# SECTION 4: WORKING CAPITAL

This section contains the Notes on inventories (see Note 4.1), current trade and other receivables (see Note 4.2) and current trade and other payables (see Note 4.3). The net balance of these items is called working capital.

| (Millions of euros) | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Inventories | 516 | 25 | -2 | 1 | 89 | 629 |
| Current trade and other receivables | 2,822 | -304 | -69 | 14 | 172 | 2,635 |
| Current trade and other payables | -3,895 | -19 | 89 | -5 | -391 | -4,221 |
| Total | -557 | -298 | 18 | 10 | -130 | -957 |

The early application of IFRS 15 (see Note 4.4) was the main reason for the change in working capital, especially with respect to trade and other receivables, which decreased by EUR 304 million.

Excluding the impact of IFRS 15, the exchange rate effect and the changes in the scope of consolidation, the most noteworthy change is the increase in Current trade and other payables, which is due mainly to the rise in the balance of advances received from customers in the Construction business in 2017.

Section 4.4 includes a more detailed analysis of the items in the consolidated statement of financial position relating to the recognition of revenue from contracts with customers in the Construction and Services businesses, and includes the disclosures required by IFRS 15 in relation to such contracts.

## 4.1. Inventories

The detail of inventories at 31 December 2017 and 2016 is as follows:

| (Millions of euros) | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Commercial inventories | 319 | 0 | 12 | 0 | 29 | 360 |
| Raw materials and other supplies | 128 | 0 | -6 | 0 | 23 | 145 |
| Bid and mobilisation costs | 69 | 25 | -8 | 1 | 37 | 124 |
| Inventories | 516 | 25 | -2 | 1 | 89 | 629 |

Of the commercial inventories recognised at 31 December 2017, EUR 286 million (EUR 239 million in 2016) relate to the Real Estate business in Poland, of which EUR 128 million (EUR 100 million in 2016) relate to land and building lots and EUR 158 million (EUR 139 million in 2016) relate to property developments at different stages of completion.

EUR 126 million of raw materials and other supplies relate to the Construction Division, mainly at its subsidiaries in the US and Canada, amounting to EUR 53 million (EUR 49 million in 2016), and Budimex, amounting to EUR 54 million (EUR 32 million in 2016). In addition, at the end of 2017 EUR 17 million had been recognised in relation to the Services Division, mainly at its subsidiary Amey amounting to EUR 13 million (EUR 22 million in 2016).

Lastly, bid and mobilisation costs includes contract costs for EUR 124 million (EUR 69 million in 2016). As explained in Note 1.3.3.4, Revenue recognition, assets related to the costs of obtaining a contract (bid costs) and to the costs incurred to fulfil a contract (mobilisation costs) are recognised. As regards bid costs, the Group recognised EUR 23 million (EUR 9 million in 2016) corresponding to construction contracts.

Additionally, there are mobilisation costs amounting to EUR 101 million (EUR 60 million in 2016), of which EUR 27 million relate to service contracts and EUR 74 million to construction contracts. The change of EUR 25 million under this heading is due to the application of IFRS 15 (see Note 1.3.1.1) and corresponds to a reclassification from the Receivables heading, since certain mobilisation costs had been recognised under that heading.

Both for bid and mobilisation costs, amortisation is carried out systematically, in accordance with the transfer of goods and services to which the asset corresponds. In 2017, EUR 1 million of bid costs and EUR 31 million of mobilisation costs were amortised.

## 4.2. Current trade and other receivables

The detail of "Current Trade and Other Payables" at 31 December 2017 and 2016 is as follows:

| Millions of euros | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Trade receivables for sales and services | 2,193 | -292 | -53 | 13 | 171 | 2,032 |
| Other receivables | 629 | -12 | -16 | 1 | 0 | 603 |
| Total receivables | 2,822 | -304 | -69 | 14 | 172 | 2,635 |

