ACS, Actividades de Construcción y Servicios, S.A. and Subsidiaries

Condensed Consolidated Financial Statements for the year ended 31 December 2016

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 21). In the event of a discrepancy, the Spanish-language version prevails.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

ASSETS	Note	Thousands of Euros	
		31/12/2016	31/12/2015
		(*)	
NON-CURRENT ASSETS		**12,639,483**	**13,779,268**
Intangible assets	2	**4,251,868**	**4,448,055**
Goodwill		3,107,840	2,915,141
Other intangible assets		1,144,028	1,532,914
Tangible assets - property, plant and equipment	3	**1,760,014**	**2,320,355**
Non-current assets in projects	4	**263,196**	**702,574**
Investment property		**59,063**	**61,601**
Investments accounted for using the equity method	5	**1,532,300**	**1,906,898**
Non-current financial assets	6	**2,387,589**	**2,140,713**
Long term cash collateral deposits		**6,660**	**5,774**
Derivative financial instruments	11	**67,246**	**11,831**
Deferred tax assets	12	**2,311,547**	**2,181,467**
CURRENT ASSETS		**20,733,783**	**21,500,560**
Inventories	7	**1,406,956**	**1,467,918**
Trade and other receivables		**10,987,876**	**10,915,856**
Trade receivables for sales and services		9,461,359	9,340,591
Other receivables		1,261,438	1,278,309
Current tax assets		265,079	296,956
Other current financial assets	6	**1,813,317**	**2,311,313**
Derivative financial instruments	11	**98,191**	**2,734**
Other current assets		**223,573**	**139,545**
Cash and cash equivalents		**5,654,778**	**5,803,708**
Non-current assets held for sale and discontinued operations	1.6	**549,092**	**859,486**
TOTAL ASSETS		**33,373,266**	**35,279,828**

(*) Unaudited.

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of financial position at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

EQUITY AND LIABILITIES	Note	Thousands of Euros	
		31/12/2016	31/12/2015
		(*)	
EQUITY	8	**4,981,937**	**5,197,269**
SHAREHOLDERS' EQUITY		**3,570,798**	**3,454,752**
Share capital		**157,332**	**157,332**
Share premium		**897,294**	**897,294**
Reserves		**1,886,137**	**1,951,433**
(Treasury shares and equity interests)		**(120,981)**	**(276,629)**
Profit for the period of the parent		**751,016**	**725,322**
ADJUSTMENTS FOR CHANGES IN VALUE		**11,037**	**(33,744)**
Available-for-sale financial assets		**(25,911)**	**141,837**
Hedging instruments		**(106,225)**	**(233,940)**
Exchange differences		**143,173**	**58,359**
EQUITY ATTRIBUTED TO THE PARENT		**3,581,835**	**3,421,008**
NON-CONTROLLING INTERESTS		**1,400,102**	**1,776,261**
NON-CURRENT LIABILITIES		**7,934,335**	**10,689,424**
Grants		**3,974**	**58,776**
Non-current provisions	9	**1,655,086**	**1,619,934**
Non-current financial liabilities	10	**4,906,844**	**7,382,116**
Bank borrowings, debt instruments and other marketing securities		4,549,773	6,683,555
Project finance with limited recourse		162,092	486,266
Other financial liabilities		194,979	212,295
Derivative financial instruments	11	**70,340**	**114,670**
Deferred tax liabilities	12	**1,188,177**	**1,333,750**
Other non-current liabilities		**109,914**	**180,178**
CURRENT LIABILITIES		**20,456,994**	**19,393,135**
Current provisions		**1,027,957**	**1,034,341**
Current financial liabilities	10	**3,782,279**	**3,362,744**
Bank borrowings, debt , and other held-for-trading liabilities		3,650,802	3,221,482
Project finance with limited recourse		39,957	54,579
Other financial liabilities		91,520	86,683
Derivative financial instruments	11	**62,989**	**124,037**
Trade and other payables		**14,823,177**	**13,922,567**
Suppliers		8,495,269	8,005,585
Other payables		6,208,456	5,772,202
Current tax liabilities		119,452	144,780
Other current liabilities		**442,765**	**424,722**
Liabilities relating to non-current assets held for sale and discontinued operations	1.6	**317,827**	**524,724**
TOTAL EQUITY AND LIABILITIES		**33,373,266**	**35,279,828**

(*) Unaudited.

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of financial position at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Thousands of Euros	
		2016	2015
		(*)	(**)
REVENUE	13	**31,975,212**	**33,291,309**
Changes in inventories of finished goods and work in progress		(76,483)	32,852
Capitalised expenses of in-house work on assets		(6,297)	4,085
Procurements		(21,240,215)	(21,963,901)
Other operating income		461,705	353,675
Staff costs		(6,751,764)	(7,103,018)
Other operating expenses		(2,480,942)	(2,645,770)
Depreciation and amortisation charge		(513,934)	(652,071)
Allocation of grants relating to non-financial assets and others		1,147	1,432
Impairment and gains on the disposal of non-current assets		(20,416)	(32,005)
Other profit or loss	18	(110,583)	(197,455)
OPERATING INCOME		**1,237,430**	**1,089,133**
Finance income	14	186,044	223,899
Financial costs		(526,301)	(698,993)
Changes in the fair value of financial instruments	17	66,249	36,232
Exchange differences		(13,413)	48,934
Impairment and gains or losses on the disposal of financial instruments	16	(22,654)	299,488
FINANCIAL RESULT		**(310,075)**	**(90,440)**
Results of companies accounted for using the equity method	5	75,128	288,023
PROFIT BEFORE TAX		**1,002,483**	**1,286,716**
Income tax	12	(406,673)	(291,749)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**595,810**	**994,967**
Profit after tax from discontinued operations	1.6 (***)	421,100	59,280
PROFIT FOR THE PERIOD		**1,016,910**	**1,054,247**
Profit attributed to non-controlling interests		(258,360)	(319,775)
Profit from discontinued operations attributable to non-controlling interests	1.6	(7,534)	(9,150)
PROFIT ATTRIBUTABLE TO THE PARENT		**751,016**	**725,322**

(**) Profit after tax from discontinued operations attributable to non-controlling interests	1.6	413,566	50,130

EARNINGS PER SHARE		Euros per share	
		2016	2015
Basic earnings per share	1.13	2.44	2.35
Diluted earnings per share	1.13	2.44	2.35
Basic earnings per share from discontinued operations	1.13	1.34	0.16
Basic earnings per share from continuing operations	1.13	1.10	2.19
Diluted earnings per share from discontinued operations	1.13	1.34	0.16
Diluted earnings per share from continuing operations	1.13	1.10	2.19

(*) Unaudited.

(**) Restated unaudited.

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of financial position at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Thousands of Euros					
	31/12/2016 (*)			31/12/2015 (**)		
	Of the Parent	Of non-controlling interests	Total	Of the parent	Of non-controlling interests	Total
A) Total consolidated profit	**751,016**	**265,894**	**1,016,910**	**725,322**	**328,925**	**1,054,247**
Profit from continuing operations	337,450	258,360	595,810	675,192	319,775	994,967
Profit from discontinued operations	413,566	7,534	421,100	50,130	9,150	59,280
	-	-	-	-	-	-
B) Income and expenses recognised directly in equity	**(53,687)**	**10,901**	**(42,786)**	**139,115**	**103,929**	**243,044**
Measurement of financial instruments	(43,729)	(2,765)	(46,494)	113,456	18,675	132,131
Cash flow hedges	2,075	(8,274)	(6,199)	(17,875)	3,014	(14,861)
Exchange differences	25,718	37,435	63,153	61,030	87,340	148,370
Actuarial profit and losses (***)	(60,613)	(23,813)	(84,426)	20,308	8,208	28,516
Tax effect	22,862	8,318	31,180	(37,804)	(13,308)	(51,112)
	-	-	-	-	-	-
C) Transfers to profit or loss	**56,036**	**(765)**	**55,271**	**260,472**	**(18,881)**	**241,591**
Reversal of financial instruments	(184,479)	(16,827)	(201,306)	-	-	-
Cash flow hedges	152,106	20,261	172,367	427,033	2,043	429,076
Exchange differences	62,860	(2,228)	60,632	(50,595)	(20,924)	(71,519)
Tax effect	25,549	(1,971)	23,578	(115,966)	-	(115,966)
	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**753,365**	**276,030**	**1,029,395**	**1,124,909**	**413,973**	**1,538,882**

(*) Unaudited.

(**) Restated unaudited.

(***) The only item of income and expense recognized directly in equity which cannot be subsequently subject to transfer to the income statement is the one corresponding to actuarial profit and losses.

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of comprehensive income at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Thousands of Euros								
	Share capital	Share premium	Retained earnings and other reserves	Treasury shares	Valuation adjustments	Profit/(Loss) attributed to the Parent	Interim dividend	Non-controlling interests	TOTAL
Balance at 31 December 2014	**157,332**	**897,294**	**1,881,249**	**(201,122)**	**(418,331)**	**717,090**	**-**	**1,864,376**	**4,897,888**
Income/(expenses) recognised in equity	-	-	15,000	-	384,587	725,322	-	413,973	**1,538,882**
Capital increases/(reductions)	3,398	-	(3,398)	-	-	-	-	-	**-**
Stock options	-	-	6,607	-	-	-	-	-	**6,607**
Distribution of profit from the prior year									
To reserves	-	-	717,090	-	-	(717,090)	-	-	**-**
2014 acquisition of bonus issue rights	-	-	(97,813)	-	-	-	-	-	**(97,813)**
Remaining allotment rights from 2014 accounts	-	-	84,303	-	-	-	-	-	**84,303**
To dividends	-	-	-	-	-	-	-	(206,271)	**(206,271)**
Treasury shares	(3,398)	-	(190,210)	(75,507)	-	-	-	-	**(269,115)**
Treasury shares through investees	-	-	(173,044)	-	-	-	-	(71,565)	**(244,609)**
Additional ownership interest in controlled entities	-	-	(116,958)	-	-	-	-	(194,892)	**(311,850)**
2015 bonus issue rights	-	-	(139,711)	-	-	-	-	-	**(139,711)**
Change in the scope of consolidation and other effects of a lesser amount	-	-	(31,682)	-	-	-	-	(29,360)	**(61,042)**
Balance at 31 December 2015	**157,332**	**897,294**	**1,951,433**	**(276,629)**	**(33,744)**	**725,322**	**-**	**1,776,261**	**5,197,269**
Income/(expenses) recognised in equity	-	-	(42,432)	-	44,781	751,016	-	276,030	**1,029,395**
Capital increases/(reductions)	3,383	-	(3,383)	-	-	-	-	-	**-**
Stock options	-	-	6,882	-	-	-	-	-	**6,882**
Distribution of profit from the prior year									
To reserves	-	-	725,322	-	-	(725,322)	-	-	**-**
2015 acquisition of bonus issue rights	-	-	(113,989)	-	-	-	-	-	**(113,989)**
Remaining allotment rights from 2015 accounts	-	-	77,894	-	-	-	-	-	**77,894**
To dividends	-	-	-	-	-	-	-	(131,586)	**(131,586)**
Treasury shares	(3,383)	-	(191,147)	155,648	-	-	-	-	**(38,882)**
Treasury shares through investees	-	-	(205,906)	-	-	-	-	(159,194)	**(365,100)**
Additional ownership interest in controlled entities	-	-	(126,727)	-	-	-	-	(354,191)	**(480,918)**
2016 bonus issue rights	-	-	(140,026)	-	-	-	-	-	**(140,026)**
Change in the scope of consolidation and other effects of a lesser amount	-	-	(51,784)	-	-	-	-	(7,218)	**(59,002)**
Balance at 31 December 2016	**157,332**	**897,294**	**1,886,137**	**(120,981)**	**11,037**	**751,016**	**-**	**1,400,102**	**4,981,937**

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of changes in equity at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

		Note	Thousands of Euros	
			31/12/2016	31/12/2015
			(*)	(**)
A)	**CASH FLOWS FROM OPERATING ACTIVITIES**		**1,402,882**	**2,009,357**
1.	**Profit/(Loss) before tax**		**1,002,483**	**1,286,716**
2.	**Adjustments for:**		**735,667**	**775,774**
	Depreciation and amortisation charge		513,934	652,071
	Other adjustments to profit (net) (Note 1.j)	1.9	221,733	123,703
3.	**Changes in working capital**	1.9	**(178,249)**	**625,117**
4.	**Other cash flows from operating activities:**		**(157,019)**	**(678,250)**
	Interest payable	10	(594,999)	(803,389)
	Dividends received		434,856	270,935
	Interest received		180,048	196,544
	Income tax payment/proceeds	12	(176,924)	(342,340)
B)	**CASH FLOWS FROM INVESTING ACTIVITIES**	2, 3	**883,784**	**709,865**
1.	**Investment payables:**		**(970,009)**	**(1,917,604)**
	Group companies, associates and business units		(107,303)	(1,030,087)
	Property, plant and equipment, intangible assets and property investments		(587,554)	(722,022)
	Other financial assets		(254,755)	(48,824)
	Other assets		(20,397)	(116,671)
2.	**Divestment:**	1.6.2, 2 y 3	**1,853,793**	**2,627,469**
	Group companies, associates and business units		958,632	1,610,647
	Property, plant and equipment, intangible assets and investment property		114,253	982,574
	Other financial assets		660,514	30,455
	Other assets		120,394	3,793
C)	**CASH FLOWS FROM FINANCING ACTIVITIES**		**(2,476,540)**	**(2,231,042)**
1.	**Equity instrument proceeds (and payment):**	1.10 y 8	**(696,603)**	**(824,554)**
	Acquisition		(764,802)	(841,138)
	Disposal		68,199	16,584
2.	**Liability instrument proceeds (and payment):**	10	**(1,383,572)**	**(1,133,646)**
	Issue		1,231,395	4,310,570
	Refund and repayment		(2,614,967)	(5,444,216)
3.	**Dividends paid and remuneration relating to other equity instruments:**	1.12	**(326,224)**	**(344,510)**
4.	**Other cash flows from financing activities:**		**(70,141)**	**71,668**
	Other financing activity proceeds and payables:		(70,141)	71,668
D)	**EFFECT OF CHANGES IN EXCHANGE RATES**		**40,944**	**148,389**
E)	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**		**(148,930)**	**636,569**
F)	**CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR**		**5,803,708**	**5,167,139**
G)	**CASH AND CASH EQUIVALENTS AT END OF THE YEAR**		**5,654,778**	**5,803,708**

1. CASH FLOWS FROM OPERATING ACTIVITIES		26,507	214,979
2. CASH FLOWS FROM INVESTING ACTIVITIES		(276,070)	(133,910)
3. CASH FLOWS FROM FINANCING ACTIVITIES		66,510	(69,939)
CASH FLOWS FROM DISCONTINUED OPERATIONS		**(183,053)**	**11,130**

CASH AND CASH EQUIVALENTS AT YEAR END

Cash and banks		4,446,396	4,681,157
Other financial assets		1,208,382	1,122,551
TOTAL CASH AND CASH EQUIVALENTS AT YEAR END		**5,654,778**	**5,803,708**

(*) Unaudited.

