

FCC Group Tax Control Framework Policy

1. Objectives pursued by this Policy

The FCC Group Tax Code of Conduct, approved by the Board of Directors on 25th September, 2014, establishes adherence to the “**FCC Group Fiscal Control Framework Policy**” as part of the obligations to be observed by all employees performing duties in tax departments.

To the extent that the FCC Group Fiscal Policy must remain permanently in line with the Group’s corporate principles, its mission and vision, and its policy of corporate social responsibility, the FCC Group Tax Function shall always work with the corporate areas of business as a strategic partner to provide advice as required in a clear, timely and well-focused manner in respect of any tax-related matter.

Moreover, since FCC Group taxation is a key element to be considered in achieving the objectives set down for the FCC Group, the tax function should be involved in the entire value chain of the Group, from the initial proposal of a particular operation or product up to its final implementation and development.

The involvement of the tax function in the business’ value chain is crucial for:

- (i) assessing the potential costs, risks or tax opportunities pertaining to all transactions or business decisions, in order to determine early enough the financial and tax profitability of each operation and, where appropriate, for selecting the most efficient alternative permitted by applicable law and which is best aligned with the Group’s fiscal policy;
- (ii) preventing errors in the implementation, documentation and monitoring of each operation or option proposed;
- (iii) monitoring each of the proposed alternatives in order to make whatever changes to the initial approach may be appropriate or, if necessary, for suitable corrective action to be taken.

The purpose of this Framework Policy is to define (i) the general policy of tax risk management within the FCC Group and in particular the policy relating to the management of so-called “technical tax risk”, as well as (ii) the various responsibilities assigned within the group, relating to tax risk management and identifying and reporting issues involving a technical tax risk.

2. Responsibilities assumed by members of the tax function

All persons performing duties relating to compliance with tax obligations within the FCC Group are considered members of the tax function. For organisational purposes, the Tax Function can be broken down into the following groups of responsibilities:

1. **Group Central Tax Department (AFG):** this area belongs to the Group holding company, reports directly to the Directorate General of Administration and is on whom the constituent members of local Tax Departments depend functionally.
2. **Business Area Tax Departments (DFAN):** are those departments or organisational units that belong to FCC legal entities and are functionally dependent on the Group Corporate Tax Department.
3. **Shadow tax members:** all those who, although not hierarchically or functionally dependent on the FCC Group's Central Tax Department or on the relevant Business Area Tax Departments, nevertheless perform duties relating to compliance with tax obligations, such as the filing of tax returns or preparing or responding to tax appeals and summons, are considered to be shadow tax members.

Each member of the Tax Function is required to assume the responsibilities listed below:

2.1. Responsibilities assumed by the Group Central Tax Department

1. To manage and ensure proper compliance with tax obligations throughout the entire group.
2. To define and update, in collaboration with the FCC function responsible for Group Risk Management, an appropriate group-wide policy of tax risk management aligned with the global risk management policy on the basis of the applicable legislation, environment and specific circumstances existing in each country.
3. To define appropriate tax processes and procedures within the group intended to ensure proper compliance with tax obligations and to prevent or mitigate any potential risks associated with managing the tax area.
4. To define technical criteria and guidelines for action on tax matters that are consistent and in line with the principles laid down in the FCC Group Tax Code of Conduct and to ensure compliance thereof.
5. To assess the risks, costs and tax savings arising from any tax option to be adopted by the Group and to notify them to other areas of the organisation.
6. To ensure that all decisions on taxation are sufficiently justified and documented, and are taken at the appropriate level within the organisation.
7. To request written advice from outside advisors in the event that there exist issues subject to different interpretations before decisions are taken.

8. To adopt all suitable measures aimed at establishing good relations with tax authorities in each legal territory based on principles of transparency and good faith.
9. To promote influencing and lobbying activities with third parties aimed at encouraging changes to fiscal regulations or interpretations, in order to defend the interests of the FCC Group.
10. To report recurrently all fiscal risks and specific fiscal policies adopted by the FCC Group to the Board of Management of the Group's holding company through the Audit Committee.

