

## SECTION 4: WORKING CAPITAL

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

Millions of euros	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Inventories	387	-5	26	108	516
Current trade and other receivables	2,320	-84	414	178	2,828
Current trade and other payables	-3,346	88	-380	-255	-3,893
<b>TOTAL</b>	<b>-639</b>	<b>-1</b>	<b>60</b>	<b>31</b>	<b>-549</b>

The increase in “Current Trade and Other Receivables” and “Current Trade and Other Payables” is due mainly to the inclusion of Broadspectrum (changes to the scope of consolidation), excluding the changes in the scope of consolidation and the exchange rate effect. The net change in working capital is EUR 31 million (see detail in Note 5.3).

The items detailed above include those arising from the recognition of Construction and Services revenue. It should be noted that, since there are differences between the billings made and the revenue recognised in the year as a result of the method used to recognise revenue from the majority of the contracts performed by these divisions (see Note 1.3.3.4), it is important to analyse the disclosures relating to contracts of this nature.

### 4.1. INVENTORIES

The detail of inventories at 31 December 2016 and 2015 is as follows:

(Millions of euros)	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Commercial inventories	246	-5	24	54	319
Raw materials and other supplies	98	-2	2	30	128
Precontract expenses and general fixtures	43	2	0	24	69
<b>Inventories</b>	<b>387</b>	<b>-5</b>	<b>26</b>	<b>108</b>	<b>516</b>

Of the commercial inventories recognised at 31 December 2016, EUR 239 million (2015: EUR 190 million) relate to the Real Estate business in Poland, of which EUR 100 million (2015: EUR 74 million) relate to land and building lots and EUR 139 million (2015: EUR 116 million) relate to property developments at different stages of completion.

EUR 100 million of raw materials and other supplies relate to the Construction Division, mainly at its subsidiaries in the US and Canada, amounting to EUR 49 million (2015: EUR 46 million), and Budimex, amounting to EUR 32 million (2015: EUR 13 million). In addition, at the end of 2016 EUR 27 million had been recognised in relation to the Services Division, mainly at its subsidiary Amey amounting to EUR 22 million (2015: EUR 25 million).

Lastly, as regards precontract expenses and general project fixtures, at 31 December 2016 EUR 66 million had been recognised, mainly in respect of the Construction Division (2015: EUR 42 million).

### 4.2. CURRENT TRADE AND OTHER RECEIVABLES

The detail of “Current Trade and Other Receivables” at 31 December 2016 and 2015 is as follows:

(Millions of euros)	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Trade receivables for sales and services	1,821	-64	456	-14	2,199
Other receivables	499	-20	-42	192	629
<b>TOTAL RECEIVABLES</b>	<b>2,320</b>	<b>-84</b>	<b>414</b>	<b>178</b>	<b>2,828</b>

#### a) Trade receivables for sales and services

The detail of “Trade Receivables for Sales and Services” at 31 December 2016 and 2015 is as follows:

Millions of euros	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
<i>Trade receivables</i>	1,254	-6	267	-76	1,439
<i>Write-downs</i>	-283	2	-10	4	-287
Net trade receivables	971	-4	257	-72	1,152
<i>Amounts to be billed for work performed</i>	802	-65	215	71	1,023
<i>Write-downs</i>	-27	3	-35	-22	-81
Amounts to be billed for work performed, net	775	-62	180	49	942
Retentions	75	2	19	9	105
<b>TRADE RECEIVABLES FOR SALES AND SERVICES</b>	<b>1,821</b>	<b>-64</b>	<b>456</b>	<b>-14</b>	<b>2,199</b>

“Trade Receivables for Sales and Services” increased by EUR 378 million from EUR 1,821 million at 31 December 2015 to EUR 2,199 million at 31 December 2016. This change is explained fundamentally by:

- The main change arose as a result of changes in the scope of consolidation, noteworthy among which is the acquisition of Broadspectrum, contributing a balance on inclusion of EUR 394 million. Other important changes arising as a result of changes in the scope of consolidation relate to the inclusion of Pepper Lawson (EUR 43 million) and Siemsa (EUR 18 million).
- The exchange rate effect reducing this heading by EUR 64 million, mainly in relation to “Amounts to be Billed for Work Performed”, the change in which amounted to EUR 62 million. This reduction is a result mainly of the depreciation of the pound sterling against the euro, as explained in Note 1.4.

Also, at 31 December 2016 a total of EUR 60 million had been deducted from “Trade Receivables for Sales and Services” relating to assets derecognised as a result of factoring arrangements, since it was considered that they met the conditions stipulated in IAS 39.20 regarding the derecognition of financial assets. At 31 December 2015, no amount had been deducted in this connection.

