Ferrovial Emisiones, S.A.

Management Report and Individual Annual Accounts

2018

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MANAGEMENT REPORT

ANNUAL ACCOUNTS:

AUTHORISATION FOR ISSUE BY THE BOARD OF DIRECTORS

2018 MANAGEMENT REPORT

1. Company performance in 2018 and outlook.

The Company's current core activity is the issuance of bonds in order to obtain financing suited to the Ferrovial Group's investment needs.

Based on its activity, the Company's main assets are long-term loans provided to other Group companies that obtain funding through bond issuances having similar terms and conditions.

The main components of the Company's income statement are financial income from long-term loans, net of financial expenses from bond issuances. Profit/(loss) for the year primarily reflects the impact of the hedging transactions mentioned in the following section.

The Company's prospects relate to its own business activity.

2. Information on the environment, research and development, treasury shares and financial instruments, events after the reporting date, average supplier payment period and financial risk management.

Given the activities in which the Company is engaged, it has no environmental liabilities, expenses, assets, provisions or contingencies, or research and development activities.

No treasury shares were held at 31 December 2018 and there were no dealings in treasury shares during the year. Similarly, no transactions were carried out involving other financial instruments.

The Company's financial risk management is centralised in the Finance Department of Ferrovial, S.A., the company which has put in place the mechanisms required to control exposure to interest rate and exchange rate fluctuations, and credit and liquidity risk, based on the Company's structure and financial position and on the economic variables in the area in which it operates.

With regards to interest rate risk, the Company arranged interest rate swaps (IRS) in 2013 for a notional amount of EUR 250 million, maturing in 2021. Since they convert a portion of the fixed interest rate on one of the bonds into a floating interest rate, these IRS represent a partial fair value economic hedge of the bond issue. This means that the fair value changes in both the derivative and the hedged item (in this case, a part of the bond) are carried at fair value through profit or loss. It should be noted that the change in the fair value of the hedged bond amounts to EUR 1,287,220, and the effect on profit and loss of the fair value change in the IRS is EUR -1,791,347, therefore a net fair value loss of EUR -504,127 is recognised in 2018.

In addition, during 2018, the parent company of Ferrovial Emisiones, Ferrovial, S.A., arranged new IRS in order to secure the interest rate applicable to the future refinancing of one of the bonds issued. These derivatives amounted to a total notional amount of EUR 500 million and a fair value of EUR -9,239,161 and have been transferred to the Company under mirror agreements replicating the same terms and conditions, having been designated as hedging instruments.

No noteworthy events have occurred after the reporting date.

Finally, in compliance with the obligation to disclose the "average supplier payment period" provided for in Additional Provision Three of Law 15/2010 (as amended by Law 31/2014), the Company hereby discloses that its average supplier payment period in 2018 was 17 days.

(Amounts in euro)

FERROVIAL EMISIONES, S.A.
BALANCE SHEET AT 31 DECEMBER 2018 AND 2017

Assets	2018	2017
NON-CURRENT ASSETS	**1,798,020,179**	**1,795,075,982**
Long-term loans to Group companies (Note 7)	1,788,723,461	1,786,369,923
Long-term financial derivatives at fair value (Note 6)	6,986,928	8,706,059
Deferred tax assets (Note 8)	2,309,790	0
CURRENT ASSETS	**30,925,133**	**543,508,197**
Short-term loans to Group companies	26,150,313	538,465,374
Loans to Group companies (Note 7)	18,905,822	534,303,082
Other financial assets (Note 7)	7,244,491	4,162,291
Short-term financial derivatives (Note 6)	3,938,844	4,011,060
Trade and other receivables	835,854	1,031,642
Current tax assets	*0*	*200,087*
Short-term loans with Public Administrations	*835,854*	*831,555*
Cash and cash equivalents	121	121
TOTAL ASSETS	**1,828,945,313**	**2,338,584,179**

