F. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

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 POLICIES

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 2016 there were no changes in accounting policies or new standards applied that had a significant effect.

As regards the new standard IFRS 15 (Revenue from Contracts with Customers), although the standard is not mandatorily applicable until 2018, the Company has decided to apply it early in 2017. Note 1.3.1 contains a more in-depth analysis of the estimated impacts of early application, together with an analysis of possible impacts of standards 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, i.e. its investments of 25% in HAH, the company that owns Heathrow Airport, and of 43.23% 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 the reporting period.

The most significant changes in 2016 were as follows:

- In the Services Division, the acquisition of the Australian company Broadspectrum in May 2016.
- In the Toll Roads Division, the sale of Chicago Skyway and an ownership interest in the Irish M3 and M4-M6 toll roads, the classification of the Portuguese toll roads as held for sale, and the exclusion from the scope of consolidation of the US SH-130 toll road, since control was considered to have been lost as a result of the developments in the Chapter 11 bankruptcy proceedings in which the concession operator is involved..

The main effect of these transactions on the consolidated financial statements is observed in net borrowings. There was a reduction in the net cash position of non-infrastructure project companies, due mainly to the acquisition of Broadspectrum, which had an impact of EUR -934 million (EUR 499 million relating to the purchase of the shares and EUR 435 million relating to the debt contributed), as well as in the net borrowings of infrastructure projects, which fell by EUR 1,420 million as a result of the exclusion from consolidation of SH-130 and by EUR 388 million due to the classification of the Portuguese toll roads as held for sale.

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.

In the course of 2016 the euro appreciated significantly against the pound sterling, influenced by the United Kingdom's exit from the European Union (Brexit), the possible risks of which are discussed in Note 5.4, Management of financial risks and capital, as well as in the Risk section of the directors' report. With regard to the other currencies, the euro depreciated against the US dollar and the Canadian dollar (the currencies of the Group's main toll roads), and it appreciated against the Polish zloty.

1.1 BASIS OF PRESENTATION, COMPANY ACTIVITIES AND SCOPE OF CONSOLIDATION

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; and rendering of other kinds of public services. As a result of the new acquisitions, other services such as the maintenance of energy and industrial facilities were added in 2016.
- 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 separately the impact of projects of this nature 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 2016. 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).

Services: acquisition of Broadspectrum

The most significant change with respect to 2015 arose as a result of the acquisition of Broadspectrum, a leading company in the Australian services industry, which provides a wide range of services, such as maintenance of infrastructure and of industrial and energy facilities, and various services of a social nature. The company also has a presence in other countries such as New Zealand, the US, Canada and Chile.

Ferrovial achieved control of this company through a takeover bid that was ultimately closed for a price of AUD 1.50 per share, and which was completed on 13 May 2016, with the obtainment of control, once the new members of the company's Board of Directors had been appointed. Therefore, Broadspectrum's financial statements were included in the scope of consolidation of the Group from 31 May 2016. The price paid for the shares amounted to AUD 769 million (EUR 499 million). Broadspectrum's revenue for the period to 2016 year-end was EUR 1,446 million (seven months), while the result contributed to Ferrovial amounted to EUR -18 million, which includes the amortisation of the intangible asset generated in the purchase price allocation process (see Note 3.1).

Services: other acquisitions

In addition, in the course of 2016 a further three acquisitions were completed in the Services business, two in Spain and one in Poland. The main data relating to these acquisitions are shown in the table below:

	Siemsa	Biotrán	Amest Kamiensk
Line of business	Services for the energy, petrochemicals and industrial sectors	Waste management for the pharmaceutical industry	Waste treatment plant
Date of acquisition	25 February	22 July	18 January
Acquisition price (EUR)	17 million	11 million	8 million
% of ownership acquired	100%	100%	80%
Sales	47	4	4
Profit	2	1	0

Construction: acquisition of Pepper Lawson

In 2016 the Group acquired the US construction company Pepper Lawson Construction, which specialises in water infrastructure and non-residential building construction work. This transaction was completed for a price of USD 12 million (EUR 11 million) on 6 April, the date on which Pepper Lawson's financial statements began to be consolidated within the Group. Pepper Lawson's revenue for the period to 31 December 2016 was EUR 124 million, while it reported a loss of EUR -3 million.

