business, and the associated risks.
- j) To directly oversee the performance of the internal control and risk management functions carried out by any unit or Department of the Company.

On the other hand, Hochtief, which forms part of the ACS Group as an investee, is listed on the German stock market and, in turn, has a majority ownership interest in Cimic, which in turn is listed on the Australian stock market. Both companies have implemented their own risk management and internal control over financial reporting systems in accordance with the applicable legislation. Additional information on these systems can be found in their 2018 annual reports, which are available on [www.hochtief.com](http://www.hochtief.com) and [www.cimic.com.au](http://www.cimic.com.au).

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

**Departments and/or mechanisms responsible for: (i) the design and review of the organizational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) implementing procedures so this structure is communicated effectively throughout the company.**

In accordance with the Regulations of the Board of Directors, the Appointments Committee as a delegate Committee of the Board is responsible, inter alia, for nominating and dismissing Senior Executives, particularly those who are to be members of the Group's Management Committee, and for proposing the basic conditions of their contract.

Organizational structure is defined by the Corporate General Management, in the case of ACS, Actividades de Construcción y Servicios, S.A., and the CEO or Chairman, in the case of the various business areas, in their area of activity and communicating this to the interested parties through the channels provided in each case.

**Code of conduct, approving body, dissemination and instruction degree, including principles and values (stating whether specific reference is made to operations recording and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary actions.**

The ACS Group has a Code of Conduct, the latest update was approved by the Board of Directors on November 12, 2015. This Code has been disseminated and is accessible to all employees via the Group's website.

Both Hochtief AG, as the parent company of its Cimic subgroup, Cimic Group Limited, are companies listed on the German and Sydney stock exchanges, respectively, and they are therefore subject to their own regulatory bodies' rules and both have their own Codes of Conduct and their own internal complaints and control channels, under similar terms to those of the ACS Group. For this reason, the ACS Group's General Code of Conduct does not apply directly to investee companies belonging to the Hochtief Group and the Cimic Group.

Section 1.2 of the Code of Conduct emphasizes the principle of transparency. The Code stipulates that "all employees shall provide truthful, necessary, full and precise information regarding the progress of activities related to their work and areas of competence".

To ensure compliance with the Code of Conduct, resolve incidents or concerns about its interpretation and take the measures required to ensure the best compliance, the above Code provides for the creation of a Code of Conduct Monitoring Committee to be composed of three members appointed by the ACS Board of Directors Group following the proposal of the Appointments Committee. The Company has a set of Rules of Procedure for the Code of Conduct Monitoring Committee, as amended by the Board of Directors on December 13, 2018.

In accordance with this Regulation, this Monitoring Committee has been assigned the following functions:

- To collaborate with the Compliance Committee in promoting the dissemination, knowledge of and compliance with the Code in each and every company of the Group.
- To establish the appropriate channels of communication to ensure that any employee can seek or provide information regarding compliance with this Code, ensuring the confidentiality of complaints processed at all times.
- To interpret the regulations derived from the Code and supervising their implementation.
- To ensure the accuracy and fairness of any initiated proceedings, as well as the rights of persons allegedly involved in possible breaches.
- To maintain a bi-directional communication with the Compliance Committee, especially with regard to the queries or complaints received through the Ethical Channel. In particular, any complaint received on the matter of crime prevention by the Compliance Committee, which translates in the existence of evidence of actions that might infringe the basic principles of the Code of Conduct of the ACS Group, shall be directed to the Code of Conduct Monitoring Committee, so that they assess the need to open an investigation.
- Preparing an annual report on its actions, making the recommendations it deems appropriate to the Board of Directors through the Audit Committee.

The Annual Report on Actions and Recommendations of the Code of Conduct Monitoring Committee for 2018 will be submitted to the Audit Committee in March 2019.

- A reporting channel, allowing communication of any irregularities of a financial or accounting nature to the Audit Committee, as well as breaches of the Code of Conduct and irregular activities within the organization, stating whether reports made through this channel are confidential.

Complaints or comments can be made through the ACS Ethical Channel, managed by the Code of Conduct Monitoring Committee.



The ACS Ethical Channel can be reached at the following address:

Ethical Channel  
 ACS Group  
 Avda. Pío XII 102, 28036 Madrid, Spain  
 canaletico@grupoacs.com

Only two cases were opened in the ACS Ethical Channel in 2018. These were complaints made by third parties outside the organization, and it was found that they were not within the competence of the Committee.

The decrease in the number of communications received by the Ethical Channel is due to the effort to strengthen the Ethical Channels of the various heads of the ACS Group. In terms of all the ethical channels of the Group, with the exception of Hochtief and Cimic, more than 100 communications were received in 2018, resulting in the opening of 92 cases, of which three are still open.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or as well as evaluating the ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

In regard to training and refresher courses, the ACS Group believes that continuous training for its employees and managers both at the corporate level as in the companies of the Group is important. Relevant and up-to-date training on regulations that affect financial reporting and internal control is considered to be necessary to ensure that the information reported to the markets is reliable and in accordance with the regulations in force.

Therefore, in 2018 throughout the entire ACS Group approximately 21,700 hours of training courses in finance, accounting rules, consolidation, auditing, internal control and risk management were given, attended by approximately 1,600 employees.

## F.2 RISK ASSESSMENT OF FINANCIAL INFORMATION, OF AT LEAST:

F.2.1. Which are the main characteristics of the risk identification process, including error or fraud risks, stating whether:

### **If the process exists and is documented.**

The ACS Group has established a risk management model that supports a range of actions in order to comply with the objectives established by the Board of Directors. The Corporate Risk Map summarizes the Group's situation in relation to its main risks, except for those regarding Hochtief and Cimic since they have their own risk control systems.

The Risk Map includes the identification and assessment of risks at Group level and that of the operating divisions. The risks identified are as follows:

- Corporate Risks: affecting the Group as a whole and, in particular, the listed Parent Company.
- Business Risks: specifically affecting each of the business units and varying based on the unique characteristics of each business.

These risks were basically assessed qualitatively, with no defined frequency, in order to establish both their importance and probability of occurrence. However, an objective (quantitative) risk indicator was established where possible.

Accordingly, the risks are classified as follows:

- Operational risks
- Non-operational risks

This system is explained in section E of the ACGR in the description of the ACS Group's general risk policy.

**Whether the process covers all financial reporting objectives, (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.**

In addition to financial risks (liquidity, exchange rate, interest rate, credit and equities), the Group's risks also include those risks relating to the reliability of the financial information, including tax risks.

As part of ICFR management, the ACS Group has a procedure that allows its scope to be identified and maintained by identifying all relevant subgroups and divisions, as well as the significant operating and support processes of each of the subgroups or divisions. This identification was carried out based on the materiality and risks factors that are inherent to each business.

