

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1.1 and 7.1). In the event of a discrepancy, the Spanish-language version prevails.

F. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

SECTION 1: BASIS OF PRESENTATION AND SCOPE OF CONSOLIDATION

This section presents the information considered important to know prior to reading the consolidated financial statements of Ferrovial.

Basis of presentation and new accounting standards

The consolidated financial statements of Ferrovial were prepared in accordance with the IFRSs adopted by the European Union. The accounting policies applied are disclosed in Note 1.3 of this section.

In 2017 the change in accounting policies with the greatest impact was the early adoption of IFRS 15, Revenue from Contracts with Customers.

Although this standard is not mandatorily applicable until 2018, the Company decided to apply it in 2017. The most noteworthy impacts relate to the definition of distinct performance obligations in long-term services contracts and the allocation of a price to each obligation; the change in the method for recognising revenue from contract modifications and transactions subject to variable consideration; and the establishment of a consistent revenue recognition method for contracts with similar characteristics. This change in standards gave rise to an impact of EUR -272 million on equity attributable to the Parent (Note 1.3.1 contains a more in-depth explanation of the impacts of application of IFRS 15). In addition, an analysis is provided of the possible impact of IFRS 9, Financial Instruments and IFRS 16, Leases.

Company activities

The disclosures presented in these consolidated financial statements include most notably, due to their importance, those relating to the distinction between infrastructure project companies and non-infrastructure project companies (see Note 1.1.2 for a definition). Also noteworthy are the disclosures relating to two of the Group's main assets, the 25% ownership interest in Heathrow Airport Holdings (HAH), the company that owns Heathrow Airport, and the 43.23% ownership

interest in the concession operator of the ETR 407 toll road in Toronto (Canada).

Changes in the scope of consolidation and assets and liabilities held for sale:

Note 1.1.3 provides detailed information on the main changes in the scope of consolidation in 2017, including primarily the partial sale of the investment in the Portuguese toll roads Norte Litoral and Autoestrada do Algarve, which are now accounted for using the equity method.

Use of judgements and estimates

This section includes the main estimates made by Ferrovial when measuring its assets, liabilities, income, expenses and obligations (see Note 1.3.4).

Exchange rates

Although Ferrovial's functional currency is the euro, a significant portion of its activities is carried on in countries outside the eurozone, its exposure including most notably that to the pound sterling, the US dollar, the Canadian dollar, the Australian dollar and the Polish zloty. The evolution of these currencies vis-à-vis the euro is shown in Note 1.4.

The main changes in the closing exchange rates for 2017 were the depreciation of the US dollar (-14%) and that of the Canadian dollar (-6%). The Australian dollar, the Chilean peso and the pound sterling also underwent significant declines in value, whereas the Polish zloty performed positively. The impact recognised in equity attributable to the Parent was EUR -318 million (see Note 5.1.1, Changes in equity).

1.1. Basis of presentation, Company activities, scope of consolidation and adjustment

1.1.1. Basis of presentation

The consolidated financial statements are presented in accordance with the regulatory financial reporting framework applicable to the Group and, accordingly, present fairly the Group's equity, financial position and results. The regulatory framework consists of International Financial Reporting Standards (IFRSs), as established by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

1.1.2. Company activities

Ferrovial comprises the Parent, Ferrovial, S.A., and its subsidiaries, which are detailed in Appendix II. Its registered office is in Madrid, at calle Príncipe de Vergara 135.

Through these companies, Ferrovial engages in the following lines of business, which are its reporting segments pursuant to IFRS 8:

- Construction: design and performance of all manner of public and private works, including most notably the construction of public infrastructure.
- Services: maintenance and upkeep of infrastructure, facilities and buildings; waste collection and treatment; maintenance of energy and industrial facilities and rendering of other kinds of public services.
- Toll roads: development, financing and operation of toll roads.
- Airports: development, financing and operation of airports.

For a more detailed description of the various areas of activity in which the consolidated Group conducts its business operations, please consult the Group's website: www.ferrovial.com.

For the purpose of understanding these consolidated financial statements, it should be noted that a part of the activity carried on by the Group's business divisions consists of the performance of infrastructure projects, primarily in the toll road and airport areas, but also in the construction and services fields.

These projects are conducted through long-term arrangements with public authorities under which the concession operator, in which the Group generally has an ownership interest together with other shareholders, finances the construction or upgrade of public infrastructure, mainly with borrowings secured by the cash flows from the project and with the shareholders' capital contributions, and subsequently maintains the infrastructure. The investment is recovered by means of the collection of tolls or regulated charges for the use of the infrastructure or through amounts paid by the grantor public authority based on the availability for use of the related asset. In most cases the construction and subsequent maintenance of the infrastructure is subcontracted by the concession operators to the Group's Construction and Services Divisions.

From the accounting standpoint, most of these arrangements fall within the scope of application of IFRIC 12.

Accordingly, and in order to aid understanding of the Group's financial performance, these consolidated financial statements present the **impact of projects of this nature separately in "Investments in Infrastructure Projects"** (distinguishing between those to which the intangible asset model is applied and those to which the financial asset model is applied), in non-current financial assets and, mainly, in the net cash position and the cash flow disclosures, in which the cash flows called **"non-infrastructure projects"**, which comprise the flows generated by the Construction and Services businesses, the dividends from the capital invested in infrastructure projects and investments in or divestments of the share capital of these projects, are presented separately from the cash flows of the infrastructure projects, which include the flows generated by the related concession operators. In addition, a list of the companies regarded as infrastructure project companies can be consulted in Appendix II.

It is also important to highlight that two of the Group's main assets are its 25% ownership interest in Heathrow Airport Holdings (HAH), the company that owns Heathrow Airport in London (UK), and its 43.23% ownership interest in ETR 407, the concession operator of the ETR 407 toll road in Toronto (Canada), which have been accounted for using the equity method since 2011 and 2010, respectively. In order to provide detailed information on the two companies, Note 3.5 on investments in companies accounted for using the equity method includes information relating to the changes in the two companies' balance sheets and statements of profit or loss, and this information is completed in other Notes with data considered to be of interest.

1.1.3. Changes in the scope of consolidation

Set forth below is a description of the most significant changes in the scope of consolidation in 2017. The information was prepared taking into account IFRS 3, and the other disclosures required by the standard that do not appear in this Note are included in the Note on goodwill arising on consolidation (see Note 3.1).

Toll roads

Sale of Portuguese toll roads Norte-Litoral and Autoestrada do Algarve

In 2017 the two agreements for the sale of the Portuguese toll roads were completed. On the one hand, the Norte-Litoral agreement, whereby Ferrovial reduced its ownership interest to 49%. Following the review of the shareholders agreement entered into and the conclusion that control has been lost, this ownership interest has been accounted for using the equity method since the date of the sale (21 April). The sale price of the transaction amounted to EUR 104 million and the transaction gave rise to a net gain of EUR 56 million (see Note 2.5).

Also, on 26 September 2017, 49% of Autoestrada do Algarve was definitively sold, after which the ownership interest in this toll road stood at 48%. As was the case with Norte-Litoral, control was lost and, therefore, this investment is now accounted for using the equity method. The sale price of this transaction amounted to EUR 58 million, giving rise to a net gain of EUR 42 million (see Note 2.5).

Acquisition of 6.3% of NTE and 3.6% of LBJ

On 2 August 2017, the agreement was executed for the acquisition of 6.3% and 3.6% of the US toll roads NTE Mobility Partners, LLC and LBJ Infrastructure Group Holding, LLC, respectively. Following the transaction, Ferrovial held ownership interests of 62.9% in NTE and 54.6% in LBJ. The total payment made to complete the two transactions was USD 107 million (approximately EUR 94 million). The transaction had an impact of EUR -68 million on reserves of the Parent and EUR -27 million on non-controlling interests (see Note 5.1.1).