Toll roads: definitive sale of the Chicago Skyway and Irish toll roads

In addition, in the first half of 2016 the agreements were concluded for the sale of the Chicago Skyway and Irish Eurolink M3 and M4-M6 toll roads. These transactions, which commenced in 2015, are described in Note 1.2 to the consolidated financial statements as at 31 December 2015. In the case of the Chicago Skyway, the transaction gave rise to a net gain of EUR 103 million. In the case of the Irish toll roads, the total gain was EUR 21 million, recognised in net profit, including the recognition at fair value of the 20% ownership interest retained (EUR 6 million in net profit).

The proceeds received in 2016 in connection with these transactions totalled EUR 289 million (EUR 230 million for the sale of Chicago Skyway and EUR 59 million for the sale of the Irish toll roads), which together with other disposals of lesser amounts had a total impact on the Group's cash flow of EUR 340 million (see Note 5.3).

Toll roads: agreement to sell the Portuguese toll roads

Also, in June 2016 an agreement was entered into for the sale of the Portuguese toll roads Euroscut Algarve and Norte Litoral to the Dutch fund management company DIF for EUR 159 million, with Ferrovial retaining interests of 48% in Euroscut Algarve and 49% in Norte Litoral. At the date of these consolidated financial statements, these sales had not yet been authorised by the related authorities and, therefore, the assets and liabilities of the toll roads were reclassified as held for sale (see Note 1.2).

Toll roads: exclusion from consolidation of SH-130

SH-130 Concession Company, LLC, which was excluded from the scope of consolidation in December 2016, had been involved in Chapter 11 bankruptcy proceedings since March 2016. As a solution to these proceedings, on 5 December the judge appointed to hear the case approved all the documentation required for a subsequent vote on the reorganization plan for the concession operator that had been proposed by its creditors. Under this plan, Cintra would sell its ownership interest to the creditors for a symbolic price of USD 1, and thus no longer form part of SH-130's shareholder structure.

For their part, on 8 December the concession operator and the main creditors entered into an agreement to support the aforementioned reorganization plan, which resulted in Cintra losing control over SH-130. The plan support agreement was approved by creditors representing 50% of the interest-bearing debt, which is the majority required by the US Bankruptcy Code for the reorganization plan to come into effect. This approval was subsequently ratified in a vote held before the judge on 11 January.

Ultimate implementation of the plan is subject to completion of a series of procedural formalities to facilitate the orderly transfer of the company's management. As a result of the agreement entered into on 8 December, it was concluded that, in accordance with IFRS 10, the ownership interest in SH-130 should be excluded from consolidation at 2016 year-end, since the Group no longer had the current ability to direct the relevant activities of the company and it was not exposed, and did not have rights, to variable returns from its involvement with the investee. The commitments assumed by SH-130 vis-à-vis its creditors, approved as part of the bankruptcy court proceedings, prevent it from directing the company's operations as if it were not involved in such proceedings, since it does not have the ability to manage its most relevant activities, and the sole objective of the actions of the managing body and the management team is to minimise any impact that might jeopardise the viability plan approved by the creditors.

This transaction gave rise to the recognition of a gross gain of EUR 52 million (EUR 30 million in net profit or loss), relating to the losses previously recognised in excess of the capital invested in the project (EUR 169 million) and a EUR 1,421 million reduction in the net debt.

Airports: acquisition of Transchile

On 6 October 2016, Ferrovial acquired Transchile Charrúa Transmisión, the company which owns a 204-kilometre transmission line between the Charrúa and Cautín substations in Chile, for an initial investment of USD 115 million (EUR 102 million); USD 45 million (EUR 40 million) of this investment were subsequently refunded, giving a net investment of USD 70 million (EUR 62 million). Transchile's revenue amounted to EUR 2 million, and it reported a loss of EUR -1 million.

This acquisition signalled Ferrovial's entry into the electricity transmission infrastructure development business. Since this new area will be managed by the team responsible for managing the Airports segment, as indicated in paragraph 5 of IFRS 8, the new activity will be reported on as part of the Airports business segment.