(**) Restated unaudited.

The accompanying notes 1 to 21 and Appendix I are an integral part of the consolidated statement of cash flows at 31 December 2016.

1. Introduction and basis of presentation for the condensed consolidated financial statements

ACS, Actividades de Construcción y Servicios, S.A. is a company incorporated in Spain in accordance with the Spanish Limited Liability Companies Law, and its registered office is at Avenida de Pío XII, 102, 28036 Madrid.

ACS, Actividades de Construcción y Servicios, S.A. heads a group of companies engaging in a range of different activities, mainly construction, industrial services, the environment, logistics, concessions and energy. The Company is therefore obliged to prepare, in addition to its own separate financial statements, the consolidated financial statements for the ACS Group, which include subsidiaries, interests in joint ventures and investments in associates.

1.1. Basis of presentation and principles for consolidation

1.1.1. Basis of presentation

The condensed consolidated financial statements of ACS, Actividades de Construcción y Servicios, S.A. and Subsidiaries (hereinafter, the ACS Group) for fiscal year ended 31 December 2016 were approved by the directors of the Parent at its Board of Directors meeting held on 28 February 2017, and were prepared using the accounting records kept by the Parent and the other companies within the ACS Group.

The directors approved the condensed consolidated financial statements on the presumption that anyone who reads them will also have access to the consolidated financial statements for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards (IFRSs), which were authorised for issue on 17 March 2016 and approved by shareholders at the General Shareholders' Meeting held on 5 May 2016. Consequently, and as they have been prepared using the accounting principles and standards employed in preparing the Consolidated Financial Statements, it was not necessary to repeat or update the notes that are included in these condensed consolidated financial statements. Instead, the accompanying explanatory notes include an explanation of events and transactions that are significant to an understanding of the changes in the consolidated financial position and consolidated performance of the ACS Group since the date of the above-mentioned consolidated financial statements.

This consolidated interim financial information was prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account International Accounting Standard (IAS) 34, on Interim Financial Reporting, and all the mandatory accounting principles and rules and measurement bases and, accordingly, they present fairly the ACS Group's consolidated equity and financial position at 31 December 2016, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the interim period then ended. All of this is pursuant to Article 12 of Royal Decree 1362/2007.

However, since the accounting policies and measurement bases used in preparing the consolidated financial information for the ACS Group for fiscal year 2016 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with International Financial Reporting Standards. In order to uniformly present the various items composing the consolidated financial information, the policies and measurement bases used by the Parent were applied to all the consolidated companies.

In preparing this consolidated financial information for the ACS Group for fiscal year ended 31 December 2016, estimates were occasionally made by the senior executives of the Group and of the consolidated entities, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates essentially refer to the same aspects detailed in the consolidated financial statements for the year ended 31 December 2015:

- The assessment of impairment losses on certain assets.
- The fair value of assets acquired in business combinations.
- The measurement of goodwill and the allocation of assets in acquisitions.
- The recognition of construction contract revenue and costs.

- The amount of certain provisions.
- The assumptions used in calculating liabilities and obligations to employees.
- The market value of the derivatives (such as “equity swaps”, “interest rate swaps”, etc.)
- The useful life of the intangible assets and property, plant and equipment.
- The recoverability of deferred tax assets.
- Financial risk management.

Although these estimates were made using the best information available on the date when these condensed consolidated financial statements were approved with regard to the facts reviewed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming periods or years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related future consolidated financial statements.

1.1.2. Bases of consolidation

The bases of consolidation applied in fiscal year 2016 are consistent with those applied in the Consolidated Financial Statements for 2015.

1.2. Entry into force of new accounting standards

The following mandatory standards and interpretations, already adopted in the European Union, came into force in 2016 and, where applicable, were used by the Group in the preparation of the condensed consolidated financial statements:

(1) New standards, amendments and interpretations whose application is mandatory in the year beginning 1 January 2016:

Approved for use in the European Union		**Mandatory application in the years beginning on or after**
Amendment to IAS 19 Employee contributions to defined benefit plans (issued in November 2013)	The amendment is intended to enable entities to deduct contributions from service cost in the period when paid if certain requirements are met.	1 February 2015[1)]
Improvements to the 2010-2012 IFRS cycle (issued in December 2013)	Minor changes to a series of standards.	1 February 2015
Amendments to IAS 16 and IAS 38 Acceptable depreciation and amortisation methods (issued in May 2014)	Clarifies acceptable methods of amortisation and depreciation of fixed and intangible assets that do not include those based on income.	1 January 2016
Amendment to IFRS 11 Acquisition of interests in joint operations (issued in May 2014)	Addresses the accounting of an interest in a joint operation when the operation constitutes a business.	1 January 2016
Amendment to IAS 16 and IAS 41 Bearer Plants (issued in June 2014)	Bearer plants are to be measured at cost rather than fair value.	1 January 2016
Improvements to the 2010-2012 IFRS cycle (issued in September 2014)	Minor changes to a series of standards.	1 January 2016
Amendment to IAS 27 Use of equity method in separate financial statements (issued in August 2014)	Investors can account for investments in subsidiaries in their separate financial statements.	1 January 2016
Amendments to IAS 1: Disclosure Initiative (issued in December 2014)	Various clarifications in relation to materiality, aggregation, ordering of notes, etc.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Companies (issued in December 2014)	Clarifications on the consolidation exception for investment companies.	1 January 2016

(1) This standard comes into force as from 1 July 2014.

The application of the aforementioned new standards did not have a significant impact on the ACS Group.

(2) New standards, amendments and interpretations whose application is mandatory subsequent to the calendar year beginning 1 January 2016 (applicable from 2017 onwards):

At the date of approval of these condensed consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the condensed consolidated interim financial statements or because they had not yet been adopted by the European Union:

Approved for use in the European Union		Mandatory application in the years beginning on or after:
IFRS 15 Revenue from Contracts with Customers (issued in May 2014) and its clarifications (issued in April 2016)	New standard for recognising revenue (Replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2018
IFRS 9 Financial Instruments (last phase issued in July 2014)	Replaces the IAS 39 requirements relating to the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment.	1 January 2018
Not approved for use in the European Union		**Mandatory application in the years beginning on or after::**
Clarifications to IFRS 15 (issued in April 2016)	It focuses on the identification of performance obligations, principal vs. agent, the concession of licenses, and their expiration at a point of time or in the course of time, as well as some clarifications to the rules on transition.	1 January 2018
IFRS 16 Leases (issued in January 2016)	New leases standard which replaces IAS 17 and associated interpretations. The main new development is that the new standard introduces a single lessee accounting model for inclusion of all leases (with a few minor exceptions) with an impact similar to that of current financial leases (depreciation of the asset from right of use and financial cost or the cost of amortisation of the liability).	1 January 2019
Amendment to IAS 7 Disclosure Initiative (issued in January 2016)	Introduces requirements for additional disclosure to improve information to users.	1 January 2017
Amendment to IAS 12 Recognition of deferred tax assets for unrealised losses (issued in January 2016)	Clarification of the established principles with regard to deferred tax assets for unrealised losses.	1 January 2017
Amendment to IFRS 2 Classification and measurement of share based payment transactions (issued in June 2016)	Narrow-scope amendments that clarify specific matters such as vesting conditions in the case of cash-settled share-based payments, classification of share-based payment arrangements net, and certain aspects of the changes in type of payment in the case of share-based payments.	1 January 2018
Amendment to IFRS 4 Insurance contracts (issued in September 2016)	Permits entities to apply IFRS 9 ("overlay approach") or its temporary exemption within the scope of IFRS 4.	1 January 2018
Amendment to IAS 40 Reclassification of investment property	This amendment clarifies that a reclassification of an investment to or from investment property is only permitted when there is evidence of a change of use.	1 January 2018
Improvements to the 2014-2016 IFRS Cycle (issued in December 2016)	Minor changes to a series of standards.	1 January 2018
IFRIC 22 Foreign currency transactions and advance consideration (issued in December 2016)	This interpretation establishes the "transaction date" for purposes of determining the exchange rate applicable to foreign currency transactions with advance consideration.	1 January 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification regarding the results of these transactions if they are businesses or assets	Date undetermined

The Group is currently analysing the differences that may arise from the entry into force of these standards and, consequently, any effects on the consolidated financial statements. This process is currently underway.

1.3. Contingent assets and liabilities

There were no significant changes in the Group's main contingent assets or liabilities during fiscal year 2016.

1.4. Correction of errors

No significant error was corrected in the condensed consolidated financial statements for the fiscal year ended 31 December 2016.

1.5. Comparative information

The information contained in these condensed consolidated financial statements corresponding to the fiscal year ended 31 December 2015 is presented solely for comparison purposes with similar information relating to the fiscal year ended 31 December 2016. In comparing the information, it is necessary to consider the sale of the Urbaser business as a discontinued operation, as explained in Note 1.6.2, which resulted in the application of IFRS 5 "Non-current assets held for sale and discontinued operations." Given that this is a significant line of business (approximately 5% of the net turnover) that represented the ACS Group's environmental operations segment from an operational point of view, the Group has deemed it appropriate to record such operations as discontinued.

In accordance with IFRS 5, the following has been performed:

- All items on the income statement account have been reclassified and all contributions to net profit, after taxes and minority interests are presented in a single line, "Profit after tax on discontinued operations". This reclassification is also made for 2015 for comparative purposes.
- In the statement of cash flows, the effect of the discontinued operation for both 2016 and 2015 should be broken down in the same manner or indicated in the notes.

As a consequence of the foregoing, the note relating to discontinued operations details the effect on the income statement of the aforementioned reclassifications. However, in the statement of financial position, the assets and liabilities associated with this operation do not warrant a restatement from the previous fiscal year, in accordance with IFRS 5.

The explanatory notes include events or changes that might appear significant in explaining changes in the financial position and consolidated results of the ACS Group since the date of the above-mentioned Consolidated Financial Statements of the Group

1.6. Non-current assets held for sale, liabilities associated with non-current assets held for sale and discontinued operations

1.6.1 Non-current assets held for sale

31 December 2016

At 31 December 2016, non-current assets held for sale mainly concerned certain assets relating to the Syntax business, which is within the Services segment as a result of the agreement reached with CAT, as well as the renewable energy business relating to the wind farms located in Portugal, which are included within the Industrial Services segment.

In all the above cases a formal decision was made by the Group to sell these assets, and a plan for their sale was initiated. These assets are currently available for sale and the sale is expected to be completed within a period of 12 months from the date of their classification as assets held for sale. It should be noted that the renewable assets, which were classified as held for sale at 31 December 2016, were held in this category for more than twelve months. However, they were not sold due to certain circumstances, which at the time of their classification were not likely. Paragraph B1 (c) of appendix B of IFRS 5 exempts a company from using a one-year period as the maximum period for classifying an asset as held for sale if, during the aforementioned period, circumstances arise which were previously considered unlikely, the assets were actively sold at a reasonable price, they fulfil the requirements undertaken by management and there is a high probability that the sale will occur within one year from the reporting date.

The detail of the main assets held for sale and liabilities associated with these assets at 31 December 2016 is as follows:

	Thousands of Euros			
	31/12/2016			
	Renewable energy	Sintax	Other	Total
Tangible assets - property, plant and equipment	-	26,122	55,003	81,125
Intangible assets	-	37,613	4,420	42,033
Non-current assets in projects	173,070	-	901	173,971
Financial Assets	-	460	46,166	46,626
Deferred tax assets	3,220	3,947	8,717	15,884
Other non-current assets	-	-	99,743	99,743
Current assets	8,578	41,471	39,661	89,710
Financial assets held for sale	**184,868**	**109,613**	**254,611**	**549,092**
Non-current liabilities	102,014	14,908	127,741	244,663
Current liabilities	24,369	38,152	10,643	73,164
Liabilities relating to assets held for sale	**126,383**	**53,060**	**138,384**	**317,827**
Non-controlling interests held for sale	**6,372**	**(84)**	**(1,548)**	**4,740**

The main variations in the fiscal year ended 31 December 2016 with regard to the assets included on the balance sheet at 31 December 2015 have been due to:

- The sale of the Tres Hermanas and Marcona wind farms in the first quarter of 2016 and the sale of 50% of the three companies holding electricity transmission line concessions in Brazil (Esperanza Transmissora de Energía, S.A., Odoyá Transmissora de Energía, S.A. and Transmissora José María de Macedo de Electricidad, S.A.) that took place in June 2016. All the divestments were made for an amount of more that the theoretical book value at which they were recorded at the end of the previous year, which has entailed pre-tax income of EUR 3,896 thousand.

- In addition, with respect to the PT Thiess Contractors Indonesia assets, due to the agreement reached for the sale of the assets, which were recorded at cost at year-end 2015, the conditions were created for their removal from the balance sheet without any material effect on performance for the fiscal year.

- The ACS Group, through its subsidiary ACS Servicios y Concesiones, S.L., has reached an agreement with the French company Compagnie d'Affrètement et de Transport S.A.S (CAT), for the sale of its total stake in Sintax, S.A., thereby causing the reclassification of its assets as held for sale. The company’s value has been set at EUR 49.5 million and the agreed price is EUR 55 million. The sale took place in February 2017 (see Note 1.8) with a capital gain net of tax of EUR 5.8 million, upon fulfilment of the conditions therefor, which are the standard authorizations for this type of transaction.

Therefore, the decline during fiscal year 2016 in the total value of the non-current assets held for sale amounts to EUR 310,394 thousand, and the decline in the liabilities associated with them has amounted to EUR 206,897 thousand, mainly as a result of the transactions that have been described above.