### a) Trade receivables for sales and services

The detail of "Trade Receivables for Sales and Services" at 31 December 2017 and 2016 is as follows:

| (Millions of euros) | 2016 | IFRS 15 | Exchange rate effect | Changes in the scope of consolidation | Other | 2017 |
|---|---|---|---|---|---|---|
| Trade receivables | *1,439* | *-30* | *-28* | *12* | *90* | *1,483* |
| Write-downs relating to trade receivables | *-287* | *-2* | *0* | *0* | *13* | *-276* |
| Net trade receivables | *1,152* | -32 | -28 | 12 | 100 | 1,207 |
| Amounts to be billed for work performed | 936 | -259 | -20 | 1 | 58 | 716 |
| Retentions | 105 | -1 | -5 | 0 | 13 | 112 |
| Trade receivables for sales and services | 2,193 | -292 | -53 | 13 | 171 | 2,032 |

"Trade Receivables for Sales and Services" decreased by EUR 161 million from EUR 2,193 million at 31 December 2016 to EUR 2,032 million at 31 December 2017. This change is explained fundamentally by:

- The early application of IFRS 15 (see Note 1.3, Accounting policies), which gave rise to a reduction in the balance of "Trade Receivables for Sales and Services" of EUR 292 million.
- The exchange rate effect, which reduced the balance of this line item by EUR 53 million. This reduction is a result mainly of the fall in value of the main currencies in which the Group operates (except for the Polish zloty, which had a positive impact of EUR 10 million).
- The remainder of the change is explained mainly by the increase in this line item in Construction Poland (EUR +79 million) and Services UK (EUR +58 million).

Also, at 31 December 2017 a total of EUR 88 million had been deducted from "Trade Receivables for Sales and Services" relating to assets derecognised as a result of factoring arrangements, since it was considered that they met the conditions stipulated in IAS 39.20 regarding the derecognition of financial assets (31 December 2016: EUR 84 million).

Following is a detail, by type of debtor, of the main trade receivables:

| | CONSTRUCTION | | SERVICES | | OTHER AND ADJUSTMENTS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| Public sector customers | 429 | 53% | 772 | 61% | 12 | n/a | 1,213 | 60% |
| Private sector customers | 265 | 33% | 424 | 34% | 8 | n/a | 697 | 34% |
| Group companies and associates | 115 | 14% | 67 | 5% | -59 | n/a | 122 | 6% |
| **Total** | **808** | **100%** | **1,263** | **100%** | **-40** | **n/a** | **2,032** | **100%** |

This detail shows that 60% of the Group's customers are public authorities and the rest are private sector customers.

In order to manage credit risk relating to private sector customers, the Group has implemented pre- and post-contracting measures. Pre-contracting measures include the consultation of debtor registers, ratings and solvency studies, while post-contracting measures during the execution of construction work include the follow-up of contractual incidents, non-payment events, etc.

The changes in the write-down of trade receivables were as follows:

| (Millions of euros) | 2016 | 2017 |
|---|---|---|
| **Beginning balance** | **283** | **287** |
| Changes in the scope of consolidation | 9 | 0 |
| IFRS 15 | 0 | 2 |
| Amounts charged to profit or loss | -1 | 9 |
| Charge for the year | 22 | 20 |
| Reversals | -22 | -11 |
| Amounts used | -4 | -22 |
| Exchange rate effect | -2 | 0 |
| Transfers and other | 1 | 0 |
| **Ending balance** | **287** | **276** |

Group management considers that the carrying amount of trade receivables approximates their fair value.

### b) Other receivables

The detail of "Other Receivables" at 31 December 2017 and 2016 is as follows:

| Millions of euros | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Advances to suppliers | 97 | -12 | -4 | 0 | 13 | 94 |
| Sundry accounts receivable | 159 | 0 | -4 | 1 | 1 | 157 |
| Infrastructure project receivables | 270 | 0 | -7 | 0 | -42 | 221 |
| Receivable from public authorities | 103 | 0 | -1 | 0 | 29 | 131 |
| **Other receivables** | **629** | **-12** | **-16** | **1** | **1** | **603** |

"Sundry Accounts Receivable" includes mainly receivables not relating to normal business activities. There are no items included in the change that are material taken individually.