Sale of 10% of Zero Bypass (Slovakia)

In July 2017 the sale of 10% of the Slovakian toll road Zero Bypass took place, for EUR 3 thousand, reducing the ownership interest held to 35%. The net loss on the transaction was EUR -0.1 million. This company continues to be accounted for using the equity method, as it was in 2016.

Award of Outer Suburban Arterial Roads (OSARs) contract (Australia)

In November 2017 Ferrovial, through the Netflow joint venture formed with the Australian company Plenary, was awarded the contract for the construction, financing and maintenance of the upgrades to the road network in western Melbourne (Australia), with a value of AUD 1,800 million (approximately EUR 1,150 million). The concession has a term of 20 years from completion of the construction work.

The project financing is made up 60% of senior bonds issued through a US private placement and 40% of bank borrowings. The equity financing is provided by the Netflow consortium (50% Cintra and 50% Plenary), in line with its goals to invest in, develop and manage major concession projects. At 31 December 2017, no capital disbursement had been made. The company will be accounted for using the equity method.

Services

Acquisition of Trans-Formers Group and Grupo Maviva

In June 2017 the Services Division, through the subsidiary FBSerwis, completed the purchase of all the shares of the Polish company, which engages in waste collection and treatment. The value of the transaction amounted to PLN 129 million (approximately EUR 31 million). The agreement encompasses the acquisition of the following

companies: Trans-Formers Group, Trans-Formers Wrocław and Trans-Formers Karpatia.

At 31 December 2017, seven months of Trans-Formers Group's results were included in the consolidated financial statements of the Ferrovial Group; its sales amounted to EUR 16 million (EUR 27 million for 2017 as a whole) and it contributed a net profit of EUR 2 million (EUR 4 million for 2017 as a whole).

Also, in July 2017 Ferrovial Servicios acquired, for EUR 18 million, all the shares of Grupo Maviva, a company specialising in high value-added logistics operations, quality control and pre-assembly of components for the automotive industry. Its sales volume amounted to EUR 10 million (EUR 24 million for 2017 as a whole) and its net profit in both cases was EUR 0 million.

Construction

Sale of 3.9% of Budimex

On 31 March 2017, one million shares of Budimex (3.9% of the company's share capital) were sold, with no impact on the consolidated statement of profit or loss because a controlling interest is still held in the company (55.1%). The cash impact of the transaction amounted to EUR 59 million (PLN 252 million). The difference between the price of the transaction and the carrying amount of the ownership interest sold (EUR 48 million) was recognised as reserves attributable to non-controlling interests.

Airports

Award of Denver Great Hall contract

In August 2017 the agreement for the redevelopment and commercial operation of the Jeppesen Terminal at Denver International Airport was entered into between the Great Hall Partners consortium, led by Ferrovial Aeropuertos, and the City and County of Denver. The concession operator under the contract is Denver Great Hall LLC, which is 80% owned by Ferrovial and is fully consolidated.

This project is a 34-year administrative concession arrangement, and is accounted for using the financial asset model under IFRIC 12.

The financial close was reached in December 2017. The total investment will be financed through a combination of payments by Denver City and County government, capital commitments made by the consortium partners (USD 68 million) and a USD 189 million bond issue.

The construction and redevelopment work will be carried out by Ferrovial Agroman (70%) and Saunders Construction at a cost of USD 650 million.

1.1.4. Adjustment of the comparable consolidated statement of financial position as at 31 December 2016

As discussed in Note 3.1, Goodwill, the consolidated statement of financial position as at 31 December 2016 has been adjusted, although this did not have any material impacts on the other financial statements. The allocation of the purchase price of Broadspectrum includes the impact of new information obtained about facts and circumstances that existed at the acquisition date relating to the duration of the existing contracts and the probability of renewal. The aforementioned adjustment was made within twelve months from the acquisition date, as required by IFRS 3.45.

The adjustment resulted in the recognition of a reduction of EUR -15 million in goodwill, with a EUR 41 million increase in intangible assets, an increase of EUR 13 in provisions and impacts on other line items (receivables/payables) amounting to EUR -7 million, as well as the related deferred tax liabilities of EUR -6 million.

1.2. Assets and liabilities classified as held for sale

In 2017 the agreement initiated in 2016 for the sale of the Portuguese toll roads Norte Litoral (51%) and Autoestrada do Algarve (49%), for a total price of EUR 162 million, was completed. The two transactions gave rise to a net gain of EUR 98 million. Following the sale of these holdings, non-controlling interests of 49% and 48%, respectively, have been retained.

The impact of the aforementioned sale transactions on "Assets/Liabilities Classified as Held for Sale" is shown in the tables below:

ASSETS (Millions of euros)	AUTO-ESTRADAS NORTE	ALGARVE TOLL ROAD	TOTAL
Balance at 01/01/17	378	246	624
Investments in infrastructure projects	-284	-154	-438
Restricted cash and cash and cash equivalents	-31	-34	-65
Other assets	-63	-58	-121
Balance at 31/12/17	0	0	0

LIABILITIES (Millions of euros)	AUTO-ESTRADAS NORTE	EUROSCUT ALGARVE	TOTAL
Balance at 01/01/17	256	183	440
Borrowings	-211	-177	-388
Derivative financial instruments at fair value	-33	0	-30
Other liabilities	-12	-6	-22
Balance at 31/12/17	0	0	0

1.3 Accounting policies

1.3.1. New accounting standards

1.3.1.a) Early application of IFRS 15, Revenue from Contracts with Customers

Although the new standard is not mandatorily applicable until 1 January 2018, as stated in the consolidated financial statements for 2016, Ferrovial decided, making use of the option included in IFRS 15, to early apply the standard effective 1 January 2017. As a result of this decision, Ferrovial has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

IFRS 15 was applied retrospectively, recognising the cumulative effect of initially applying this standard as an adjustment to the opening balances for 2017 of the consolidated statement of financial position, calculated only for those contracts that were not completed contracts at 1 January 2017. Therefore, the comparative information for 2016 was not restated and continues to be presented in accordance with IAS 11 and IAS 18.

The impact, by line item, on the consolidated statement of financial position as at 1 January 2017 was as follows:

ASSETS (Millions of euros)	BALANCE AT 01/01/17	TRANSITION TO IFRS 15	BALANCE AT 01/01/17 POST- IFRS 15
Non-current assets	15,679	50	15,729
Investments in associates	2,874	-8	2,867
Deferred tax assets	1,057	58	1,115
Other non-current assets	11,748	0	11,748
Current assets	7,745	-279	7,465
Inventories	516	25	541
Current trade and other receivables	2,822	-304	2,518
Other current assets	4,406	0	4,406
Total assets	23,423	-229	23,194
EQUITY AND LIABILITIES (Millions of euros)	BALANCE AT 01/01/17	TRANSITION TO IFRS 15	BALANCE AT 01/01/17 POST- IFRS 15
Equity	6,314	-272	6,042
Equity attr. to the	5,597	-272	5,325
Equity attr. to non-controlling	717	0	717
Deferred income	1,118	0	1,118
Non-current liabilities	10,421	-2	10,419
Long-term provisions	757	0	757
Deferred tax liabilities	979	-2	977
Other non-current liabilities	8,685	0	8,685
Current liabilities	5,570	45	5,615
Current trade and other	3,895	19	3,914
Operating provisions	715	26	740
Other current liabilities	960	0	960
Total equity and liabilities	23,423	-229	23,194

The main impact of the application of this new standard was to reduce the equity attributable to shareholders by EUR -272 million, the main balancing entries being a reduction of EUR -304 million in the balance of trade and other receivables, basically amounts to be billed for work performed, and the tax effect of these adjustments, which was recognised for EUR 60 million in deferred taxes.