Liabilities	2018	2017
EQUITY (Note 5)	**11,860,841**	**15,859,085**
Shareholders' funds	**18,790,212**	**15,859,085**
Share capital	60,200	60,200
Reserves	15,798,885	12,530,136
Legal reserve	*361,355*	*361,355*
Other reserves	*15,437,530*	*12,168,781*
Profit/(loss) for the year	2,931,127	3,268,750
Measurement adjustments	**-6,929,371**	**0**
NON-CURRENT LIABILITIES	**1,797,084,543**	**1,787,121,556**
Long-term payables for bonds issued (Note 6)	1,787,845,382	1,787,121,556
Long-term financial derivatives (Note 6)	9,239,161	0
CURRENT LIABILITIES	**19,999,929**	**535,603,538**
Short-term payables for bonds issued (Note 6)	0	500,000,000
Accrued unmatured interest (Note 6)	18,922,945	34,407,149
Trade and other payables	1,076,983	1,196,390
Trade payables	*99,754*	*106,790*
Sundry payables	*140*	*0*
Current tax liabilities (Note 8)	*977,090*	*1,089,600*
TOTAL EQUITY AND LIABILITIES	**1,828,945,313**	**2,338,584,179**

The accompanying Notes 1 to 16 to the annual accounts form an integral part of the balance sheet at 31 December 2018.

(Amounts in euro)

FERROVIAL EMISIONES, S.A.
INCOME STATEMENT AT 31 DECEMBER 2018 AND 2017

	2018	2017
Revenue (Notes 7 and 9)	36,965,871	51,485,858
Other operating expenses	(41,311)	(37,818)
External services	(25,834)	(22,446)
Taxes	(15,335)	(15,322)
Other expenses	(143)	(50)
OPERATING PROFIT/(LOSS)	***36,924,560***	***51,448,040***
Financial expenses	**(32,512,217)**	**(46,633,937)**
On payables to Group companies (Note 7)	(40,984)	(20,256)
On payables to third parties (Note 9)	(32,471,233)	(46,613,681)
Fair value gain/(loss) on financial instruments (Note 6)	(504,127)	(455,754)
NET FINANCIAL INCOME/(EXPENSE)	**(33,016,344)**	**(47,089,691)**
PROFIT/(LOSS) BEFORE TAX	**3,908,216**	**4,358,349**
Corporate income tax (Note 8)	(977,090)	(1,089,600)
PROFIT/(LOSS) FOR THE YEAR	**2,931,127**	**3,268,750**

The accompanying Notes 1 to 16 to the annual accounts form an integral part of the income statement for the year ended 31 December 2018

(Amounts in euro)

FERROVIAL EMISIONES, S.A.
STATEMENT OF CHANGES IN EQUITY FOR 2018 AND 2017

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR 2018 AND 2017

Amounts in euro	2018	2017
Total profit/(loss) for the year	**2,931,127**	**3,268,750**
Income and expenses attributed directly to equity	**-6,929,371**	-
On cash flow hedges	-9,239,161	-
Tax effect	2,309,790	-
Balance at 31/12/2018	**-3,998,245**	**-3,268,750**

B) STATEMENT OF CHANGES IN TOTAL EQUITY FOR 2018 AND 2017

Amounts in euro	Share capital	Reserves	Profit/(loss) for the year	Measurement adjustments	TOTAL
Balance at 31/12/2017	**60,200**	**12,530,136**	**3,268,750**		**15,859,085**
Profit/(loss) for the year			2,931,127	-6,929,371	-3,998,245
Total recognised income and expenses			**2,931,127**	**-6,929,371**	**-3,998,245**
Prior-year profit/(loss) distribution		3,268,750	-3,268,750		0
Other changes in equity		**3,268,750**	**3,268,750**		**0**
Balance at 31/12/2018	**60,200**	**15,798,885**	**2,931,127**	**-6,929,371**	**11,860,841**

The accompanying Notes 1 to 16 to the annual accounts form an integral part of the total statement of changes in equity for the year ended 31 December 2018.

(Amounts in euro)

FERROVIAL EMISIONES, S.A.
CASH FLOW STATEMENT FOR 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	**3,072,606**	**452,452**
Profit/(loss) before tax	**3,908,216**	**4,358,349**
Adjustments to profit/(loss):	**-3,987,178**	**-6,267,124**
Other adjustments to profit/loss (net)	-3,987,178	-6,267,124
Changes in working capital	-20,890	-199,197
Other cash flows from operating activities:	**3,172,457**	**2,560,424**
Interest paid	-40,984	-20,256
Income tax receipts/(payments) and tax consolidation	-889,513	-1,438,768
Other receipts/(payments) from operating activities	4,102,955	4,019,448
CASH FLOWS FROM FINANCING ACTIVITIES	**-3,072,606**	**-452,452**
Receipts/(payments) on financial liability instruments:	**-3,072,606**	**-452,452**
Change in cash-pooling accounts, Group companies	496,927,394	-497,919,860
Issuance/repayment of new debt	-500,000,000	497,467,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**121**	**121**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**121**	**121**

The accompanying Notes 1 to 16 to the annual accounts form an integral part of the cash flow statement for the year ended 31 December 2018.