New projects: I-66 and Slovakian toll roads

I-66

In November 2016 Cintra, in consortium with the infrastructure fund manager Meridiam, was selected to design, construct, finance, operate and maintain the project to transform the I-66 toll road in Virginia, which is worth more than EUR 3,000 million. The project comprises the construction of 35 kilometres along the Interstate 66 corridor (Washington access) between Route 29 and Interstate 495, in which Ferrovial Agromán and the US constructor Allan Myers will be involved. The road will have three regular toll-free lanes and two managed express lanes. Construction of the project is scheduled to end in 2022, whereupon the 50-year concession term will begin.

The concession operator for the project will be I-66 Express Mobility Partners LLC, which will be accounted for using the equity method (50% ownership interest), while the company in charge of construction will be FAM Construction LLC, which will be fully consolidated (70% ownership interest). The financial close of this project will foreseeably take place in 2017.

Slovakia

Furthermore, Cintra, in this case in consortium with a Macquarie infrastructure fund, was also selected to design, construct, finance, operate and maintain the D4 bypass and the R7 expressway in Bratislava in Slovakia. The financial close of this project was reached in May, with a total expected investment of EUR 975 million. The concession, which is a payment-for-availability arrangement, will have a 30-year term that will start after completion of the construction period.

The concession operator for this project will be Zero Bypass, Ltd., whose financial statements will be included in those of the group using the equity method (45% ownership interest). The company in charge of construction of the roads will be D4R7, which is 65% owned by the Group and, therefore, will be fully consolidated.

1.2. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In 2016 certain milestones were reached which resulted in the exclusion from the scope of consolidation, as well as the reclassification as assets and liabilities held for sale, of certain investments in projects within the Toll Road business unit:

- In 2015 an agreement was entered into for the sale of the investment in the Chicago Skyway project in the United States, which was ultimately sold in February 2016. As a result of the sale, this investment was derecognised from "Assets/Liabilities Classified as Held for Sale" and, consequently, excluded from the scope of consolidation.
- In addition, the sale agreements relating to the investment in the Irish M3 and M4 toll road projects were completed in February 2016. In both projects, Ferrovial's stake was reduced to a 20% non-controlling interest, as a result of which the investees were accounted for using the equity method.
- Lastly, on 13 June 2016 agreements were signed for the sale of majority ownership interests in the operators of two concessions in Portugal, namely the Norte Litoral toll road (51%) and the Via do Infante toll road (49%), for a total price of EUR 159 million. Following the sale of these holdings, non-controlling interests of 49% and 48%, respectively, will be retained.

At 31 December 2016, neither of the outstanding sale agreements had been completed, since both were subject to authorisation and confirmation by the Portuguese authorities and the banks involved.

As a result of the above-mentioned sale agreements, the assets and liabilities associated with the corresponding companies were reclassified to "Assets Classified as Held for Sale" and "Liabilities Classified as Held for Sale", respectively.

The impact of this reclassification is shown in the tables below:

Assets Millions of euros	Chicago Skyway	Irish toll roads	Auto-Estradas Norte	Algarve toll road	Total
Balance at 01/01/16	1,889	529	0	0	2,418
Investments in infrastructure projects	-1,647	-442	284	154	-1,651
Restricted cash and cash and cash equivalents	-113	-30	31	34	-78
Other assets	-129	-57	62	58	-66
Balance at 31/12/16	**0**	**0**	**378**	**246**	**623**

Liabilities Millions of euros	Chicago Skyway	Irish toll roads	Auto-Estradas Norte	Euroscut Algarve	Total
Balance at 01/01/16	2,183	507	0	0	2,690
Borrowings	-1,483	-316	211	177	-1,411
Derivative financial instruments at fair value	-667	-43	30	0	-680
Other liabilities	-33	-148	12	6	-163
Balance at 31/12/16	**0**	**0**	**253**	**183**	**436**

1.3 ACCOUNTING POLICIES

1.3.1. New accounting standards

1.3.1.a) New standards, amendments and interpretations adopted by the European Union mandatorily applicable for the first time in 2016.

On 1 January 2016, the following standards which might have an impact on the consolidated financial statements came into force in the European Union: Amendments to IAS 1, Disclosure Initiative; Improvements to IFRSs, 2012-2014 cycle; Amendments to IASs 16 and 38, Clarification of Acceptable Methods of Depreciation and Amortisation; and Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. None of these amendments had a significant impact on the consolidated financial statements for the year that began on 1 January 2016.