The main changes in accounting policies giving rise to these impacts relate mainly to the following three issues:

(i) Definition of distinct performance obligations in long-term services contracts and allocation of a price to each obligation. This relates mainly to long-term contracts (more than ten years) in the Services Division in which Ferrovial carries out various different activities throughout the life of the infrastructure (Capex, Opex and Lifecycle). Under the previous standards, these contracts were regarded as having a single performance obligation, the outcome of which was recognised by reference to the overall revenue from the contract. Under the new standard, unlike the above-mentioned criterion, several performance obligations are recognised (IFRS 15.27), to which the prices established in the contract, provided they are deemed to be market prices, are allocated (IFRS 15.73-80). The effect of this new criterion is to delay the recognition of revenue, insofar as the expected margin on the performance obligations already satisfied is generally lower than that forecast for the contract as a whole. The negative impact of this adjustment on equity attributable to the shareholders amounted to EUR 70 million.

(ii) Change in the method of recognising revenue from contract modifications and transactions subject to variable consideration. In the case of revenue arising from contract modifications, IFRS 15 requires customer approval (IFRS 15.18), a stricter criterion than the probability requirement in the current standards (IAS 11.13 and IAS 18.18).

In the case of transactions subject to variable consideration, the new standard establishes that revenue from the transaction is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (IFRS 15.56-58). The transactions subject to variable consideration include most notably revenue from claims submitted to customers and contractual incentive payments, which were recognised using a probability criterion under the previous standard (IAS 11.14 and 15). This change gives rise to a delay in the recognition of revenue as the new standard establishes stricter criteria.

The negative impact on equity attributable to the shareholders in this connection amounted to EUR 168 million.

(iii) Establishment of a consistent revenue recognition method for contracts with similar characteristics. The new standard requires a consistent revenue recognition method to be used for contracts and performance obligations with similar characteristics (IFRS 15.40). The Group has chosen the output method for measuring the value of assets or services for which control is transferred to the customer over time, provided that the progress of the work performed can be measured on the basis of the contract and during its performance (IFRS 15.B17). In contracts to provide different highly interrelated goods or services in order to produce a combined output, which is habitually the case in contracts with a construction component, the applicable output method is that of surveys of performance completed to date, according to which the revenue recognised corresponds to the units of work performed, based on the price allocated thereto. Also, in routine service contracts in which the goods or services are substantially the same and are transferred with the same pattern of consumption, in such a way that the customer receives and consumes the benefits of the goods or services as the entity provides them, the method selected by the Group to recognise revenue is the "time elapsed" output method, whereas costs are recognised on an accrual basis. On the basis of the foregoing, the input method (based on resources consumed) will only be used when the progress of the work cannot be measured reliably by an output method. Application of this rule gives rise to a change of recognition method for certain contracts, and the negative impact on equity attributable to the shareholders is EUR 34 million.

1.3.1.b) New standards, amendments and interpretations adopted by the European Union mandatorily applicable for the first time in 2017

On 1 January 2017, the following standards which might have an impact on the consolidated financial statements came into force in the European Union: Amendments to IAS 7, Disclosure Initiative, Annual Improvements to IFRSs, 2014-2016 Cycle and Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses. With regard to IAS 7, a new disclosure has been added to Note 5.2, Consolidated net debt, including a reconciliation of net debt to the financing cash flows shown in the consolidated statement of cash flows; this reconciliation is only provided for the current year, since the amendment does not require disclosure of comparative information for the period preceding the date of adoption. No significant impact on the Group's consolidated financial statements has been identified as a result of the amendments to IAS 12.

1.3.1.c) New standards, amendments and interpretations mandatorily applicable in annual reporting periods subsequent to 2017:

The new standards, amendments and interpretations approved by the IASB but not mandatorily applicable at 31 December 2017 that might have an effect on the Group are as follows:

IFRS 9, Financial Instruments:

The impacts identified are less important than those of IFRS 15, since the entities most affected by IFRS 9 are financial institutions. The mandatory application date is 1 January 2018.

Set forth below is a summary of the main impacts, following an analysis of the three phases of the standard:

i) Hedge accounting. The standard attempts to align hedge accounting more closely with risk management, and the new requirements establish a principle-based approach. IFRS 9 generally permits the designation of specific components of non-financial items and of financial instruments as hedged items, provided that they are separately identifiable and reliably measurable and that there is a liquid market for the items concerned (IFRS 9 B.6.3.8 et seq), and, in certain cases, it specifically permits the hedging of the inflation component of certain financial instruments (IFRS 9 B.6.3.13 to 6.3.15). In this connection, the Group has identified as a possible impact that relating to the index-linked derivatives arranged at HAH, which, as indicated above, could meet the requirements for hedge accounting from 2018 onwards. The analysis of this impact has not yet been completed. The hedge accounting requirements of IFRS 9 must be applied prospectively and, therefore, there will be no adjustment on initial application and the impact of adopting this standard will be disclosed in the Group's consolidated financial statements for 2018. This impact will depend both on the financial instruments held in 2018, on the changes in the economic conditions affecting the valuation of those instruments, and on the specific results relating to the effectiveness of the future hedging relationships and, therefore, at the date of preparation of these consolidated financial statements, it cannot be estimated reliably.

ii) Impairment of financial assets. IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument. The Group

intends to avail itself of the simplified approach (measuring the loss allowance at an amount equal to lifetime expected credit losses) for its accounts receivable relating to contracts with customers. To this end, in order to implement this approach the Group has established a procedure which not only provides for the write-down of accounts receivable when they are no longer recoverable (incurred losses), but also takes into consideration possible expected losses, based on the evolution of the specific credit risk of the customer, its industry and its country. The estimated negative impact on equity attributable to the shareholders as a result of the impairment of financial assets amounts to EUR 10 million.

iii) Classification and measurement of financial assets. A new classification is introduced that reflects the business model within which financial assets are held by the company. No significant impacts are expected to arise as a result of this new classification. The only potential impact for the Group relates to equity instruments, which by defect must be measured at fair value through profit or loss, since at initial recognition it may elect to present subsequent changes in the fair value of these instruments in other comprehensive income. This election is irrevocable and is made for each asset on an individual basis. Assets of this kind amounted to EUR 34 million at 31 December 2017. With regard to financial liabilities, IFRS 9 does not introduce any changes with respect to IAS 39, except for the change in the treatment of renegotiations of financial liabilities that did not result in the derecognition of those liabilities. Nevertheless, no significant impact is expected, since most of the Group's financial assets and liabilities will continue to be measured at amortised cost.

IFRS 16, Leases:

The analysis of the impact of IFRS 16 is at an earlier stage than that of the aforementioned standards. IFRS 16 is mandatorily applicable in 2019 and the Group does not intend to apply the standard early.

The impact is no different to that at other companies, where the amounts in the statement of financial position will be increased due to the recognition of right-of-use assets and financial liabilities for future payment obligations relating to leases classified to date as operating leases. The Group expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset is of low value. The detail of operating leases is included in Note 6.5.3 to the consolidated financial statements and the related expense amounts to approximately EUR 523 million (detail of commitments under operating leases in the consolidated financial statements as at 31 December 2017). In addition, the aforementioned note includes a detail, by maturity and business line, of the amount of the future minimum lease payments for non-cancellable operating leases. From its preliminary analysis of the operating leases at the end of the reporting period, the Group identified EUR 350 million relating to the non-cancellable future minimum lease payments, discounted at the interest rate implicit in each lease considering the type of underlying asset and the country concerned, which could be comparable to the right-of-use asset and the financial liability that would have to be recognised in the statement of financial position. This estimate was made by reference to the lease portfolio and market conditions existing at 31 December 2018, although it could change as a result of variations in the two variables until the standard is effectively applied at 1 January 2019.