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

	Construction		Services		Other and adjustments		Total	
Public sector	368	51%	888	58%	10	n/a	1,254	58%
Private-sector customers	241	33%	581	39%	41	n/a	875	39%
Group companies and associates	112	16%	53	3%	-96	n/a	70	3%
<b>TOTAL</b>	<b>721</b>	<b>100%</b>	<b>1,522</b>	<b>100%</b>	<b>-45</b>	<b>n/a</b>	<b>2,199</b>	<b>100%</b>

This detail shows that 58% of the Group's customers are public authorities and the rest are private-sector customers.

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

The changes in the allowance for bad debts were as follows:

(Millions of euros)	2016	2015
Beginning balance	283	306
Changes in the scope of consolidation	9	0
Amounts charged to profit or loss	-1	-9
Charges for the year	22	22
Reversals	-22	-31
Amounts used	-4	-15
Exchange rate effect	-2	-1
Transfers and other	1	0
<b>Ending balance</b>	<b>287</b>	<b>283</b>

The provision recognised for Amounts to be billed for work performed amounts to EUR 81 million and relates to the Services business in the UK (EUR 57 million) and Australia (EUR 24 million).

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

#### b) Other receivables

The detail of “Other Receivables” at 31 December 2016 and 2015 is as follows:

Millions of euros	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Advances to suppliers	127	-10	0	-20	97
Sundry accounts receivable	119	-2	37	5	159
Infrastructure project receivables	146	-6	-85	215	270
Receivable from public authorities	107	-2	6	-8	103
<b>OTHER RECEIVABLES</b>	<b>499</b>	<b>-20</b>	<b>-42</b>	<b>192</b>	<b>629</b>

“Sundry Accounts Receivable” includes mainly receivables not relating to normal business activities amounting to EUR 84 million (at December 2015: EUR 75 million). There are no items included in the change that are material taken individually.

Also, “Accounts Receivable Relating to Infrastructure Projects” includes current financial assets arising from the application of IFRIC 12 relating mainly to amounts receivable from public authorities in return for services rendered or investments made under a concession arrangement, as detailed in Note 3.3.

In this connection an infrastructure project receivable of Services UK amounting to EUR 175 million was reclassified from non-current to current, as mentioned in Note 3.3. Investments in infrastructure projects. “Changes in the Scope of Consolidation” includes the impact of the reclassification to “Assets Classified as Held for Sale” (see Note 1.2) of the Portuguese toll roads.

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

#### 4.3. CURRENT TRADE AND OTHER PAYABLES

The detail of “Current Trade and Other Payables” at 31 December 2016 and 2015 is as follows:

(Millions of euros)	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Trade payables	1,995	-75	209	170	2,299
Amounts billed in advance for construction work	549	-6	21	0	565
Advances	337	-3	0	90	424
Other non-trade payables	464	-4	150	-5	605
<b>TRADE AND OTHER PAYABLES</b>	<b>3,346</b>	<b>-88</b>	<b>380</b>	<b>255</b>	<b>3,893</b>

##### a) Trade payables

The detail of the trade payables at 31 December 2016 and 2015 is as follows:

Millions of euros	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Trade payables	1,523	-74	198	172	1,819
Trade payables sent for reverse factoring	251	0	0	2	253
Retentions made from suppliers	221	-1	11	-4	227
<b>TRADE PAYABLES</b>	<b>1,995</b>	<b>-75</b>	<b>209</b>	<b>170</b>	<b>2,299</b>

The balance of “Trade Payables” increased by EUR 303 million compared to the balance recognised at 31 December 2015, mainly as a result of inclusions in the scope of consolidation, of which EUR 191 million related to Broadspectrum. The changes under “Other” relate to the increase in this item in construction activities in Poland and at Services UK, although the impact at the latter is mitigated as a result of changes in the pound sterling.

“Trade Payables” includes the balances payable to suppliers sent for reverse factoring (see Note 1.3.3.4 in Accounting policies) amounting to EUR 251 million (31 December 2015: EUR 253 million).

The carrying amount of the trade payables approximates their fair value.

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

In compliance with the obligation to disclose the average period of payment to suppliers provided for in Article 539 and Additional Provision Eight of the Spanish Limited Liability Companies Law (in accordance with the new wording of Final Provision Two of Law 31/2014 reforming the Spanish Limited Liability Companies Law), the Company hereby states that the average period of payment to the suppliers of all the Group companies domiciled in Spain in 2016 was 55 days.