1.3.1.b) New standards, amendments and interpretations mandatorily applicable in annual reporting periods subsequent to 2016.

The new standards, amendments and interpretations approved by the IASB but not yet mandatorily applicable 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:
Not yet applied but already approved for use in the EU		
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
Not yet approved for use in the EU		
IFRS 16	Leases	1 January 2019
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual improvements	2014-2016 cycle	1 January 2017/2018
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40	Investment Property	1 January 2018

Expected impacts on application of the most important standards:

IFRS 15. Revenue from Contracts with Customers
Although the standard is not mandatorily applicable until 2018, in view of its significance for the business activities in which Ferrovial operates, mainly Construction and Services, the Group has decided to early apply it in 2017. To this end, a plan has been launched featuring the following milestones:

- After conducting an analysis of the standard in the last few months of 2016, Ferrovial developed a new internal policy with the aim of defining practical criteria for the application of IFRS 15 in all its business activities.
- This was followed by a qualitative assessment and an initial quantification of the main changes that may arise from the new standard, as well as an analysis of the possible impacts on reporting systems.
- Before the end of the first quarter of 2017, a more detailed quantification will be made of the effects of initial application, which will be accounted for retrospectively at the end of that quarter, recognising an adjustment in reserves to the opening balance at 1 January 2017 ("cumulative effect adjustment to equity").
- Lastly, these adjustments will be reviewed in greater detail by the auditors of the Group's subsidiaries when they perform the limited review of the interim financial statements.

The main impacts identified relate basically to the following three issues:

(i) Definition of different performance obligations in long-term services contracts and allocation of a price to each obligation. These are mainly 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). Currently, these contracts are regarded as having a single performance obligation, and the result thereof is recognised by reference to the overall profitability of the project. Under the new standard, unlike the above-mentioned method, several performance obligations will be recognised (IFRS 15.27), to which the prices established in the contract, provided they are deemed to be market prices, will be allocated (IFRS 15.73-80). The effect of this new criterion may be to delay the recognition of revenue, insofar as the expected margin on the performance obligations already satisfied will be lower than that forecast for the contract as a whole. The negative impact (net of tax) of this adjustment in reserves, according to an initial estimate, would amount to approximately EUR 70 million.

(ii) Requirement of approval versus probability in the recognition of revenue arising from contract modifications and claims. Under IFRS 15 customer approval is required in order for such revenue to be recognised (IFRS 15.18), a stricter criterion than the probability requirement in the current IAS 11 and IAS 18. This change will give rise to a delay in the recognition of revenue, which can only be recognised when the customer has approved the contract modification, and not when it is probable that it will approve it. In the case of contract modifications or claims in which the customer has approved the revised scope of the work but the corresponding change in price has not yet been determined, revenue will be recognised for the amount with respect to which it is highly probable that a significant reversal will not occur in the future. The negative impact (net of tax) of this adjustment in reserves, according to an initial estimate, would amount to approximately EUR 60 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 as its preference for measuring the value of assets or services of which control is transferred to the customer over time, provided that the progress of the work performed can be measured during the course of the agreement (IFRS 15.B17). In contracts to provide different highly interrelated goods or services in order to produce a combined output, which occurs habitually in contracts with a construction component, the applicable output method is that of measurement of units produced ("surveys of performance completed to date" output method). 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. The use of this rule will give rise to a change of recognition method for certain projects, and the negative impact (net of tax) of this adjustment in reserves, according to an initial estimate, would be approximately EUR 30 million.

Based on the foregoing, the estimated net total negative adjustment arising from the first-time application of IFRS 15 amounts to approximately EUR 160 million. However, the precise quantification of this adjustment will depend on the achievement of all the aforementioned milestones, the tasks for which will be completed in the first six months of 2017.

The new standard will require the Group to review its internal processes and controls relating to revenue recognition. Although this review is already in progress, it has not yet been completed.

The reporting systems currently in place will be maintained, although the controls established in them will have to be adapted.

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 Company is analysing the possibility of applying the standard early, although it has not yet taken a decision in this respect.