The new standards, amendments and interpretations approved by the IASB but not yet approved for use in the European Union at 31 December 2017 that might have an effect on the Group are as follows:

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS		OBLIGATORY APPLICATION IN ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER:
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC Interpretation 23	Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 40	Investment Property	1 January 2018
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements	2015-2017 cycle	1 January 2019
Amendments to IAS 19	Plan Amendments, Curtailments and Settlements	1 January 2019

None of these standards is expected to have a significant impact for Ferrovial.

1.3.2. Basis of consolidation

In 2017 and 2016 the reporting dates of the separate financial statements of all the companies included in the scope of consolidation were either the same as, or were temporarily brought into line with, that of the Parent.

As indicated above, the consolidated Group applied consolidation criteria in accordance with IFRSs as adopted by the European Union (EU-IFRSs). In this regard, in order to determine whether it has control, joint control or significant influence over each Group company, the Group reviews whether the shareholding owned is consistent with the voting control held over the company by virtue of the relevant bylaws and shareholder agreements.

Companies over which it is determined that the Group exercises joint control are generally accounted for using the equity method.

In relation to these jointly controlled businesses, apart from the situations in which there are two venturers, each with a 50% ownership interest, the cases requiring a more in-depth analysis are those relating to infrastructure projects in which Ferrovial is the shareholder with the largest ownership interest (less than or equal to 50%) and has the right to propose the Chief Executive Officer or other executives of the investee, while the other shareholders, mainly infrastructure funds, have a direct participation in the Board of Directors. In all these cases, it was concluded that the projects must be accounted for using the equity method because Ferrovial does not have the right to appoint the majority of the Board of Directors of the companies concerned, the Board decisions require a simple or qualified majority in all cases, including for the appointment of the main executives, and, in the event of a stalemate on a given decision, Ferrovial does not have the capacity to break the deadlock on its own. The most noteworthy examples of such cases are the investments in the concession operators of the following toll road projects (showing the respective percentages of ownership in

brackets): I-66 (50%), 407 ETR (43.2%), Slovakia (35%), Toowoomba (40%) and OSARS (50%).

Contracts undertaken through unincorporated temporary joint ventures (UTEs) or similar entities that meet the IFRS 11 requirements to be classified as “joint operations” are proportionately consolidated. In these cases of joint control, the venturers are considered to have direct control over the assets, liabilities, income and expenses, and to have joint and several liability for the obligations, of the venture. Operations of this nature contributed to the consolidated Group assets, profit or loss and sales of EUR 913 million, EUR -19 million and EUR 1,406 million, respectively (EUR 829 million, EUR 55 million and EUR 1,380 million in 2016). Particularly worthy of note due to their materiality (sales representing more than 0.5% of consolidated sales) are the following companies relating to construction projects:

CONSTRUCTION PROJECT	% OWNERSHIP	SALES (€ million)
Northern Line / Thames Tideway Tunnel	50%	192
UTE Toowoomba	50%	136
407 East Extension	50%	76
Northern Beaches	70%	67
Total		471

The companies over which Ferrovial, S.A. exercises significant influence or joint control and which do not meet the requirements in IFRS 11 to be classified as “joint operations” are accounted for using the equity method. A detail of the companies accounted for using this method can be found in Note 3.5. and in Appendix II.

With regard to the companies over which it is considered that the Group has significant influence, it should be noted that certain companies in which an ownership interest of less than 20% is held (directly or indirectly) are accounted for using the equity method, provided that Ferrovial can appoint a member of their Boards of Directors.

Intra-Group balances and transactions are eliminated on consolidation. However, the transactions recognised in the statement of profit or loss in relation to construction contracts performed by the Construction Division for infrastructure project concession operators are not eliminated on consolidation, since contracts of this kind are treated as construction contracts under which the Group performs work for the concession grantor or regulator in exchange for the right to operate the infrastructure under the terms pre-established by the grantor or regulator. The grantor or regulator thus controls the asset from inception and grants the above-mentioned right in exchange for the work performed, and, therefore, the conclusion may be reached that at Group level the work has been performed for third parties. This is in line with IFRIC 12. The non-elimination of these transactions had an impact of EUR 18 million on the consolidated statement of profit or loss, after

taxes and non-controlling interests (2016: EUR 35 million). The detail of the transactions not eliminated on the basis of the foregoing is shown in Note 6.8, Related party transactions.

Appendix II contains a list of subsidiaries and associates.

Lastly, in acquisitions or disposals of ownership interests that do not result in a change in control, the non-controlling (minority) interest may be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The general method applied by the Group shall be that which avoids the early recognition of gains in the **Company's equity**. Thus, the non-controlling interest is recognised at its fair value in the case of the sale of ownership interests for more than their carrying amount or the purchase of ownership interests for less than their carrying amount. Similarly, the related losses are recognised in the **Company's equity** in the case of the sale of ownership interests for less than their carrying amount or the purchase of ownership interests for more than their carrying amount.

1.3.3. Accounting policies applied to items in the consolidated statement of financial position and consolidated statement of profit or loss

Set forth below is a detail of only those accounting policies that were adopted by the consolidated Group in preparing these consolidated financial statements either as an option permitted by IFRSs or, as the case may be, due to the specific nature of the industry in which it operates or the materiality of the policy concerned.

1.3.3.1. Property, plant and equipment, investment property and intangible assets

- Subsequent to initial recognition, the items included under **"Intangible Assets"**, **"Investment Property"** and **"Property, Plant and Equipment"** are measured at cost less any accumulated depreciation or amortisation and any accumulated impairment losses.
- The Group uses the straight-line method to calculate the depreciation and amortisation charge for the assets included under **"Intangible Assets"**, **"Investment Property"** and **"Property, Plant and Equipment"**, except in the case of certain machinery in the construction business, which is depreciated using the diminishing balance method.

The consolidated companies depreciate their various items of property, plant and equipment basically within the following ranges of years of useful life:

	YEARS OF USEFUL LIFE
Buildings and other structures	10-50
Machinery, fixtures and tools	2-25
Furniture	2-15
Transport equipment	3-20
Other items of property, plant and equipment	2-20

1.3.3.2. Investments in infrastructure projects

This line item includes the investments made in infrastructure by infrastructure concession operators within the scope of IFRIC 12 (mainly toll roads), the remuneration for which consists of an unconditional right to receive cash or another asset or the right to collect the related charges based on the level of usage of the public service.

The assets acquired by the concession operator to provide the concession services but which do not form part of the infrastructure (vehicles, furniture, computer hardware, etc.) are not included in this line item because they are not returned to the concession grantor. Assets of this nature are classified under **"Property, Plant and Equipment"** and are depreciated over their useful life, using a method that reflects the pattern of consumption of their future economic benefits.

IFRIC 12 intangible asset model

All initial investments relating to the infrastructure that is subsequently returned to the grantor, including compulsory purchase costs and borrowing costs capitalised during construction, are amortised on the basis of the expected pattern of consumption applicable in each case (normally forecast vehicle numbers in the case of toll roads) over the term of the concession.