The amount relating to net debt included under assets held for sale and liabilities associated with these assets at 31 December 2016 totals EUR 108,248 thousand (EUR 266,530 thousand at 31 December 2015) in the case of renewable energies, EUR 27,204 thousand (EUR 39,964 thousand) in the case of transmission lines, and Others for EUR 87,653 thousand (EUR 130,479 at 31 December 2015). Following the sales that have taken place there is no longer any net debt associated with the transmission lines, which totalled EUR 39,964 thousand at 31 December 2015. Net debt is calculated using the arithmetic sum of the current and non-current financial liabilities, less long-term deposits, other current financial assets and cash and cash equivalents.

31 December 2015

At 31 December 2015, non-current assets held for sale mainly concerned certain assets relating to the renewable energy business and transmission lines that are included in the Industrial Services business segment, as well as the assets of PT Thiess Contractors in Indonesia from Hochtief, which are included in the Construction business segment. In addition to the aforementioned assets and associated liabilities, certain assets and liabilities associated with these non-current assets within non-material ACS Group companies were also included as non-current assets and liabilities held for sale.

The detail of the main assets held for sale and liabilities associated with these assets at 31 December 2015 was as follows:

	Thousands of Euros			
	31/12/2015			
	Renewable energy	PT Thiess Constractors Indonesia	Other	Total
Tangible assets - property, plant and equipment	24	130,488	20,897	151,409
Intangible assets	-	-	591	591
Non-current assets in projects	397,989	-	53,511	451,500
Deferred tax assets	2,694	-	11,029	13,723
Other non-current assets	-	-	116,862	116,862
Current assets	58,115	27,793	34,675	120,583
Financial assets held for sale	**458,822**	**158,281**	**242,383**	**859,486**
Non-current liabilities	311,280	-	106,072	417,352
Current liabilities	6,781	32,682	67,909	107,372
Liabilities relating to assets held for sale	**318,061**	**32,682**	**173,981**	**524,724**
Non-controlling interests held for sale	**(1)**	**-**	**(1,030)**	**(1,031)**

The main changes in the 2015 year with regard to the assets included in the balance sheet at 31 December 2014, took place as a result of the admission to listing of Saeta Yield, S.A. and the agreement reached during this period with the funds managed by the infrastructure investment fund Global Infrastructure Partners (GIP), which also acquired up to 24.0% of Saeta Yield, S.A. With this transaction, the ACS Group's ownership interest in Saeta Yield stood at 24.21%. By virtue of the same agreement, GIP also acquired a 49% ownership interest in a joint venture (Bow Power, S.L.), which in 2015 included three solar thermal plants in Spain as well as two wind farms located abroad that were classified as renewable energy assets held for sale at 31 December 2014 from the ACS Group's Industrial business area. The economic conditions of this ownership interest were set based on the price at which the Saeta Yield, S.A. shares are offered on the market, and based on the specific assets acquired by the development company, respectively. This process demonstrated the ACS Group's commitment to selling the renewable assets. After the regulatory uncertainties were dispelled to levels acceptable to investors, with the approval of the most recent royal decrees in 2014, the process concluded with the effective sale of the assets.

In relation to the disposal transactions, the sale of the ownership interest in Saeta Yield, in accordance with the listing price, gave rise to a profit of EUR 13,649 thousand for the period. In accordance with this transaction, the remaining ownership interest (24.21%) was recognised at fair value, which gave rise to a profit of EUR 6,993 thousand. Likewise, the various sale transactions and contribution to Bow Power gave rise to a loss of EUR 35,731 thousand.

With regard to the carrying amount of the other assets related to renewable energies, the Group assessed their recoverable amount in accordance with the changes in the main factors affecting their valuation, and within the context of the purchase options granted to Saeta Yield, concluding that no impairment losses needed to be recognised.

The income and expenses recognised under “Valuation adjustments” in the consolidated statement of changes in equity, which relate to operations considered to be held for sale at 31 December 2016 and 31 December 2015 are as follows:

	Thousands of Euros			
	31/12/2016			
	Renewable energy	Sintax	Other	Total
Exchanges differences	(1,562)	12	-	(1,550)
Cash flow hedges	-	-	(9,519)	(9,519)
Adjustments for changes in value	**(1,562)**	**12**	**(9,519)**	**(11,069)**

	Thousands of Euros		
	31/12/2015		
	Renewable energy	Other	Total
Exchanges differences	8,054	(132,207)	(124,153)
Cash flow hedges	(1,631)	(5,126)	(6,757)
Adjustments for changes in value	**6,423**	**(137,333)**	**(130,910)**

1.6.2 Discontinued operations

In fiscal year 2016, Urbaser's operations were regarded as discontinued; this was because they comprised a significant line of business representing the ACS Group's entire segment of environmental activity from an operations standpoint. The Group has deemed it appropriate to record such activities as discontinued. This activity was part of a formal sales process that began in September 2016 and ended in December of the same year. At 31 December of both 2016 and 2015, there were no assets or liabilities corresponding to any discontinued operation.

The breakdown of income from discontinued operations for the periods ending 31 December 2016 and 31 December 31 2015 is as follows:

	Thousands of Euros	
	31/12/2016	31/12/2015
	Urbaser	Urbaser
Revenue	1,476,303	1,633,353
Operating expenses	(1,355,903)	(1,501,188)
Operating income	120,400	132,165
Profit before tax	**82,841**	**78,121**
Income tax	(18,726)	(18,841)
Profit after tax from discontinued operations	-	-
Profit attributed to non-controlling interests	(7,534)	(9,150)
Profit after tax and non-controlling interests	**56,581**	**50,130**
Profit before tax from the disposal of discontinued operations	356,985	-
Tax on the disposal of discontinued operations	-	-
Net profit from the disposal of discontinued operations	**356,985**	**-**
Profit after tax and non-controlling interests from discontinued operations	**413,566**	**50,130**

On 26 September 2016, ACS Acciones de Construcción y Servicios S.A., through its subsidiary ACS Servicios y Concesiones, S.L., reached an agreement with Firion Investments, a company controlled by a Chinese group, for the sale of its total shareholding in Urbaser, S.A. It thereupon began to consider its operations as discontinued, pending the usual authorisations in this type of transaction. Based on certain future parameters, the company value was established at between EUR 2,212 and EUR 2,463 million, and the agreed price was set between EUR 1,164 and EUR 1,399 million. Part of the sale price is variable on the basis of compliance with an Ebitda level for the period included between January 2017 and 31 December 2023, which can rise to a maximum of EUR 298.5 million divided into four "earn-outs." The first Earn-Out is for EUR 64 million if Ebitda is equal to or greater than EUR 268 million (if Ebitda is between EUR 263 million and EUR 268 million it shall be paid proportionately). The second Earn-Out is for EUR 85 million if Ebitda is equal to or greater than EUR 309 million (if Ebitda is between EUR 268 million and EUR 309 million no additional amount will be paid.) The third Earn-Out is for EUR 85 million if Ebitda is equal to or greater than EUR 320 million (if Ebitda is between EUR 309

million and EUR 320 million it shall be paid proportionately). The fourth Earn-Out is for EUR 64.5 million if Ebitda is equal to or greater than EUR 330 million (if Ebitda is between EUR 320 million and EUR 330 million it shall be paid proportionately). In calculating the capital gain the ACS Group has only taken into account the first earn-out.

The sale of 100 percent of Urbaser was completed on 7 December 2016 by the public recording of the share purchase agreement. The sale price that was considered at the time of the transaction amounts to EUR 1,164 million, of which EUR 20 million had already been paid and at the time the deed was issued, EUR 959 million had been paid. The amounts pending collection total EUR 185 million, of which an estimated EUR 100 million will be paid on 31 January 2018, EUR 21 million on 31 January 2019, and EUR 64 million on 7 December 2021. These outstanding amounts are listed under "Non-current financial assets" in the attached consolidated financial statement of financial position. The sale of Urbaser resulted in a gain of EUR 356,985,000, listed under the heading "After-tax profit on discontinued operations" in the attached consolidated income statement.

As listed in the consolidated statement of comprehensive income from discontinued operations, the breakdown of the transfer to the consolidated income statement for fiscal year 2016 from the sale of Urbaser is as follows:

	Thousands of Euros		
	31/12/2016		
	Parent Company	Minorities	Total
Cash flow hedges	89,415	17,803	107,218
Recyling of exchange differences	79,172	1,344	80,516
Tax effect	(22,354)	(4,451)	(26,805)
Transfers to the income statement	**146,233**	**14,696**	**160,929**

The breakdown of the effect on the statement of cash flows of discontinued operations is as follows:

	Thousands of Euros	
	31/12/2016	31/12/2015
	Urbaser	Urbaser
Cash flows from operating activities	26,507	214,979
Cash flows from investing activities	(276,070)	(133,910)
Cash flows from financing activities	66,510	(69,939)
Net cash flows from discontinued operations	**(183,053)**	**11,130**

1.7. Materiality

In determining the information to be disclosed on the various items in the financial statements or other matters in the explanatory notes to the financial statements, the Group, in accordance with IAS 34, took into account their materiality in relation to the condensed consolidated financial statements.

1.8. Events after the reporting date

On 22 December 2016, the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A. approved an interim dividend distribution at €0.45 per share. The distribution, through a flexible dividend system, was performed during the month of February 2017. By operation of this process, ACS, Obras de Construcción y Servicios, S.A. acquired 43.73% of the free allocation rights by virtue of the purchase commitment assumed by the company. A total of 2,534,969 shares were issued for the remaining shareholders, which were simultaneously redeemed in accordance with what was approved at the General Shareholders' Meeting held on 5 May 2016 (see Note 8.2).

On 23 January 2017, through its Australian subsidiary CIMIC, the ACS Group launched a Public Takeover Bid for Macmahon Holdings Ltd., a company listed in Sydney of which it already owned 20.54%. The offer was for AUD 0.145 per share, equivalent to a total amount of AUD 138 million (EUR 97 million) representing a premium of 31.8%.

In February 2017, the ACS Group, through its subsidiary ACS Servicios y Concesiones S.L., upon obtaining the necessary authorisations, consummated the agreement reached in December 2016 with the French company Compagnie d'Affrètement et de Transport S.A.S for the sale of its full ownership stake in Sintax for an amount of EUR 55 million, with a final capital gain EUR 5.8 million from the transaction.

1.9. Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities are activities that result in changes in the size and composition of the equity and borrowings taken by the entity.

In preparing the consolidated statement of cash flows, cash and cash equivalents were considered to be "cash on hand", demand deposits at banks and short-term, highly liquid investments that are easily convertible into cash and are subject to an insignificant risk of changes in value.

The breakdown of the heading “Other adjustments to profit (net)” of the consolidated statement of cash flows is as follows:

	Thousands of Euros	
	31/12/2016	31/12/2015 (*)
Financial income	(186,044)	(223,899)
Financial costs	526,301	698,993
Impairment and gains or losses on disposals of non-current assets	20,416	32,005
Results of companies accounted for using the equity method	(75,128)	(288,023)
Impairment and gains or losses on disposal of financial instruments	22,654	(299,488)
Changes in the fair value of financial instruments	(66,249)	(36,232)
Other effects	(20,217)	240,347
Total	**221,733**	**123,703**

(*) Restated unaudited

The distribution of the consolidated statement of cash flows corresponding to the ACS Group, upon removal of the effect of Urbaser, both in fiscal year 2016 and its comparison with fiscal year 2015 is as follows:

	Thousands of Euros					
	31/12/2016			31/12/2015 (*)		
	ACS ex Urbaser	Urbaser	TOTAL	ACS ex Urbaser	Urbaser	TOTAL
Gross flows from operating activities	1,513,891	224,259	1,738,150	1,788,241	274,249	2,062,490
Changes in working capital	(21,028)	(157,221)	(178,249)	632,765	(7,648)	625,117
Interest payable	(531,592)	(63,407)	(594,999)	(724,287)	(79,102)	(803,389)
Dividends received	426,655	8,201	434,856	246,041	24,894	270,935
Interest received	159,164	20,884	180,048	177,264	19,280	196,544
Income tax payment/proceeds	(170,715)	(6,209)	(176,924)	(325,646)	(16,694)	(342,340)
CASH FLOWS FROM OPERATING ACTIVITIES	1,376,375	26,507	1,402,882	1,794,378	214,979	2,009,357
Cash Flows Ordinary Investment Activities	200,854	(94,861)	105,993	843,775	(133,910)	709,865
Cash flows from investing activities for the sale of Urbaser	959,000	(181,209)	777,791	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	1,159,854	(276,070)	883,784	843,775	(133,910)	709,865
CASH FLOWS FROM FINANCING ACTIVITIES	(2,543,050)	66,510	(2,476,540)	(2,161,103)	(69,939)	(2,231,042)
EFFECT OF CHANGES IN EXCHANGE RATES	47,217	(6,273)	40,944	148,389	-	148,389
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**40,396**	**(189,326)**	**(148,930)**	**625,439**	**11,130**	**636,569**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**5,614,382**	**189,326**	**5,803,708**	**4,988,943**	**178,196**	**5,167,139**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**5,654,778**	**-**	**5,654,778**	**5,614,382**	**189,326**	**5,803,708**

(*) Restated unaudited.

In preparing the consolidated statement of cash flows for fiscal year of 2016, under the section on cash flows from financing activities, "Proceeds and (payments) relating to equity instruments" includes, in addition to the acquisitions of ACS treasury shares, and the treasury shares purchased by Hochtief, A.G. and Cimic, as well as the additional investments made in Sedgman and UGL in the fiscal year upon the gaining of control thereof.

The most significant receipt from divestment was the amount of EUR 959 million, received at the time of the execution of the sale deed for Urbaser in December 2016 (see Note 1.6.2).

Furthermore, receipts from divestments have included the amounts effectively collected from the sale of 80% of its ownership interest in Servicios Transportes y Equipamientos Públicos Dos, S.L., which in turn holds a 50% interest in the concession operator of Line 9 Section II of the Barcelona Metro and in the company in charge of maintaining both Section II and Section IV of this underground line for an amount of EUR 109 million that at 31 December 2015 was recorded under the heading of "Other Debtors" on the attached consolidated financial statements. In addition, in preparing the consolidated statement of cash flows for fiscal year 2016, cash flows from investing activities in Group companies, related companies and business units have included as a lower amount of the investment in Sedgman and in UGL the amount corresponding to cash and cash equivalents included as a result of the consolidation of those companies for an amount of EUR 164.6 million that reduce the value of the investments disbursed in the acquisitions of these companies in that period by an amount of EUR 474.0 million, with EUR 218.9 million reflected as investment transactions and EUR 255.1 million reflected as financing transactions.

