

Mr Eduardo Manso Ponte
Director of the Financial and Corporate Reports
GENERAL DIRECTORATE FOR MARKETS
SPANISH SECURITIES MARKET COMMISSION
c/ Edison,4
28006 Madrid

Madrid, 16 December 2019

Dear Sir,

In response to your request with issue registration number 2019128449, we proceed to answer the questions raised regarding the Annual Accounts for December 2018 and Interim Financial Statements for June 2019 of Ferrovial SA.

- 1. In accordance with note 1.1.3 of the consolidated report, with effect from 31 December 2018 it has been decided to reclassify the Business Services Division as a discontinued activity. This reclassification involves measuring these assets at the lower of their carrying amount and fair value less costs to sell, which differs from the criterion applied hitherto, which was the lower of carrying amount and value in use, which includes an estimate of the value that will be obtained from the asset through its use and which may therefore differ from its estimated selling price.**

The estimate of fair value has led to the recognition of an impairment of €774 million, which corresponds entirely to the UK business which is estimated at €103 million against a carrying value of €877 million, explaining that "The fair value of the business is impacted by the situation in that market, affected by macroeconomic uncertainties and by the reduction in public expenditure, as well as due to the uncertainty in the relationship with the dispute open with Birmingham City Council." As of 30 June 2019 this division has not been disposed of and has not been subject to any further impairment.

In addition, note 2.5 to the 2018 individual annual accounts states that, as part of the 2018 corporate restructuring, the stake in Amey UK plc (Amey) has been transferred to the subsidiary Ferrovial Services Netherlands BV (incorporated in 2018) for €330 million. At 31 December 2018, the carrying value of Ferrovial Services Netherlands BV is nil, having provided for 100% of the ownership interest in Amey (before reclassification to non-current assets held for sale).

In relation to this issue:

- 1.1. Please explain the reasonableness of the differences between the value in use before reclassification as a discontinued operation and the estimated fair value at the time of reclassification. In particular, explain the reasonableness of the assumptions and methodology used in both cases and the reasons for those differences.**

The difference between the estimated value in use in 2017 and the fair value in 2018 has its origin mainly in 3 aspects:

I. The negative evolution of the business in 2018, with a worsening of the gross operating margin, which, excluding the Birmingham contract, stood at 2.8% compared to the expected 4%, being affected by the macroeconomic uncertainties in the United Kingdom in relation to Brexit and the expected cuts in public spending.

II. The situation of the Birmingham contract, highlighting in this case the adjustment to the possible risk that the company would have to assume a relevant liability in order to cancel the contract with Birmingham City Council. Finally, this risk materialised in 2019, when, as announced on 29 June 2019, a liability of £215 million had to be assumed for the definitive cancellation of the contract, compared to an estimated liability at 31 December 2017 of £74.4 million (see note 6.5.1 (c) to the 2017 annual accounts).

III. Change in valuation methodology between value in use and fair value. In this regard, it is important to remember that the value in use of an asset corresponds to the estimated present value of the future cash flows that are expected to be obtained, through its use, in the normal course of business and is therefore based on the estimation of the flows that are expected to be obtained in the coming years; the fair value is the price at which it is estimated that the business would be sold in an orderly transaction between participants in a market at a specific time, the measurement date.

In this specific case, the method used to calculate fair value, since the company is not listed, has been that of comparable multiples, specifically that based on estimated gross operating profit (EBITDA), which we understand to be the method normally applied in the sale of similar businesses.

Data on comparable transactions and listed companies have been obtained to calculate the multiple, and a standardized EBITDA based on the estimated figure for 2019, similar to that obtained in 2018 excluding Birmingham, and therefore lower than the estimates considered, has been used as a basis in the calculation of the value in use in 2017.

After calculating the company value before debt, as a result of multiplying the multiple by the estimated EBITDA, in order to estimate the fair value of the shares and internal loans granted to the company, the company value has been reduced by the value of the net debt at the calculation date, incorporating within said net debt other concepts that are considered comparable to debt, highlighting in this case the adjustment to the possible risk that the company would have to assume a relevant liability to cancel the contract with Birmingham City Council, a risk that, as indicated above, materialised in 2019 when a liability of £215 million had to be assumed for the definitive cancellation of the contract.

With respect to the valuation differences that can be derived from one method to another, we believe that the main differential factor is related to the multiple applied and to what extent said multiple is discounting the growth implicit in the business projections used in the value in use.