The materiality criteria are established, on one hand, from the quantitative point of view in accordance with the most recent consolidated financial statements based on the various parameters, such as revenue, volume of assets or profit before tax and, on the other hand, from the qualitative point of view in accordance with various criteria, such as the complexity of the information systems, the risk of fraud or accounting based on estimates or bases that may have a subjective component. In practice, this means being able to determine which of the accounting epigraphs of the financial statements are material, as well as other relevant financial information. In addition, the processes or business cycles in which this information is generated are identified.

The ACS Group's Corporate General Management is responsible for updating the scope of the Internal Control over Financial Reporting System and informing the various business areas and the auditor of any changes that occur.

For each process or business cycle included within the scope, the Group has identified the risks that can specifically affect financial reporting taking into account all of the financial reporting objectives (existence and occurrence; integrity; valuation; rights and obligations; and presentation and comparability), and taking into account the different risk categories described in section E of the ACGR to the extent that they could significantly affect financial reporting. During 2018 there has been no change in the identified risks.

**A specific process is in place for identifying the scope of consolidation, taking into account the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

This assessment is performed at least on an annual basis and whenever companies are included in or excluded from the Group's scope of consolidation.

**The process takes into account the effects of other types of risks (operational, technological, financial, legal, risks to reputation, environmental, etc.) to the extent that they affect the financial statements.**

The ACS Group's Risk Management System considers operational, technological, legal risks or any other type which, if they arise, could have a significant impact on the Group's financial statements.

**Which of the company's governing bodies monitors the process.**

The Board of Directors has the power to approve the risk management and control policy and the periodic monitoring of the information and control systems, while the Audit Committee has the power to oversee the internal risk management and control systems.

### F.3 CONTROL ACTIVITIES

Indicating their main characteristics, detail at least the following:

F.3.1. Procedures for reviewing and authorizing the financial information and description of the ICFR to be disclosed to the stock markets, indicating who is responsible in each case, as well as documentation and flow charts for activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the specific review of the relevant judgements, estimates, evaluations and projections.

Prior to their approval by the Board of Directors and to their publication, the General Corporate Management must submit both the annual and half-yearly condensed financial statements as well as any other periodic public

information supplied to the stock markets to the Audit Committee, taking into consideration the most relevant impacts and those matters whose contents or components are based on accounting opinions or assumptions for the purpose of calculating estimates and provisions.

Prior to the publication of the financial statements, those responsible for each line of business are required to review the information reported for the purposes of consolidation in their respective areas of responsibility.

This report with the description of the ICFR is prepared by the Corporate General Management based on the information supplied by all affected departments and business areas and is submitted for review and approval by the Audit Committee.

All business areas which are relevant for the purpose of financial reporting have different controls to ensure the reliability of the financial information. These controls are identified for the significant business cycles at a consolidated level, based on the internal procedures used, as well as the reporting systems which are used as the basis for preparing the financial information of each business area.

The Group documents the significant processes, risks and control activities implemented in the business areas in a systematic and homogeneous manner, with the exceptions described for the listed investee companies which follow their own procedures. This documentation is based on the following:

- Identification of the companies and processes or business cycles that may significantly affect the financial information. Each significant process has a flow chart and a description of key activities.
- Identification of the risks and controls established to mitigate the financial reporting risks and those responsible for this control, under a common methodology.

The processes considered within the scope include the operating business cycles and the accounting close, communication of information and consolidation. The possible risks of fraud and the specific review of relevant judgements, estimates, evaluations and projections are taken into account in each of the business cycles. Those companies that fall within the scope of ICFR but have not yet completed the relevant implementation are under the obligation to prepare a plan to proceed with implementation and execution report to General Corporate Management.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, operating continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

Following a policy of decentralization and independence of each of its business areas, the ACS Group does not centrally manage its information systems, but rather each business area manages these resources based on the particular features of each business. This is not an obstacle hindering each of the business areas from defining its policies, standards and procedures for internal control over the reporting systems and security management.

Access to the information systems is managed in accordance with tasks assigned to each job position, and each company defines its users' profiles for accessing, modifying, validating or consulting information following a criterion of segregation of duties defined by each area. Management of access, changes in the applications and the flows of approval are defined in the procedures of each business area, as are the responsibilities of those responsible for monitoring and control.

The control mechanisms for the recovery of information and information systems are defined in the corresponding continuity plans. Each of the business areas has storage and backup processes at different locations that provide for contingencies if necessary. Each Group company also establishes the required security measures against leakage or loss of physical and logical information, depending on the level of confidentiality.

The main information systems have protection against viruses and Trojans and have elements that are periodically updated to prevent intrusions to the information systems.



F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The ACS Group does not usually subcontract work to third parties that could materially affect the financial statements. In any case, when the ACS Group outsources work to third parties, it ensures the technical training, independence and skills of the subcontractor. In the case independent experts are used, the person responsible for contracting these experts must validate the work and conclusions reached from their work.

In the specific case of valuations made by independent experts, the criteria and results thereof are revised by Group management or by management of the business areas affected, requesting comparison valuations when necessary.

#### F.4 INFORMATION AND COMMUNICATION

Indicating their main characteristics, detail at least the following:

F.4.1. A specific function in charge of defining accounting policies, keeping them up to date (accounting policies area or department) and resolving any doubts or disputes that may arise over their interpretation, which is in regular communication with the team in charge of operations, as well as a manual of accounting policies regularly updated and communicated to all the company's operating units.

Corporate General Management, through the Corporate Administration Department, is responsible for defining and updating the accounting policies and responding to queries and doubts arising from the implementation of the applicable accounting regulations. This can be done in writing and replies to queries are made as quickly as possible depending on their complexity.

The Group has an accounting policies manual that is in line with the International Financial Reporting Standards (IFRS) as these are adopted by the European Union. This manual, updated in January 2018, is applicable to all companies included in the Group's scope of consolidation and to its joint ventures and associates.

In cases where the ACS Group does not have control but does have a significant influence, the required adjustments and reclassifications are made to the associate's financial statements in order to ensure that the accounting criteria are uniform with those of the Group.

Group companies may have their own manual as long as it does not contradict that indicated in the Group's manual, so as to be able to ensure the uniformity of the accounting policies of ACS.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning the ICFR.

Reporting to the ACS Group's Corporate General Management is carried out in accordance with the following guidelines:

##### 1) Frequency of information reporting

Once the meeting schedule of the Executive Committee and the Board of Directors has been set, the reporting dates and type of information to be reported are sent to the various heads of the divisions or Group companies on an annual basis.

##### 2) Typology of information

The information to be reported varies and is detailed based on the reporting period (monthly / quarterly / half-yearly / annually).

##### 3) Financial reporting format

The information sent to the Administration Department (Corporate General Management) by the various business areas was reported using the SAP BPC consolidation program that gathers both accounting information (mainly for the statement of financial position, the income statement, the comprehensive statement of recognized income

and expense and the cash flow statement) and off-balance sheet report. This information is complemented with various Excel templates parameterized and automated for the aggregation and elaboration of various items of information, usually of an off-balance sheet and of management.