NOTES TO THE ANNUAL ACCOUNTS FOR THE 2018 FINANCIAL YEAR

1. COMPANY ACTIVITIES

Ferrovial Emisiones, S.A., with company tax ID no. (NIF): A-84723717 and registered office at Calle Príncipe de Vergara, 135, 28002 Madrid, was incorporated on 9 May 2006 under the name Baroslia, S.A., its corporate purpose being the issuance of debt securities (the "**Company**").

On 23 June 2008, the Extraordinary Shareholders' Meeting approved the change of the Company's name to Ferrovial Emisiones, S.A., which was set out in a public deed executed by the Madrid Notary Carlos de Moral Carro, number 3,181 of his record.

The Company forms part of the group of companies whose parent company is Ferrovial, S.A., with company tax ID no. (N.I.F.) A-81939209 and registered office at Calle Príncipe de Vergara, 135, 28002 Madrid. It is entered in the Madrid Commercial Register, volume 12,744, section 8 of the companies registry book, page M-204873, folio 146 (the "**Ferrovial Group**" or the "**Group**").

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and fair view and basis of presentation

The accompanying annual accounts have been prepared on the basis of the Company's accounting records and are presented in compliance with the applicable regulatory financial reporting framework so as to present fairly the Company's equity, financial position and results. The regulatory framework consists of:

a.1- Spanish Code of Commerce and other commercial legislation.

a.2- Spanish Chart of Accounts and industry-specific adaptations.

a.3- Mandatory rules approved by the Spanish Institute for Accounting and Accounts Auditing in order to implement the Spanish Chart of Accounts and concordant legislation.

a.4- All other applicable Spanish accounting legislation.

The annual accounts will be submitted for approval by the Annual General Meeting and are expected to be approved without changes.

b) Accounting principles

The balance sheet, income statement, statement of changes in equity and cash flow statement have been prepared in accordance with the accounting principles provided by prevailing legislation.

c) Comparability

The 2017 information in these notes to the accounts is presented alongside the 2018 data for the purposes of comparison.

3. DISTRIBUTION OF PROFIT/(LOSS)

The proposal for distribution of 2018 profits prepared by the Company's Joint Directors for approval by the Annual General Meeting consists of allocating profits to voluntary reserves.

Profit/(loss) 2018: EUR 2,931,126.56
To voluntary reserves: EUR 2,931,126.56

4. ACCOUNTING POLICIES

The main accounting principles used by the Company in preparing the annual accounts are as follows:

4.1. Financial Assets

Held-to-maturity investments, loans and receivables

Held-to-maturity investments, loans granted and receivables are initially recognised at fair value, plus any attributable costs, and are subsequently measured at amortised cost, recognising any interest accrued at the effective interest rate. The effective interest rate is the discount rate that exactly matches the initial payment for the financial instrument with all estimated cash flows from the instrument to maturity. Trade receivables falling due within less than one year are recognised at nominal value both when initially entered and on subsequent measurement, provided the effect of not discounting flows is immaterial. At the year end at least, the necessary measurement adjustments are made to account for impairment where there is objective evidence that all amounts receivable will not be collected. The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate at the date of initial recognition. Impairment losses and any reversals of impairment losses are recognised in the income statement. Financial assets are derecognised from the balance sheet when the risks and rewards of ownership of the financial asset are substantially transferred. In the specific case of receivables, this is deemed to occur when the default and delinquency risks have been transferred.

4.2. Cash and cash equivalents

Cash and cash equivalents include bank account balances.

4.3. Equity

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issuance of new shares are deducted from equity, net of taxes. Acquisitions of parent company treasury shares are deducted from equity in the amount of the consideration paid, including attributable costs. When treasury shares are sold or reissued, any amount received is taken to equity, net of costs.

4.4. Provisions and contingent liabilities

The Company recognises a provision for a commitment or obligation to a third party that meets the following requirements: it is a present obligation (legal or constructive) arising from past events or constructive obligations, the settlement of which is expected to result in an outflow of resources the amount or timing of which is uncertain but which can be estimated to a sufficiently reliable degree.

Provisions are measured at the present value of the outlays expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where discounting is used, adjustments made to provisions are recognised as a financial expense on an accrual basis. Provisions maturing in one year or less, the financial effect of which is not material, are not discounted.