1.2. Indicate whether you have any independent expert report that supports the above differences, providing, where appropriate, the date, the name of the expert, methodology used, main conclusions and whether it contains any restrictions or conditions.

The estimate of both the value in use and the fair value has been done internally, and no independent expert report has been commissioned for this purpose. The company has its own means with knowledge of the sector and the appropriate valuation techniques to make these estimates.

However, in the normal course of the divestment process of this activity, the resulting valuation has been contrasted with external advisers who collaborate with the company in this process, and no relevant differences have been detected.

1.3. Justify the difference between the book value granted to Amey at a consolidated level (€103 million) and the book value of the individual (zero amount).

The carrying amount considered for the UK Services business at 31 December 2018 comprises not only the equity value, but also the value of intercompany balances held with it. A reconciliation between the individual and consolidated carrying amounts of the Group is attached below:

CONSOLIDATED BOOK VALUE UK SERVICES DEC. 2018	(Millions €)
Equity	440
Landmille Ireland Loans	438
Other balances with other Group companies	(1)
Previous book value	877 (a)
Provision	-774 (a)
Book value after provision	103 (a)

INDIVIDUAL BOOK VALUE ON UK SERVICES DEC. 2018	(Millions €)		
	Gross	Provision	Net
Investment (through F. Services Netherlands)	330	-330 (b)	0
Loans (through Landmille Ireland)	438	-335 (c)	103
Loan (through Ferrofin)	38	38 (d)	0
Book value	806	-703	103

- (a) Amount disclosed in Note 1.1.3 Consolidated Report 31/12/18
- (b) Amount disclosed in Note 2.5.B) Individual report 31/12/18
- (c) Note 2.5.B) of the Individual Report 12/31/18 breaks down a provision on Landmille Ireland DAC, an investee of Ferrovia International SLU, which after the merger with the group's parent company became directly dependent on Ferrovia SA, for €-353 million, of which €-335 million are derived from loans granted by this company to the Services business in the United Kingdom.
- (d) Note 2.5.B) of the individual Annual Report 31/12/18 breaks down a provision for Ferrofin, an investee of Ferrovia SA (47.986%) and Ferrovia Agroman SA (52.014%), for €-52 million, of which €-38 million derives from the loan granted by this company to the Services business in the United Kingdom. This loan qualifies as an equity instrument in the recipient and therefore forms part of the UK Services Business' equity.

As can be seen from the analysis in this table, the individual value to which the requirement refers corresponds exclusively to the value of the company's shares. If one considers not only the value of the shares, but that of intercompany loans, the individual and consolidated value coincide.

2. As mentioned in note 1.2.1 to the consolidated report, the Company applied IFRS 9 Financial Instruments retrospectively, recognising the cumulative effect of the initial application as an adjustment to the 2018 opening balance in reserves. Comparative information has not been restated and continues to be presented in accordance with IAS

39 Financial Instruments: Recognition and valuation. As of 1 January 2018, the impact of the entry into force of the standard has been the decrease in the opening balance of reserves for an amount of €31 million.

In relation to specific breakdowns in the initial application of IFRS 9:

2.1. Provide, as required by paragraph 42 of IFRS 7 Financial Instruments: Information to be disclosed: (i) details of the measurement category and initial carrying amount of financial assets and financial liabilities recognised in accordance with IAS 39; (ii) reclassification to new categories and their carrying amount under IFRS 9; and (iii) the amount of financial assets and financial liabilities that were previously measured at fair value through profit or loss but are no longer at fair value through profit or loss.

In relation to the initial application of IFRS 9 Financial Instruments and as described in note 1.2.1 of the consolidated report, no adjustments were recognised for the change in the classification and/or measurement of financial assets. Although the new regulations establish three categories for the classification of financial assets based on contractual flows and the business model, almost all of Ferrovial's assets, except for derivatives which are measured at fair value (see valuation methodology in note 5.5 to the 2018 consolidated annual accounts), continue to be measured at amortised cost, since contractual flows are only principal and interest payments and the assets are held to maturity.

In compliance with requirement (i) and (ii) in accordance with paragraph 42L of IFRS 7, the following is a reconciliation between the classification and measurement of financial assets based on the categories of IAS 39 and the classification and measurement under the new standard. As indicated in paragraph 42K, this information is provided only on the date of first-time application, 1 January 2018, and for financial assets.