Also, "Accounts Receivable Relating to Infrastructure Projects" includes current financial assets arising from the application of IFRIC 12 relating mainly to amounts receivable from public authorities in return for services rendered or investments made under a concession arrangement, as detailed in Note 3.3. The main change in this heading arose as a result of the payments made by public authorities of balances payable to Autema of EUR 52 million.

Lastly, "Receivable from Public Authorities" includes tax receivables from public authorities other than income tax receivables.

## 4.3. Current trade and other payables

The detail of "Current Trade and Other Payables" at 31 December 2017 and 2016 is as follows:

| Millions of euros | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Trade payables | 2,299 | 1 | -51 | 4 | 30 | 2,283 |
| Amounts billed in advance for construction work | 567 | 18 | -27 | 0 | 61 | 619 |
| Advances | 424 | 0 | 0 | 0 | 228 | 652 |
| Other non-trade payables | 605 | 0 | -11 | 1 | 72 | 667 |
| **Trade and other payables** | **3,895** | **19** | **-89** | **5** | **391** | **4,221** |

### a) Trade payables

The detail of the trade payables at 31 December 2017 and 2016 is as follows:

| Millions of euros | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Trade payables | 1,819 | 1 | -51 | 4 | -13 | 1,760 |
| Trade payables sent for reverse factoring | 253 | 0 | 0 | 0 | 33 | 286 |
| Retentions made from suppliers | 227 | 0 | 0 | 0 | 10 | 237 |
| **Trade payables** | **2,299** | **1** | **-51** | **4** | **30** | **2,283** |

The balance of "Trade Payables" decreased by EUR 16 million compared to the balance recognised at 31 December 2016, mainly as the result of the appreciation of the euro against the other foreign currencies in which the Group operates.

This line item includes the balances payable to suppliers sent for reverse factoring (see Note 1.3.3.4 in Accounting policies) amounting to EUR 286 million (31 December 2016: EUR 253 million).

Group management considers that the carrying amount of the trade payables approximates their fair value.

### b) Disclosure obligation in relation to payments to suppliers provided for in Additional Provision Three of Law 15/2010

In compliance with the obligation to disclose the average period of payment to suppliers provided for in Article 539 and Additional Provision Eight of the Spanish Limited Liability Companies Law (in accordance with the new wording of Final Provision Two of Law 31/2014 reforming the Spanish Limited Liability Companies Law), the Company hereby states that the average period of payment to the suppliers of all the Group companies domiciled in Spain in 2017 was 49 days.

Set forth below is the detail required by Article 6 of the Spanish Accounting and Audit Institute Resolution of 29 January 2016 in relation to the disclosures to be provided on the average period of payment to suppliers in 2016 and 2017:

| (Days) | 2017 | 2016 |
|---|---|---|
| Average period of payment to suppliers | 49 | 55 |
| Ratio of transactions settled | 49 | 55 |
| Ratio of transactions not yet settled | 48 | 53 |
| AMOUNT (Euros) | | |
| Total payments made | 1,227,935,075 | 1,108,783,232 |
| Total payments outstanding | 45,114,969 | 52,916,260 |

Reciprocal trade receivables and payables between Ferrovial Group companies are eliminated on consolidation and, accordingly, no balances payable to Group companies are presented in the consolidated statement of financial position. Therefore, the information shown in the foregoing table refers only to the Group's external suppliers, although it is hereby stated for information purposes that the average payment period between Group companies is normally 30 days.

### c) Amounts billed in advance for construction work and customer advances

These line items relate to:

- The amounts billed in advance by various companies in the Services and Construction Divisions in relation to contracts the revenue from which is recognised by reference to the stage of completion, as described in Notes 1.3.3.4 and 4.4.

- Advances received from customers, amounting to EUR 652 million (31 December 2016: EUR 424 million), of which EUR 158 million (31 December 2016: EUR 133 million) relate to advances received by the Real Estate business in Poland; and EUR 493 million (31 December 2016: EUR 291 million) relate to advances received by companies in the Construction and Services Divisions in relation to contracts the revenue from which is recognised by reference to the stage of completion, as described in Note 4.4. This last variation is due mainly to changes in the Construction division in the US (EUR 132 million) and Poland (EUR 71 million).