The investments contractually agreed on at the start of the concession on a final and irrevocable basis to be made at a later date during the term of the concession, and provided they are not investments made to upgrade infrastructure, are considered to be initial investments. For investments of this nature, an asset and an initial provision are recognised for the present value of the future investment, applying a discount rate to calculate the present value that is equal to the cost of the borrowings associated with the project. The asset is amortised based on the pattern of consumption over the entire term of the concession and the provision is increased by the related interest cost during the period until the investment is made.

Where a payment is made to the grantor to obtain the right to operate the concession, this amount is also amortised based on the pattern of consumption over the concession term.

A provision is recognised systematically for replacement investments over the period in which the related obligations accrue, and it must be set up in full by the time the replacement becomes operational. The provision is recognised on the basis of the pattern of consumption over the period in which the obligation arises, on a time proportion basis.

Infrastructure upgrade investments are those that increase the infrastructure's capacity to generate revenue or reduce its costs. In the case of investments that will be recovered over the concession term, since the upgrade investments increase the capacity of the infrastructure, they are treated as an extension of the right granted and, therefore, they are recognised in the consolidated statement of financial position when they come into service. They are amortised as from the date on which they come into service based on the difference in the pattern of consumption arising from the increase in capacity. However, if, on the basis of the terms and conditions of the concession, these investments will not be offset by the possibility of obtaining increased revenue from the date on which they are made, a provision is recognised for the best estimate of the present value of the cash outflow required to settle the obligations related to the investments that will not be offset by the possibility of obtaining increased revenue from the date on which the investments are made. The balancing item is an addition to the acquisition cost of the intangible asset.

In the case of the proportional part of the upgrade or increase in capacity that is expected to be recovered through the generation of increased future revenue, the general accounting treatment used for investments that will be recovered in the concession term will be applied.

The main assumptions used in relation to these arrangements correspond to vehicle number and replacement investment estimates, which are updated each year by technical departments.

Set forth below is a detail of the main toll road concessions in force to which the intangible asset model is applied, showing their duration, their status and the accounting method applied:

Toll road concessions accounted for using the intangible asset model:

CONCESSION OPERATOR	COUNTRY	CONCESSION TERM (YEARS)	STATUS	FIRST YEAR OF CONCESSION ^(*)	ACCOUNTING METHOD
NTE Mobility Partners, LLC	US	52	Operating	2014	FC
NTE Mobility Partners Seg 3 LLC	US	43	Construction	2013	FC
LBJ Express	US	52	Operating	2014	FC
I-66 Mobility Partners LLC	US	50	Construction	2016	Eq.
I-77 Mobility Partners LLC	US	50	Construction	2014	FC
Autopista del Sol	Spain	55	Operating	1999	FC
Euroscut Azores	Portugal	30	Operating	2011	FC
Eurolink Motorway Operations (M4 -M6)	Ireland	30	Operating	2005	Eq.
Nea Odos	Greece	30	Operating	2007	Eq.
Central Greece	Greece	30	Operating	2008	Eq.

(*) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

Other concession arrangements accounted for using the intangible asset model:

In addition to the toll road concessions shown in the foregoing table, there are other arrangements to which the IFRIC 12 intangible asset model is applied, including most notably a concession of the Services Division held through Autovía de Aragón Sociedad Concesionaria, S.A. for the rehabilitation and subsequent maintenance of a stretch of the Nacional II road in Spain. The main contracts of the Services Division are as follows:

CONCESSION OPERATOR	COUNTRY	CONCESSION TERM (YEARS)	FIRST YEAR OF CONCESSION ^(*)	ACCOUNTING METHOD
Autovía Aragón	Spain	19 years	2007	FC
Servicios Urbanos de Murcia	Spain	20 years	2011	FC
Plan Alto Beirao	Portugal	25 years	2006	FC
Ecoparc Can Mata ⁽¹⁾	Spain	14 years	2011	FC
Gesmat	Spain	20 years	2012	FC

(*) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

(1) Bifurcated models (intangible asset / financial asset).

IFRIC 12 financial asset model (Note 12)

“Investments in Infrastructure Projects - Financial Asset Model” includes the service concession arrangements related to infrastructure in which the consideration consists of an unconditional contractual right to receive cash or another financial asset, either because the grantor guarantees to pay the operator specified or determinable amounts or because it guarantees to pay the operator the shortfall between amounts received from users of the public service and specified or determinable amounts. Therefore, these are concession arrangements in which demand risk is borne in full by the grantor. In these cases, the amount due from the grantor is accounted for as a loan or receivable in assets in the consolidated statement of financial position.

To calculate the amount due from the grantor, the value of the construction, operation and/or maintenance services provided and the interest implicit in arrangements of this nature are taken into consideration.

Revenue from the services (mainly construction and maintenance) provided in each period increases the amount of the related receivables with a credit to sales. The interest on the consideration for the services provided also increases the amount of the receivables with a credit to sales. Amounts received from the grantor reduce the total receivable with a charge to cash.

The aforementioned interest in concession arrangements of this type is classified as revenue, since it forms part of the ordinary concession activity and is earned on a regular and periodic basis.

At 31 December 2017, the interest recognised as revenue amounted to EUR 153 million (31 December 2016: EUR 189 million). Also, the borrowing costs associated with the financing of concessions to which the financial asset model is applied amounted to EUR 52 million in 2017 (2016: EUR 72 million). The decrease in the two items is due mainly to the Portuguese toll roads Norte Litoral and Algarve, which are now accounted for using the equity method (see Note 1.1.3).

Set forth below is a detail of the main toll road concessions in force to which the financial asset model is applied, showing their duration, their status and the accounting method applied:

Toll road concessions accounted for using the financial asset model

CONCESSION OPERATOR	COUNTRY	YEARS	STATUS	FIRST YEAR OF CONCESSION ^(*)	ACCOUNTING METHOD
Autopista Terrasa Manresa	Spain	50	Operating	1989	FC
Auto-Estradas Norte Litoral	Portugal	30	Operating	2006	Eq.
Autoestrada do Algarve, S.A.	Portugal	30	Operating	2004	Eq.
Eurolink M3	Ireland	45	Operating	2010	Eq.
A66 Benavente - Zamora	Spain	30	Operating	2015	Eq.
A-334 Autovía del Almanzora	Spain	30	Design	2012	Eq.
407 East Extension	Canada	30	Operating	2016	Eq.
Scot Roads Partnership Project Limited ^(**)	UK	30	Operating	2017	Eq.
Nexus Infr. Unit Trust (Toowoomba)	Australia	25	Construction	2015	Eq.
Blackbird Infrastructure Group (407 East Phase 2)	Canada	30	Construction	2015	Eq.
Ruta del Cacao, S.A.S.	Colombia	20	Construction	2015	Eq.
Zero Bypass Ltd.	Slovakia	30	Construction	2016	Eq.
Netflow OSARs Western	Australia	20	Construction	2017	Eq.

(*) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

(**) Owned 20% through Cintra and 20% through Amey

Other concession arrangements accounted for using the financial asset model:

The other arrangements to which the financial asset model is applied relate to the Services, Construction and Airports Divisions.

Following is a detail of the most significant concession arrangements of the Construction Division:

CONCESSION OPERATOR	COUNTRY	CONCESSION TERM (YEARS)	FIRST YEAR OF CONCESSION (*)	ACCOUNTING METHOD
Concesionaria de Prisiones Lledoners	Spain	32	2008	FC
Conc. Prisiones Figueras, S.A.U.	Spain	32	2011	FC
Depusa Aragón, S.A.	Spain	25	2015	FC
Aparcamiento Wrocław Budimex	Poland	30 years and 4 months	2012	FC
Urbica Ciudad de la Justicia	Spain	35 years	2008	Eq.
Concesionaria Vía Olmedo Pedralba	Spain	25 years	2013	Eq.