(€ Million)	Classification / valuation		Book value		
	Original (IAS 39)	New IFRS 9	31 December 2017	Impairment	1 January 2018
Non-current assets					
<u>Accounts receivable for infrastructure projects (IFRIC 12):</u>	Amortised cost	Amortised cost	<u>1,035</u>	<u>-46</u>	<u>989</u>
<u>Non-current financial assets:</u>			<u>769</u>	<u>-0.5</u>	<u>769</u>
Long-term loans to associates	Amortised cost	Amortised cost	312	-0.5	312
Restricted cash in infrastructure projects	Amortised cost	Amortised cost	285	0	285
Assets available for sale	Available-for-sale asset (OCI)	Fair value with change in equity	34	0	34
Other accounts receivable	Amortised cost	Amortised cost	138	0	138
<u>Derivatives</u>	Fair value	Fair value	<u>326</u>	<u>-</u>	<u>326</u>

(€ Million)	Classification / valuation		Book value		
	Original (IAS 39)	New IFRS 9	31 December 2017	Impairment	1 January 2018
Current assets					
<u>Short-term receivables and other accounts receivable:</u>			<u>2,635</u>	<u>(1)</u>	<u>2,634</u>
Trade receivables for sales and services	Amortised cost	Amortised cost	2,032	(1)	2,031
Other accounts receivable	Amortised cost	Amortised cost	382	0	382
Accounts receivable for infrastructure projects (IFRIC 12)	Amortised cost	Amortised cost	221	0	221
<u>Derivatives</u>	<u>Fair value</u>	<u>Fair value</u>	<u>55</u>	<u>=</u>	<u>55</u>

With regard to point (iii), no financial instrument was measured at fair value through profit or loss and changed its valuation method with the transition to IFRS 9.

- 3. In accordance with note 1.3.1.b of the 2018 consolidated report, of the preliminary analysis of operating leases, it is estimated that the entry into force of IFRS 16 Leases will lead to an increase in assets and liabilities of approximately €350 million, of which approximately €250 million correspond to the Services division.**

In this respect, according to note 6.5.3.b) the expense for operating leases amounts to €571 million (€298 million from continuing activities and €273 million from discontinued activities), while future minimum payments of less than one year for non-cancellable operating leases amount to €129 million

In addition, note 2.2 to the summarised consolidated interim financial statements at 30 June 2019 states that the entry into force of IFRS 16 has led to the recognition of rights of use of €90 million in continuing operations and €244 million in discontinued operations.

Paragraph 18.a of IFRS 16 requires entities to determine the term of the lease as the non-revocable term of the contract plus the periods covered by the option to extend the lease, if the lessee is reasonably certain that it will exercise that option. In this regard, paragraph 840 of the above-mentioned standard states that "The background as to the period during which the lessee has used certain types of assets (leased or owned), and their financial reasons for it, may provide useful information for assessing whether the lessee is reasonably certain that an option will be exercised or not. For example, if the lessee has typically used certain types of assets during a given period of time, or has frequently exercised options in connection with leases of certain types of underlying assets, the lessee must take into account the economic reasons for those prior actions to determine whether there is reasonable certainty that an option with respect to the leasing of those assets will be carried out.

In relation to this point:

3.1. Please explain the analysis carried out and the reasons why you have concluded that there are short-term leases and the likelihood that the lease will be renewed in the future, taking into consideration what is described in paragraph B40.

In 2018 an analysis and review of the leases entered into was carried out regarding the application of the new IFRS 16 standard in the group. To this end, the internal accounting policy was updated and key elements were defined to assess whether existing contracts complied with the new definition of leasing.

In that analysis, those contracts were identified that, although they were classified for accounting purposes in the profit and loss account and in the disclosure of future commitments as operating leases, by their nature did not fall within the scope of IFRS 16, for one of the following two reasons:

Contracts exempted from the application of the standard

These are contracts that, while complying with the definition of a lease in IFRS 16, fell within the exceptions to the standard set out in paragraph 5 because they corresponded to assets of low value or short term.

As regards the definition of low value contracts, the company has considered in line with what is indicated in the basis of conclusions of the standard in its paragraph FC 100, those whose value was less than €5,000.

Examples of low value contracts are those that the company makes in relation to small machinery such as topographic instruments, auxiliary means (hoses, pumps, fences, small scaffolding, etc.) or office equipment such as photocopiers or printers.

With respect to short-term leases, the company considered that those which comply with this characteristic, according to the definition of the term included in Appendix A of the standard, had a duration of less than 12 months (unless there is reasonable certainty that they can be extended), or those that, at the date of first application, the outstanding lease term was less than 12 months regardless of the contract start date as indicated in paragraph C10(c).