### d) Other non-trade payables

The detail of "Other Non-Trade Payables" is as follows:

| (Millions of euros) | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Remuneration payable | 271 | 0 | -6 | 2 | 22 | 289 |
| Accounts payable to public authorities | 274 | 0 | -3 | 0 | 35 | 306 |
| Other payables | 60 | 0 | -2 | -1 | 15 | 72 |
| Other non-trade payables | 605 | 0 | -11 | 1 | 72 | 667 |

"Remuneration Payable" relates to the employee remuneration earned but not paid during the year amounting to EUR 289 million.

Also, "Accounts Payable to Public Authorities" includes tax payables other than income tax, mainly VAT and employer social security taxes.

## 4.4. Disclosures on contracts with customers in the consolidated statement of financial position and other disclosures relating to IFRS 15

### Statement of financial position balances relating to contracts with customers

As indicated in Note 1.3.3.4, Revenue recognition (IFRS 15), in those contracts in which performance obligations are measured over time, the difference between the revenue recognised for services rendered and the amounts actually billed to the customer is analysed systematically on a contract-by-contract basis. If the amount billed is lower than the revenue recognised, the difference is recognised as an asset under "Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (see Note 4.2), whereas if the amount of revenue recognised is lower than the amount billed, a liability is recognised under "Current Trade and Other Payables - Amounts Billed in Advance for Construction Work" (see Note 4.3).

Also, in certain construction or services contracts advances are agreed upon that are paid by the customer when work commences on the contract, the balance of which is offset against the various progress billings as the contract work is performed. These balances are recognised under "Trade Payables" on the liability side of the consolidated statement of financial position (see Note 4.3-a).

In contrast to the advances, in certain contracts the customer retains a portion of the price to be paid in each progress billing to guarantee the fulfilment of certain obligations under the contract. These retentions are not reimbursed until the contract is definitively settled. These balances are recognised under "Trade Receivables for Sales and Services" on the asset side of the consolidated statement of financial position (see Note 4.2).

Unlike "Amounts to Be Billed for Work Performed" and "Amounts Billed in Advance for Construction Work", the "advances" and "retentions" are balances that will have an impact on future cash flows, since in the case of the "advances" a lower amount will be collected in the future as the advances are discounted from the progress billings, whereas the "retentions" will give rise to higher collections in the future, since the customer will reimburse the related amounts as and when the contract work is settled.

The detail of the amounts recognised in this connection at 31 December 2017 and 2016 is as follows:

| ITEMS (Millions of euros) | 2016 | IFRS 15 | EXCHANGE RATE EFFECT | CHANGES IN THE SCOPE OF CONSOLIDATION | OTHER | 2017 |
|---|---|---|---|---|---|---|
| Amounts to be billed for work performed - Services | 703 | -257 | -16 | 1 | 14 | 445 |
| Amounts to be billed for work performed - Construction | 234 | -2 | -5 | 0 | 41 | 268 |
| Amounts to be billed for work performed | 936 | -259 | -20 | 1 | 55 | 713 |
| Retentions | 105 | -1 | -5 | 0 | 13 | 112 |
| Total assets from contracts with customers | 1,041 | -260 | -25 | 1 | 68 | 825 |
| Amounts billed in advance for construction work - Services | 124 | 18 | -6 | 0 | 25 | 161 |
| Amounts billed in advance for construction work - Construction | 442 | 0 | -20 | 0 | 35 | 457 |
| Amounts billed in advance for construction work | 567 | 18 | -27 | 0 | 61 | 619 |
| Advances | 424 | 0 | 0 | 0 | 228 | 652 |
| Total liabilities from contracts with customers | 991 | 18 | -27 | 0 | 289 | 1,271 |

As can be observed, the main change in 2017 corresponds to the first-time application adjustment relating to IFRS 15, which entailed a EUR 259 million reduction in "Amounts to Be Billed for Work Performed" and an EUR 18 million increase in "Amounts Billed in Advance for Construction Work" (see Note 1.3.1-a).