It should also be mentioned that in preparing the consolidated statement of cash flows for fiscal year 2015 the amounts effectively collected, net of the tax effect paid in relation to the amounts from the disposal of John Holland and from the Services business of Cimic amounting to EUR 934,017 thousand (AUD 1,325.9 million) which were recognised at 31 December 2014.

1.10. Changes in the scope of consolidation

The main changes in the scope of consolidation of the ACS Group (consisting of ACS, Actividades de Construcción y Servicios, S.A. and its subsidiaries) during the fiscal year ended 31 December 2016 are detailed in Appendix I.

Acquisitions, sales, and other corporate transactions

The following transactions were of particular note for fiscal year 2016:

Acquisition of UGL

On 10 October 2016, Cimic became a shareholder in UGL Limited, a company previously listed on the Sydney Stock Exchange, by acquiring a 13.84% stake. Once this initial share was acquired, Cimic announced a final non-negotiable offer for the remaining shares at a price of AUD 3.15 per share.

On 24 November 2016, Cimic's stake in UGL increased to over 50%, allowing the firm to gain control. The consideration for the purchase at 24 November 2016 paid in cash to gain control amounted to EUR 176.5 million (262.1 million Australian dollars) UGL’s income reporting was consolidated on an overall basis after this date. Cimic subsequently increased its stake in UGL by more than 90% and exercised its right to compulsorily acquire the remaining shares, a process completed on 20 January 2017. Its share of the company on 31 December 2016 was 95%. The cash consideration paid on 31 December 2016 to acquire the non-controlling interest was EUR 167.3 million (AUD 248.5 million), and a liability of EUR 19.7 million (AUD 29.3 million) has been recognised for the purchase of the remaining shares.

The provisional fair value of the assets and liabilities acquired is as follows:

	Millions of Euros
	Fair value on acquisition
Cash and cash equivalents	102.8
Trade and other receivables	174.8
Inventories consumables	24.9
Other current assets	19.1
Investments accounted for using the equity method	26.7
Property , plant and equipment	49.0
Intangibles	47.5
Current and deferred tax	180.6
Total assets	**625.4**
Trade and other payables	654.7
Provisions	55.7
Interest bearing liabilities	212.3
Total liabilities	**922.7**
Net assets (identified)	**(297.3)**
Less: non-controlling interest	150.1
Add: Goodwill	323.7
Net assets / (liabilities) acquired	**176.5**

The goodwill is attributable to the future profitability and experience of UGL, as well as to the synergies expected as UGL integrates with the pre-existing cash-generating units in Cimic’s construction segment. An item of goodwill acquired has been provisionally classed as intangible. The fair values of the assets and liabilities acquired are provisional and have not been finalised due to the proximity of the acquisition to the end of the fiscal year. The recognised goodwill is not tax-deductible.

The acquisition was entered under IFRS 3 "Business Combinations." For the acquisition of UGL, the Group has chosen, in accordance with the alternative indicated in IFRS 3, to recognise minority interests in a manner proportionate to the percentage stake of minority shareholders in the acquired entity’s identified net liabilities, instead of the fair value. UGL's contribution to the Group from the acquisition date until the end of the fiscal year ended 31 December 2016 was EUR 137.5 million (AUD 204.2 million) in revenue and EUR 3.6 million (AUD 5.3 million) in net income after taxes and after adjusting for the acquisition in accordance with IFRS 3. If the acquisition had taken place on 1 January 2016, the contribution of UGL to the Group for the fiscal year ended 31 December 2016 would have been EUR 1.3354 billion (AUD 1.9833 billion) in income and a loss of EUR 70.3 million (AUD 104.3 million) in taxes. The loss includes EUR 134.7 million (AUD 200.0 million) of provisions recorded prior to the acquisition in the Ichthys project.

Acquisition of Sedgman

During fiscal year 2016, Cimic acquired at different moments the remaining shares in Sedgman Limited (a company listed on the Sydney stock exchange), which is now fully consolidated (at 31 December 2015 the interest held was 37% and it was consolidated by the equity method): The Sedgman acquisition took place by means of a public offer to purchase shares, as a result of which the company increased its participation to 90%, exercising its right to compulsory acquisition of the remaining shares, a transaction that was completed on 13 April 2016.

	Millions of Euros
	Fair value on acquisition
Cash and cash equivalents	61.7
Trade and other receivables	49.7
Other current assets	2.7
Investments accounted for using the equity method	4.5
Property , plant and equipment	11.0
Intangibles	8.9
Current and deferred tax	2.9
Total assets	**141.4**
Trade and other payables	58.3
Provisions	16.0
Interest bearing liabilities	3.0
Total liabilities	**77.3**
Net assets (identified)	**64.1**
Less: non-controlling interest	(31.2)
Add: Goodwill	41.4
Net assets / (liabilities) acquired	**74.3**

The consideration paid for the purchase of Sedgman Limited was set at EUR 105.2 million, made up of the fair value recorded on the date of control of EUR 3.8 million, the fair value of the interest prior to the date of acquisition by the Group of EUR 70.4 million and the fair value of non-controlling interests at the date of acquisition of EUR 31.2 million. As the total consideration paid of EUR 105.2 million exceeds the fair value of the identifiable net assets of Sedgman at acquisition date of EUR 64.1 million, recognition has been given to intangible assets, with recording of goodwill for EUR 41.4 million and the assigning of the PPA (Price Purchasing Allocation) to contracts with customers for an amount of EUR 6.6 million. The goodwill is attributable to Sedgman's future profitability and experience, as well as to the expected synergies upon integration of Sedgman's ore processing business and Cimic's mining operations. Recognised goodwill is not tax deductible.

The acquisition generated a pre-tax profit of EUR 31.4 million as a consequence of the revaluation of the earlier holding in Sedgman in an amount of EUR 17.1 million and the posting of valuation adjustments to the income statement for an amount of EUR 14.3 million. Sedgman’s contribution to the Group’s net turnover from acquisition date through to 31 December, 2016 was EUR 150.6 million. If the acquisition had taken place on 1 January 2016, Sedgman's contribution to the Group for the year ended 31 December 2016 would have been EUR 172.2 million (AUD 225.7 million) in income. The business is currently fully integrated with all mining operations, so it is not possible to evaluate the contribution to the Group's net income.

Regarding sales, fiscal year 2016 was primarily highlighted by income from the execution of the forward sale with advance payment of the totality of its ownership interest in Iberdrola, S.A. as a result of the substantial transfer of the risks and benefits associated with the Iberdrola shares. The ACS Group has reported these assets in its statement of financial position (see Note 6.2). The income from this write-down, together with the charge to the income statement, from the heading "Adjustments for changes in value - Available-for-sale financial assets" to net assets in the attached consolidated statement of financial position, resulted in a pre-tax profit of EUR 95,326 thousand.

Also significant under this heading is the capital gain from the sale made in December 2016 of the remaining 29% of Cimic’s holding in Nextgen to the Ontario Teachers' Pension Plan amounting to EUR 47.2 million. In addition, fiscal year 2016 saw the sale of the Tres Hermanas and Marcona wind farms and the sale of 50% of the three companies holding electricity transmission line concessions in Brazil (Esperanza Transmissora de Energía, S.A., Odoyá Transmissora de Energía, S.A. and Transmissora José María de Macedo de Electricidad, S.A.), giving rise to a total profit of EUR 3,896 thousand. At 31 December 2015 these assets were recorded as held for sale.

The following transactions were of particular note in 2015:

In February 2015 the shares of Saeta Yield, S.A., a company in which the ACS Group has a 24.21% ownership interest, began to be listed on the stock exchange in 2015. This company invests in energy infrastructure assets that are expected to generate highly stable and predictable cash flows, financed by long-term regulatory or contracted revenues. Initially, the Company's assets are wind farms and solar thermal plants in Spain, which were part of ACS' renewable energy backlog (see Note 1.6). In the future, the Company plans to expand its presence both in Spain and abroad, by acquiring other renewable or conventional electricity generation assets and electricity distribution and transmission assets, as well as any other infrastructure related to energy, in all cases with contracted or regulated revenues. These acquisitions will be conducted based on a Right of First Offer and Call Option Agreement.

In addition, the ACS Group entered into an agreement with funds managed by the infrastructure investment fund Global Infrastructure Partners (GIP), under which, in addition to acquiring 24.0% of Saeta Yield, S.A., it acquired a 49% ownership interest in Bow Power, S.L., a company which included renewable energy assets from the Industrial business of the ACS Group, to which Saeta Yield, S.A. will hold right of first offer (see Note 1.6).

On 13 October 2015, the ACS Group acquired 4,050,000 shares of Hochtief, A.G., representing 5.84% of its share capital, at a price of EUR 77 per share. The total number of Hochtief, A.G. shares owned by the ACS Group following this acquisition totalled 46,118,122 shares, representing 66.54% of its share capital. This transaction, along with the treasury shares purchased by Hochtief, had an effect of EUR 116,958 thousand on consolidated reserves, as it was considered a transaction with non-controlling interests since the Group maintains control over the company.

In November 2015, the ACS Group sold 75% of its ownership interest of the 50% in the concession operator Nouvelle Autoroute 30, of Quebec (Canada), for a total business value of EUR 811 million and entered into a service agreement with the buyer, whereby the ACS Group will continue to manage 50% of the concession operator. The net gain (after tax) totalled EUR 16.5 million. Similarly, the ACS Group entered into a joint investment agreement with Teachers Insurance and Annuity Association of America for a total value of USD 665 million for the investment, financing and operation of infrastructure projects in North America, the primary asset of which is the aforementioned ownership interest in the Canadian concession operator, Nouvelle Autoroute 30.

In December 2015, the ACS Group sold 80% of its ownership interest in Servicios, Transportes y Equipamientos Públicos Dos, S.L., which in turn holds a 50% interest in the concession operator Línea 9 tramo II for the Barcelona Underground and in the company in charge of maintaining both section II and section IV of this underground line, the total business value of which was EUR 874 million, at a price of approximately EUR 110 million (subject to potential adjustments), and with a gain of approximately EUR 70 million recognised under "Gains and losses on disposal of financial instruments". This agreement was subject to the customary authorisations for these types of agreements, which were obtained in 2015.

1.11. Functional currency

These half-yearly condensed consolidated financial statements are presented in euros, since this is the functional currency in the area in which the Group operates. Details of sales in the main countries in which the Group operates are set out in Note 13.

1.12. Dividends paid by the Parent

On 4 January 2016, ACS, Actividades de Construcción y Servicios, S.A., in exercising the authority conferred by resolution of the Company's General Shareholders' Meeting held on 28 April 2015, and pursuant to the 17 December 2015 authorisation by the Board of Directors, resolved to carry out the second capital increase with a charge to reserves for a maximum of EUR 142 million (equal to EUR 0.45 per share). This was approved at the aforementioned General Shareholders' Meeting in order for the shareholders to be able to choose whether they wish to be compensated in cash or in the Company's shares. After the period for negotiating the bonus issue rights relating to the second scrip, the irrevocable commitment to purchase rights assumed by ACS was accepted by holders of 44.25% of the bonus issue rights. After the decision-making period granted to the shareholders had elapsed, on 30 January 2016 the following events took place:

- The dividend was determined to be a total gross amount of EUR 61,816,692.98 (EUR 0.444 per share) and was paid on 03 February 2016.
- The number of final shares subject to the capital increase was 2,941,011 for a nominal amount of EUR 1,470,505.50.

The ACS Group recognised the maximum amount of the possible liability at this date under “Other current liabilities” in the accompanying statement of financial position at 31 December 2015 for the entire fair value of the approved dividend, which amounted to EUR 139,711 thousand, though the final amount was EUR 61,817 thousand. For this reason, EUR 77,894 thousand were reversed to the ACS Group’s equity in fiscal year 2016.

In addition, as a result of the resolution adopted by the shareholders at the General Shareholders’ Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 5 May 2016, the Company agreed on 14 June 2016 to the first execution of a scrip issue, setting the maximum reference value at EUR 224 million against Company reserves, so that shareholders could opt to either continue to receive remuneration in cash or in shares of the Company. After the decision-making period granted to the shareholders had elapsed, on 11 July 2016 a dividend was declared for a total gross amount of EUR 113,989,213 that was paid on 14 July.

On 9 January 2017, ACS, Actividades de Construcción y Servicios, S.A., in exercising the authority conferred by resolution of the company’s General Shareholders’ Meeting held on 5 May 2016, and pursuant to the 22 December 2016 authorisation by the Board of Directors, resolved to carry out the second capital increase with a charge to reserves for a maximum of EUR 142 million (equal to around EUR 0.45 per share). This was approved at the aforementioned General Shareholders’ Meeting in order for the shareholders to be able to choose whether they wish to be compensated in cash or in the Company’s shares. After the period for negotiating the bonus issue rights relating to the second scrip, the irrevocable commitment to purchase rights assumed by ACS was accepted by holders of 43.73% of the bonus issue rights. After the decision-making period granted to the shareholders had elapsed, on 3 February 2017 the following events took place:

- The dividend was determined to be a total gross amount of EUR 61,236,138.50 (EUR 0.445 per share) and was paid on 7 February 2017.
- The number of final shares subject to the capital increase was 2,534,969 for a nominal amount of EUR 1,267,484.50.

The ACS Group recognised the maximum amount of the possible liability at this date under “Other current liabilities” in the accompanying consolidated statement of position at 31 December 2016 for the entire fair value of the approved dividend, which amounted to EUR 140,026 thousand, though the final amount was EUR 61,236 thousand. For this reason, EUR 78,790 thousand were reversed to the ACS Group’s equity in fiscal year 2017.

In the course of fiscal year 2015, as a result of a resolution by the General Shareholders’ Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 29 May 2014, the Board of Directors at its meeting held on 18 December 2014 resolved to carry out the second capital increase with a charge to reserves for a maximum of EUR 142 million (equal to around EUR 0.45 per share). This was approved at the aforementioned General Shareholders’ Meeting in order for the shareholders to be able to choose whether they wished to be compensated in cash or in the Company’s shares. After the decision-making period granted to the shareholders had elapsed, on 12 February 2015 the following events took place:

- The dividend was determined to be a total gross amount of EUR 57,296,272 (EUR 0.45 per share) and was paid on 17 February 2015.
- The number of final shares subject to the capital increase was 2,616,408 for a nominal amount of EUR 1,308,204.

The ACS Group recognised the maximum amount of the possible liability at this date under “Other current liabilities” in the accompanying statement of financial position at 31 December 2014 for the entire fair value of the approved dividend, which amounted to EUR 141,599 thousand, though the final amount was EUR 57,296 thousand. For this reason, EUR 84,303 thousand were reversed to the ACS Group’s equity in 2015.