2.2. Responsibilities assumed by Business Area Tax Departments

1. To manage and ensure proper compliance with tax obligations by the relevant organisational unit.
2. To apply the FCC Group's tax risk management policy as defined by the Group's Central Tax Department.
3. To define the procedures and processes required for managing the tax department in relation to the legal entity or territory covered by the Business Area Tax Department in collaboration with and under the supervision of the Group's Central Tax Department, to ensure proper fulfilment of tax obligations and to avoid or mitigate potential risks arising from the tax department's management at local level.
4. To define technical criteria and guidelines for action on tax matters within the scope of the legal entity or territory covered by the Business Area Tax Department in collaboration with the Group's Central Tax Department, and to ensure compliance with such criteria and guidelines.
5. To assess the risks, costs and tax savings arising from any tax decision to be taken within the scope of the legal entity or territory covered by the Business Area Tax Department and to report recurrently all relevant tax implications to the Group's Central Tax Department.
6. To ensure that all decisions on tax matters taken at the local level are sufficiently justified and documented and are taken at the appropriate level within the organisation.
7. To request written advice from third parties, under the coordination and supervision of the Group's Central Tax Department in the event that there exist issues with varying interpretations prior to decisions being taken.
8. To adopt suitable measures aimed at establishing good relations with local tax authorities, in coordination with the Group's Central Tax Department.
9. To inform recurrently the Group's Central Tax Department of any tax risks and disputes and specific fiscal policies at local level by means of reporting procedures defined by the FCC Group's Central Services.

2.3. Responsibilities assumed by shadow tax members

1. To manage the tax obligations entrusted to them in accordance with the procedures defined by the Group's Central Tax Department or by the Business Area's Tax Department.
2. To inform recurrently the relevant Business Area Tax Department or, where applicable, the Group's Central Tax Department, about the development of tasks carried out with regard to tax matters.
3. To request advice from the Business Area Tax Department or the Group's Central Tax Department when complying with the implementation of tax obligations.
4. To inform recurrently the Business Area Tax Department or the Group's Central Tax Department about fulfilment of tax obligations, as well as reporting relevant tax data as defined by the Group's Central Tax Department.

3. Obligations assumed by other areas within the FCC Group

FCC employees who are not members of the tax function but who must take decisions or perform tasks which may have tax implications are required to:

1. Report to the Business Area Tax Department or the Group's Central Tax Department about the matters or operations being assessed under their responsibility, in order for any potential tax implications to be reviewed with sufficient time in advance by the heads of the corresponding tax departments prior to decisions being taken.

In particular, all proposals relating to (i) investment and divestment of assets, (ii) relevant contracts to be implemented outside Spain, or (iii) company reorganisation transactions, must necessarily be reviewed and approved by the FCC Group's Central Tax Department.

2. To perform the tasks of reporting, supervision or action defined in the internal procedures defined by the Group's Central Tax Department for tax matters.

4. General tax risk management policy

4.1. Overall approach

The FCC Group has defined a policy of tax risk management as part of its overall risk management policy. The FCC Group's tax risk management policy is based on (i) a suitable environment of tax control, (ii) a system of identifying and controlling tax risks, and (iii) a process of monitoring and continuous improvement of the controls thus established.

When taking decisions on tax matters, the FCC Group shall always choose to make reasonable interpretations of the policy or opinions shared by the relevant administrative bodies or courts of justice in each jurisdiction where the Group is present.

When making such decisions, the assumed risk must take into account the likelihood of the criteria adopted by the company being accepted by the tax authorities or courts of justice, as well as the associated risk to the Organisation's reputation, in accordance with the standards defined for this purpose within the Group.

In any case, under the provisions of this Policy, the adoption of fiscal strategies or tax positions in which the economic benefit is solely fiscal in character and which might not be in line with a particular trade or business purpose shall not be acceptable.

Likewise, entering into agreements that may be deemed as 'artificial' from the fiscal point of view is equally forbidden.

According to the foregoing, the FCC Group shall only carry out transactions and operations that are perfectly justifiable from a commercial viewpoint and may be made public.

Decisions on tax matters shall be taken according to the risk levels referred to in section 4.3.3 below.

4.2. Types of tax risk

Within the FCC Group, tax risks are classified into one of the following categories:

1. **Technical risk:** the risk of the approach taken by the Group with regard to a particular tax position being initially challenged by the Tax Authorities and ultimately rejected by the relevant courts of law.
2. **Reputational Risk:** the risk of decisions taken by the Group of companies related to a tax department reaching notoriety in the media and thus damaging the group's image or reputation.
3. **Fulfilment Risk:** the risk arising from the non-fulfilment of tax obligations in a timely manner.
4. **Implementation Risk:** a risk arising from not properly implementing pre-defined tax decisions or established tax planning strategies. This risk includes, among others, the following behaviours:
 - a) The improper submission of reports or disclosures required by the policy when adopting a particular tax regime.
 - b) The lack of adequate internal documentation to justify the business reasons behind a particular operation.
 - c) The failure to consider financial, economic or business parameters when taking decisions of a fiscal nature, or the use of insufficiently tested or incorrect assumptions.