In this case, given the nature of our business, there are many short-term contracts: as, for example, machinery is rented to carry out certain parts of a project. An example of a short-term contract could be the rental of machines for the development of the various units of execution of a work, for example, earth moving in a contract for the construction of a road. Normally, these phases last less than one year, and these machines can be contracted again if they are needed on another section of road at a later date. A similar situation arises in service contracts.

Contracts that do not meet the definition of a lease

This category includes those contracts that did not meet the definition of a lease for the purposes of IFRS 16, either because there was no asset identified in the contract, because the economic benefits associated with the asset were not substantially transferred during the term of the contract, or because the company did not manage the use of the asset and had not participated in the design of the asset as developed in paragraphs B13-B30 of IFRS 16.

Thus, in certain cases, even if the contract were to last more than one year, the assets are not identified and are easily substitutable by the supplier. An example of this type could be the rental of a backhoe loader with certain technical characteristics that the supplier can replace with another one at any time. In other cases, the contract covers not only the rental but also the operation of the machinery by the

contracted company. Continuing with the example mentioned above, it would be possible not only to contract the aforementioned backhoe but also the complete service (construction units/project packages such as earthmoving are contracted where the subcontractor uses its own means to carry it out).

The existence of this type of contract justifies the difference between the lease commitments disclosed in the 2018 annual accounts and the liability finally recognised.

On the other hand, the available historical information as indicated in paragraph B.40 of IFRS 16 has been taken into account as regards the analysis of the reasonable certainty of the exercise of the extensions, and this general criterion has materialised in a specific standard by which, in those leases of assets linked to construction works or service provision contracts, in which the duration of the lease is less than the duration of the contract, it is presumed that the extension option will be exercised until the date of termination of the contract.

These are assets that have to be used continuously throughout the life of the contract, e.g. cars used by engineers to move along the entire length of the work. This type of contract, unlike the previous ones, does fall within the scope of application of IFRS 16, and therefore the presumption of the option to extend the contract until the completion of the work mentioned above is applicable.

4. In October 2018, the UK High Court ruled that, in order to redress the existing inequality in minimum gender guaranteed pensions, pension schemes must be subject to UK employment law and, as such, trustees should have ensured that members had equal rights.

Note 6.2 to the consolidated report sets out the main figures of the defined benefit plans for the United Kingdom. The amount of the obligations recorded for this item within discontinued activities was €951 million at the close of the financial year 2018 and €1,037 million at the close of the financial year 2017.

In relation to this point:

4.1. Please explain the accounting impact, if any, of the aforementioned decision of the United Kingdom High Court in the 2018 annual accounts, detailing the amounts recorded in the financial statements and the accounting standards applied.

This ruling has had an accounting impact on the profit and loss account of - £3.2 million (- €3.6 million), associated with the concept of updating past services.

This impact is included in Note 6.2.b) to the Financial Statements at 31 December 2018, which breaks down the impact on the profit and loss account of the pension plans, within the line Others for - €5 million and corresponds entirely to Amey's pension funds.

5. As indicated in note 6.5.1 of the consolidated report, on 1 March 2018, the concessionary company SH-130 Concession Company, LLC, 65% owned by Cintra TX 56, LLC until 28 June 2017, filed before the United States Bankruptcy Court Western District of Texas an initial lawsuit against Ferrovial and several companies in its group in which it stated that the payments made by the concessionaire to the construction company in 2011 and 2012 were allegedly made by defrauding the creditors because:
(i) the works were being executed incorrectly and therefore their payment was not due
(ii) the concessionaire company was insolvent.

The plaintiff claims reimbursement of these payments amounting to \$329 million. In addition, on 28 September 2018, the concessionaire requested additional damages consisting of the reimbursement of the profits derived from the service contracts that the defendants invoiced the plaintiff for in that period without having established, at the date the annual accounts were drawn up, the amount requested for that item.

Ferrovial indicates in the report that it expects the final resolution of the dispute in the second half of 2020. In addition, the Company has not recorded any provision for this litigation, as indicated in this note: "The analysis carried out to date allows us to conclude that the companies of the Ferrovial group being sued have solid arguments to defend their interests in this litigation, and that it is reasonable to consider that they can obtain a dismissal of the actions brought against them".