Contingent liabilities are possible obligations arising from past events the materialisation of which is conditional on the occurrence or non-occurrence of one or more future events beyond the Company's control. These liabilities are not accounted for and are disclosed in the notes to the accounts.

4.5. Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs and are subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly matches the expected flow of forecast future payments to the maturity of the liability to the amount initially received. If the effective interest rate is initially considered to differ from the market interest rate, the liability is measured based on the present value of future cash flows at that market rate, in the case of interest-bearing loans. Where no effective interest rate is specified, the cash flows are also measured using the said market interest rate.

In the event of the renegotiation of existing borrowings, the financial liability is not deemed to change significantly when the lender of the new loan is the same as the initial lender and the present value of cash flows, including origination and arrangement costs, applying the effective interest method, which is not more than 10% higher or lower than the present value of cash flows payable on the original liability, calculated using the same method.

4.6. Financial derivatives

Derivative financial instruments are initially recognised at fair value on the arrangement date. Subsequent movements in fair value are also recognised at each balance sheet closing date. According to the Spanish Institute for Accounting and Accounts Auditing (ICAC), the measurements take into account the Company's credit risk. The method used to recognise gains or losses on derivatives depends on whether the instrument has been designated as a hedging instrument and, as the case may be, on the type of hedge involved.

The Company has mainly arranged fair value hedging derivatives for the bonds issued, which are accounted for as follows:

a) The gain or loss arising from the fair value measurement of the hedging instrument is recognised in profit/(loss) for the year as a fair value adjustment.

b) The gain or loss on the item hedged that can be attributed to the hedged risk determines the adjustment of the carrying amount of the hedged item and is recognised in the profit/(loss) for the period as a measurement adjustment to the hedged item.

4.7. Income tax and deferred taxes

Corporate income tax expense recognised in the Company's accounts is calculated on the basis of the Company's reported profit, increased or decreased, as appropriate, by the tax effect of accounting consolidation adjustments and by the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the annual accounts (balance sheet liability method), which give rise to the recognition of deferred assets and liabilities.

Deferred taxes are not recognised when the transaction has no effect on the carrying amount and/or tax value of the related assets and liabilities. Deferred tax assets and liabilities are calculated at the tax rates in force at the balance sheet date and at the rates that are expected to be in force in the period in which the assets are realised or the liabilities are settled. They are charged or credited to the income statement, except when they relate to items that are recognised directly in equity, in which case they are charged or credited to equity. Deferred tax assets and tax-loss carryforwards are recognised when it is probable that the Company will recover them in the future, regardless of when they will be recovered and provided this is within the maximum period provided by law. Deferred tax assets and liabilities are not discounted and are classified as a non-current asset or liability, respectively, in the balance sheet. Deferred taxes recognised are reviewed at the end of each reporting period.

The difference between the corporate income tax expense recognised at the previous year end and the corporate income tax expense reported in the final tax returns filed constitutes a change in accounting estimates and is recognised as current-year income or expense.The Company pays taxes under the tax consolidation scheme and forms part of the consolidated tax group headed up by the parent company Ferrovial, S.A.; therefore, taxes were calculated based on this scheme.

4.8. Revenue recognition

The Company's revenue consists of financial income on loans granted to Ferrovial, S.A. and Ferrofin which, on the basis of ruling no. 2 published in Official Gazette no. 79/2009 of the Spanish Institute of Accounting and Auditing in relation to the income statement classification in individual accounts, are treated as the Company's revenue.

Income is calculated at the fair value of the consideration receivable and represents the amounts to be collected for services rendered in the ordinary course of the Company’s business activities. To this end, revenue is recognised as the interest accrues on the loans granted to both companies.

(Amounts in euro)

4.9. Financial Risks

The Company's financial risk management is centralised in the Finance Department of Ferrovial, S.A., which has in place mechanisms to control exposure to interest rate and exchange rate fluctuations, and credit and liquidity risk, based on the Company's structure and financial position and on the economic variables in the area in which it operates.

5. SHAREHOLDERS' FUNDS

Share capital

The share capital of Ferrovial Emisiones, S.A. is represented by 60,200 fully subscribed and paid-up bearer shares with a par value of EUR 1 each.

The Company is owned by Ferrovial S.A., which holds shares representing 99% of its share capital, and by Can-Am, S.A., Sociedad Unipersonal, which holds the remaining 1%.