(*) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

As regards the Services Division, the most significant arrangements are as follows:

CONCESSION OPERATOR	COUNTRY	CONCESSION TERM (YEARS)	STATUS ^(*)	FIRST YEAR OF CONCESSION (*)	ACCOUNTING METHOD
CTR Oris	Spain	16 years	1	2014	FC
Juan Grande	Spain	18 years	3	2014	Prop.
Salto del Negro	Spain	16 years	3	2014	Prop.
Smart Hospital Cantabria	Spain	20 years	1	2014	FC
Toll Road IM08 DDS	Poland	6 years	1	2014	FC
IMO09 DDS	Poland	5 years	1	2016	FC
AmeyCespa WM East	UK	28 years	1	2008	FC
AmeyCespa MK SPV	UK	18 years	2	2013	FC
Amey (IoW) SPV Ltd	UK	25 years	3	2015	FC
Madrid Calle 30	Spain	35 years	1	2005	Eq.
Integrated Bradford SPV One Ltd	UK	27 years	1	2006	Eq.
Integrated Bradford SPV Two Ltd	UK	27 years	1	2009	Eq.
Amey Lagan Roads Ltd	UK	30 years	1	2007	Eq.
Amey Lighting Norfolk Limited	UK	25 years	1	2007	Eq.
E4D&G Project Co Ltd	UK	32 years	1	2008	Eq.
Amey Belfast Schools Partnership Pfi Co Ltd	UK	31 years	1	2008	Eq.
The Renfrewshire Schools Partnership Ltd	UK	33 years	1	2005	Eq.
Amey Birmingham Highways Ltd	UK	25 years	2	2010	Eq.
Amey Highways Lighting Manchester Limited	UK	25 years	1	2004	Eq.
Amey Highways Lighting Wakefield Limited	UK	25 years	1	2003	Eq.
Services Support A&S Ltd	UK	30 years	1	2004	Eq.
Scot Roads Partnership Project Ltd (**)	UK	30 years	1	2017	Eq.
Amey Hallam Highways	UK	25 years	2	2012	Eq.

(*) 1: Operating; 2: Construction; 3: Construction/Operating.

(**) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

(***) Owned 20% through Cintra and 20% through Amey.

The Airports Division has the following concession arrangement:

CONCESSION OPERATOR	COUNTRY	CONCESSION TERM (YEARS)	STATUS	FIRST YEAR OF CONCESSION (*)	ACCOUNTING METHOD
Denver Great Hall	US	30	Construction	2017	FC

(*) First year of the concession (if in operation) or year of commencement of construction (if at the construction phase).

1.3.3.3. Other items in the consolidated statement of financial position and consolidated statement of profit or loss

Cash and cash equivalents of infrastructure project companies: Restricted cash (Note 5.2)

“Cash and Cash Equivalents - Infrastructure Projects - Restricted Cash” includes short-term, highly liquid investments assigned to the financing of certain infrastructure projects, the availability of which is restricted under the financing contracts as security for certain obligations relating to the payment of debt principal and interest and to the maintenance and operation of the infrastructure.

Fair value measurement

The Group only uses fair value measurements in the case of derivative financial instruments. In such measurements, the credit risk of the parties to the related agreement is taken into account. The impact of credit risk is recognised in profit or loss, except when the derivatives qualify as effective hedges, in which case it is recognised in reserves. The Group uses appropriate measurement techniques based on the circumstances and on the volume of inputs available for each item, attempting to maximise the use of relevant observable inputs and avoiding the use of unobservable inputs. The Group establishes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into the following three levels:

- Level 1: quoted prices for identical assets or liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

As indicated in Note 5.5, Derivative financial instruments at fair value, all the Group's derivative financial instruments fall into Level 2.

Other equity instruments

These relate to perpetual bonds for which payment of the related coupon is at the discretion of the issuer and which do not satisfy the condition to be accounted for as financial liabilities, since they do not include a contractual obligation to deliver cash or another financial asset or an obligation to exchange financial assets or financial liabilities. Accordingly, they are recognised under “Other Equity Instruments” in the Company's equity.

Non-refundable grants related to assets

Non-refundable grants related to assets are recognised at the amount granted under “Deferred Income” (see Note 6.1) in the consolidated statement of financial position, and are taken to profit or loss gradually in proportion to the period depreciation on the assets financed with these grants and are allocated to the same line as those assets under “Depreciation and Amortisation Charge”. From the cash flow standpoint, the amount of the grants collected in the year is presented as a reduction of the amount of the investments made.

Trade payables

“Trade Payables” includes the balances payable to suppliers under reverse factoring arrangements with banks.

These balances are classified as trade payables and the payments relating thereto as cash flows from operating activities, since payment is made to the banks under the same terms and conditions as those agreed upon with the supplier, and the company that has the obligation to pay the latter does not obtain from the banks any extension to the due dates agreed with the supplier; the cost of the reverse factoring arrangement is borne by the supplier and no special guarantees have been provided as security for the payments to be made.

1.3.3.4 Revenue recognition

As indicated in Note 1.3.1 on the first-time application of IFRS 15, the Company changed its revenue recognition policies to adapt them to the provisions of this standard, which was applied early effective 1 January 2017. In order to ensure a uniform application across the various business areas, Ferrovial has developed a common policy. Set forth below are specific details of the methods applied as part of this policy, which affect mainly the Construction and Services businesses. Certain specific aspects affecting revenue recognition in each of the Group’s business segments are summarised in the last section.

i) General revenue recognition criterion

The first step for revenue recognition purposes is to identify the contracts and the performance obligations contained therein. The number of performance obligations that a contract has will depend on the type of contract and the activity, as indicated in reference to each of the Group’s business segments.

In general, the performance obligations in the Construction and Services businesses that Ferrovial engages in are satisfied over time and not at a specific point in time, since the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the service is performed.

With respect to the method for recognising revenue over time (i.e. the method for measuring progress towards complete satisfaction of a performance obligation), Ferrovial has established certain criteria that are applied consistently for similar performance obligations.

In this regard, the method chosen by the Group to measure the value of goods or services for which control is transferred to the customer over time is the output method; this method is applied provided that the progress of the work performed can be measured on the basis of the contract and during its performance.

In contracts to provide different highly interrelated goods or services in order to produce a combined output, which is habitually the case in contracts with a construction activity, the applicable output method is that of surveys of performance completed to date (or measured unit of work), according to which revenue is recognised corresponding to the units of work performed and on the basis of the price allocated thereto. Under this method, on a regular basis, the units of work completed under each contract are measured and the corresponding output is recognised as revenue. Costs of work or services projects performed are recognised on an accrual basis, and the costs actually incurred in completing the units performed are recognised as an expense, together with those which, even though they are expected to be incurred in the future, have to be allocated to the units of work completed to date.

Also, in routine or recurring service contracts (in which the services are substantially the same), such as maintenance and cleaning services, which are transferred with the same pattern of consumption over time and whose remuneration consists of a recurring fixed amount over the term of the contract (e.g. monthly or annual payment), in such a way that the customer receives and consumes the benefits of the services as the entity provides them, the method selected by the Group to recognise revenue is the time elapsed output method. Under this method, revenue is recognised on a straight-line basis over the term of the contract and costs are recognised on an accrual basis.