In addition, as a result of the resolution adopted by the shareholders at the General Shareholders’ Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 28 April 2015, on 18 June 2015 the Company resolved to carry out the first capital increase, establishing the maximum reference value at EUR 224 million with a charge to the Company's reserves in order for the shareholders to be able to choose whether they wish to be compensated in cash or in the Company's shares. After the decision-making period granted to the shareholders, on 17 July 2015 the dividend was determined at a total gross amount of EUR 97,812,807.65 and was paid on 21 July.

1.13. Earnings per share from continuing and discontinued operations

1.13.1 Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	31/12/2016	31/12/2015 (*)	Change (%)
Net profit for the period (thousands of Euros)	751,016	725,322	3.54
Weighted average number of shares outstanding	308,070,402	308,516,473	(0.14)
Basic earnings per share (Euros)	**2.44**	**2.35**	**3.83**
Diluted earnings per share (Euros)	**2.44**	**2.35**	**3.83**
Profit after tax and non-controlling interests from discontinued operations (Thousands of Euros)	413,566	50,130	n/a
Basic earnings per share from discontinued operations (Euros)	1	0	**n/a**
Basic earnings per share from continuing operations (Euros)	**1.10**	**2.19**	**(49.77)**
Diluted earnings per share from discontinued operations (Euros)	1	0	**n/a**
Diluted earnings per share from continuing operations (Euros)	**1.10**	**2.19**	**(49.77)**

(*) Restated unaudited

1.13.2 Diluted earnings per share

In calculating diluted earnings per share, the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted to take into account all the dilutive effects inherent to potential ordinary shares (share options, warrants and convertible debt instruments). For these purposes, it is considered that the shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period. At 31 December 2016, as a result of the capital increase and simultaneous reduction of February 2017 by the same number of shares, the basic earnings and diluted earnings per share from continuing operations for fiscal year 2016 are the same.

2. Intangible assets

2.1 Goodwill

The breakdown of goodwill, based on the companies giving rise thereto, is as follows:

	Thousands of Euros	
	Balance at 31/12/2016	Balance at 31/12/2015
Parent	743,140	780,939
Construction	2,156,809	1,798,342
Industrial Services	85,335	91,955
Environment	122,556	243,905
Total	**3,107,840**	**2,915,141**

In accordance with the table above, the most significant goodwill is the result of the full consolidation of Hochtief, A.G., amounting to EUR 1,388,901 thousand, and the result of the merger of the Parent with Grupo Dragados, S.A., which amounted to EUR 743,140 thousand (EUR 780,939 thousand at 31 December 2015).

The most significant variation took place as a result of the purchase of the remaining interest in Sedgman (see Note 1.10) for an amount of EUR 41.4 million and the purchase of UGL for an amount of EUR 323.7 million. The write-down is due to the sale of the ownership interest in Urbaser, which, in addition to partially reducing the goodwill of the Dragados Group by EUR 37,799 thousand because of the portion assigned to the Urbaser CGU, reduced Goodwill derived from the Urbaser Group itself by EUR 92,910 thousand. There were no significant variations during the 2015 fiscal year.

As regards goodwill, each year the ACS Group compares the carrying amount of the related company or cash-generating unit (CGU) against its value in use, determined by the discounted cash flow method.

As regards the goodwill generated by the purchase of Hochtief, A.G. in 2011, said goodwill was, in accordance with IAS 36.80, allocated to the main cash-generating units, namely Hochtief Asia Pacific and Hochtief Americas. The value of the goodwill allocated to the Hochtief Asia Pacific cash-generating unit (CGU) amounted to EUR 1.102 billion, while the CGU Hochtief Americas was allocated EUR 287 million. In 2016, the ACS Group evaluated the recoverability of these items.

To prepare the impairment test for the Hochtief goodwill allocated to Asia Pacific, the ACS Group used as its basis internal projections for fiscal years 2017 to 2019, in accordance with Hochtief's business plan for that division and estimates for the period 2020-2021, discounting free cash flows at a weighted average cost of capital (WACC) of 10.2%, and with a perpetual growth rate of 2.5%. The weighted average cost of capital (WACC) supposes a premium on the long-term interest-rate yield (Australian 10-year bond) of 625 basis points, as published by Factset on 31 December 2016. In addition, the perpetual growth rate used corresponds to the estimated CPI for Australia in fiscal year 2021 published by the IMF in its World Economic Outlook report of October 2016.

Asia Pacific's internal projections are based on Hochtief's historical data and internal forecasts for Asia Pacific until December 2019, and for the period 2020-2021 estimates have been used that are in line with projections for previous years.

Regarding the sensitivity analysis of the impairment test for the goodwill assigned to the Hochtief Asia Pacific business, the relevant aspects are that the test supports a discount rate of up to approximately 14.5%, representing a range of approximately 426 basis points, as well as a perpetuity growth rate of -4%. It would also withstand an annual decrease in cash flows of approximately 50% of the flows projected.

Additionally, this value was contrasted with the average target price made by Cimic analysts according to Factset at 31 December 2016 and with Cimic's market price for the same date. The conclusion was that there is no impairment in any of the scenarios analysed.

In the case of the CGU Hochtief Americas, the following basic assumptions have been made:

- Projections have been used for the five fiscal years until 2019, in accordance with Hochtief's business plan for the division and estimates for the 2020-2021 period.
- A perpetual growth rate of 2.3% has been assumed, in accordance with International Monetary Fund estimates for the U.S. CPI in 2021, and in accordance with the World Economic Outlook report published by the IMF in October 2016.
- A discount rate of 12.35% has also been assumed.

As for the sensitivity analysis of the impairment test for the goodwill assigned to Hochtief Americas, the relevant aspects are that the goodwill test, even assuming a cash position of 0 euros, supports a discount rate of up to approximately 50%, representing a span of 3,765 basis points, and would withstand an annual fall in cash flows of more than 75% of the projections.

All the assumptions listed above are supported by the historical financial information for the different units, allowing for future growth lower than those obtained in previous years. Additionally, it should be noted that the main variables of fiscal year 2016 did not differ significantly from those used in the impairment test of the previous year, and in some cases were higher than the forecasts.

In addition, this value has been compared with the analysts' valuations for said division of Hochtief, and it has been concluded that it does not represent any impairment in any of the scenarios analysed. It should also be noted that the market price at 31 December 2016 (EUR 133.05 per share) is significantly higher than the average consolidated carrying cost.

Together with the goodwill generated by the global consolidation of Hochtief, A.G. mentioned above, the most relevant goodwill corresponds to that arising from the merger with Grupo Dragados in 2003 for EUR 743.140 million (EUR 780.939 million at 31 December 2015). This is related to the excess value paid on the value of the assets on the date of acquisition and is allocated mainly to the cash-generating units of the Construction and Industrial Services division as follows:

Cash-generating unit	Goodwill allocated (Thousands of euros)
Construction	554,420
Industrial Services	188,720
Total goodwill	**743,140**

The Goodwill arising from the merger with Grupo Dragados, S.A., refers to the excess value paid on the value of the net assets at the date of acquisition and is allocated to the cash-generating units of the Construction and Industrial Services area of Dragados.

In both fiscal year 2016 and fiscal year 2015, the Company has assessed the recoverability of this goodwill in accordance with an impairment test carried out in the fourth quarter, with figures for September of each year. Neither year’s final quarter has shown any activity relevant to said test.

For the valuation of the different business units, in the case of Dragados Construction and Industrial Services, the valuation is done through the cash-flow discounting methodology.

The discount rate used in each business unit is its weighted average cost of capital. To calculate the discount rate of each business unit, the figures employed are the 10-year bond yield in Spain, the deleveraged beta of the sector (according to Damodaran) re-leveraged by the target indebtedness of each business unit, and the market risk premium according to Damodaran. The cost of gross debt is the actual effective consolidated cost of debt of each business unit as at September 2016, and the tax rate used is the theoretical rate in Spain. The perpetual growth rate (g) used is the 2021 CPI increase for Spain according to the IMF report of October 2016.

The key assumptions used for the valuation of the most relevant cash-generating units are as follows:

- Dragados Construcción:

    - Sales: annual compound growth rate during the period from 2016 to 2021 of 1.2%.
    - EBITDA Margins: average margin in 2017-2021 of 6.6% and terminal margin of 6.6%.
    - Amortisations/Operational investments: convergence to a ratio of sales of up to 1.3% in the last year of projection.
    - Working capital: maintenance of the days of the working capital for the period, calculated based on the figures for the end of September 2016.
    - Perpetual growth rate of 1.56%.
    - Discount rate of 5.84%.

- Industrial Services:
    - Sales: annual compound growth rate in the period from 2016 to 2021 of -1.1%.
    - EBITDA Margins: average margin in 2017-2021 of 10.1% and terminal margin of 10.1%.
    - Amortisations/Operating investments: convergence to a ratio of sales of up to 1.6% in the last projection year.
    - Working capital: maintenance of the days of working capital for the period, calculated based on the figures for the end of September 2016.
    - Perpetual growth rate of 1.56%.
    - Discount rate of 5.75%.

All the assumptions made above are supported by the historical financial information of the different units, allowing for future growth levels lower than those obtained in previous years. It should also be noted that the main variables for fiscal year 2015 have not differed significantly from those used in the impairment test of the previous year, and in some cases have been higher than the forecasts.

Following the impairment tests of each of the cash-generating units to which the goodwill arising from the merger with Grupo Dragados in 2003 was assigned, with the assumptions outlined above, it was determined that in no case was the estimated recoverable amount of the cash-generating unit less than its carrying amount, so there is no evidence of impairment.

Likewise, for all divisions a sensitivity analysis was performed, allowing for different scenarios for the two key parameters in the determination of the value through the discount of cash flows; these parameters are the perpetual growth rate (g) and the discount rate used (weighted average cost of capital) for each of the cash-generating units. In no reasonable scenario does it appear that there is a need to register a deterioration. By way of example, the deterioration tests of the main cash-generating units such as Dragados Construcción and Industrial Services support increases in the discount rates of 750 and 2,200 basis points, respectively, without any deterioration. Likewise, these tests support negative deviations in budgeted cash flows of 60% for Dragados Construcción and 85% for Industrial Services.

Accordingly, the Directors consider that the sensitivity scales of the aforementioned tests in relation to the key assumptions are in a reasonable range that precludes any deterioration in either 2016 or 2015.

The rest of the goodwill, apart from that originated by the merger between ACS and Dragados Group and resulting from the global consolidation of Hochtief, A.G., is very fragmented. Thus, in the case of Industrial, the total goodwill on the statement of financial position amounts to EUR 85,335 thousand (EUR 91,955 thousand at 31 December 2015), which corresponds to 28 companies in this area of activity, the most significant being that related to the acquisition of Midasco, Llc. for EUR 17,613 thousand (EUR 18,065 thousand at 31 December 2015).

In the Services division, the total amount comes to EUR 122,556 thousand (EUR 243,905 thousand at 31 December 2015), corresponding to more than 50 different companies, the largest of which is that relating to the purchase of 25% of Clece for the amount of EUR 115,902 thousand. In 2016, with the sale of Urbaser, the goodwill associated with that sub-group that has been sold was written off, amounting to EUR 92,910 thousand.

In the Construction division, apart from the aforementioned elements related to the overall consolidation of Hochtief, A.G., what most stands out are those aspects related to the acquisitions of Pol-Aqua at EUR 8,025 thousand (EUR 11,067 thousand at 31 December 2015), Pulice at EUR 58,828 thousand (EUR 56,948 thousand at 31 December 2015), John P. Picone at EUR 51,428 thousand (EUR 49,785 thousand at 31 December 2015), and Schiavone at EUR 56,797 thousand (EUR 54,982 thousand at 31 December 2015), as well as J.F. White, which had already been fully classed as impaired in 2016 (EUR 7,448 thousand at 31 December 2015). With the exception of the Pol-Aqua goodwill, which had been partly impaired in 2016 by EUR 2,703 thousand and in 2015 by EUR 3,670 thousand, differences in the goodwill are due to differences in the conversion rate to the US dollar.

In these divisions, the calculated impairment tests are based on assumptions similar to those described for each area of activity or the case of the Dragados Group’s goodwill, taking into account the necessary variations due to the peculiarities, geographic markets, and specific circumstances of the companies affected.

On the basis of the estimates and projections available to the Group Managers and each of the affected companies, the cash flow provisions attributable to these cash-generating units or their groups to which the various goodwill entries are allocated, allow for the recovery of the net value of each goodwill recorded at 31 December 2016 and 31 December 2015.

Impairment losses in relation to ACS Group goodwill during fiscal year 2016 amounted to EUR 10,356 thousand (EUR 4,088 thousand in fiscal year 2015).

2.2 Other intangible assets

The additions and variations in scope in fiscal year 2016 amounted to EUR 22,462 thousand (EUR 48,642 thousand in fiscal year 2015), relating mainly to the Services business in the amount of EUR 13,635 thousand (EUR 12,302 thousand in fiscal year 2015), Dragados in the amount of EUR 530 thousand (EUR 5,137 thousand in fiscal year 2015), Hochtief in the amount of EUR 5,492 thousand, mainly from the allocation of the PPA in Sedgman to contracts with customers (see Note 1.10) (EUR 3,538 thousand in fiscal year of 2015), and the Industrial Services business in the amount of EUR 2,318 thousand (EUR 1,638 thousand in fiscal year 2015). As a result of the sale of Urbaser EUR 329,233 thousand has been written off under this heading.

The losses incurred in fiscal year 2016 on the value of items classified under “Other intangible assets” amounted to EUR 1,845 thousand. During fiscal year 2015 there were loses of value of elements classified under “Remaining intangible assets” in the amount of EUR 1,056 thousand, relating mainly to the division of the Construction business and classified under the heading “Impairment losses and income for disposals of fixed assets” in the attached consolidated income statement. Losses in value have not been carried forward into the income statements for fiscal years 2016 and 2015.

3. Property, plant and equipment

In fiscal years 2016 and 2015 items of property, plant and equipment were acquired for EUR 523,735 thousand and EUR 560,691 thousand, respectively.

In fiscal year 2016 the most noteworthy additions by division were made by the Construction business, for EUR 364,097 thousand, notably from the investments made by Hochtief for EUR 260,316, primarily for the purpose of acquiring machinery, as well as because of the additions from the full integration of Sedgman and UGL and by Dragados in the amount of EUR 103,089 thousand, by the Services business for EUR 127,308 thousand corresponding primarily to the purchase of machinery, industrial vehicles and other machinery by the Urban Services, and by Industrial Services for EUR 32,128 thousand for the acquisition of new machinery and equipment to carry out new projects.