The shares are not listed on the stock exchange. No treasury shares were held by the Company at 31 December 2018 and there were no dealings in treasury shares during 2018.

Legal reserve

In accordance with prevailing legislation, 10% of profits for the year must be transferred to the legal reserve until the balance in the reserve reaches at least 20% of share capital.

The legal reserve can be used to increase share capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. While the legal reserve does not exceed 20% of share capital, it may only be used to offset losses in the event that other reserves available for this purpose are insufficient.
At 31 December 2018 the legal reserve is fully funded and stands at EUR 361,355.

6. BALANCES WITH FINANCIAL INSTITUTIONS AND OTHER MARKETABLE SECURITIES

Long-term bank borrowings

Long-term bank borrowings relate to the bonds issued by the Company in 2013, 2014, 2016 and 2017, as analysed below:

Issue amount	Issue date	Maturity	Annual coupon	Fair value 2018	Fair value 2017
500,000,000	07/06/13	07/06/21	3.375%	534,670,000	553,855,000
300,000,000	15/07/14	15/07/24	2.500%	320,673,000	328,191,000
500,000,000	14/09/16	14/09/22	0.375%	494,475,000	497,635,000
500,000,000	29/03/17	31/03/25	1.375%	497,810,000	505,505,000

The bonds issued in 2013 are traded on the secondary market in the London Stock Exchange. The bonds issued in 2014, 2016 and 2017 are admitted to trading on the Spanish AIAF Fixed-Income market. All the issues are guaranteed by Ferrovial S.A., the Company's parent.

The reconciliation of the nominal amount of the bonds issued and their carrying value is as follows:

	2018	2017
Nominal value	1,800,000,000	2,300,000,000
Amortised cost	-19,806,863	-21,817,909
Market value adjustment	7,652,245	8,939,465
Total	**1,787,845,382**	**2,287,121,556**

Of the nominal value of EUR 1,800 million, EUR 1,550 million is recognised at amortised cost and EUR 250 million is carried at fair value through profit or loss. So the line “Amortised cost” in the above table relates to the fees settled when the bonds were issued and accruing over the life of the bonds, which are therefore included in the effective interest rate, while the line “Market value adjustment” reflects the impact of measuring the nominal amount at fair value.

Short-term bank borrowings

Short-term bank borrowing reflects accrued unmatured interest on bond issues amounting to EUR 18,922,945 in 2018 (2017: EUR 34,407,149).

(Amounts in euro)

Derivative financial instruments at fair value

The Company has arranged interest rate swaps (IRS) for a notional amount of EUR 250 million maturing in 2021. Since they convert a portion of the fixed interest rate on the bonds into a floating interest rate, these IRS reflect a partial fair value economic hedge of the aforementioned bond issues. This means that the fair value changes in both the derivative and the hedged item (in this case, a part of the bond) are carried at fair value through profit or loss. It should be noted that the change in the fair value of the hedged bond amounts to EUR 1,287,220, while the effect on profit and loss of the fair value change in the IRS is EUR -1,791,347, as detailed in the following table, so a net fair value loss of EUR -504,127 is recognised in 2018.

On 4 July 2018, Ferrovial S.A., the parent company of Ferrovial Emisiones, contracted interest rate derivatives (Interest Rate Swaps, IRS) for a total notional amount of EUR 500 million in order to secure the rate applicable in the event of the refinancing of one of the bonds issued by the Company. These swaps have been transferred to the Company under mirror agreements. At 31 December 2018, these swaps have a fair value of EUR 9,239,161 million and are designated as cash flow hedges, value changes being recognised with a balancing entry in the Company's reserves.

In addition, during 2018, the parent company of Ferrovial Emisiones, Ferrovial, S.A., arranged new IRS in order to secure the interest rate applicable to the future refinancing of one of the bonds issued. These derivatives amounted to a total notional amount of EUR 500 million and a fair value of EUR -9,239,161 and have been transferred to the Company under mirror agreements replicating the same terms and conditions, having been designated as pre-hedging instruments for new bond issues.