For the preparation of the consolidated statements, all business areas must report any changes in the scope of consolidation of their business area prior to the end of the month. Before making the openings for the corresponding month, the consolidation program includes all the parameterization of the consolidation system, which specifically includes the scope of consolidation affecting the entire ACS Group.

#### 4) Model for internal control information

The ACS Group has defined a reporting system for the most significant controls included within the framework of the Internal Control over Financial Reporting System, in which each person responsible for its implementation and monitoring must send the Group's General Corporate Management a report detailing its operations during the period.

This reporting took place in 2018 on a half-yearly basis, at the same time as the publication of the ACS Group's interim half-yearly financial statements.

## F.5 SUPERVISION OF SYSTEM OPERATION

Indicating their main characteristics, detail at least the following:

**F.5.1.** The ICFR supervision activities carried out by the Audit Committee, as well as whether the company has an internal audit function which includes support to the Committee in its work on supervising the internal control system, including the ICFR, among its duties. Furthermore, indicate the scope of the assessment of the ICFR carried out in the financial year and of the procedure by which the person responsible communicates the results, whether the entity has an action plan that details possible corrective actions and whether its impact on the financial information has been considered.

The ACS Group's Internal Audit Department is set up as an independent service, the function of which is to provide support to the Group's Board of Directors and senior management in the examination, evaluation and supervision of the internal control and risk management systems both of the Parent Company as the other companies forming part of the Group.

The ACS Group's Internal Corporate Audit functions are carried out by the Internal Audit Department, which coordinated internal auditing of the Group's various business areas.

The Corporate Internal Audit Department is included in the organizational structure as a body reporting hierarchically to the Corporate General Management and functionally to the Audit Committee of the Board of Directors. It has no hierarchical or functional link to the business areas. Therefore, the appointment/dismissal of the person responsible is at the suggestion of the Audit Committee. In this regard, Hochtief and Cimic, as noted in point F.1, have their own control systems and the internal audits for these companies report to their Audit Committees, as indicated in the Hochtief Risk Report included in the 2018 Annual Report (available at [www.hochtief.com](http://www.hochtief.com)) and in Cimic Group Limited "2018 Corporate Governance Statement" (available at [www.cimic.com.au](http://www.cimic.com.au)).

In turn, the internal audit departments of the Parent Companies of the Group's non-listed business areas report hierarchically to the Chairman and/or CEO of the same and functionally to the Corporate Internal Audit Department. The functions assigned to the Internal Audit Department are as follows:

- Review the implementation of policies, procedures and standards established in the Group's business areas, as well as the operations and transactions they perform.
- Identifying faults or errors in the systems and procedures, indicating their causes, issuing suggestions for improvement in the internal controls established and monitor the approved recommendations by the Management of the various Business Areas.
- Review and assess in the performance of their work, the internal controls established, included among which are those which make up the risks associated with the financial information for the audited units.

- Reporting any anomalies or irregularities identified, recommending the best corrective actions and following up on the measures taken by the management of the different business areas.

The Corporate Internal Audit Department submits the Annual Audit Plan each year for approval by the Audit Committee. This Audit Plan consolidates the internal audits of the Group companies, except for Hochtief and Cimic.

The Corporate Internal Audit Management periodically submits to the Audit Committee a summary of the reports already drafted and the status of the internal audits of the various business areas.

The Corporate Internal Audit Department submitted the 2018 Activities Report and the 2019 Audit Plan to the Audit Committee in March 2019, which include among other aspects a substantial increase in the review of the operation of the control and activities procedures included in the internal control system for financial information. The audits carried out in 2018 were of the following type:

- Audits of specific projects.
- Audits of branches or geographic areas within a company.
- Audits of processes or specific areas.
- Audits of companies or groups of companies.

A total of 116 audits were carried out in all Business Areas of the Group in 2018, representing 41% of the ACS Group's total revenues excluding Hochtief and Cimic.

During the 2018 fiscal year, the audits completed specifically carried out a review process for the Financial Information Internal Control System of the company, project or agency audited, and identified a set of key controls to verify its functionality. Coverage of the scope of the work was adapted to the companies and processes that are actually significant and in which the ICFR has been implemented.

The purpose of this review consisted in obtaining evidence of financial information control at company and branches level as well as the risk and control matrices, indicating in the corresponding audit report the weaknesses identified in internal control and proposing plans of action through respective recommendations to be adopted by the company to mitigate such risks and weaknesses, should any be detected.

Furthermore, all processes were reviewed in which the Internal Control System of the Financial Information of the Corporation and the Central Services of each Business Area has been implemented, issuing in each case a report on the weaknesses identified in internal controls.

The methodology employed consisted of reviewing the supporting documentation for the evidence with regard to each control and questioning the personnel responsible for executing each of the controls to determine if the control procedures described have been implemented and are in operation.

It was concluded that there was no evidence of significant noteworthy incidents, and in general the controls reviewed satisfactorily cover the risks to which they were assigned, and the evidence provided adequately supports the application of such controls.

**F.5.2. If there is in place a discussion procedure whereby the auditor (pursuant to TAS), the Internal Audit Department and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or administrators. Also report any action plan is in place to correct or mitigate weaknesses observed.**

In accordance with the Regulations of the Board of Directors, the Audit Committee has the following functions:

- Monitoring the effectiveness of the company's internal control, internal audit, and if applicable, risk management systems, and discussing any significant weaknesses in the internal control system identified during the performance of the audit with the auditors or audit firms.
- Establishing the appropriate relationships with auditors or audit firms with the purpose to receive information on any matter which may compromise their independence and any other matter relating to the process of auditing the accounts, in addition to any other communication established in the Spanish legislation regarding auditing accounts and technical auditing standards.

As a result of this work, the internal audit departments of the companies of the Group issue a written report which summarizes the work carried out, the situations identified, the action plan including, where applicable, the timetable and persons responsible for correcting the situations identified, and opportunities for improvement. These reports are sent to the head of the Business Area and to Corporate General Management.

As mentioned above, the Corporate Internal Audit Manager submits an Activities Report to the Audit Committee which contains a summary of the activities carried out and the reports drawn up during the year, as well as monitoring the main significant aspects and recommendations contained in the various reports.

The Audit Committee holds meetings with the external auditor on a regular basis and, in any case, whenever there is a review of the interim financial statements for the first and second half of the year prior to their approval, and prior to the meeting held by the Board of Directors to prepare the full annual individual financial statements of the parent Company, as the consolidated statements of the ACS Group. Additionally, it holds formal meetings to plan the external auditors work for the current year, as well as to report the results that have been obtained in the preliminary review prior to the end of the financial year.