On the other hand, the concessionaire company presented an injunction to submit a dispute to arbitration alleging that there were faults and defects in the construction valued at less than €130 million, of which 50% would be attributable to Ferrovial's stake. Additionally, on 1 March 2019, Ferrovial submitted an additional claim for the amount of \$161 million, without increasing the provision recorded in this respect, which amounts to \$10 million as of 31 December 2018 and 30 June 2019.

In relation to these litigations:

5.1. Explain the value judgements they have made to conclude that no provision should be made in the toll road division litigation and \$10 million for construction segment claims.

▪ SH-130 Fraud and Fiduciary Liability Litigation (Cintra)

The value judgements made in order to conclude that it is not appropriate to make a provision in relation to this litigation have been as follows:

- The SH-130 concession was not insolvent at the time payments were made to Central Texas Highway Contractors LLC (CTHC).
- Payments were made in full compliance with the terms of the Design & Build contract.
- The directors and management of the concessionaire company and its parent companies did not breach their fiduciary duties, as they preserved the rights of this concessionaire company in a timely manner.

▪ Arbitration in relation to Construction defects of the SH-130

The value judgments made in order to conclude that no additional provision should be made in connection with this litigation are as follows:

- There is no evidence to prove a causal connection between the design and construction errors alleged by the plaintiff and the damage to the infrastructure.
- During the construction period there were extreme adverse climatological effects, derived fundamentally from an extraordinary drought, which had an impact on the expansive clays and generally affected all the toll roads in the area, with which it cannot be concluded that the damages produced in the infrastructure are the result of the design and construction errors alleged by the plaintiff.
- Time-barring of the claims period for apparent defects and hidden defects in the construction.

- In the event that a causal relationship is finally established, there are insurance policies that cover the risk, and in addition the responsibility for the alleged design defects should fall on the designers, and the responsibility for the alleged construction defects on the subcontractors, who in both cases were contracted by the construction company for the execution of the project.

5.2 Please provide, unless the possibility of a possible outflow of resources is estimated to be remote, an estimate of its effects on the financial statements, with an indication of the uncertainties related to the amount or the schedule, as well as the possibility of any reimbursement.

We believe that, from the analysis carried out to date, it can be concluded that the companies of the Ferrovial group being sued have solid arguments for the defense of their interests in this litigation, and that it is reasonable to consider that they can obtain a dismissal of the actions brought against them.

However, note 6.5.1 to the 2018 consolidated report and note 10.1 to the June 2019 interim financial statements disclose the amounts claimed from the group companies for the hypothetical risk in this litigation: \$329 million in relation to fraud and fiduciary liability litigation and \$291 million in relation to arbitration for construction defects (of which only 50% correspond to Ferrovial, as that is its percentage stake in the entity responsible for the execution of the project).

5.3. Indicate whether any expert reports justifying the amount provided for in relation to these disputes are available. If so, indicate the name of the expert, date of the report, conclusions and whether there are any restrictions or conditions.

Reports from independent experts have not been used to justify the amount provided for in these disputes.

- 6. Note 6.5.1 on litigation states that, by Decrees 161/2015 and 337/2016, the Generalitat de Catalunya radically amended the concession regime for the project established by Decree 137/1999. The change introduced implies moving from a system in which the Generalitat pays the concessionaire the difference between the tolls collected and the operating surplus, set out in the Economic and Financial Plan, to a system in which the concessionaire's remuneration depends on the number of users of the infrastructure.**

As mentioned in said note, given that the concessionaire company Autopista Terrasa Manresa, SA (Autema) considered that there were very solid arguments for concluding that the Administration, in issuing these decrees, exceeded the limits of the Generalitat's power to modify contracts, and therefore appealed the aforementioned decrees before the High Court of Justice of Catalonia, having set 28 February 2019 as the date for its vote and ruling. On the basis of the foregoing, the Company has decided to classify this concession as a financial asset.

The interim financial report for the first half of 2019 indicates that Ferrovial, on 18 March 2019, received the decision dismissing the appeal. An appeal has been filed against the aforementioned ruling, which has been admitted for processing by the High Court of Justice of Catalonia and is awaiting confirmation of annulment interest by the Supreme Court.

As reported in note 3.1.3 of the consolidated report, Ferrovial recognised an impairment of goodwill in 2018 corresponding to its ownership interest in Autema amounting to €13 million. In calculating the impairment test, the Company assumed a scenario in which the lawsuit with the Generalitat was won and the amounts pending collection were received in accordance with the previous concession regime (Decree 137/1999), assuming delays, this being the reason for the impairment of goodwill.