The most noteworthy acquisitions in fiscal year 2015 were made by the Construction business amounting to EUR 332,408 thousand, mainly from Hochtief for EUR 264,017 thousand, for the acquisition of machinery for Cimic’s mining operations, to the Services business for EUR 126,928 thousand, primarily due to the acquisition of machinery and equipment, and to the Industrial Services business for EUR 101,179 thousand for the acquisition of machinery and equipment to carry out new projects. In addition, there was an increase under “Plant and machinery” in the amount of EUR 91,951 thousand as a result of ceasing to recognising the assets of PT Thiess Contractors Indonesia as assets held for sale in fiscal year 2015.

Similarly, assets were also sold in fiscal years 2016 and 2015 for a total carrying amount of EUR 106,021 thousand and EUR 265,231 thousand respectively, which did not give rise to significant profit or loss as a result of the disposals. The most significant disposal in 2016 corresponded to the sale of Urbaser, involving an amount of EUR 625,937 thousand. In addition, in 2016 there was a write-down for Hochtief machinery for an amount of EUR 86,076 thousand and the sale of machinery from Dragados for an amount of EUR 8,055 thousand. In fiscal year 2015, the most significant sales were made by Hochtief as a result of the disposals in various companies.

Furthermore, during 2016 in Dragados an amount of EUR 113,636 thousand was transferred from “Fixed assets under construction and advances” corresponding to the “Paseo de la Direccion de Madrid” to “Inventory” (EUR 15,367 thousand to Urban Rated Land and EUR 98,269 thousand to Advances to Suppliers) as it is expected to be completed shortly (see Note 7).

At 31 December 2016, the Group has ongoing contractual commitments for the future acquisition of property, plant and equipment for EUR 90,738 thousand, corresponding most notably to the investment commitments for technical installations by Hochtief in the amount of EUR 55,707 thousand and for machinery by Dragados in the amount of EUR 28,065 thousand. The commitments at 31 December 2015 amounted to EUR 403 thousand.

The impairment losses recognised in the consolidated income statement at 31 December 2016 amount to EUR 5,175 thousand and mainly relate to the sale and impairment of Dragados machinery and to Cobra Gestión de Infraestructuras (EUR 11,075 thousand at 31 December 2015). No significant impairment losses were reversed or recognised in the income statement in fiscal years 2016 and 2015.

4. Non-current assets in projects

The balance of “Non-current assets in projects” in the consolidated statement of financial position at 31 December 2016, includes the costs incurred by the fully consolidated companies in the construction of transport infrastructure, services and power generation centres whose operation forms the subject matter of their respective concessions. These amounts relate to property, plant and equipment associated with projects financed under a project finance arrangement if they are identified as intangible assets or as financial assets according to the criteria discussed in Note 03.04 to the consolidated financial statements at 31 December 2015. To better understand its activities relating to infrastructure projects, the Group considers it more appropriate to present its infrastructure projects in a grouped manner, although they are broken down by type of asset (financial or intangible) in this Note.

All project investments made by the ACS Group at 31 December 2016 are as follows:

Type of infrastructure	End date of operation	Thousands of Euros		
		Investment	Accumulated depreciation	Carrying amount of non-current assets in projects
Highways/roads	2026 - 2030	205,266	(55,743)	**149,523**
Police stations	2024 - 2032	55,589	-	**55,589**
Water management	2020 - 2036	30,899	(7,432)	**23,467**
Energy transmission	2040	13,924	-	**13,924**
Desalination plants	-	8,109	-	**8,109**
Other infrastructures	-	16,562	(3,978)	**12,584**
Total		**330,349**	**(67,153)**	**263,196**

The breakdown of this heading by type, in accordance with IFRIC 12, is as follows:

The concession assets identified as intangible assets, as a result of the Group assuming demand risk, are as follows:

Type of infrastructure	End date of operation	Thousands of Euros		
		Investment	Accumulated depreciation	Carrying amount of non-current assets in projects
Highways/roads	2026	185,264	(55,715)	**129,549**
Water management	2033	18,542	(6,864)	**11,678**
Other infrastructures	-	6,019	(1,228)	**4,791**
Total		**209,825**	**(63,807)**	**146,018**

The concession assets identified as financial assets, as a result of the Group not assuming demand risk, are as follows:

Type of infrastructure	End date of operation	Thousands of Euros
		Collection rights arising from concession arrangements
Police stations	2024 - 2032	**55,589**
Highways/roads	2030	**19,972**
Energy transmission	2040	**13,924**
Water management	2032 - 2033	**3,054**
Other infrastructures	-	**4,566**
Total		**97,105**

The detail of the financial assets financed under a project finance arrangement that do not meet the requirements for recognition in accordance with IFRIC 12 is as follows:

Type of infrastructure	End date of operation	Thousands of Euros		
		Investment	Accumulated depreciation	Carrying amount of non-current assets in projects
Water management	2033 - 2036	9,303	(568)	**8,735**
Desalination plants	-	8,109	-	**8,109**
Other infrastructures	-	6,006	(2,778)	**3,228**
Total		**23,418**	**(3,346)**	**20,072**

Simultaneously, there are concession assets that are not financed by project finance amounting to EUR 26,016 thousand (EUR 306,858 thousand at 31 December 2015) which are recognised as “Other intangible assets”. The reduction is mainly due to the sale of Urbaser in December 2016.

In fiscal years 2016 and 2015, acquisitions were made of fixed assets for projects for EUR 22,929 thousand and EUR 33,256 thousand, respectively. The main investments in projects in fiscal year 2016 corresponded to the division of Concessions in the amount of EUR 16,979 thousand. In fiscal year 2015 the main investments in projects corresponded to the Industrial Services business in the amount of EUR 8,970 thousand, notably those made in wind farms, and the division of the Services business in the area of waste treatment in the amount EUR 18,498 thousand. In addition to the previously mentioned investments, there were no significant variations to the scope of consolidation in fiscal years 2016 and 2015.

There were no significant disposals in fiscal years 2016 and 2015.

Impairment losses in the consolidated income statement at 31 December 2016 amounted to EUR 10,365 thousand (EUR 18,428 thousand at 31 December 2015). Likewise, no impairment losses were reversed for either fiscal years 2016 or 2015.

At 31 December 2016 the Group had not entered into any significant contractual commitments for the acquisition of fixed assets in projects. At 31 December 2015 the Group had entered into contractual commitments for the acquisition of fixed assets in projects in the amount of EUR 40,330 thousand, which had mainly related to Urbaser for medium and long term commitments for sealing and post-closure maintenance of landfills and machinery replacement.

The financing relating to non-current assets in projects is explained in Note 10. The concession operators are also obliged to hold restricted cash reserves, known as reserve accounts, included under “Other current financial assets” (see Note 6).

5. Investments in companies accounted for using the equity method

The detail, by line of business, of the investments in companies accounted for by the equity method at 31 December 2016 and 31 December 2015 is as follows:

Line of Business	Thousands of Euros					
	31/12/2016			31/12/2015 (*)		
	Share of net assets	Profit/Loss for the year	Total carrying amount	Share of net assets	Profit/Loss for the year	Total carrying amount
Construction	746,293	88,866	**835,159**	806,344	274,527	**1,080,871**
Industrial Services	719,494	(13,695)	**705,799**	736,672	12,585	**749,257**
Environment	43	(43)	**-**	85,687	(260)	**85,428**
Corporate Unit	(8,658)	-	**(8,658)**	(9,829)	1,171	**(8,658)**
Total	**1,457,172**	**75,128**	**1,532,300**	**1,618,874**	**288,023**	**1,906,898**

(*) Restated unaudited

- ***Construction***

The investments from the Hochtief Group accounted for using the equity method for EUR 721,819 thousand (EUR 990,945 thousand at 31 December 2015) are the most notable in the Construction business at 31 December 2016 and 31 December 2015. The reduction is mainly due to the full consolidation of Sedgman (see Note 1.10) and the sale of Nextgen, which was partially offset by investments made in joint ventures by Hochtief in America and Australia.

In 2015 the provisions associated with the Hochtief PPA in the amount of EUR 186,612 thousand were reversed, since the risks with which they were associated were considered to have disappeared.

- ***Industrial Services***

There were no significant changes during fiscal year 2016 in the Industrial Services business.

As a result of the agreements entered into with GIP described in Note 1.6), the shares of Saeta were admitted to listing and a joint venture (Bow Power, S.L.) was incorporated in 2015. Therefore, the assets that were recognised as held for sale included in these companies were accounted for using the equity method. At 31 December 2016 these ownership interests have a book value amounting to EUR 287,553 thousand.

With regard to the potential impairment of the shareholding in Saeta Yield, S.A., it should be noted that the ACS Group has a 24.21% ownership interest in Saeta Yield. At 31 December 2016, the carrying amount of the ownership interest in Saeta Yield in the ACS Group's consolidated financial statements reached EUR 9.92/share and the market price at this date amounted to EUR 8.131/share.

Although the share price is below the carrying value, as it was at 31 December 2015, at 31 December 2016, pursuant to IAS 36, the ACS found no significant indications of impairment in this asset. There have been no significant variations in the assumptions used in the tests for impairment used for fiscal year 2015 of the Group goodwill that could represent a significant risk of recognition of impairment in future.

- ***Services***

The reduction is due to the deconsolidation of the companies accounted for using the equity method, as a result of the sale of Urbaser in December 2016. There were no significant changes in fiscal year 2015.

6. Financial assets

6.1 Composition and breakdown

The breakdown of the Group's financial assets at 31 December 2016 and 31 December 2015, by nature and category for valuation purposes, is as follows:

	Thousands of Euros			
	31/12/2016		31/12/2015	
	Non-Current	Current	Non-Current	Current
Equity instruments	172,004	195,404	290,940	658,116
Loans to associates	1,292,827	59,622	1,018,464	112,544
Other loans	547,806	43,897	453,124	290,576
Debt securities	47	558,207	1,215	721,041
Other financial assets	374,905	956,187	376,970	529,036
Total	**2,387,589**	**1,813,317**	**2,140,713**	**2,311,313**

6.2. Iberdrola

The Group’s most significant equity instruments related to Iberdrola.

At the end of March 2016 the ACS Group executed the prepaid forward sale of its entire holding in Iberdrola, S.A., totalling 89,983,799 shares representing 1.4% of the share capital of that company, at an average price of EUR 6.02 per share. All economic rights (including dividends) were transferred as a result of this transaction, and there is no future cash flow for the ACS Group in relation to the investment sold. In this manner, all cash flow associated with the shares is directly attributable to the financial entity that made the forward purchase of the shares, although the legal ownership of the shares remains unchanged. There was a substantial change following the formal communication made to bondholders on 7 April 2016 to report that the ACS Group’s method of payment to the bondholders will be exclusively in cash, reinforcing the transfer position of the assets and therefore of the risks and benefits thereof. In accordance with the terms of the issues, the ACS Group had the ability to choose the form of bond payment, whether in cash or by delivery in shares. Given the mentioned communication, the second option will no longer be contemplated.

Also, of the amount received, at 31 December 2016, EUR 532,901 thousand are held as collateral in guarantee of the transaction and reflected under "Other current financial assets" in the attached consolidated statement of financial position. The "collateralization" of the cash deriving from the sale of shares to satisfy bondholders’ payments at maturity substantially reduces the risk of default on payment commitments. The ACS Group is further bound to refrain from buying shares of Iberdrola during the “prepaid forward sale” period (associated with the bonds’ maturity dates), which reinforces the asset transfer position and therefore the risks and benefits thereof. They are reflected as short-term instruments given that the bondholders may exercise their right to exercise early maturity at any time in accordance with the American option governing the bonds. At the same time, the amount of the bonds remains reflected as a short-term item under "Debt with credit institutions, obligations, and other marketable securities" in the liability portion of the statement of financial position.

At the same time, and in order to mitigate the risk of an increase in the debt associated with the bonds that may arise as a result of the increase in Iberdrola’s market value, the ACS Group issued call options on an equal number of Iberdrola shares for an exercise price equal to the sale price of the option described above (EUR 6.02 per share), in order to eliminate the market risk associated with the exchangeable bonds issued during 2013 and 2014. The accounting record shows an increase of the financial asset deriving from the amount of the premium paid at the time of its issuance in the amount of EUR 70.8 million.

As the American option depends on the moment the bondholders may exercise the maturity, it has been recorded as a current or short-term asset. The subsequent valuation of the derivative is made with changes in the income statement
Given the foregoing, the transaction does not entail the contracting of a derivative, but a firm sale with deferred delivery of the Iberdrola shares, from which moment all the risks and benefits associated with said shares are passed on. With this substantial transfer of the risks and benefits associated with the shares of Iberdrola, the ACS group has proceeded to remove them from its balance sheet.

The joint result of these transactions, together with the transfer to the income statement from the “Valuation adjustments – Available-for-sale financial assets” account under shareholders’ equity on the attached consolidated statement of financial position from EUR 6.02 per share, triggered a pre-tax gain of EUR 95,326 thousand recorded in the “Impairment and results from disposal of financial instruments” account on the attached consolidated statement of income (see Note 16). The costs of the transaction were reflected in the consolidated income statement at the time of the forward sale of the shares, reducing the amount of capital gains.

At 31 December 2015, the ACS Group held 89,983,799 shares representing 1.4% of the share capital of Iberdrola, S.A. at that date. The average consolidated cost amounted to EUR 4.174 per share at 31 December 2015. The ownership interest in Iberdrola was recognised at its market price at the end of each year (EUR 6.550 per share at 31 December 2015) amounting to EUR 589,394 thousand. At 31 December 2015 a positive valuation adjustment of EUR 152,683 thousand, net of the related tax effect, was recognised in equity under “Valuation adjustments - Available-for-sale financial assets”.

The shares, which were recognised as current equity instruments in the accompanying consolidated statement of financial position at 31 December 2015, are pledged as collateral for bonds convertible into Iberdrola shares issued through ACS Actividades Finance B.V. and ACS Actividades Finance 2 B.V. at 31 December 2015 (see Note 10), finally maturing for EUR 297,600 thousand in October 2018 and EUR 235,300 thousand in March 2019, respectively, and the bondholders have the option of early cancellation under certain conditions. These bonds are reflected as current liabilities under "Debt with credit institutions, obligations, and other marketable securities" in the attached consolidated statement of financial position. Further, as part of the above-mentioned transaction the Group has notified bondholders that payment of the bonds to which these shares are linked will take place in cash.