The table below shows account movements for the derivatives arranged by the Company at 31 December 2018, as well as the maturity dates of the corresponding notional amounts (maturities of notional amounts are shown as positive figures and already-arranged future increases are presented as negative amounts) and related cash flows:

	Fair value			Breakdown of changes				
Type of instrument	Balance at 31/12/2018	Balance at 31/12/2017	Change	Impact on reserves	Fair value impact on profit/(loss)	Impact of financing on net financial income/(expense)	Cash and banks	TOTAL
Interest rate swaps	10,925,772	12,717,119	-1,791,347		-1,791,347	4,102,955	-4,102,955	-1,791,347
Interest rate swaps - intercompany	-9,239,161		-9,239,161	-9,239,161				-9,239,161
Total financial hedges	**1,686,611**	**12,717,119**	**-11,030,508**	**-9,239,161**	**-1,791,347**	**4,102,955**	**-4,102,955**	**-11,030,508**

	Fair value		Notional maturities					
Type of instrument	Balance at 31/12/2018	Balance at 31/12/2017	2019	2020	2021	2022	2023 and beyond	TOTAL
Interest rate swaps	10,925,772	12,717,119	0	0	250,000,000	0	0	250,000,000
Interest rate swaps - intercompany	-9,239,161						500,000,000	500,000,000
Total financial hedges	**1,686,611**	**12,717,119**	**0**	**0**	**250,000,000**	**0**	**500,000,000**	**750,000,000**

The cash flows forming the fair value of the derivatives mature as follows:

(Amounts in euro)

Type of instrument	Fair value		Cash flow maturity					
	Balance at 31/12/2018	Balance at 31/12/2017	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023 and beyond	TOTAL
Interest rate swaps	10,925,772	12,717,119	3,938,844	3,659,289	3,327,640	0	0	10,925,773
Interest rate swaps - intercompany	-9,239,161				-5,594,089	-3,972,467	327,395	-9,239,161
Total financial hedges	**1,686,611**	**12,717,119**	**3,938,844**	**3,659,289**	**-2,266,450**	**-3,972,467**	**327,395**	**1,686,611**

7. BALANCES WITH GROUP COMPANIES

The main balances with Group companies are set out below:

	2018			2017		
	Long-term loans	Short-term loans	Short-term current accounts	Long-term loans	Short-term loans	Short-term current accounts
Ferrovial S.A.	796,293,875	13,109,589	0	795,336,810	528,530,822	0
Ferrofin S.L.	992,429,586	5,796,233	7,244,491	991,033,113	5,772,260	4,162,291
TOTAL	**1,788,723,461**	**18,905,822**	**7,244,491**	**1,786,369,923**	**534,303,082**	**4,162,291**

The long-term loans granted to Ferrovial S.A. and Ferrofin derive from the Company's bond issues described in Note 6 above. The loans granted by the Company bear interest of between 3.375% and 0.375%, which is identical to the fixed coupon accruing on the bonds.

Short-term loans relate to:

- interest accrued on the aforementioned loans amounting to EUR 13,109,589 for the loans granted to Ferrovial S.A. and EUR 5,796,233 for those granted to Ferrofin, which will be settled in 2019,
- the balance in the Company's cash-pooling account with Ferrofin, S.L. in the amount of EUR 7,244,491. This balance accrues a close-to-market interest rate.

Income and expenses with Group Companies

During 2018, revenue of EUR 36,965,871 (2017: EUR 51,485,858) was obtained in the form of interest on the loans granted by the Company to its parent company Ferrovial, S.A. and to Ferrofin. The remainder of the income and expenses relate to interest generated by the balance in the Company's current account with Ferrofin, S.L.

Balances at 31/12/2018	Revenue	Financial expenses
Ferrovial, S.A.	26,794,921	0
Ferrofin S.L.	10,170,950	-40,984
TOTAL	**36,965,871**	**-40,984**

Balances at 31/12/2017	Revenue	Financial expenses
Ferrovial, S.A.	43,179,728	0
Ferrofin S.L.	8,306,130	-20,256
TOTAL	**51,485,858**	**-20,256**

8. TAX STATUS

As regards the reconciliation of reported profit/(loss) for the year with the corporate income tax base, permanent differences amounting to EUR 142 at 31 December 2018 (31 December 2017: EUR 50) relate to non-tax-deductible expenses. These permanent differences mean that the tax base amounts to EUR 3,908,359.

The reconciliation of reported profit/(loss) for the year and corporate income tax expense recognised in 2018 and 2017, together with the breakdown of current and deferred tax expense, is as follows:

(Amounts in euro)

	2018	2017
Reported profit/(loss) (tax base)	3,908,216	4,358,349
Permanent differences	142	50
Taxable income	3,908,359	4,358,400
Tax rate	25%	25%
Total corporate income tax expense	**977,090**	**1,089,600**

There are no tax-loss carryforwards nor any commitments undertaken in relation to tax incentives.