On the other hand, according to the details provided in note 3.3.2 relating to model assets of accounts receivable, at 31 December 2018 the balance corresponding to the Autema project amounted to €669 million (€659 million at 31 December 2017) and it has been concluded, based on the same assumptions used to calculate the goodwill impairment test, that there is no impairment on the account receivable recorded in the year, in addition to that recorded by the entry into force of IFRS 9 (€35 million).

The interim financial report for the first half of 2019 states that Ferrovial has recorded "a provision for the results generated by the company during the first six months of the year, due to the situation of the project (see Note 10.1. on Litigation), amounting to -€21 million (-€76 million in Ferrovial's net result)". The impairment recorded to that date amounts to €21 million, of which €11 million had been recorded as at 30 March 2019.

Based on the foregoing:

6.1. Please update, on the date of reply to this request, the situation in which the judicial procedure finds itself.

As for the judicial process, the most relevant milestones in 2019 in relation to Autema's litigation against Decrees 161/2015 and 337/2016 would be as follows:

- On 6 March 2019, the High Court of Justice of Catalonia ruled against the interests of Autema the challenge to Decrees 161/2015 and 337/2016 of the Generalitat of Catalonia brought by Autema (Judgement 142/2019).
- On 30 April 2019, Autema filed before the High Court of Justice of Catalonia the preparation of the cassation appeal before the Supreme Court.
- On 5 June 2019 the High Court of Justice of Catalonia notified Autema that it had correctly prepared the cassation appeal and referred the proceedings to the Supreme Court, which now has to decide whether to admit the appeal for processing. The lodging of this document in preparation of the appeal entails the suspension of the effects of the judgment under appeal until the appeal is decided on inadmissibility or on the merits. Therefore, Judgement 142/2019 will not take effect until the appeal is resolved.

If the Supreme Court considers that there is a annulment interest, it will admit the case and summon Autema to file a cassation appeal. If, on the other hand, it is not admitted for processing, the process shall be concluded at that time.

As to the legal arguments on the basis of which the company has decided to continue treating the asset as a financial asset, Autema bases the appeal in cassation on the following grounds of law:

- Judgement 142/2019 violates the principle of primacy of community law established repeatedly by the Court of Justice of the European Union and by the Supreme Court. Autema argues that,

due to the requirement of Community Law, the regime for the modification of public contracts that was in force at the time the amendment of the concession was agreed, should prevail, regardless of the date of award of the contract. This would imply the application of the limitations to the amendment of public contracts introduced in Spain through Law 2/2011 on Sustainable Economy due to incompatibility of national law with Community Law. The contested Decrees would imply an amendment of the concession contrary to these limitations. In the Judgement it is affirmed that this requirement can be excluded before contracts of very long duration. This exceptionality is not endorsed either in the doctrine of the CJEU nor in that of the SC.

- Judgement 142/2019 infringes article 62.1 c) of Law 30/1992 on the Legal Regime of Public Administrations and Common Administrative Procedure (Law 30/1992), since it considers that the contested Decree of 2015 is in accordance with Law, although it has an impossible content. Decree 2015 declares the validity of the Financial Economic Plan of Autema approved in 1999 (PEF 1999), although that PEF 1999 was configured taking into account the concession conditions approved by the Generalitat in 1999. Since Decree 2015 radically amends the conditions of the concession, it is impossible to comply with PEF 1999, therefore, Decree 2015 has an impossible content.
- Judgement 142/2019 violates the principle of interdiction of the arbitrariness of public powers set forth in article 9.3 of the Constitution, as well as the principle of full risk of the concession contract. The Judgement sustains the validity of a regime created by Decree 2015 whereby the Administration arbitrarily limits the remuneration of the concessionaire by establishing that the concessionaire can only obtain remuneration for the vegetative growth of traffic and not for what is passed to be considered as induced growth, which is calculated according to formulas determined arbitrarily by the Administration.
- Judgement 142/2019 declares the invalidity of the regulatory Decree of the concession approved in 1999 without applying the regulations applicable to the ex officio review of administrative acts. The Generalitat has always maintained that the contested Decrees are not an ex officio review of Decree 1999, but a statement of the Administration's *jus variandi*. However, Judgement 142/2019 moves away from this approach and declares the invalidity of Decree 1999 but without claiming any of the requirements demanded by the regulations applicable for this purpose. This implies an infringement of the principles of legal certainty and legitimate trust (enshrined in our system) as well as the jurisprudence that prohibits covert ex officio reviews.
- Autema bases the annulment interest of the appeal on the following: (i) Judgement 142/2019 sets out in substantially equal matters, an interpretation of the rules of state or European Union law on which the judgement is based, contradictory to that other jurisdictional bodies have established, (ii) Judgement 142/2019 lays down a doctrine on the regulations applied to the case that can be seriously harmful to the general interests that amply justifies that the SC pronounces (iii) Judgement 142/2019 affects a large number of situations, either in itself or for transcending the case object of the process; (iv) Judgement 142/2019 interprets and applies the Law of the European Union in contradiction with the jurisprudence of the European Union.