During the 2018 financial year, the Internal Auditor attended five meetings of the Audit Committee and the External Auditor attended six meetings of the Audit Committee, at the invitation of the Chairman and in relation to the items on the agenda for which their presence was required.

## **F.6 OTHER RELEVANT INFORMATION**

### **F.7 EXTERNAL AUDITOR'S REPORT**

**F.7.1. Whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be included as an appendix. Otherwise, explain the reasons for the absence of this review.**

The information relating to the ICFR issued to the stock markets for 2018 was reviewed by the external auditor.

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

ASSURANCE' REPORT ON THE 2018 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF ACS, Actividades de Construcción y Servicios, S.A.

To the Directors of  
ACS, Actividades de Construcción y Servicios, S.A.:

As requested by the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A. ("the Entity") and in accordance with our engagement letter of October 8<sup>th</sup> 2018, we have applied certain procedures to the accompanying "Information relating to the ICFR" of ACS, Actividades de Construcción y Servicios, S.A. for 2018, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2018 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

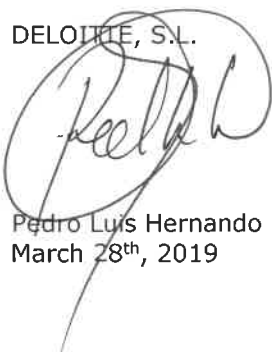
The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 5/2013 of June 12<sup>th</sup> 2013, subsequently modified by CNMV Circular 7/2015 of December 22<sup>nd</sup> 2015 and CNMV Circular 2/2018 of June 12<sup>th</sup> 2018 (the "Circulars").
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by Circulars published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Pedro Luis Hernando  
March 28<sup>th</sup>, 2019

## G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of good governance in listed companies.

If any recommendations are not followed or are only partially followed, a detailed explanation of the reasons for this must be included so that the shareholders, investors and the market in general have sufficient information to assess the company's conduct. Explanations of a general nature will not be acceptable.

1. The By-laws of listed companies may not limit the number of votes held by a single shareholder or impose other restrictions on the company's takeover via the market acquisition of its shares.

Complies	Explain
X	

2. In the event that a parent and subsidiary company are separately listed, they must publish an exact definition of:
- The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
  - The mechanisms in place to resolve possible conflicts of interest.

Complies	Partially complies	Explain	Not applicable
			X

3. During the annual general meeting, the chairman of the board of directors should supplement the published annual corporate governance report with a sufficiently detailed verbal report to shareholders on key corporate governance issues in the company, including in particular the following:
- Changes since the last annual general meeting.
  - The specific reasons why the company does not follow any of the Corporate Good Governance recommendations, and whether any alternative rules are applied to the matters in question.

Complies	Partially complies	Explain
	X	

The company complies with point a). At the Annual General Meeting held on May 8, 2018, the Chairman outlined the changes made.

4. The company should define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors which fully respects insider trading rules and accords equal treatment to all shareholders who are in the same position.

The company should publish this policy on its website, including information regarding the ways in which it is put into practice and identifying interlocutors and the officers responsible for implementation.

Complies	Partially complies	Explain
X		

5. The board of directors should not seek the delegation from annual general meetings of powers to issue shares or convertible bonds where such issues exclude preferential subscription rights and exceed 20% of share capital at the time of delegation.

Where the board of directors approves any issue of shares or convertible securities involving the exclusion of preferential subscription rights, the company should immediately publish the reports on such exclusion required in accordance with prevailing companies' legislation on its website.

Complies	Partially complies	Explain

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X

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6. Listed companies preparing the reports mentioned below, whether on a mandatory or voluntary basis, should publish the same on their corporate website sufficiently advance of the date of the annual general meeting, even where publication is not mandatory:

- a) Report on auditor independence
- b) Reports on the functioning of the audit and appointments and remuneration committees
- c) Audit committee report on related-party transactions
- d) Report on corporate social responsibility policy

Complies	Partially complies	Explain
	X	

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The report on the operations of the audit committee was published, which includes the report on the independence of the auditor and the report about the corporate social responsibility policy.

Nevertheless, the reports on the operation of the other Advisory Committees are not published, nor the report of the Audit Committee about the related operations, because it is not considered that they provide any relevant information in addition to that already published in other documents. Specifically, related party transactions are published with a wealth of detail both in the notes to the annual accounts and in the annual corporate governance report itself, both in section D on related party transactions and in section H in the case of all such matters not expressly included in mentioned section D. In the case of the report on the operation of the appointments and remuneration committees, it is considered that the information that would be included therein are already published in section C of this report, regardless of the Annual Remuneration Report also being published.

7. The company should broadcast shareholders' general meetings live on its website.

Complies	Explain
X	

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8. The audit committee should ensure as far as possible that the auditor's report on the financial statements presented by the board of directors for approval by the shareholders at their annual general meeting is free of scope limitations or qualifications, and that in exceptional cases where the auditor's report is qualified to ensure that both the chairman of the audit committee and the auditors themselves clearly explain to the shareholders the content and scope of any such scope limitations or qualifications;

Complies	Partially complies	Explain
X		

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9. The company should publish the requirements and procedures required to accredit ownership of shares, the right of attendance at shareholders' general meetings and the delegation of voting rights on its website on a permanent basis.

Such requirements and procedures should be designed to foster attendance and the exercise of voting rights by shareholders, and they should be applied on a non-discriminatory basis.

Complies	Partially complies	Explain
X		

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10. Where any shareholder may legitimately have exercised the right to make any addition to the agenda or presented new proposals for resolutions before the date of the annual general meeting, the company should:



- a) Immediately publish such additional agenda items and new proposals for resolutions.
- b) Publish the form of the attendance card, proxy voting form or remote voting form containing the necessary changes to allow voting on the new points on the agenda and alternative proposals, in accordance with the terms proposed by the board of directors.
- c) Submit all such agenda items or alternative proposals to a vote applying the same voting rules as in the case of matters or proposals made by the board of directors, including in particular any assumptions or deductions with regard to the nature of votes.
- d) After the shareholders' general meeting, the company should provide a breakdown of votes cast on any such additional agenda items or alternative proposals.

Complies	Partially complies	Explain	Not applicable
			X

11. If the company intends to pay any premiums for attendance at the annual general meeting, it should establish a general policy regarding such premiums in advance and apply said policy on a stable basis.

Complies	Partially complies	Explain	Not applicable
X			

12. The board of directors should perform its duties with unity of purpose and independence, according all shareholders the same treatment. It shall be guided at all times by the company's best interest, to be understood as establishing a profitable business that is sustainable in the long run, promoting business continuity and maximizing the company's value.

In pursuit of the corporate interest, the company should not only abide by applicable laws and regulations and act in good faith, ethically and with due respect for custom and generally accepted best practice, but also seek to reconcile said corporate interest with the legitimate interests of its employees, suppliers, customers and other stakeholders potentially affected by the conduct of affairs, and with the impact of the company's activities on the community as a whole and on the environment.