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

(i) **Hedge accounting.** IFRS 9 attempts to align hedge accounting more closely with risk management, and the new requirements establish a principle-based approach. IFRS 9 permits the designation of specific components of non-financial items and the inflation risk component of financial instruments as hedged items, provided that they are separately identifiable and reliably measurable, and it has to be proved that there is a liquid market for the items concerned. The Group has identified a possible impact relating to the inflation-indexed derivatives arranged at HAH, which under IFRS 9 might meet the requirements for hedge accounting. Lastly, it should be noted that under the new standard it is possible to designate an aggregated exposure (including a derivative and another non-derivative component) as a hedged item, and to consider currency basis spreads as a cost of the hedge, which could have an impact on the derivatives arranged by HAH.

(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 initially expects to avail itself of the simplified approach (allowance for lifetime expected credit losses of an asset) for its accounts receivable. It does not foresee a significant impact in this regard, in view of the fact that there is a procedure already in place, which not only writes down accounts receivable when they are no longer recoverable (incurred losses), but also takes into consideration possible expected losses, based on the evolution of customers' collection periods (Ferrovial will adapt this procedure to meet the specific requirements of IFRS 9 and will extend it to companies where it is not currently applied), and in view of the credit risk of its customers (mostly public authorities) and the internal classification systems in place for contracting with those customers.

(iii) **Classification and measurement of financial assets.** A new classification is introduced that reflects the business model within which financial assets are held. The main classification categories are: financial assets measured at amortised cost (assets held to maturity in order to collect contractual cash flows: principal and interest), financial assets at fair value through profit or loss (assets held for trading) and financial assets at fair value through other comprehensive income, in cases where both business models apply. The IAS 39 available-for-sale category of financial instruments is therefore eliminated. As regards the measurement of financial liabilities, IFRS 9 does not introduce any changes with respect to IAS 39, except that, in relation to the fair value option, any changes in fair value of a financial liability attributable to own credit risk must be recognised in other comprehensive income (provided this does not give rise to an accounting mismatch). Based on its preliminary analysis of this phase, the Group does not expect any significant impact, since most of its assets and liabilities will continue to be recognised at amortised cost.

Unlike IFRS 15, the hedge accounting requirements of IFRS 9, which is where the main impact is expected to arise, as described above, will be applied prospectively and, therefore, there will be no first-time application adjustment. The expected impact of adoption of IFRS 9 on the Group's consolidated financial statements is not disclosed because it cannot be estimated reliably, since this impact will depend on both the financial instruments held by the Group and the economic conditions prevailing at the date of adoption.

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 detail of operating leases is included in Note 6.5.3 to the consolidated financial statements and the related expense amounts to approximately EUR 412 million (detail of commitments under operating leases in the consolidated financial statements as at 31 December 2016). 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.

1.3.2. Basis of consolidation

In 2016 and 2015 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 connection, set forth below is a detail of only those consolidation criteria 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:

The contracts that are undertaken through unincorporated temporary joint ventures (UTEs) or similar entities that meet the IFRS 11 requirements for being classified as "joint operations" are proportionately consolidated. It is considered that, in these cases of joint control, the venturers have direct control over the assets, liabilities, income and expenses, and joint and several liability for the obligations, of these entities. Operations of this nature contributed to the consolidated Group assets, profits and sales of EUR 829 million, EUR 55 million and EUR 1,380 million, respectively, in 2016 (2015: EUR 499 million, EUR 4 million and EUR 987 million, respectively). Some of these entities could be considered material to the Group, since they account for more than 0.5% of consolidated sales:

Project	Activity	% ownership	Sales (€ million)
407 East Extension	Design and construction of the 407 East toll road in Toronto	50%	95
Ferrovial Lagan JV	Design and construction of the Scottish M8, M73 and M74 motorways	80%	154
Bam Ferrovial Kier JV	Work for the Farringdon railway station in London	33%	59
Flo JV	Construction of the Northern Line Extension and Thames Tideway Tunnel (Central Section), in London	50%	135
UTE Warrell Creek to Nambucca	Construction of a stretch of the Pacific Highway, in NSW Australia	50%	75
UTE Toowoomba	Construction of a bypass around the city of Toowoomba	50%	57
Total			**575**

The companies over which Ferrovial, S.A. exercises significant influence or joint control in cases which do not meet the requirements in IFRS 11 for being 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.

- 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 is performed for third parties. This is in line with IFRIC 12. The non-elimination of these transactions had an impact of EUR 35 million on the consolidated statement of profit or loss, after taxes and non-controlling interests (2015: EUR 93 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.