6.2. Explain why, if this concession is continued to be classified under the financial model because the demand risk is not assumed, an impairment loss has been recorded for the results generated by Autema.

As indicated in the text of the question, the company recorded an impairment in relation to Autema's goodwill at the close of financial year 2018.

The analysis of goodwill impairment in Ferrovial's consolidated financial statements is performed annually at year-end, which is consistent with IAS 36 p.10 (a).

In the case of Autema, that analysis is performed jointly with the financial asset impairment test as both assets recovery depends on the future flows to be received from the Generalitat de Catalunya related to concession agreement.

However, as indicated in paragraph 12 of the same standard, the company evaluates at half-yearly close whether there have been indications since the last annual close that could lead to the recording of an impairment in the period.

In relation to Autema, during financial year 2019, the Supreme Court of Justice ruled that Autema's contentious-administrative appeal against Decrees 61/2015 and 337/2016 approved by the Generalitat of Catalonia was dismissed. Judgement that has been appealed in cassation before the Supreme Court (SC).

Although, as discussed in the interim condensed financial statements for June 2019, the company believes that there are strong arguments for the cassation appeal to be admitted and subsequently the merits of the case to be upheld, and has therefore maintained the treatment of this asset as a financial asset, it has been estimated that this judgement may be an indication of additional impairment of the assets related to this project, to the extent that although it is considered that the merits of the case will be won, the recovery of the uncollected outstanding amounts will be delayed until the cassation appeal is resolved and subsequently get the execution of the judgement.

On this basis, the impairment mentioned in the body of the question has been recorded against the assets relating to this project, mainly accounts receivable and goodwill.

As abovementioned, such impairment will be reviewed based on the joint analysis of goodwill and financial asset that is performed annually.

Additionally, as the recovery of both assets depend on the same contractual flows, the Company is analysing the possibility of reclassifying the Autema goodwill (58 million euros as of December 2018), to the account receivable that the company has registered with the Generalitat de Catalunya.

Finally, we would like to thank you for the comments contained in point 7, which will be taken into consideration in the preparation of the Integrated Annual Report for the financial year 2019 and that refer to:

7.1. In relation to Ferrovial's 2018 Non-Financial Information Statement (hereinafter EINF), and bearing in mind that the EINF breakdowns are one of the areas identified in the review priorities agreed by European supervisors together with ESMA for the 2018 financial statements, it has been considered appropriate to remind you of a series of issues that, to the extent that they are significant, could contribute to improving their quality in the future.

7.1.1. References between the table of contents, the GRI table and the text should be consistent and facilitate the reading of the report.

7.1.2. Please mark out more clearly the scope of the companies. In the event that companies accounted for by the equity method are included in the

calculation of any ratio, it must be expressly stated which companies have been included.

7.1.3. Justify when not detailing information for all the countries in which you do business. In this sense, in some cases, information on the US and Canada are not included, which according to the analysts' assessment represent 64% of the total (page 12 of the consolidated management report).

7.1.4. Present, as far as possible, the evolution of all the indicators included in order to evaluate the impact of the policies implemented.

7.1.5. Please provide further information on remuneration, in particular by professional category and on the salary gap.

7.1.6. Indicate the percentage that subcontractors represent over your own staff, since they are excluded from their calculation in many ratios.

7.1.7. In relation to the complaints received, please include information on the outcome of the investigations and, in particular, whether they have had consequences and whether they have entailed changes and/or updates to the procedures.

7.1.8. Please elaborate on the information for country-by-country profit, as the "Other Countries" category accounts for 32% of the total pre-tax profit in 2018.

7.2. IFRS 15 Revenue from Customer Contracts requires certain disclosures in order to provide sufficient information to understand the nature, amount, timing and uncertainty of revenue and cash flows from customer contracts.