Deferred tax assets of EUR 2,309,790 were recognised during the year due to the tax effect of the recognition of the interest rate swaps mentioned in Note 6 with a balancing entry in reserves.

In accordance with prevailing legislation, taxes may not be deemed to be finally settled until the returns filed have been inspected by the tax authorities or the four-year limitation period has elapsed. The tax authorities have a period of 10 years to verify and investigate tax-loss carryforwards and certain deductions pending offset. In this regard, on 19 July 2018 the Large Taxpayers Central Office of the State Tax Agency announced the commencement of a tax audit of Ferrovial S.A., as the parent company of the consolidated tax group in relation to corporate income tax, for the years 2012 to 2014. At year-end the tax inspection is currently at the documentation submission stage and tax assessments are expected to be raised during 2019. The Company is not currently involved in the proceedings, although the inspection could be extended.

At year-end 2018, the Company is open to inspection for the last four years in respect of corporate income tax and the other taxes to which it is subject. The Company considers that the above-mentioned taxes have been correctly assessed and that, even in the event of disagreement with the interpretation of prevailing legislation in the tax treatment afforded to the transactions, any liabilities that might arise would not have a material effect on these annual accounts.

9. INCOME AND EXPENSES

The Company's revenue relates to interest on the loans granted to Ferrovial S.A. and to Ferrofin, as explained in Note 4.8 on revenue recognition, for an amount of EUR 36,965,871 in 2018 (2017: EUR 51,485,858). A breakdown by company is provided in Note 7.

Financial expenses amount to EUR 32,512,217 in 2018 (2017: EUR 46,633,937), of which EUR 32,471,233 in 2018 and EUR 46,613,681 in 2017 relate to interest accrued in respect of bond coupons.

In 2018, the nominal amount of the first bond fell due and was reimbursed on 30 January in the amount of EUR 500 million. Five coupons were also paid, amounting to EUR 50 million, due to the maturities of the Company's four initial bond issues, as shown below:

Bond issue	Payment date	Interest paid
1st	29/01/2018	16,875,000
2nd	06/06/2018	16,875,000
3rd	13/07/2018	7,500,000
4th	13/09/2018	1,875,000
5th	03/04/2019	6,912,650

Staff

At year-end 2018, the Company does not have any staff, as other Ferrovial Group companies carry out the management and administration tasks. Senior management functions are performed by the Group's parent company.

The Company has no pension plans or similar obligations.

10. CASH FLOW

As the Company's core business is currently the issuance of bonds to obtain financing suited to the Ferrovial Group's investment needs, cash flows from operating activities include interest received and paid in relation to the bonds issued, as well as interest on the loans granted to Group companies, as reflected in the cash flow statement. Cash flows from financing activities reflect the reduction in debt due to the repayment of the first bond issued in 2013 and the variation in internal financing granted to Group companies.

Set out below is the reconciliation of EBITDA and cash flows from operating activities:

	December 2018
EBITDA	**36,924,560**
Accrued unmatured interest on internal financing	13,034,129
Bond interest paid	-50,037,650
Internal interest paid	-40,984
IRS receipts (Note 6)	4,102,955
Changes in working capital	-20,890
Corporate income tax payment	-889,513
CASH FLOWS FROM OPERATING ACTIVITIES	**3,072,606**

(Amounts in euro)

11. AUDIT FEES

In 2018, the fees for audit services provided by the Company's auditor, Deloitte, S.L., or by a company related to the auditor through control, common ownership or management, amounted to EUR 6,214 (EUR 6,387 in 2017).

In addition, in 2017 the auditor billed the Company for a further EUR 40,000 in respect of non-audit work relating to the verification of the 2017 bond prospectus.

12. CONFLICTS OF INTEREST

In accordance with the prevailing legislation (currently, Article 229 of the Spanish Companies Act), there were no direct or indirect conflicts of interest with the Company, notwithstanding related-party transactions disclosed in the notes to the accounts.

13. ENVIRONMENTAL POLICY

Given the Company's activity, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results. For this reason, no specific breakdowns are provided in these notes to the annual accounts regarding environmental information.