Excluding the adjustment relating to IFRS 15, the other changes in 2017 correspond mainly to the increase "Advances" and "Amounts Billed in Advance for Construction Work" (see Note 4.3) and the changes in "Amounts to Be Billed for Work Performed" (see Note 4.2).

Substantially all of the balance of amounts to be billed for work performed at 31 December 2017 corresponds to figures relating to revenue from the principal contract entered into with the customer since the Group generally only recognises revenue that is due and payable, i.e. the revenue that has been approved by the customer. "Claims" only includes those cases in which it is considered highly probable that the related revenue will not reverse in the future.

As mentioned in Note 1.3.3.1, there are various methods for calculating revenue based on the nature of the contract. In general, performance obligations in the Construction and Services businesses are satisfied over time and, accordingly, in the case of those contracts to which the output method is applied, and since the amounts relating to contract modifications and claims are not material, the balance recognised corresponds mainly to the amounts to be billed for work performed under the principal contract resulting from the mismatch between the date the work is performed and the date the customer is billed.

In the case of those contracts that are not for routine or recurring work for which the unitary price of the units to be performed cannot be determined and the stage of completion measured in terms of the costs incurred is used, in addition to the difference between the work performed and the progress billings, the balance may also relate to the difference between the actual profit margin on the contract and the expected profit margin at the end of the contract at the current stage of performance. The balance of "Amounts to be Billed for Work Performed" of this type of contract amounts to EUR 175 million (EUR 56 million relating to construction contracts and EUR 119 million relating to services contracts) of the total of EUR 713 million at 31 December 2017.

With respect to "Amounts Billed in Advance for Construction Work", the balance recognised at the beginning of the year included in the foregoing table includes revenue of EUR 407 million, of which EUR 292 million relate to construction contracts and EUR 115 million to services contracts.

Other disclosures relating to IFRS 15:

Revenue from contracts with customers:

EUR 11,872 million of total revenue recognised in 2017 (see Note 2.1, Operating income) relate to revenue from contracts with customers, which represents 97% of revenue recognised.

| (Millions of euros) | 2017 |
|---|---|
| Constructions | 4,475 |
| Toll Roads | 335 |
| Airports | 20 |
| Services | 6,917 |
| Other | 125 |
| Revenue from contracts with customers | 11,872 |

Revenue not yet recognised relating to performance obligations not satisfied at the end of 2017 corresponds to what is usually known as backlog (see definition in the Alternative Performance Measures section in the Management report). This figure is broken down by business area in the following table and includes an estimate of the years in which the backlog is expected to be recognised in "Revenue".

| REVENUE | 2018 | 2019 | 2020 | 2021 | 2022 SUBSEQUENT YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Constructions | 4,396 | 3,559 | 1,469 | 951 | 770 | 11,145 |
| Services | 4,382 | 3,305 | 2,283 | 1,407 | 7,951 | 19,329 |
| Total | 8,778 | 6,864 | 3,753 | 2,358 | 8,721 | 30,474 |

The total numbers of contracts in the Construction and Services businesses are approximately 1,000 and 1,650 respectively.

Additionally, EUR 63 million of performance obligations of construction contracts executed in previous years (EUR 42 million and EUR 21 million relating to the Construction and Services businesses), were recognised as income, of which EUR 4 million were recognised as amounts billed in advance for construction work at the beginning of the year.

Other quantitative and qualitative disclosures

The disclosures relating to the description of when performance obligations are satisfied in the various contracts, the existence of a significant financing component, how the variable consideration is recognised, including the conditions that must be satisfied to recognise the revenue in this connection, and the concept of guarantees are included in Note 1.3.3.4. Also, the main judgements and estimates used to recognise revenue are disclosed in Note 1.3.4.

As to assets relating to bid costs and to mobilisation costs corresponding to contracts with customers, the balances recognised in the consolidated statements of financial position as at 31 December 2017 are disclosed in Note 4.1, Inventories.