In this area, for the sake of transparency and for the preparation of future financial statements, it is recommended that more information is provided, in accordance with paragraph 126 of IFRS 15, on the methods, inputs and assumptions in order to: (i) determine the price of the transaction, including how the variable consideration is estimated, how the effects of the time value of money are adjusted, and how the non-cash consideration is valued; (ii) assess whether the estimation of the variable consideration is subject to limitations; (iii) allocate the price of the transaction; and (iv) value the obligations of return, reimbursement and other similar obligations.

Similarly, you are encouraged to disclose the judgements used to assess whether the entity is acting as principal or agent, concepts that are described in paragraphs B34 to B38 of IFRS 15.

7.3. Note 5.5 to the consolidated report includes, inter alia, a description of the derivatives recognised and their impact on reserves, profit or loss for the year and other balance sheet items. In this regard, the carrying amount of hedging instruments for each risk category and type of hedge (IFRS 7 P.24A) should be disclosed.

7.4. Note 3.5.1.a) of the consolidated report provides information regarding the impairment test carried out in relation to the stake held in Heathrow Airport Holdings (HAH). It is reported that the value of the investment has been calculated by discounting the cash flows according to the business plan following the Adjusted

Present Value methodology until 2051. In addition, it is indicated that the result of the impairment test has a reasonable clearance with respect to its book value and that, in addition, sensitivity to the main variables has been performed and in all cases the amount of the valuation is higher than the book value. However, in the aforementioned note the breakdowns corresponding to the sensitivity analyses carried out for the rest of the key assumptions and their conclusions are not provided.

Given the materiality of the investment in the group's annual accounts, it is recommended that you provide more detail in relation to the disclosures required by paragraph 134 of IAS 36 Impairment of assets, specifically: (i) justification for the use of a projection period longer than 5 years; (ii) if applicable, the growth rate used to extrapolate cash flow projections beyond the period covered by the business plan; (iii) discount rate applied to cash flow projections; (iv) the value assigned to the key assumptions in the sensitivity analyses; (v) the amount by which the recoverable amount exceeds the carrying amount; and (vi) the amount by which the value of key assumptions must change so that the recoverable amount equals the carrying amount.

7.5. In connection with the calculation of earnings per share provided in note 2.11 you should:

7.5.1. Provide the basic and diluted earnings per share for the year from continuing operations attributable to the parent company (IAS 33 P.66) in the comprehensive income statement;

7.5.2. Adjustment of revenues and expenses attributable to subordinated perpetual debentures (IAS 33 P.13)

7.5.3. Explain how the weighted number of shares outstanding are taken into account, when they are material, the shares issued, if any, as a result of the shareholder remuneration policy (IAS 33 P. 26).

7.6. In October 2015, ESMA published the Guidelines on Alternative Performance Measures (APM) so that their compliance would improve the comparability, reliability and/or comprehensibility of these measures. These Guidelines are applicable to any regulated information published since 3 July 2016, such as the management reports that accompany the annual accounts or interim financial statements, intermediate management statements, presentation of results disclosed as a relevant event, etc.

In relation to this issue, and with the objective of improving the financial information provided:

7.6.1. Please break down the amounts for each of the subheadings making up the so-called APM 'Total Return to Shareholder' for 2018 and previous years.

7.6.2. Present comparative information from previous years for the APM called "managed investment."

7.7. Annex II of the 2018 consolidated report includes the list of associated companies, including, among other information, the amount recorded in the balance sheet for each of them. In this sense, there are companies whose

value recorded within the asset is negative. In this regard, paragraph 39 of IAS 28 Investments in Associates and Joint Ventures states that 'once the entity has reduced the value of the stake to zero, it will take into account the additional losses by recognising a liability'.

Based on the above, it is recommended that, in future years, the excess of the below-zero value of equity accounted investments should be recorded as a liability and not as an asset with a negative value.

7.8. Annex III of the consolidated report provides financial information by segments. As indicated, "In the others column are included the assets and/ or liabilities, income and/or expenses corresponding to companies not assigned to any area of activity, highlighting Ferrovial S.A., the Group's parent company and other small subsidiaries of it, the current real estate business in Poland and the adjustments existing between segments". Notwithstanding the foregoing, in accordance with paragraph 16 of IFRS 8 Operating Segments, information relating to other business activities and segments that are not reportable, shall be disclosed in aggregate within a category 'all other segments', separately from other reconciling items required by paragraph 28.

Business segment information, information corresponding to other segments and existing adjustments should be provided separately.

We remain at your disposal for any additional information or clarification that you consider necessary.

Yours faithfully,

Ernesto López Mozo
CFO
FERROVIAL, S.A.