14. OTHER INFORMATION

In 2018, no remuneration of any kind accrued to the Joint Directors. No loans have been granted to and there are no pension or life insurance obligations with respect to former or current Joint Directors. Ferrovial S.A., the Company's majority shareholder, has taken out a third-party liability insurance policy covering the Group companies' directors and executives. The insured parties include the Company's Joint Directors. The premium paid by Ferrovial S.A. in 2018 under the aforementioned insurance policy amounted to EUR 592 thousand (2017: EUR 589 thousand).

There are no transactions secured by assets or cash or cash equivalents, and no contingent assets or liabilities.

In compliance with the obligation to disclose the "average supplier payment period" provided for in Additional Provision Three of Law 15/2010 (as amended by Law 31/2014), the Company hereby discloses that its average supplier payment period was 17 days.

Set forth below is the detail required by Article 6 of the Spanish Accounting and Audit Institute Resolution of 29 January 2018 in relation to the disclosures to be provided on the average supplier payment period to suppliers in the year:

(Days)	2018	2017
Average supplier payment period	**17**	**44**
Ratio of transactions settled	18	44
Ratio of transactions not yet settled	11	0

Amount (euro)	2018	2017
Total payments settled	22,343	1,082,272
Total outstanding payments	3,142	363

15. EVENTS AFTER THE REPORTING DATE

At the date of preparation of these financial statements there have not been any significant events subsequent to the reporting period.

16. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

Translation of financial statements originally. In the event of a discrepancy, the Spanish-language version prevails.

FERROVIAL EMISIONES, S.A.

Joint Directors:

Ernesto López Mozo

Pedro Agustín Losada Hernández

Pursuant to Article 253 of the Consolidated Text of the Spanish Companies Act introduced under Royal Decree-Law 1/2010 of 2 July, the Joint Directors hereby issue the Company's Management Report and Annual Accounts for 2018, totalling 16 pages, which are signed by the Joint Directors in compliance with applicable legislation.

In Madrid, on 29 March 2019.

Ernesto López Mozo **Pedro Agustín Losada Hernández**

Ferrovial Emisiones, S.A.

Financial Statements for the year ended 31 December 2018 and Directors' Report, together with Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Ferrovial Emisiones, S.A.,

Report on the Financial Statements

Opinion

We have audited the financial statements of Ferrovial Emisiones, S.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª.
C.I.F.: B-79104469. Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Derivative financial instruments, measurement and designation as hedging instruments	
Description	**Procedures applied in the audit**
As detailed in Note 6 to the accompanying financial statements, at 2018 year-end the Company had recognised assets amounting to EUR 10,926 thousand in relation to derivative financial instruments at fair value, associated in full with interest rate swaps (IRSs) arranged by the Company to convert a portion of the fixed interest rate on one of the bonds into a floating interest rate, which constitutes a fair value hedge for accounting purposes. Also, at 31 December 2018 the Company had recognised liabilities for financial derivatives amounting to EUR 9,239 thousand, corresponding to derivative instruments (IRSs) classified as cash flow hedges. The measurement of these financial instruments and the assumptions used to support the designation of a portion thereof as effective accounting hedges require a significant level of judgements and estimates by management and, therefore, this matter was considered to be a key matter in our audit.	Our audit procedures were based mainly on the performance of substantive tests that included, among others, the involvement of our internal specialists in derivative financial instrument to assist us in evaluating the external data, the methodologies and assumptions used by the Company in measuring its derivatives, the correct designation thereof as fair value hedging instruments and the reasonableness of the effectiveness tests prepared for those instruments. We also involved our internal IT systems specialists in performing audit tests on the tool used for the valuation of the Company's derivatives and the completeness of this tool's interfaces with the general accounting records. Lastly, we checked that Note 6 to the accompanying financial statements included the disclosures required in connection with this matter in accordance with the regulatory financial reporting framework applicable to the Company.

Other Information: Directors' Report

The other information comprises only the directors' report for 2018, the preparation of which is the responsibility of the Company's joint directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report, in accordance with the applicable audit regulations, consists of evaluating and reporting on whether the directors' report is consistent with the financial statements, based on our knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit. Also, our responsibility consists of evaluating and reporting on whether the content and presentation of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraph, the information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Joint Directors and of the Audit Committee for the Financial Statements

The joint directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the joint directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the joint directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the joint directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix I to this auditor's report. This description, which is on pages 5 and 6, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 27 February 2020.

Engagement Period

The Annual General Meeting held on 26 June 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017, i.e., for 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 2011.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Miguel Laserna Niño
Registered in ROAC under no. 18207

4 June 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the entity's audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.