The put spread over Ibedrola shares was finalized in 2016 without any significant impact in the ACS Group's income statement and freed up the collateral associated with the derivative. At 31 December 2015, the ACS Group had maintained a put spread with an underlying asset relating to 158,655,797 shares of Iberdrola, S.A., which implied limited exposure for the ACS Group to market fluctuations of this company's shares, which were measured at the reporting date at market value, with any changes taken to profit or loss. The market value at 31 December 2015, whereby the market price of Iberdrola exceeded the maximum exercise value of the put spread by more than 30%, meant that a liability was not recognised in this connection (see Note 11).

The most significant transaction in 2015 in relation to the ownership interest in Iberdrola was the cancellation of the equity swap entered into with Natixis for 164,352,702 shares of Iberdrola, S.A. (see Note 11), in which the ACS Group held the usufruct right on these shares.

In relation to the impairment of the investment in Iberdrola, given that at 31 December 2015 the quoted price was significantly above the carrying amount, the ACS Group did not consider that any signs of impairment existed and, therefore, did not perform any tests aimed at verifying such possibility.

6.3. Loans to associates

"Non-current loans to associates" relates mainly to the loans granted to HLG Contracting LLC amounting to EUR 615,145 thousand (EUR 487,544 thousand at 31 December 2015).

Likewise, at 31 December 2016 non-current loans granted in euros (net of the associated provisions) were granted to Eix Diagonal for EUR 170,540 thousand (EUR 157,490 thousand at 31 December 2015), Celtic Road Group (Waterford and Portlaoise) for EUR 45,566 thousand (EUR 45,566 thousand at 31 December 2015), Autovía del Pirineo for EUR 54,582 thousand (EUR 54,581 thousand at 31 December 2015), Circunvalación de Alicante, S.A. for EUR 15,651 thousand (EUR 15,655 thousand at 31 December 2015), and Infraestructuras y Radiales, S.A. for EUR 29,538 thousand (EUR 29,538 thousand at 31 December 2015), Concesionaria Vial del Pacífico, S.A.S for EUR 18,521 thousand (EUR 12,054 thousand at 31 December 2015), as well as to Concesionaria Nueva Vía al Mar, S.A. for EUR 11,988 thousand (EUR 4,923 thousand at 31 December 2015).

6.4. Other loans

At 31 December 2016, non-current loans mainly include the loan granted to Masmovil in the amount of EUR 200,000 thousand. On 20 June 2016, the ACS Group, through its subsidiary ACS Telefonía Móvil, S.L. reached an agreement with Masmovil Ibercom, S.A. for the sale of all its shares (17% ownership interest in the amount of EUR 79,330 thousand reflected under "Financial assets-Equity instruments" in the statement of financial position at 31 December 2015) and its participation loans in Xfera Móviles, S.A. (in the amount of EUR 119,170 thousand), which amounted to EUR 198,500 thousand.

Pursuant to the signed contracts and on closing of the transaction on 5 October 2016 upon its approval by the antitrust authorities and Masmovil's obtaining of the necessary financing, ACS transferred the shares and rights under the participation loans (PPL's) held in Xfera Móviles, S.A. in exchange for Masmovil's issue of a promissory note for a total amount of EUR 200 million, broken down as follows:

- Initial amount of EUR 120 million (secured by a first-demand bank guarantee for 25 months).

- "Earn-out" of EUR 80 million, which would be payable based on the Masmovil Group's consolidated EBITDA in 2019 (according to the business plan attached to the contract), subject to the maximum amount of EUR 80 million if the EBITDA is equal to or greater than EUR 300 million in 2019. The aforementioned EUR 80 million would not be charged if the EBITDA were equal to or less than 70% of EUR 300 million (that is, EUR 210 million). A proportionate amount would be payable should it fall between the two limits mentioned above.

In addition, it should be noted that the EUR 80 million of the "earn-out" will be payable in the event of a change of control before 1 January 2020 in Masmovil or if the net financial debt/EBITDA ratio in any quarterly period from the second quarter of 2017 (inclusive) is greater by seven times, regardless of the EBITDA recorded in 2019.

In no case will ACS have the right to receive the earn-out if (i) it compels advance payment of the debt or if (ii) it compels Masmovil to assume the debt within three years from the date of effectiveness of the contract.

The debt (including the portion corresponding to the "earn-out") generates a fixed interest rate of 2%. Additionally, it should be noted that the debt will generate a variable interest rate of 3% should a series of events take place, such as if the EBITDA for the preceding year should exceed 20%, should a change of control take place, etc.

Further, the following circumstances will trigger a commitment of debt assumption and capitalization in shares:

- If ACS compels Masmovil to assume the debt within three years from the contract’s date of effectiveness, ACS will be entitled to capitalize the outstanding debt at the date of the demand at EUR 25/share. In this case, there would be no right to the earn-out.

- If ACS compels Masmovil to assume the debt from the third year following the contract’s date of effectiveness, ACS will be entitled to capitalize the outstanding debt at the date of the demand at EUR 40/share. In this case, there would be no right to the earn-out.

- In the event Masmovil is in breach of payment obligations at standard or early maturity, and does not remedy the breach within five business days from the occurrence thereof, ACS will also have the right to compel Masmovil to assume the debt at EUR 20/share.

- In the event net the net financial debt/EBITDA ratio in any quarterly period from the second quarter of 2017 (inclusive) is greater than 6x, ACS will be entitled to compel Masmovil to assume the debt at EUR 20/share.

Masmovil is subject to certain obligations that are common to this type of arrangement, such as the delivery of the debt ratios to ACS, the necessity to delegate some important decisions to the ACS board of directors, such as the dismissal/appointment of senior officers (i.e. CEO or CFO of any company in operation controlled by Masmovil), to approve a business plan other than the Business Plan or the annual budget if it materially differs from the Business Plan, or to modify the “national roaming agreement.”

Certain cases may trigger early maturity, notably including if Masmovil were to be in breach of any payment obligations under the contract, or if Masmovil’s General Shareholders’ Meeting were to cease in its capacity as Advisor to the Directors of ACS, or if there were to be a court declaration of Masmovil’s legal status as the subject of bankruptcy proceedings.

The repayment schedule for the loan ranges from 2023 to 2029.

At 31 December 2016, the ACS Group finds that there is no event of which it has knowledge nor has it identified any circumstance that may be considered an indicator of impairment in the business plan for the achievement of EBITDA in fiscal year 2019 for the consolidation of the variable portion of the above-mentioned loan.

Lastly, this heading reflected the debt that was refinanced to local corporations in the amount of EUR 117,201 thousand at 31 December 2015, and which was removed from the ACS Group’s scope of consolidation with the sale of Urbaser in December 2016.

6.5. Debt securities

At 31 December 2016, this heading included the investments in securities maturing in the short term relating mainly to investments in securities, investment funds and fixed-interest securities maturing at more than three months and which it does not intend to hold until maturity arising from Hochtief for EUR 269,028 thousand (EUR 510,717 thousand at 31 December 2015). Other amounts that are noteworthy include those held by Cobra amounting to EUR 235,879 thousand (EUR 46,032 thousand at 31 December 2015).

6.6. Other financial assets

At 31 December 2016, “Other financial assets” included short-term deposits amounting to EUR 754,792 thousand (EUR 296,088 thousand at 31 December 2015). This amount includes the amounts provided to cover certain derivatives arranged by the Group totalling EUR 564,609 thousand (EUR 203,347 thousand at 31 December 2015) (see Note 11), including the prepaid forward sale of its entire shareholding in Iberdrola, S.A. (see Note 6.2) for the amount of EUR 532,901 thousand. These amounts earn interest at market rates and their availability is restricted and depends on compliance with coverage ratios.

6.7. Impairment losses

There were no significant impairment losses either in fiscal year 2016 or in fiscal year 2015. There were no significant reversals of impairment losses on financial assets in fiscal year 2016 or in fiscal year 2015.

7. Inventories

The detail of “Inventories” is as follows:

	Thousands of Euros	
	31/12/2016	31/12/2015
Merchandise	198,529	197,199
Raw materials and other supplies	385,967	334,224
Work in progress	595,158	683,563
Finished goods	14,903	41,524
By-products, waste and recovered materials	-	378
Advances to suppliers and subcontractors	212,399	211,030
Total	**1,406,956**	**1,467,918**

Inventories at 31 December 2016 mostly relate to the EUR 559,168 thousand (EUR 767,760 thousand at 31 December 2015) contributed by the Hochtief Group, including work in progress amounting to EUR 382,636 thousand (EUR 614,388 thousand at 31 December 2015), and mainly real estate (land and buildings), of Hochtief and its Australian subsidiary Cimic, of which EUR 231,661 thousand were restricted at 31 December 2016 (EUR 322,703 thousand at 31 December 2015), and to fixed assets in Dragados in the amount of EUR 368,298 thousand. In addition to the aforementioned restrictions, no inventories were pledged and/or mortgaged as collateral for the repayment of debts either at 31 December 2016 or at 31 December 2015).

In addition, during 2016 in Dragados an amount of EUR 113,636 thousand was transferred from “Fixed assets under construction and advances” corresponding to the “Paseo de la Direccion de Madrid” to “inventory” (EUR 15,367 thousand to Urban Rated Land and EUR 98,269 thousand to Advances to Suppliers) as it is expected to be completed shortly (see Note 3).

Impairment losses on inventories recognised and reversed in the consolidated income statement for fiscal year 2016 relating to the various ACS Group companies, amounted to EUR 23 thousand and EUR 1,757 thousand, respectively (EUR 1,392 thousand and EUR 2,257 thousand in fiscal year 2015).

8. Equity

8.1. Share capital

At 31 December 2016 and 31 December 2015, the share capital of the Parent amounted to EUR 157,332 thousand and was represented by 314,664,594 fully subscribed and paid shares with a par value of EUR 0.5 each, all with the same voting and dividend rights.

Expenses directly attributable to the issue or acquisition of new shares are recognised in equity as a deduction from the amount thereof.

At the General Shareholders’ Meeting held on 29 May 2014, and in accordance with Article 297 of the Consolidated Spanish Limited Liability Companies Law, the shareholders authorised the Company’s Board of Directors to increase share capital by up to 50% at the date of this resolution on one or several occasions, and at the date, in the amount and under the conditions freely agreed in each case, within five years following 29

May 2014, and without previously consulting shareholders at the General Meeting. Accordingly, the Board of Directors may set all terms and conditions under which capital is increased as well as the features of the shares, investors and markets at which the increases are aimed and the issue procedure; freely offer the new unsubscribed shares within the pre-emption rights period; and in the event the issue is not fully subscribed, render the capital increase null and void or increase capital only by the amount subscribed.

The share capital increase or increases may be carried out by issuing new shares, either ordinary, without voting rights, preference or redeemable shares. The new shares shall be payable by means of monetary contributions equal to the par value of the shares and any share premium which may be agreed.

In accordance with the provisions of Article 506 of the Consolidated Spanish Limited Liability Companies Law, the Board of Directors was expressly empowered to disapply pre-emption rights in full or in part in relation to all or some of the issues agreed under the scope of this authorisation, where it is in the interest of the company and as long as the par value of the shares to be issued plus any share premium agreed is equal to the fair value of the Company's shares based on a report to be drawn up at the Board's request, by an independent auditor other than the Company's auditor, which is appointed for this purpose by the Mercantile Registry on any occasion in which the power to disapply pre-emption rights is exercised.

Additionally, the Company's Board of Directors is authorised to request the listing or delisting of any shares issued, in Spanish or foreign organised secondary markets.

Similarly, at the General Shareholders' Meeting held on 29 May 2014, the shareholders resolved to delegate to the Board of Directors the power to issue non-convertible, exchangeable or convertible fixed-income securities, as well as warrants on the newly issued shares or outstanding shares of the Company or other companies in accordance with the following summary:

- The securities that the Board of Directors is authorised to issue may be debentures, bonds, promissory notes and other similar fixed-income securities, which may be non-convertible, in the case of debentures and bonds, exchangeable for shares of the Company or any other Group company or other companies, and/or convertible into shares of the Company or other companies, as well as warrants on newly issued shares or outstanding shares of the Company or other companies.
- Securities may be issued on one or more occasions at any time within five years from the date on which this resolution was adopted.
- The total amount of the issue or issues of securities agreed under this delegation of authority, regardless of their nature, plus the total number of shares listed by the Company and outstanding at the issue date may not exceed a maximum limit of EUR 3 billion.
- Based on this authorisation granted, the Board of Directors must determine for each issue, including but not limited to, the following: the amount within the aforementioned maximum limit; the location, date and currency of the issue, further establishing the equivalent amount in euros, where applicable; the type of security, whether bonds or debentures, subordinate or not, warrants or any other security permitted under the law; the interest rate and payment dates and procedures; in the case of warrants, the amount and method used, where applicable to calculate the premium and exercise price; whether the securities are non-redeemable or redeemable and, in the case of the latter, the redemption period and the expiration dates; the type of repayment, premiums and lots; any related guarantees; how the securities are represented, whether as certificates or book entries; pre-emption rights, if applicable, and the subscription scheme; the applicable legislation; request for permission to trade the securities issued on official or unofficial, organised or unorganised, national or foreign secondary markets; the designation, if applicable, of the delegate and approval of the regulations that govern the legal relationships between the Company and the union of holders of the issued securities.

In accordance with the authorisations granted by the shareholders at the General Shareholders' Meeting on 29 May 2014, in 2015 ACS, Actividades de Construcción y Servicios, S.A. formally executed the issue, under the Euro Medium Term Note Programme (EMTN Programme), of notes on the Euromarket for EUR 500 million, admitted to listing on the Irish Stock Exchange, maturing in five years. The Euro Commercial Paper programme was also renewed upon maturity for a maximum amount of EUR 750 million (see Note 10).

The shareholders at the Ordinary General Shareholders' Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 5 May 2016, resolved, among other matters, to carry out a share capital increase and reduction. In this regard, the Company resolved to increase share capital to a maximum of EUR 366 million with a charge to voluntary reserves, whereby the first capital increase may not exceed EUR 224 million and the second increase may not exceed EUR 142 million, thereby equally granting the Executive Commission, the

Chairman of the Board of Directors and the Director Secretary the power to execute the resolution. The capital increase is expected to take place, in the case of the first increase, within the three months following the date of the General Shareholders' Meeting held in 2016 and, in the event of a second increase, within the first quarter of 2017, thereby coinciding with the dates on which the ACS Group has traditionally distributed the final dividend and the interim dividend. With regard to the capital reduction, the resolution adopted by the Board consists of reducing share capital through the retirement of the Company's treasury shares for a nominal amount equal to the nominal amount for which the aforementioned capital increase was effectively carried out. The Board of Directors is granted the power to execute these resolutions, on one or two occasions, simultaneously with each of the share capital increases.