Complies	Partially complies	Explain
X		

13. In the interests of the effectiveness and participatory nature of its functioning, the board of directors should comprise between five and fifteen members.

Complies	Explain
X	

There are currently 18 Board Members, which is a number comprised within the 11 to 21 member limit provided in Article 13 of the Company By-laws and is in accordance with the Spanish Capital Companies Law. To date, this was considered to be most appropriate number in accordance with the company's needs and characteristics with regard to shareholder structure.

14. The board of directors should approve a policy for the selection of directors which:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election of members are based on a prior analysis of the needs of the board of directors.
- c) Favors diversity of expertise, experience and gender.

The result of the prior analysis of the needs of the board of directors should be set forth in a report of the appointments, which shall be published on the occasion of the call to the shareholders' general meeting at which the ratification, appointment or re-election of each board member is to be sought.

The policy for the selection of board members should contribute to the objective of ensuring that at least 30% of the total directors are female by 2020.

The appointments committee should verify compliance with the policy for the selection of board members on an annual basis and explain its findings in the annual corporate governance report.

Complies	Partially complies	Explain
	X	

The ACS Group promotes all those policies necessary to ensure equality of opportunity and in this regard, the Statutes of the ACS Board of Directors, amended February 27, 2019, expressly establishes that the Board must ensure that the selection procedures of its members favors the diversity of gender, experiences and knowledge, among other aspects, and that do not suffer implicit biases that may imply any discrimination, and in particular, that facilitate the selection of advisors in a number that allows reaching a balanced presence of women and men.

However, it is considered that the criteria for compliance with this Recommendation is partial, given that, even if the selection procedures of the Board members attempt to facilitate the selection of female members in a number that allows reaching a balanced presence of men and women, at December 31, 2018, the number of female members represents 16.7% of the total. In any case, complying with the terms of the Board regulations and the Group's Code of Conduct, the Appointments Committee must favor the diversity of gender in relation to the potential candidates, on the basis that they always possess the appropriate professional profile and meet objective merit and capability criteria.

For this purpose, the Group has a policy on new Board of Director membership designed to achieve the recommendations established by the Code of Good Governance, coordinating principles of representation with those of equality and independence. In this regard, the vacancies that have taken place in the last 6 years have been used to incorporate women members, so that 33% of incorporations have been women.

15. A broad majority on the board of directors should be proprietary and independent board members and the number of executive board members should be the minimum necessary, taking into account the complexity of the group of companies as well as each executive board members' holding in the share capital of the company.

Complies	Partially complies	Explain
	X	

16. The percentage of the total non-executive board members represented by proprietary board members should not be greater than the proportion of capital represented on the board and the remainder of the company's capital.

This proportional criterion may be relaxed

- a) In large cap companies where few ownership interests attain the legal threshold for significant shareholdings.
- b) In companies where multiple, otherwise unrelated shareholders are represented on the board of directors.

Complies	Explain
X	

17. The number of independent board members should represent at least half of all board members.

Nevertheless, in companies which are not large cap concerns, or if they are, where a single shareholder or several acting in concert to control more than 30% of share capital, the number of independent board members should represent at least one third of the total board members.

<b>Complies</b>	<b>Explain</b>
	X

The Company considers that the composition of the Board of Directors is appropriate for the representation of the interests of the shareholders, whether majority or minority. To this end, the Board of Directors, with the support of the Appointments Committee, ensures the necessary diversity of the Board as a whole so that its members bring together the requisite knowledge, training, work experience and other aspects that may be relevant to the sectors and international character of the ACS Group, with the current directors' knowledge of the Company and its Group being valued very highly. In turn, it is also important to note that in the case of three of the other external directors, while legally cannot be qualified as independent directors as they have been directors for more than 12 years, it is considered that in view of their personal and professional qualities, they can perform their duties without being conditioned by their relations with the company or its group, its significant shareholders or managers. It should be considered that three of the Other External directors, who legally cannot be qualified as independent board members, because they were board members for over 12 years; however, because of their personal and professional qualifications, they can perform their duties without being constrained by any relationship with the company or its group, its major shareholders or its management.

18. Companies shall post the following information regarding the board members on their websites, and keep them permanently updated:

- a) Professional experience and background.
- b) Board memberships held at other companies, listed or otherwise, and any other remunerated activities of any kind in which the board member may engage.
- c) An indication of the board member's classification as executive, in the case of proprietary board members stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments or reselection as a company board member.
- e) Shares held in the company and any options thereon.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>
		X

19. Subject to verification by the appointments committee, the annual corporate governance report should explain the reasons for the appointment of proprietary board members at the request of shareholders holding equity interests of less than 3% of share capital. Likewise, the reasons for the refusal, where applicable, of any formal requests for seats on the board made by shareholders holding interests of equal size or greater than the interests owned by other shareholders at whose request proprietary board members were appointed.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
			X

20. Proprietary board members shall resign when the shareholders they represent dispose of the shares owned in their entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary board members, the latter's number should be reduced accordingly.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

21. The Board of Directors may not propose the removal of any independent board members before the expiry of the statutory term for which they were appointed, as mandated by the by-laws, except where just cause is found by the board based on a report of the appointments committee. In particular, just cause will be presumed when a board member takes up any new posts or contracts new obligations such as might prevent him/her from dedicating the necessary time to the discharge of the duties proper to the office of director, is found to be

in breach of the duties inherent in his/her position or comes under one of the grounds leading to disqualification as independent, in accordance with the provisions of applicable legislation.

The removal of Independent board members may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure and such changes in the structure of the board of directors are a consequence of the proportionality criterion set out in Recommendation 16.

	Complies	Explain
	X	

22. Companies shall lay down rules requiring board members to inform the board, and if necessary, resign, in cases where the company's name and reputation is harmed. In particular, board members shall be required to inform the board of directors immediately of any criminal charges brought against them and the progress of any subsequent trial.

When a board member is accused of or brought to trial for any of the offences defined by prevailing legislation, the board should examine the matter as soon as possible and, in view of the specific circumstances, should decide whether or not the board member so arraigned should be called upon to resign. The board should also disclose all such determinations in the annual corporate governance report.

	Complies	Partially complies	Explain
	X		

23. All board members should express clear opposition when they feel a proposal submitted for approval by the board of directors might harm the corporate interest. In particular, independents and other board members unaffected by potential conflicts of interest should challenge any decision that could be detrimental to the interests of shareholders lacking board representation.

When the board of directors makes any material or recurring decisions on any matter about which a board member has expressed serious reservations, then he or she should draw the pertinent conclusions. Board members resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, whether or not he/she is also a board member.

	Complies	Partially complies	Explain	Not applicable
	X			

24. Board members who resign or otherwise step down before their term expires, shall explain their reasons for doing so in a letter sent to all members of the board of directors. Regardless whether such resignation is filed as a significant event, the motive for it must be explained in the annual corporate governance report.