Lastly, only in those contracts that are not for routine or recurring services and for which the unitary price of the units to be performed cannot be determined, use of the of the stage of completion measured in terms of the costs incurred (input method) is permitted. Under this method, the entity recognises revenue based on the proportion that costs incurred to date bear to the total costs expected to be incurred to complete the work, taking into account the expected margins of the whole project per the latest updated budget. This method involves measuring the proportion of the costs incurred in the work completed to date to the total costs envisaged, and recognising revenue in proportion to total expected revenue. Under this method, the proportion that contract costs incurred bear to the estimated total contract costs is used to determine the revenue to be recognised, by reference to the estimated margin for the entire term of the contract. As indicated above, this method is only applied to complex construction or service contracts with **a fixed price (“lump sum”) in which it is not possible to break down the units produced and measure them.**

ii) Recognition of revenue from contract modifications, claims and disputes

Contract modifications are defined as changes in the scope of the work, other than changes envisaged in the original contract, that may result in a change in the revenue associated with that contract. Modifications to the initial contract require the customer’s technical and financial approval before billings can be issued and the amounts relating to the additional work can be collected. The Group does not recognise the revenue from such additional work until the customer’s approval has been obtained. In cases where the additional work has been approved but the corresponding change in price has not been determined, the requirement described below for variable consideration is applied: namely, to recognise revenue for an amount with respect to which it is highly probable that a significant reversal will not occur. The costs associated with these additional units or services performed are recognised when incurred, irrespective of whether or not the modification has been approved.

A claim is a request for payment or compensation from the customer (for example, for compensation, reimbursement of costs, or a legally compulsory inflation review) that is made directly to the customer. The method followed by the Group with respect to claims is to apply the method described above for modifications, when the claims are not covered by the contract, or the method used for variable consideration, when the claims are covered by the contract but need to be quantified.

A dispute is the result of a disconformity or rejection following a claim made to the customer under the contract, the resolution of which is dependent on a procedure conducted directly with the customer or a court or arbitration proceeding. Per the criteria followed by the Group, revenue relating to disputes in which the enforceability of the amount claimed is questioned is not recognised, and previously recognised revenue is derecognised, since the dispute demonstrates the absence of the customer’s approval of the work completed. If the customer only

questions the price, revenue recognition is based on the criterion applied in cases of variable consideration discussed below.

Only in those cases in which there is a legal report confirming that the rights under dispute are clearly due and enforceable and that, therefore, at least the costs directly associated with the related service will be recovered, may revenue be recognised up to the limit of the amount of the costs incurred.

iii) Variable consideration

If the consideration promised in a contract includes a variable amount, this amount is recognised only to the extent that it is highly probable that a significant reversal in the amount recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

iv) Statement of financial position balances relating to revenue recognition

Amounts to be billed for work performed/amounts billed in advance for construction work

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on achievement of the various milestones established in the contract and on acknowledgement thereof by the customer, which takes the form of a contractual document called “certificate of completion” or “work order”. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to or certified by the customer. In the case of contracts in which the goods or services transferred to the customer exceed the related amount billed or certified, the difference is recognised (as a contract asset) in an asset account called “Amounts to be Billed for Work Performed” under “Trade Receivables for Sales and Services”, whereas in contracts in which the goods or services transferred are lower than the amount billed to or certified by the customer, the difference is recognised (as a contract liability) in a liability account called “Amounts Billed in Advance for Construction Work” under “Current Trade and Other Payables”.

Bid costs and mobilisation costs

In addition to the aforementioned statement of financial position balances, the Group also recognises assets relating to the costs of obtaining a contract (bid costs) and to the costs incurred to fulfil a contract or setup costs (mobilisation costs) that are directly related to the principal contract, provided they will be recovered through performance of the contract. These balances are presented in a separate account under “Inventories” on the asset side of the consolidated statement of financial position (see Note 4.1).

Bid costs are only capitalised when they are directly related to a contract and it is probable that they will be recovered in the future and the contract has been awarded to the company or the company has been selected as the preferred bidder. Costs incurred that would have been incurred regardless of whether the contract was obtained are recognised as an expense, unless those costs are explicitly chargeable to the customer in any case (whether or not the contract is obtained). The capitalised costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Costs required to set up the contract, mobilisation costs, are capitalised provided that it is probable that they will be recovered in the future and

that they do not include expenses that would normally have been incurred by the company if the contract had not been obtained. They are gradually recognised as an expense on the basis of the proportion of actual output to estimated output under each contract. If the above conditions are not met, these costs are taken directly to profit or loss.

v) Provisions relating to contracts with customers

The main provisions relating to contracts with customers are provisions for deferred expenses and for budgeted losses

- Provisions for deferred expenses. These provisions cover the expenses that will foreseeably arise on completion of a contract, such as those for the removal of construction machinery or dismantling costs, as well as the estimated repairs to be carried out within the guarantee period. These provisions relate to a present obligation stipulated in the contract that is based on the fact that in order to settle the obligation there will probably be an outflow of resources from the company the amount of which can be estimated reliably. Provisions are recognised on the basis of the best possible estimates of the total expenditure required to settle the obligations. They can be determined as a percentage of the total expected revenue from the contract if historical information on similar contracts is available.

The guarantee obligations included in this type of provisions are not considered to be a separate performance obligation unless the customer has the option of arranging the guarantee separately, and, accordingly, they are recognised as indicated in IAS 37 on provisions and contingent assets and liabilities.

- Provisions for budgeted losses. These provisions are recognised as soon as it becomes evident that the total costs expected to be incurred in a contract exceed the total expected revenue from that contract. For the purpose of determining, if appropriate, the amount of the related provision, the criterion established in IAS 37.14 (b) is applied. Thus, the estimate of the total budget for the contract includes the expected revenue that is considered to be probable. This criterion is different from that established in IFRS 15, discussed above in Note 1.3.3.4, Revenue recognition, on the basis of which such revenue is only recognised to the extent that it is deemed to be highly probable. Also, if the total expected profit on a contract is less than that recognised under the aforementioned revenue recognition rules, the difference is recognised as a provision for losses.

vi) Financing component

In general, in order to calculate the price of a performance obligation, an implicit financing component is calculated, in those cases in which the period between when the entity transfers a promised good or service to a customer and when the customer will foreseeably pay for that good or service is more than one year. This component is accounted for as finance income.

With respect to performance obligations for which the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service is less than one year, the Group applies the practical expedient permitted by IFRS 15 and does not adjust the promised amount of consideration for the effects of a significant financing component.

In those cases in which there is a contractual or legal right to charge late-payment interest owing to the delay in collection with respect to the contractually established periods, such interest is only recognised when it is highly probable that it will actually be collected.

vii) Specific revenue recognition criteria by segment

Construction business

As a general rule, a single performance obligation is identified for construction contracts owing to the high degree of integration and customisation of the various goods and services to provide a combined output that is transferred to the customer over time.

As discussed above, the Group has chosen as its preference the measured unit of work method (output method), which is applied provided that the progress of the work completed can be measured during the performance of the contract and that a price can be allocated to each unit of work.

Only in those contracts for which the unitary price of the units to be performed cannot be determined is it permitted to use the input method (stage of completion measured in terms of costs incurred).

Services business

There is no single contract type in the case of the Services business due to the considerable diversity of the services rendered. In general, the contracts involve various tasks and unit prices and the related revenue is recognised in the consolidated statement of profit or loss as the services are provided, based on the time elapsed, i.e. when the customer simultaneously receives and consumes the benefits provided by the **entity's performance of the service as the entity performs. This occurs for example in routine or recurring services such as facility management, street cleaning or waste collection services.**

Certain contracts include different types of activities that are subject to fixed unit price tables for the services provided and which form part of the contract as a whole. In such contracts the customer requests each of the services by means of a work order, which is considered to be a separate performance obligation, and the associated revenue is recognised depending on the specific requirements established in the contract for the approval of the service.