Set forth below is the detail required by Article 6 of the Spanish Accounting and Audit Institute Resolution of 29 January 2016 in relation to the disclosures to be provided on the average period of payment to suppliers in the 2016 and 2015:

	2016 Days	2015 Days
<b>Average period of payment to suppliers</b>	<b>55</b>	<b>48</b>
Ratio of transactions settled	55	48
Ratio of transactions not yet settled	53	53

	Amount (euros)	Amount (euros)
Total payments made	1,108,783,232	1,007,118,250
Total payments outstanding	52,916,260	54,792,695

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

##### c) Other non-trade payables

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

(Millions of euros)	2015	Exchange rate effect	Changes in the scope of consolidation	Other	2016
Remuneration payable	151	6	132	-18	271
Accounts payable to public authorities	253	-10	20	11	274
Other payables	60	0	-2	2	60
<b>OTHER NON-TRADE PAYABLES</b>	<b>464</b>	<b>-4</b>	<b>150</b>	<b>-5</b>	<b>605</b>

“Remuneration Payable” relates to the employee remuneration earned but not paid during the year amounting to EUR 271 million. The change of EUR 131 million relates to the inclusion in the scope of consolidation of Broadspectrum.

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

#### 4.4. INFORMATION ON CONSTRUCTION CONTRACTS AND OTHER CONTRACTS UNDER WHICH THE RELATED REVENUE AND COSTS ARE RECOGNISED BY REFERENCE TO THE STAGE OF COMPLETION

Contract revenue associated with construction contracts and certain services contracts is recognised by reference to the stage of completion pursuant to IAS 11, as described in Note 1.3.3. Summary of the main accounting policies.

As indicated in that Note, the difference between the revenue recognised and the amounts actually billed to the customer is analysed systematically on a contract-by-contract basis. If the amount billed is lower than the revenue recognised, the difference is recognised as an asset under “Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed” (see Note 4.2), whereas if the amount of revenue recognised is lower than the amount billed, a liability is recognised under “Current Trade and Other Payables - Amounts Billed in Advance for Construction Work”.

Also, in certain construction contracts “advances” are agreed upon that are paid by the customer when work is commenced on the contract, the balance of which is offset against the various progress billings as the contract work is performed (these balances are recognised under “Trade Payables” in liabilities in the consolidated statement of financial position - see Note 4.3-a).

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

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

The detail of the amounts recognised in this connection at 31 December 2016 and 2015 is as follows:

(Millions of euros)	2015	Exchange rate effect	Changes in the scope of consolidation	Others	Transfers	2016
Amounts to be billed for works performed (Note 4.2. a)	775	-62	179	50	0	942
Amounts billed in advanced for construction work	-549	4	-94	0	75	-565
<b>Contracts accounted for by reference to the stage of completion, net</b>	<b>226</b>	<b>-58</b>	<b>85</b>	<b>50</b>	<b>75</b>	<b>377</b>
Retentions (Note 4.2. a)	75	2	19	9	0	105
Advances	-240	0	0	-50	0	-291
<b>Amount net of advances and retentions</b>	<b>-165</b>	<b>2</b>	<b>19</b>	<b>-41</b>	<b>0</b>	<b>-186</b>

The main impacts under this heading are due to the inclusion in the scope of consolidation of Broadspectrum, which represents an increase in “Amounts to Be Billed for Work Performed” (EUR 167 million), in “Amounts Billed in Advance for Construction Work” (EUR 83 million) and in “Retentions” (EUR 4 million).

Within “Amounts to be Billed for Work Performed”, three types of balances must be defined.

- Balances relating to modifications and claims (see Note 1.3.3.4 for the definition), for approximately EUR 90 million, which have not yet been approved by the customer and on which revenue of EUR 23 million was recognised in 2016. These amounts were recognised as assets using the probability criteria established in IAS 11. As indicated in Note 1.3.1, since following the entry into force of the new revenue recognition standard, IFRS 15, customer approval is required, this amount will foreseeably be adjusted against reserves at the date of first-time application. The estimated impact on reserves arising from this adjustment is EUR 60 million, including the tax effect (section (ii) in the Note on IFRS 15).
- Balances relating to contracts recognised by the input method. In this case, the revenue will depend on the advance on costs and the expected margin for the end of the contract. During the contract, the revenue recognised could differ from the amounts billing to the customer, but at the end, will be the same. The estimated balance is approximately EUR 230 million. A portion of these balances will be subject to adjustment due to the application of IFRS 15, arising from the identification of various performance obligations, the allocation of the price thereof and the change of revenue recognition method in certain contracts, as explained in Note 1.3.1. b). The estimated impact on reserves arising from these adjustments is approximately EUR 100 million, including the tax effect (sections (i) and (iii) in the Note on IFRS 15).
- Remaining balance of amounts to be billed for work performed, amounting to approximately EUR 620 million, which would relate to the difference between the date the projects covered by the principal contract are performed and the date the customer is billed for them (progress billings). This figure, in respect of the annual billing figure assignable to these balances, is approximately equal to one month’s billings.