- d) The failure to follow up the assumptions, estimates or information initially provided to tax managers in order to modify, when necessary, the strategy or decision originally adopted.
5. **External Risk:** this is the risk arising from a change in tax regulations by decision of the authorities or by their failure to adapt to regulations of a higher ranking, such as European Community law. It includes the risk that the tax authorities or courts may amend established criteria that have already been applied by the Group in tax positions it has taken.

4.3. Classification of tax risks

When classifying fiscal risks in the FCC Group, both the quantitative impact and the possible qualitative impact are to be assessed in accordance with the parameters and criteria set out below.

4.3.1. Quantitative impact

Four levels of quantitative impact for technical fiscal risks have been defined, depending on the amount of the likely impact:

- ✓ **Low Risk Area:** positions likely to have an impact lower than one million euros.
- ✓ **Medium Risk Area:** positions likely to have an impact of more than 1 million but less than 5 million euros.
- ✓ **High Risk Area:** positions likely to have an impact of more than 5 million euros and less than 20 million euros.
- ✓ **Very High Risk Area:** positions likely to have an impact of more than 20 million euros.

4.3.2. Qualitative impact

Similarly, four levels of reputational impact (Low, Medium, High, Very High) have been defined for technical risk, depending on the potential impact in the media derived from a tax default as a result of an audit by the tax authorities or a report filed by third parties:

- ✓ **Low Risk Area:** news coverage in local media or social networks likely to have slight repercussion.

- ✓ **Medium Risk Area:** the item of news acquires a certain level of public attention to the extent that it may make the headlines in local press or be covered in national media or on social networks. At least 2% of the FCC Group's markets are affected.
- ✓ **High Risk Area:** The news is in the headlines of nationwide media or is covered in the international press or on social networks, to such an extent as to require the implementation of pro-active communication measures to mitigate its impact in the media;
- ✓ **Very High Risk Area:** the news is covered in international media, has widespread coverage on social networks, and may significantly affect the value of FCC Group share prices on the Stock Exchange.

When assessing a technical tax risk, both its possible quantitative and qualitative impacts must be taken into consideration.

4.3.3. Likelihood

Likelihood is defined as the probability of the courts eventually disagreeing with the judgment or decision taken by the FCC Group, or of the estimated reputational risk materialising. Distinction is made between the following levels of likelihood:

- a) **Remote:** It is estimated that the likelihood of the risk materialising is less than 5%.
- b) **Unlikely:** It is estimated that the likelihood of the risk materialising is greater than 5% and less than 25%.
- c) **Possible:** It is estimated that the likelihood of the risk materialising is greater than 25% but less than 50%.
- d) **Likely:** It is estimated that the likelihood of the risk materialising is greater than 50% but less than 90%.
- e) **Almost certain:** It is estimated that the likelihood of the risk materialising is greater than 90%.

4.4. Acceptable level of tax risk

Based on the above parameters, the matrix of fiscal risk acceptable to the FCC Group is as follows:

IMPACT	Very high	<i>High</i>	<i>High</i>	<i>High</i>	<i>Severe</i>	<i>Severe</i>
	High	<i>Medium</i>	<i>Medium</i>	<i>High</i>	<i>Severe</i>	<i>Severe</i>
	Medium	<i>Low</i>	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>	<i>High</i>
	Low	<i>Low</i>	<i>Low</i>	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>
		Remote	Unlikely	Possible	Likely	Almost certain
		LIKELIHOOD				

On the basis of the above risk matrix, the level of authorisation required to take decisions on taxation matters is as follows:

1. **Low risk area (green).** The decision may be taken by the Head of the relevant Business Area Tax Department.
2. **Medium risk area (yellow).** The decision is to be taken by the Head of the Corporate Tax Department.
3. **High Risk Area (orange).** The decision must be approved by the FCC Group Steering Committee.
4. **Severe Risk Area (red).** The FCC Group shall not adopt decisions classified as severe tax risks.

Also, when taking decisions on tax matters, the relevant person with authority must take into account the possible external risk or risk of changes in the regulations or of administration or court judgments regarding the tax position taken.

In the event of a fulfilment risk or implementation risk being identified with regard to a particular tax position, the FCC Group Central Tax Department or relevant Business Area tax department shall, as far as possible, take the necessary measures to avoid or mitigate such risks.