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

In line with the disclosures in Note 1.3.2 above, 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 in infrastructure made by infrastructure concession operators within the scope of IFRIC 12 (mainly toll roads), the remuneration for which consists of 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, which must have been 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 a higher 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 (1)	US	43	Construction	2013	FC
LBJ Express	US	52	Operating	2014	FC
I-66 Mobility Partners LLC (3)	US	50	Construction	2016	Eq.
I-77 Mobility Partners LLC (2)	US	50	Construction	2014	FC
M-203 Alcalá O'Donnell	Spain	30	Construction	2005	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).

(1) The concession term is 43 years from the commencement of operation services, scheduled for 2018.

(2) The concession term is 50 years from the completion of the construction work, estimated at 44 months from the reporting date.

(3) The concession term is 50 years from the completion of the construction work, estimated at 60 months from the reporting date.

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
Planalto Beirao	Portugal	25 years	2006	FC
Ecoparc Can Mata (1)	Spain	14 years	2011	FC
Gesmat (1)	Spain	20 years	2012	FC
Amey Hallam Highways (1)	UK	25 years	2012	Eq.
Secado Térmico Butarque	Spain	25 years	2002	Prop.

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

Infrastructure project receivables - IFRIC 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.

This interest is accounted for in accordance with IAS 18, Revenue. Under IAS 18, revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity. In this regard, it can be considered that the interest income from concessions of this type should be classified as revenue, since it forms part of the ordinary concession activity and is earned on a regular and periodic basis.

At 31 December 2016, the interest recognised as revenue amounted to EUR 189 million (31 December 2015: EUR 194 million). Also, the borrowing costs associated with the financing of concessions to which the financial asset model is applied amounted to EUR 87 million in 2016 (2015: EUR 87 million) (see breakdown by contract).

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	Concession term (years)	Status	First year of concession (*)	Accounting method
Autopista Terrasa Manresa	Spain	50	Operating	1989	FC
Auto-Estradas Norte Litoral (1)	Portugal	30	Operating	2006	FC
Autoestrada do Algarve, S.A. (1)	Portugal	30	Operating	2004	FC
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 (2)	UK	30	Construction	2014	Eq.
Nexus Infr. Unit Trust (Toowoomba) (3)	Australia	25	Construction	2015	Eq.
Blackbird Infrastructure Group (4) (407 East Phase 2)	Canada	30	Construction	2015	Eq.
Ruta del Cacao, S.A.S. (5)	Colombia	20	Construction	2015	Eq.
Zero Bypass Ltd. (6)	Slovakia	30	Construction	2016	Eq.

(1) Projects reclassified to "Assets Classified as Held for Sale"
(2) The concession term is 30 years from the completion of the construction work, scheduled for September 2017.
(3) The concession term is 25 years from the completion of the construction work, scheduled for December 2018.
(4) The concession term is 30 years from the completion of the construction work, scheduled for December 2019.
(5) The concession term is 20 years from the completion of the construction work, scheduled for June 2021.
(6) The concession term is 30 years from the completion of the construction work, scheduled for December 2020.
FC: Full consolidation; Eq. = Equity method.

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 and Construction 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 Budimex	Poland	30 years and 4 months	2012	FC
Urbicsa Ciudad de la Justicia	Spain	35 years	2003	Eq.
Concesionaria Vía Olmedo Pedralba	Spain	25 years	2013	Eq.

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
IM009 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	33 years	2	2014	Eq.
AmeyCespa (AWRP) SPV Ltd	UK	29 years	2	2014	Eq.

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

FC: Full consolidation; Eq. = Equity method; Prop. = Proportionate consolidation.

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 projects: 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.

Non-refundable grants related to assets

Non-refundable grants related to assets are measured 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 recognised 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 related payments as cash flows from operating activities, since the payments are made to the banks in the same periods as those agreed on with the suppliers in the operating cycle of the business, with no additional deferral or special guarantees to secure the payments to be made.

1.3.3.4 Revenue recognition

Set forth below are specific details of the methods applied to recognise revenue in each of the segments in which Ferrovial operates. See Note 1.3.1.b for a description of the changes and expected impacts of the new standard IFRS 15, Revenue from Contracts with Customers.