In the case of complex long-term contracts involving the provision of several services that constitute separate performance obligations (construction, maintenance, operation, etc.), payment for which is made on a periodic basis and in which the price for those performance obligations is indicated in the contract or can be determined, revenue is recognised using the time elapsed method for the recurring services, whereas the stage of completion method is used for those more complex performance obligations for which it is not possible to allocate a price to each of the units of work performed.

Lastly, it should be noted that the revenue from certain contracts that fall within the scope of IFRIC 12 is recognised as described in Note 1.3.3.2.

Toll Road business

The arrangements included in this line of business are accounted for in accordance with IFRIC 12, which provides for the classification of the assets assigned to such arrangements on the basis of the intangible asset model and the financial asset model (bifurcated arrangements can also exist) (see Note 1.3.3.2).

The new IFRS 15, Revenue from Contracts with Customers does not give rise to a change with respect to the revenue recognition method used to date. In the case of concession arrangements accounted for using the intangible asset model, the customer is the user of the infrastructure and, therefore, each use made of the infrastructure by users is considered a performance obligation, and the related revenue is recognised at a point in time. In the case of concession arrangements accounted for using the financial asset model, in which the customer is the concession grantor, revenue recognition depends on the various services provided (e.g. operation or maintenance), which will be accounted for as different performance obligations, to which market prices have to be allocated. In those cases in which a stand-alone selling price is not directly observable, it is estimated on the basis of the best possible estimate, using the expected margin for that activity.

Airports business

In general, the services provided in this business are short-term services to customers (airline or airport users) for which regulated revenue is recognised at a point in time; therefore, there are no changes with respect to revenue recognition for this business. It should be noted that the revenue from certain contracts that fall within the scope of IFRIC 12 is recognised as described in Note 1.3.3.2.

Real estate business

The revenue from this business relates mainly to the sale of apartments, commercial premises and garage spaces, and is recognised when the buyer receives legal title to, and takes physical possession of, the asset. Each unit (apartment, etc.) is considered to be a separate performance obligation and the related revenue is recognised when the asset is legally and economically transferred to the buyer; this does not constitute any change in the revenue recognition method currently applied.

Energy distribution business

The contracts in this business involve a series of services that are substantially the same and have the same pattern of transfer to the customer. The monthly rate reflects the value of the services provided. Contracts of this kind have a single performance obligation that is satisfied over time and the related revenue is recognised by applying the output method.

1.3.4. Accounting estimates and judgements

In the consolidated financial statements for 2017 estimates were made to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

i) Estimates taken into consideration for the purpose of recognising revenue from contracts with customers (see Note 1.3.3.4), including most notably those associated with:

- determining whether enforceable rights exist, in order to recognise revenue;
- determining whether a contract modification has been approved;
- establishing whether the conditions for recognising revenue for variable consideration are met;
- recognising revenue in relation to a claim or a dispute;
- establishing whether the contract includes one or several performance obligations, and determining the price allocable to each of them;
- defining for each performance obligation the applicable method for recognising revenue over time, taking into account that, based on the accounting policy established by the Company, the preferred method is the “survey of performance completed to date” output method (schedule of values or based on time elapsed), and the “stage of completion measured in terms of the costs incurred” input model is applied in those cases in which the services provided are not routine and recurring services and in which the unit price of the units of work to be performed cannot be determined;
- in the case of contracts recognised using the survey of performance completed to date method, measuring the units completed and the price that can be allocated thereto;
- in the case of contracts recognised using the “percentage of completion method” input method, defining the costs incurred relative to total contract costs, and the expected profit margin for the contract;
- determining whether to capitalise bid costs and mobilisation costs;
- making estimates relating to the calculation of the provision for expected losses and deferred expenses.

ii) The assessment of possible legal contingencies (see Note 6.5, Contingent liabilities, contingent assets, obligations and commitments and Note 6.3, Provisions).

iii) The recognition for accounting purposes of the subordinated guaranteed hybrid bond (see disclosure on equity instruments in Note 5.1.2.).

iv) The estimates for the selection of the accounting method to be applied in relation to the loss of control, as in the case of the Portuguese toll roads (see Note 1.3.2, Basis of consolidation).

v) Estimates regarding the valuation of derivatives and the expected flows associated with them in order to determine the existence of hedging relationships (see Note 5.5, Derivative financial instruments at fair value).

vi) The assessment of possible impairment losses on certain assets (see Note 3.1, Goodwill and acquisitions, and Note 3.5, Investments in associates).

vii) Business performance projections that affect the estimates of the recoverability of tax assets (see Note 2.8 on tax matters).

viii) Estimates relating to the fair value of assets and liabilities acquired in the business combinations detailed in Note 1.1.3, Changes in the scope of consolidation.

ix) Estimates taking into account the future vehicle numbers on toll roads for the purpose of preparing financial information for toll roads pursuant to IFRIC 12 (see Note 3.3, Investments in infrastructure projects and Note 6.3, Provisions).

x) The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 6.2, Pension plan deficit).

xi) The measurement of share award plans (see Note 6.7, Share-based payment).

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8.

1.3.5. Disclosures

It should also be noted that in preparing these consolidated financial statements the Group omitted any information or disclosures which, not requiring disclosure due to their qualitative importance, were considered not to be material in accordance with the concept of materiality defined in the IFRS Conceptual Framework.

1.4. Exchange rates

As indicated above, Ferrovial conducts business outside the eurozone through various subsidiaries. The exchange rates used to translate their financial statements for their inclusion in the consolidated Group's consolidated financial statements are as follows:

Items in the balance sheets (closing exchange rates at 31 December 2017 and at 31 December 2016 for the comparative figures):

CLOSING EXCHANGE RATE	2017	2016	CHANGE 17/16 (%)
Pound sterling	0.8889	0.8545	4.03%
US dollar	1.2022	1.0547	13.99%
Canadian dollar	1.5059	1.41849	6.16%
Australian dollar	1.5389	1.4615	5.29%
Polish zloty	4.1755	4.4046	-5.20%
Chilean peso	739.8	705.71	4.83%

(*) A negative change represents a depreciation of the euro against the reference currency and a positive change represents an appreciation.

Items in the statements of profit or loss and statements of cash flows (cumulative average rates at 31 December 2017 and at 31 December 2016 for the comparative figures):

AVERAGE EXCHANGE RATE	2017	2016	CHANGE 17/16 (%)
Pound sterling	0.8751	0.8230	6.33%
US dollar	1.1391	1.1034	3.24%
Canadian dollar	1.4755	1.459	1.13%
Australian dollar	1.4813	1.4853	-0.27%
Polish zloty	4.2455	4.3606	-2.64%
Chilean peso	737.7217	742.4625	-0.64%

(*) A negative change represents a depreciation of the euro against the reference currency and a positive change represents an appreciation.

The main changes in the closing exchange rates vis-à-vis the euro were the depreciation of the pound sterling and the Chilean peso, as well as that of the US dollar, the Canadian dollar and the Australian dollar. By contrast, the Polish zloty appreciated against the euro. The impact in this connection recognised in equity attributable to the Parent was EUR -318 million (see Note 5.1.1, Changes in equity).

Note 5.4 provides an explanation of foreign currency risk management. It also contains an analysis of the impact that Brexit has had or might have in the future vis-à-vis the different financial risks affecting Ferrovial. This perspective is supplemented by a global analysis of Brexit in the Risks section of the directors' report.

In addition, a detail is provided of the exchange rate effect in those notes in which this effect is material.

1.5. Segment reporting

The segment statements of financial position and segment statements of profit or loss, for both 2017 and the comparative period, are shown in Appendix III.

Additionally, a breakdown by segment is included in those sections of this report where this information is material or is required by accounting legislation.