	Complies	Partially complies	Explain	Not applicable
	X			

25. The appointments committee should ensure that non-executive board members have sufficient time available for the appropriate discharge of their duties.

The board regulations should establish a maximum number of other companies' boards on which the board members may hold seats.

Complies	Partially complies	Explain
	X	

The Appointments Committee ensures that the non-executive board members have sufficient time availability to correctly perform their functions. However, the company is considered to be partly compliant, because although it must be taken into account that the Rules of the Board of Directors do not establish a maximum number of other companies' boards on which the board members may hold seats, this is not considered to be the only variable that can impact on the dedication of the Company's directors, with the performance of their professional activity outside the Company's Board being one relevant variable. The Company considers that with the aim of maintaining a balance between dedication to the Company and the benefits and experience they contribute from their own activity and presence on other boards, their presence on them cannot be restricted, as it is a personal matter to be decided by the board members themselves, if they consider that they cannot offer the dedication necessary for an appropriate performance. At no time has the existence been detected of any lack of time or dedication by Board Members for the adequate performance of the duties with which they have been charged.

26. The board of directors should meet as often as necessary to perform its functions effectively and at least eight times per year, following a schedule of dates and issues established at the start of the year. However, each board member may also individually propose other initially unscheduled items for inclusion in the agenda.

Complies	Partially complies	Explain
	X	

27. Failure on the part of board members to attend meetings should be confined to unavoidable cases and non-attendance should be quantified in the annual corporate governance report. Proxies should be arranged with instructions in the event of inability to attend.

Complies	Partially complies	Explain
	X	

As stated in section C.1.26, the Company has had 97.2% attendance at the meetings of the Board of Directors, so the assistance with representation has been very limited. Likewise, as regards the delegation with voting instructions, it is not considered, in many cases, advisable, given that one of the characteristics of Board meetings is their deliberative nature, the Directors expressing their different positions and opinions and thus being able to arrive at conclusions different from the initial ones.

28. Where the directors or the secretary express any concerns over a proposal, or in the case of board members, over the conduct of the company's affairs, and such concerns are not resolved at a meeting of the board of directors, the concerns raised shall be recorded in the minutes at the request of the party expressing the same.

Complies	Partially complies	Explain	Not applicable
X			

29. The company should establish appropriate channels to allow the directors to obtain the necessary advice to discharge their duties, including external advisory services payable by the company where circumstances so require.

Complies	Partially complies	Explain
	X	

30. Irrespective of the expertise required of board members for the discharge of their duties, companies should offer board members training programs to refresh their knowledge and skills, where circumstances so require.

Complies	Partially complies	Explain
X		

31. The agenda for board meetings should indicate clearly the points on which the board of directors is required to adopt a decision or resolution, so that the directors can examine or obtain the necessary information in advance.

Where the chairman may wish in exceptional circumstances and for reasons of urgency to propose decisions or resolutions which are not included in the agenda for approval by the board of directors, the express prior consent of the majority of the board members present shall be required and shall be recorded in the minutes.

Complies	Partially complies	Explain
X		

32. Board members shall be periodically informed of changes in the shareholder structure and of the opinions of the company held by significant shareholders, investors and rating agencies.

Complies	Partially complies	Explain
X		

33. As the officer responsible for the effective functioning of the board of directors, the chairman shall exercise the functions attributed by law and the by-laws, and shall prepare and submit to the board of directors a schedule of dates and an agenda, organize and coordinate periodic assessments of the board, and where appropriate, of the company's chief executive officer. The chairman shall likewise be responsible for directing the work and effective functioning of the board, ensuring that sufficient time is given over to the discussion of strategic issues, and agreeing and reviewing the programs established to refresh the knowledge of each director where circumstances so require.

Complies	Partially complies	Explain
X		

34. Where there is a coordinating director, the by-laws or rules of the board of directors shall attribute the following functions to said officer in addition to the powers legally assigned to the same: to chair the board of directors in the absence of the chairman and deputy chairmen, where applicable; to take note of the concerns voiced by non-executive directors; to maintain contacts with investors and shareholders in order to learn their points of view and form an opinion of their concerns, in particular with regard to corporate governance of the company; and to coordinate the plan for succession of the chairman.

Complies	Partially complies	Explain	Not applicable
	X		

The Rules of Procedure of the Board of Directors of the Company, in its Article 18.4, governs the post of the coordinating director although one of the functions envisaged in the Recommendation is not assumed.

35. The secretary to the board of directors shall oversee the actions and decisions of the Board of Directors, ensuring that they are based on the good governance recommendations applicable to the company as set forth in the Code of Good Governance.

<b>Complies</b>	<b>Explain</b>
X	

36. The board of directors shall meet once per year in full session to evaluate and, where appropriate, adopt an action plan to correct any weaknesses identified with respect to:

- a) The quality and effectiveness of the board's functioning.
- b) The functioning and membership of its committees.
- c) The diversity of the board's membership and powers.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of each director, focusing in particular upon the directors responsible for each of the board committees.

Assessments of the different committees shall be based upon the reports submitted by the same to the board of directors, while the evaluation of the board itself shall be based on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in its evaluation by an external consultant, whose independence shall be verified by the appointments committee.

Business relations maintain by the company or any group company with the consultant or any company forming part of the consultant's group shall be duly disclosed in the annual corporate governance report.

The processes and areas evaluated shall be described in the annual corporate governance report.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>
X		

37. Where an executive committee exists, the membership structure of the different classes of director shall be similar to that of the board of directors, and its secretary shall be the secretary to the board.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
	X		

Currently, there are no longer any independent members on the Executive Committee. This circumstance is due to the fact that the election of the members of this Committee is made according to the person (due to his personal and professional profile) and not according to his category of director.

38. The board of directors shall at all times be apprised of the matters debated and decisions taken by the executive committee, and all board members shall receive copies of the minutes to meetings of the executive committee.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

39. The members of the audit committee, and in particular its chairman, shall be appointed in view of their knowledge and expertise in accounting, audit and risk management matters, and the majority of its members shall be independent directors.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>
X		



40. A unit shall be set up under the supervision of the audit committee to perform the internal audit function and oversee the proper functioning of information and internal control systems. The internal audit unit shall report functionally to the non-executive chairman of the board or to the audit committee.

Complies	Partially complies	Explain
X		

41. The head of the internal audit unit shall submit an annual work plan to the audit committee and shall report directly on any matters arising in the course of the procedures carried out, as well as presenting an annual report on activities at the end of each financial year.