Construction business

i) General revenue recognition methods

Construction business revenue is recognised in accordance with IAS 11, whereby revenue and associated costs are recognised in the statement of profit or loss by reference to the stage of completion of the contract activity at the end of the reporting period, provided that the outcome of the construction contract can be estimated reliably (stage of completion). Any expected loss on the construction contract is recognised as an expense immediately.

The Group habitually conducts surveys of the work performed (output method, based on measurement of units produced), which is made possible in practice by the existence in all the contracts of a definition of all the units of work and the price at which each unit is to be certified and by budgeting tools for monitoring variances. At the end of each month, the units executed in each contract are measured and the output for the month is recognised as revenue. Contract costs are recognised on an accrual basis, and the costs actually incurred in completing the units of work are recognised as an expense, together with those which, even though they may be incurred in the future, have to be allocated to the project units completed. In certain jurisdictions in which the policy applied in accordance with generally accepted practice is to recognise revenue on the basis of the stage of completion measured in terms of the costs incurred (input 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 margin for the entire term of the contract.

In exceptional cases, where it is not possible to estimate the margin for the entire contract, the total costs incurred are recognised and sales that are reasonably assured with respect to the completed work are recognised as contract revenue, subject to the limit of the total contract costs incurred.

The new standard IFRS 15, Revenue from Contracts with Customers, which is the same as the standard issued by the FASB, will make it possible for the Group to adopt a uniform revenue recognition method, irrespective of the various jurisdictions in which Ferrovial operates.

For construction contracts, a single performance obligation will be identified 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. The Group will recognise revenue over time using, as its preferred option, the output method in those contracts for which there is a breakdown of the units produced and unitary prices or for which this information is available and is used by management for decision-taking purposes. Use of the cost to complete method (input method based on resources consumed) will only be permitted as a residual approach in fixed fee lump-sum contacts, in which the aforementioned requirements are not met.

ii) Recognition of revenue from contract modifications and claims

Contract modifications are work additional to those envisaged in the original contract that require approval by the customer. Contract modifications normally give rise to changes in both the work to be performed and the price.

Claims are amounts not covered by the principal contract, which are the subject of dispute with the customer and can arise from modifications that have not been agreed by the customer or other types of consideration requested of the customer, such as the reimbursement of unforeseen costs.

Modifications to the initial contract require the customer's technical and financial approval prior to the issue of billings and collection of the amounts relating to additional work. The Group does not recognise revenue from such additional work until approval is reasonably assured and the revenue can be measured reliably. The costs associated with these additional units of output are recognised when incurred.

If the modifications become claims because they are subject to a dispute with the customer or are taken to arbitration or before the courts, no additional revenue is recognised and the revenue previously recognised only continues to be recognised if there is a legal report that supports the high probability of recovering the amount in dispute. This method is also followed in other types of claim process.

As mentioned in Note 1.3.1-b) on new standards, under IFRS 15 customer approval is required in order for revenue arising from contract modifications and claims to be recognised. In cases where the additional work has been approved but the corresponding change in price has not been determined, the requirement for variable consideration will be applied: namely, to recognise revenue for an amount with respect to which it is highly probable that a significant reversal will not occur.

iii) Statement of financial position balances relating to revenue recognition

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". 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 contracts for which the amount of revenue recognised exceeds the amount billed or certified, the difference is recognised in an asset account called "Amounts to be Billed for Work Performed" under "Trade Receivables for Sales and Services", while in contracts for which the amount of revenue recognised is less than the amount billed or certified, the difference is recognised in a liability account called "Amounts Billed in Advance for Construction Work" under "Current Trade and Other Payables".

iv) Other aspects

Initial contract costs incurred in the formalisation of the principal contract, costs of moving plant to the contract site, costs incurred in design, technical assistance and studies, building insurance costs, perimeter fencing costs and other initial contract costs are recognised as prepaid expenses. These costs are recognised as inventories provided that it is probable that they will be recovered in the future and they are recognised in profit or loss based on actual production with respect to estimated production under each contract. Otherwise, the costs are taken directly to the statement of profit or loss.