Complies	Partially complies	Explain	Not applicable
X			

42. In addition to those established by law, the audit committee should perform the following functions:

1. In relation to information systems and internal control:

- a) To supervise the preparation and integrity of the company's, and where applicable the group's, financial information, reviewing compliance with regulatory requirements and ensuring the adequacy of the consolidation scope defined and appropriate application of accounting criteria.
- b) To oversee the independence of the internal audit unit; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the budget for the service; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on internal activities; and ensure that senior management takes the conclusions and recommendations of internal audit reports into consideration.
- c) To establish and oversee a whistle-blowing mechanism allowing employees confidentially and, if possible and deemed appropriate, anonymously to report any potentially material irregularities, especially of a financial or accounting nature, which they may observe in the company.

2. In relation to the external auditor:

- a) To examine the circumstances and reasons in the event of resignation of the external auditor.
- b) To ensure that the remuneration of the external auditor's work does not compromise quality or independence.
- c) To oversee reporting by the company of any change of auditor to the CNMV, and to ensure that it is accompanied by a statement with regard to the possible existence of disagreements with the outgoing auditor, if any, and the content thereof.
- d) To ensure that the external auditor holds an annual meeting with the whole of the board of directors to report on the audit work carried out and on the evolution of accounting matters and the risks to which the company is exposed.
- e) To ensure that the Company and the external auditor respect prevailing regulations governing the provision of services other than audit, the limits on the concentration of the auditor's business and the terms of regulations governing auditor independence in general.

Complies	Partially complies	Explain
X		

43. The audit committee may call any employee or executive of the company, and may even require attendance without the presence of any other executive.

Complies	Partially complies	Explain
X		

44. The audit committee shall be apprised of all information concerning transactions involving structural or corporate changes which the company or any company forming part of its group plan to carry out. The



committee shall examine such information and report in advance to the board of directors on the financial terms and accounting impact of such transactions, and in particular on the exchange ratio proposed, if any.

Complies	Partially complies	Explain	Not applicable
X			

45. The control and risk management policy should determine at least:

- a) The different types of financial and non-financial (operational, technological, legal, corporate, environmental, political and reputational) risk to which the company is exposed, including contingent liabilities and other off-balance sheet risks among the financial and business risks identified.
- b) The level of risk which the company considers acceptable.
- c) The measures established to mitigate the impact of the risks identified, in the event any should materialize.
- d) The information and internal control systems used to control and manage risks, including contingent liabilities and off-balance sheet risks.

Complies	Partially complies	Explain
X		

46. An internal control and risk management function headed up by an internal unit or department of the company should be set up under the direct supervision of the audit committee or, where appropriate, of a specialized board committee to take charge of the following functions:

- a) To ensure the proper functioning of internal control and risk management systems and, in particular, to ensure that the same adequately identify, manage and quantify all significant risks to which the company may be exposed.
- b) To participate actively in the preparation of the risk strategy and significant decisions with regard to risk management.
- c) To ensure that risk control and management systems adequately mitigate risks within the framework of the policy defined by the board of directors.

Complies	Partially complies	Explain
X		

47. The members of the appointments and remuneration committee (or of the appointments committee and remuneration committee where separate) should be appointed in view of their knowledge, skills and experience of the functions they will be required to discharge, and the majority should be independent board members.

Complies	Partially complies	Explain
	X	

In accordance with applicable legislation, the internal regulations and the policies approved by the Board of Directors, particularly on diversity, the Company promotes selection procedures for directors that take into account appropriate knowledge, skills and experience for the functions that they are expected to perform, and diversity in its various aspects constitutes an essential requirement in the selection process. To this end, half the members of the Remuneration Committee are independent directors, and the Appointments Committee has two independent directors as established by the Companies Capital Act. In addition, the Chairpersons of both Committees are independent and have a casting vote.

48. Large cap companies should establish a separate appointments committee and remuneration committee.

Complies	Partially complies	Explain
X		

49. The appointments committee shall consult with the chairman of the board and the company's chief executive officer, in particular on matters relating to executive board members.

Any board member may request that the appointments committee to take potential candidates to cover vacancies in the board of directors into consideration, where they understand the same to be suitable.

Complies	Partially complies	Explain
X		

50. The remuneration committee shall exercise its functions independently. In addition to those attributed by law, said functions shall comprise the following:

- a) To propose the basic terms and conditions of senior management contracts to the board of directors.
- b) To verify compliance with the remuneration policy established by the Company.
- c) Periodically to review the remuneration policy applied to board members and senior executives, including share-based remuneration systems and their application, if any, and to provide assurance that individual remuneration is proportionate and in line with the compensation paid to other directors and senior executives of the company.
- d) To ensure that potential conflicts of interest do not adversely affect the independence of external advice provided to the Committee.
- e) To verify information on the remuneration of board members and senior executives contained in corporate documents, including the annual report on board members' remuneration.

Complies	Partially complies	Explain
X		

51. The remuneration committee shall consult with the chairman or chief executive officer, especially on issues involving executive board members and senior executives.

Complies	Partially complies	Explain
X		

52. The rules governing the membership and functioning of supervisory and control committees should be set forth in the rules of the board of directors and should be consistent with those applied by law to mandatory committees in accordance with the foregoing recommendations, including:

- a) Membership should comprise exclusively non-executive board members, with a majority of independent board members.
- b) Committee chairpersons should be independent board members.
- c) The board of directors should appoint the members of committees in view of the knowledge, skills and experience of board members and the duties entrusted to each committee, debating the relevant proposals and reports. Each committee should likewise held to account for its activity and the work carried out at the first full session of the board of directors held after each of its meetings.
- d) The committees may seek external advice where considered necessary for the due discharge of their functions.
- e) Minutes shall be kept of each meeting and shall be provided to all of the board members.

Complies	Partially complies	Explain	Not applicable
			X

53. Compliance with the rules of corporate governance, internal codes of conduct and corporate social responsibility policy shall be supervised by one or more board committees, which may be the audit committee, the appointments committee, the corporate social responsibility committee, where applicable, or a specialized committee set up by the board of directors for that purpose in the exercise of its powers of self-organization and vested with at least the following powers:

- a) To supervise compliance with internal codes of conduct and with the company's corporate governance rules.
- b) To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically to assess the alignment of the company's corporate governance system in order to ensure that it fulfils its mission of furthering the corporate interest and takes the legitimate interests of other stakeholders into account where appropriate;
- d) To review the Company's corporate responsibility policy, ensuring that it is oriented to the creation of value;
- e) To monitor corporate social responsibility strategy and practices, and to assess the level of compliance.
- f) To supervise and evaluate processes affecting different stakeholder groups.
- g) To assess all matters connected with the non-financial risks to which the Company is exposed, including operational, technological, legal, corporate, environmental, political and reputational risks.
- h) To coordinate procedures for reporting non-financial information and on matters of diversity in accordance with applicable legislation and the relevant international standards.

Complies	Partially complies	Explain
X		

54. The corporate social responsibility policy should include the principles and undertakings voluntarily assumed by the company in its relations with stakeholders and should determine at least:

- a) The objectives of the corporate social responsibility policy and the instruments implemented to support the same.
- b) Corporate strategy in relation to sustainability, the environment and social issues.
- c) Specific practices in matters relating to shareholders, employees, customers, suppliers, social issues, the environment, diversity, fiscal responsibility, human rights and the prevention of unlawful conduct.
- d) The methods and monitoring systems applicable to the specific practices referred to in point c) above, the associated risks and their management.
- e) Mechanisms established to monitor non-financial risks, ethics and business conduct.
- f) Channels established for communication, participation and dialogue with stakeholders.
- g) Responsible communication practices to prevent the manipulation of information and safeguard personal integrity and honor.

Complies	Partially complies	Explain
X		

55. The company shall report on matters relating to corporate social responsibility in a separate document or in the management report, applying internationally accepted methodologies for this purpose.

Complies	Partially complies	Explain
X		

56. Directors' remuneration should be set at the necessary levels to attract and retain board members with the desired profile, and to reward the dedication, qualifications and responsibility required by their office, but it should not be set so high as to compromise the independence of non-executive board members.

<b>Complies</b>	<b>Explain</b>
X	

57. Variable remuneration linked to the company's results and personal performance should be confined to the executive directors, as should remuneration systems based on the allocation of shares, options or rights over shares or other instruments linked to the share price, and long-term savings systems such as pension plans or retirement and other prudential schemes.

Share-based remuneration may be considered for non-executive board members subject to the condition that any securities delivered by held until the board member concerned leaves office. This condition shall not apply to any securities which the board member concerned may need to dispose of, where applicable, to settle acquisition costs.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>
X		

58. In the case of variable pay, remuneration policies should establish the necessary limits and technical precautions to ensure that such rewards relate to the professional performance of beneficiaries and do not accrue merely as a result of the general evolution of the markets, the industry in which the company operates or other similar circumstances.

In particular, variable pay components should:

- a) Be linked to predetermined, measurable performance criteria, and such criteria should take into account the risks assumed to obtain results.
- b) Promote the sustainability of the company and should include non-financial criteria related to long-run value creation, as well as compliance with the company's internal rules and procedures, and with its risk control and management policies.
- c) Should be structured on the basis of balance between the attainment of objectives in the short, medium and long term, so as to remunerate ongoing success and performance over a sufficient period of time to appreciate the contribution made to the sustainable creation of value and ensure that the performance variables measured do not refer only to one-off, occasional or extraordinary events.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

59. Payment of a relevant part of variable remuneration components should be deferred over a minimum timespan to allow verification that the performance conditions established have actually been fulfilled.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

60. Compensation that is tied to the company's earnings shall take into account the qualifications, if any, contained in the auditor's report where the same reduce results.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

61. A relevant percentage of the variable remuneration paid to executive board members should be linked to delivery of shares or financial instruments indexed to the share price.

<b>Complies</b>	<b>Partially complies</b>	<b>Explain</b>	<b>Not applicable</b>
X			

62. Once shares, options or rights over shares have been assigned in remuneration systems, the board members shall not transfer ownership of a number shares equal to twice the amount of their fixed annual remuneration, nor shall they exercise any options or rights, until a period of at least three years has elapsed since the allocation was made.

This condition shall not apply to any securities which the board member concerned may need to dispose of, where applicable, to settle acquisition costs.

Complies	Partially complies	Explain	Not applicable
			X

63. Contractual agreements with directors should include a clause allowing the company to claim reimbursement of variable remuneration items where payment was not in line with the performance conditions established, or where payment was made in view of data later found to be inaccurate.

Complies	Partially complies	Explain	Not applicable
X			

64. Severance payments made on the termination of contracts should not exceed an amount equal to two years' total annual remuneration, and they should not be made until the company has been able to verify that the board member concerned fulfils the performance criteria established.

Complies	Partially complies	Explain	Not applicable
X			

## H. OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects relating to corporate governance in the company or group entities which have not been reflected in the other sections of this report, but which need to be included to give more complete and reasoned information on the structure and governance practices in the company or its group, detail them briefly.
2. This section can also include any other information, clarification or qualification relating to the previous sections of the report, provided that it is material and not repetitive.  
In particular, indicate whether the company is subject to any legislation other than the Spanish legislation on corporate governance and, if so, include the information that it is required to furnish, where such information differs from that required in this report.
3. The company may also indicate whether it has adhered voluntarily to other codes on ethical principles or good practices, whether international or applying to the sector or other scope. Where applicable, identify the code in question and the date of adherence.

### SECTION. - H.3

The Company at the meeting of its Board on November 19, 2010 took a decision to adhere to the Code of Best Tax Practice drawn up by the Spanish Revenue Service and notified the Agency of the fact on December 1, 2010. The objective of this Code is to underpin transparency and cooperation in the Company's tax practices, and to enhance legal certainty with regard to the interpretation of tax regulations.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at its meeting held on 3/28/2019.

Indicate whether any Board Members voted against or abstained in relation to the approval of this Report.

Yes	No
	X

## Declaration of responsibility

The members of the Board of Directors declare that, to the best of their knowledge, the financial statements (Balance Sheet; Income Statement; Statement of Changes in Equity incorporating the Statement of Recognized Income and Expenses and the Statement of Changes in Total Equity; Statement of Cash Flows; Notes) have been prepared in accordance with the applicable accounting principles, provide a true image of the equity, financial position and income of ACS, Actividades de Construcción y Servicios, S.A., and that the approved director's report contains a true analysis of the company's evolution and performance and of the financial position of ACS, Actividades de Construcción y Servicios, S.A., together with a description of the main risks and uncertainties it faces as well as the Annual Corporate Governance Report. In accordance with the provisions in force, the Members of the Board of Directors hereby sign this declaration of responsibility, the financial statements and the director's report for ACS, Actividades de Construcción y Servicios, S.A., prepared in accordance with the regulations in force at financial close on 31 December 2018 and written on 133 sheets of ordinary paper including this one, all signed by the Chairman and Secretary General of the Board of Directors.

Florentino Pérez Rodríguez (Chairman and CEO)	Antonio García Ferrer (Deputy Chairman)
José María Loizaga Viguri (Deputy Chairman)	Marcelino Fernández Verdes (Managing Director)
Agustín Batuecas Torrego (Board Member)	Antonio Botella García (Board Member)
Mariano Hernández Herreros (Board Member)	Joan-David Grimá i Terré (Board Member)
Emilio García Gallego (Board Member)	Carmen Fernández Rozado (Board Member)
Javier Echenique Landiribar (Board Member)	María Soledad Pérez Rodríguez (Board Member)
Pedro José López Jiménez (Board Member)	Miguel Roca i Junyent (Board Member)
Manuel Delgado Solís (Board Member)	José Eladio Seco Domínguez (Board Member)
Catalina Miñarro Brugarolas (Board Member)	José-Luis del Valle Pérez (Director and Secretary General)