Late-payment interest arising from delays in the collection of billings is recognised when it is probable that the interest will be collected and its amount can be measured reliably, and is recognised as a financial result.

v) Judgements and estimates

Due to the very nature of contracts of this kind, and as can be inferred from the preceding paragraphs, the main factors affecting revenue and cost recognition are subject to significant judgements and estimates, such as the expected outcome of the contract, the amount of costs to be incurred at the end of the construction work, the measurement of the work completed in the period, the reasonableness of the accounting for a modification to the initial contract and the amount to be recovered from a claim. All these judgements and estimates are made by the persons in charge of performing the construction work, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.

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 impact of the new standard IFRS 15, Revenue from Contracts with Customers will depend on the model applicable to each concession. 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 will depend on the various services provided (e.g. construction or maintenance), which will be accounted for as different performance obligations, to which market prices have to be allocated.

Services business

In general, the revenue from contracts involving various tasks and unit prices is recognised in the consolidated statement of profit or loss when the services are provided, in accordance with IAS 18, Revenue. In the case of certain long-term contracts with a single payment or annual payments revenue and costs are recognised by reference to the stage of completion, established both in the aforementioned IAS 18 and in IAS 11, Construction Contracts, on the basis of the costs incurred as a percentage of the total estimated costs (input method) as explained in the section on the Construction business. Revenue from contract modifications and claims is defined in the same way as in the case of the construction business, and is recognised based on a probability criterion as indicated in IAS 11. With respect to the first-time application of standard IFRS 15, the main impacts envisaged correspond to the three concepts mentioned in Note 1.3.1.

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.

1.3.4. Accounting estimates and judgements

In the consolidated financial statements for 2016 estimates were made to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- Estimates to define the methods for accounting for investees, including most notably in 2016 those relating to the SH-130 toll road, which led to the conclusion that it should be excluded from consolidation this year.
- The estimates taken into consideration when recognising the results of contracts by reference to the stage of completion in the Construction and Services segments, in relation to the expected outcome of the contract, the estimate of possible budgeted losses, the amount of costs to be incurred at the end of the construction work, the measurement of the contract work performed in the period or the reasonableness of the accounting for a modification to the initial contract. All these judgements and estimates are made by the persons in charge of performing the construction work or services contracts, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied (see Note 1.3.3.4 on revenue recognition in the Construction and Services businesses).
- The assessment of possible legal contingencies (see Note 6.5, Contingent liabilities, contingent assets, obligations and commitments and Note 6.3, Provisions).
- The assessment of possible impairment losses on certain assets (see Note 3.1, Goodwill and acquisitions, and Note 3.5, Investments in associates).

- Estimates relating to the fair value of assets and liabilities acquired in the business combinations detailed in Note 1 on changes in the scope of consolidation.
- Business performance projections that affect the estimates of the recoverability of tax assets (see Note 2.8 on tax matters).
- 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).
- 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).
- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 6.2, Pension plan deficit).
- The measurement of stock options and share award plans (see Note 6.7, Share-based payment).

Although these estimates were made using the best information available at 31 December 2016 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 carries out transactions 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 (exchange rates at 31 December 2016 and at 31 December 2015 for the comparative figures):

Closing exchange rate	2016	2015	Change 16/15 (*)
Pound sterling	0.8545	0.7375	15.86%
US dollar	1.0547	1.0866	-2.94%
Canadian dollar	1.4185	1.5026	-5.60%
Australian dollar	1.4615	1.4906	-1.95%
Polish zloty	4.4046	4.2659	3.25%
Chilean peso	705.71	769.98	-8.35%

(*) 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 2016 and at 31 December 2015 for the comparative figures):

Average exchange rate	2016	2015	Change 16/15 (*)
Pound sterling	0.8230	0.7237	13.72%
US dollar	1.1034	1.1032	0.01%
Canadian dollar	1.4590	1.4233	2.51%
Australian dollar	1.4853	1.4802	0.34%
Polish zloty	4.3606	4.1800	4.32%
Chilean peso	742.4625	727.7625	-2.02%

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

The main change in the year was the depreciation of the pound sterling prompted by the decision to leave the European Union taken in the UK referendum held on 23 June 2016 (Brexit).

Note 5.4 also contains an in-depth 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 complemented by a global analysis of Brexit in the Risks section of the directors' report.

1.5. SEGMENT REPORTING

The segment statements of financial position and segment statements of profit or loss, for both 2016 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.