In this regard, on 14 June 2016, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first capital increase with a charge to reserves, approved at the Ordinary General Shareholders' Meeting held on 5 May 2016, so that once the process has concluded, the definitive number of ordinary shares, with a par value of EUR 0.5 each, to be issued is 3,825,354, and the nominal value of the related capital increase is EUR 1,912,677, with a simultaneous capital reduction of EUR 1,912,677, through the retirement of 3,825,354 treasury shares charged to free reserves, and the allocation of the same amount to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law.

On 9 January 2017, ACS, Actividades de Construcción y Servicios, S.A., in exercising the authority conferred by resolution of the Company's General Shareholders' Meeting held on 5 May 2016, and pursuant to the 22 December 2016 authorisation by the Board of Directors, resolved to carry out the second capital increase with a charge to reserves for a maximum of EUR 142 million (equal to around EUR 0.45 per share). This was approved at the aforementioned General Shareholders' Meeting in order for the shareholders to be able to choose whether they wished to be compensated in cash or in the Company's shares. After the period for negotiating the bonus issue rights relating to the second scrip, the irrevocable commitment to purchase rights assumed by ACS was accepted by holders of 43.73% of the bonus issue rights, which closed ACS's acquisition of the rights in the total gross amount of EUR 61,236 thousand. The definitive number of issued ordinary shares at EUR 0.5 par value each is 2,534,969, and the nominal value of the related capital increase is EUR 1,267,484.50. Simultaneously a capital reduction in the amount of EUR 1,267,484.50 took place, through the retirement of 2,534,969 treasury shares charged to free reserves, and the allocation of the same amount of EUR 1,267,484.50 as the nominal value of the shares retired to the reserve provided for in Article 335.c of the Spanish Capital Enterprises Act (see Note 8.02).

The shareholders at the Ordinary General Shareholders' Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 28 April 2015, resolved, among other matters, to a share capital increase and reduction. In this regard, the Company resolved to increase share capital to a maximum of EUR 366 million with a charge to voluntary reserves, whereby the first capital increase may not exceed EUR 224 million and the second increase may not exceed EUR 142 million, thereby equally granting the Executive Commission, the Chairman of the Board of Directors and the Director Secretary the power to execute the resolution. The capital increase is expected to take place, in the case of the first increase, within the three months following the date of the General Shareholders' Meeting held in 2015 and, in the case of the second increase, within the first quarter of 2016, thereby coinciding with the dates on which the ACS Group has traditionally distributed the final dividend and the interim dividend. With regard to the capital reduction, the resolution adopted by the Board consists of reducing share capital through the retirement of the Company's treasury shares for a nominal amount equal to the nominal amount for which the aforementioned capital increase was effectively carried out. The Board of Directors is granted the power to execute these resolutions, on one or two occasions, simultaneously with each of the share capital increases.

ACS, Actividades de Construcción y Servicios, S.A., in exercising the authority conferred by resolution of the Company's General Shareholders' Meeting held on 28 April 2015, and pursuant to the 17 December 2015 authorisation by the Board of Directors, resolved to carry out the second capital increase with a charge to reserves for a maximum of EUR 142 million (equal to EUR 0.45 per share). This was approved at the aforementioned General Shareholders' Meeting in order for the shareholders to be able to choose whether they wish to be compensated in cash or in the Company's shares. Once the process was concluded, the definitive number of ordinary shares of EUR 0.5 par value each issued on 4 February 2016 was 2,941,011 and the nominal value of the related capital increase is EUR 1,470,505.50. Simultaneously a capital reduction of EUR 1,470,505.50 took place, through the retirement of 2,941,011 treasury shares charged to free reserves, and the allocation of the same amount of EUR 1,470,505.50 as the nominal value of the shares retired to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law (see Note 8.02).

Accordingly, on 17 July 2015, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first capital increase with a charge to reserves, approved at the Ordinary General Shareholders' Meeting held on 28 April 2015. The definitive number of ordinary shares, with a par value of EUR 0.5 each, to be issued is 4,719,245, and the nominal value of the related capital increase is EUR 2,089,622.50. On 6 August 2015 a reduction in capital was carried out for an amount of EUR 2,089,622.50 by means of the retirement of 4,179,245 treasury shares charged to free reserves, and the allocation of the same amount of EUR 2,089,622.50 as the nominal value of the shares retired to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law.

On 17 February 2015, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 29 May 2014, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,616,408, the corresponding nominal amount of the increase in capital being EUR 1,308,204. On the same date a capital reduction was carried out in the capital of ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 1,308,204 through the retirement of 2,616,408 treasury shares. The same amount as the nominal value of the retired shares, EUR 1,308,204, was allocated to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law (see Note 8.02).

The shares of ACS, Actividades de Construcción y Servicios, S.A. are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and traded through the Spanish computerised trading system.

In addition to the Parent, the companies included in the scope of consolidation whose shares are listed on securities markets are Hochtief A.G. on the Frankfurt Stock Exchange (Germany), Dragados y Construcciones Argentina, S.A.I.C.I. on the Buenos Aires Stock Exchange (Argentina), Cimic Group Limited, Macmahon Holdings Limited and Devine Limited, on the Australia Stock Exchange. The shares of its investee, Saeta Yield, S.A., were listed in the Spanish stock markets as of 16 February 2015.

8.2. Treasury shares

The changes in "Treasury shares" were as follows:

	2016		2015	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
At beginning of the year	**9,898,884**	**276,629**	**6,919,380**	**201,122**
Purchases	4,669,903	107,081	10,134,317	285,693
Scrip dividend	-	-	173,839	6
Sales	(3,125,000)	(85,567)	(532,999)	(15,456)
Depreciation	(6,766,365)	(177,162)	(6,795,653)	(194,736)
At end of the reporting period	**4,677,422**	**120,981**	**9,898,884**	**276,629**

On 4 January 2016, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 28 April 2015, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,941,011, the corresponding nominal amount of the increase in capital being EUR 1,470,505.50. On the same date a capital reduction was carried out in the capital of ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 1,470,505.50 through the retirement of 2,941,011 treasury shares. The same amount as the nominal value of the retired shares, EUR 1,470,505.50, was allocated to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law (see Note 8.01).

On 11 July 2016, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the first increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 5 May 2016, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 3,825,354, the corresponding nominal amount of the increase in capital being EUR 1,912,677. On the same date a capital reduction was carried out in the capital of ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 1,912,677 through the retirement of 3,825,358 treasury shares. The same amount as the nominal value of the retired shares, EUR 1,912,677, was allocated to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law (see Note 8.01).

On 9 January 2017, ACS, Actividades de Construcción y Servicios, S.A. resolved to carry out the second increase of capital against reserves approved by the Ordinary General Shareholders Meeting held on 5 May 2016, setting the definitive number of ordinary shares of EUR 0.5 par value each to be issued at 2,534,969, the corresponding nominal amount of the increase in capital being EUR 1,267,484.50. On the same date a capital reduction was carried out in the capital of ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 1,267,484.50 through the retirement of 2,534,969 treasury shares. The same amount as the nominal value of the retired shares, EUR 1,267,484.50, was allocated to the reserve provided for in Article 335.c of the Spanish Capital Enterprises Act (see Note 8.01).

On 17 February 2015, the capital of ACS, Actividades de Construcción y Servicios, S.A. was reduced by EUR 1,308,204 through the retirement of 2,616,408 treasury shares with a carrying value of EUR 75,965 against reserves. The same amount as the nominal value of the retired shares, EUR 1,308,204, was allocated to the reserve provided for in Article 335.c of the Spanish Limited Liability Companies Law (see Note 8.01).

On 6 August 2015 a reduction in capital of ACS, Actividades de Construcción y Servicios, S.A. was carried out for an amount of EUR 2,089,622.50 by means of the retirement of 4,179,245 treasury shares with a book value of EUR 118,771 thousand charged to free reserves, and the allocation of the same amount of EUR 2,089,622.50 as the nominal value of the shares retired to the reserve provided for in Article 335.c of the Spanish Capital Enterprises Act (see Note 8.01).

At 31 December 2016, the Group held 4,677,422 treasury shares of the Parent, with a par value of EUR 0.5 each, representing 1.49% of the share capital, with a consolidated carrying amount of EUR 120,981 thousand which was recognised in equity under “Treasury shares” in the consolidated statement of financial position. At 31 December 2015, the Group held 9,898,884 treasury shares of the Parent, with a par value of EUR 0.5 each, representing 3.1% of the share capital, with a consolidated carrying amount of EUR 276,629 thousand which was recognised in equity under “Treasury shares” in the consolidated statement of financial position.

8.3. Valuation adjustments

The changes in “Valuation adjustments” are as follows:

	Thousands of Euros	
	2016	2015
Beginning balance	**(33,744)**	**(418,331)**
Hedging Instruments	127,715	298,075
Available-for-sale financial assets	(167,748)	76,077
Exchange differences	84,814	10,435
Ending balance	**11,037**	**(33,744)**

The adjustments for hedging instruments relate to the reserve set up for the effective portion of changes in the fair value of the financial instruments designated and effective as cash flow hedges. They relate mainly to interest rate hedges and, to a lesser extent, foreign exchange rate hedges, tied to asset and liability items in the consolidated statement of financial position, and to future transaction commitments qualifying for hedge accounting because they meet the requirements provided for in IAS 39 on hedge accounting. The changes in the period arose mainly as a result of the rates of exchange for the Australian dollar, Brazilian real, and US dollar. Additionally, the sale of Urbaser affects movement for fiscal year 2016 (see Note 1.6.2).

The changes relating to available-for-sale financial assets include the unrealised gains or losses arising from changes in their fair value net of the related tax effect. The change in fiscal year 2016 arose mainly as a result of the value associated with the ownership interest in Iberdrola being posted to the consolidated statement of income as a result of its being written down in the books due to the substantial transfer of the risks and benefits in relation to this ownership interest (see Note 6.2).

9. Long-term provisions

The breakdown of this heading is as follows:

	Thousands of Euros	
	31/12/2016	31/12/2015
Funds for pensions and similar obligations	600,473	508,386
Provision for taxes	186,239	3,908
Provision for third-party liability	831,807	1,074,164
Provisions for actions on infrastructure	36,567	33,476
Total	**1,655,086**	**1,619,934**

The increase in provisions for pensions and similar obligations has mainly been due to the lowering by Hochtief of the discount rate used to measure its pension obligations in Germany to 1.75% at 31 December 2016 (2.5% at 31 December 2015) because of the drop in the interest rate on capital markets.

Note 20 to the ACS Group's consolidated financial statements for the year ended 31 December 2015 describes the main disputes, including the main litigation of a tax and legal nature, affecting the Group at that date.

The total amount of payments arising from lawsuits involving the ACS Group in fiscal years 2016 and 2015 is not significant in relation to these condensed consolidated financial statements.

In the case of claim against the company by Alazor Inversiones, S.A. (Alazor), the sole shareholder of Accesos de Madrid, C.E.S.A. and the company awarded the Radial 3 and Radial 5 (R3 and R5) concessions, under the original shareholders' agreement the "non-construction" partners of Alazor held a put option for the sale of their shares to the "construction partners," including ACS.

Given the discrepancies in the interpretation of the enforcement of that right, an arbitration proceeding was entered into, and on 20 May 2014 a ruling was issued that was entirely favourable to the interests of the Group, stating that the exercise of the option by the non-construction partners to sell to the construction partners was not due, and this ruling was appealed to the Supreme Court of Justice in Madrid. On 2 June 2016 the Civil and Criminal Chamber of the Supreme Court of Justice in Madrid issued its judgment dismissing for the second time the appeal for reversal filed against the Arbitration Ruling.

It should be recalled that the mentioned appeals had already been dismissed by a judgment dated 2 September 2015, but one of the shareholders filed a motion for annulment, which was upheld by the Chamber in a ruling on 1 December 2015 ordering that the appeal proceedings be returned to the evidentiary stage, accepting evidence that had initially been rejected and setting a date for the hearing of the evidence. The ruling includes an express award of the costs of the proceedings against the plaintiffs and warns that the judgment is not subject to appeal.

Both the investment of ACS Group in Alazor and the accounts receivable for Alazor have been fully provided for in the consolidated annual accounts of the ACS Group for fiscal year 2016. In addition, in February 2014 the Group received a notice from the financial institutions stating that enforcement proceedings would be initiated against ACS, Actividades de Construcción y Servicios, S.A. for EUR 73,350 thousand included under "Other current financial assets" in the consolidated statement of financial position (which includes the principal, interest and estimated costs), which was reported, although the Company maintains claims open in this connection, in accordance with that indicated in Note 36 to the ACS Group's consolidated financial statements for the year ended 31 December 2015. Specifically, in March 2015 the Company received an order issued by the Courts that dismissed the objection to the enforcement, and ordered it to deliver the aforementioned amounts to the banks. This decision was appealed by the sentenced defendant to the Madrid Provincial Court of Appeal and is pending the setting of a date for a decision and ruling. Nevertheless, by means of a court order dated 6 May 2016 the Court agreed to transfer to the execution creditors the amounts that had been indicated (excluding any provision for costs and certain credit assignments that are to remain in suspense), as a result of which ACS has to date paid to the financial institutions EUR 56.4 million. If the appeal is granted, the banks will be required to return the amounts transferred.

On the matter of the declaratory proceeding brought by the financial institutions against the shareholders of Alazor claiming the payment of funds to Accesos de Madrid in compliance with the agreements on the financing of excess expropriation and other cost, a favourable ruling was obtained in the first instance that was appealed by the Banks, and the National Court of Appeal confirmed the appeal in the second instance on 27 November 2015. The Banks filed an appeal for reversal before the Supreme Court, which has not yet handed down a ruling on the acceptance thereof.

With regard to the insolvency proceedings, the judge ordered the liquidation of Alazor and Accesos de Madrid to start in May of this year. The liquidation order for Accesos de Madrid required, among other things, the cessation of activity and the handing-over of infrastructure on 1 October 2016. In addition, the judge decreed the termination of the concession contract. The Minister of Public Works then filed an injunction request alleging a lack of jurisdiction on the part of the judge to make this decision, giving rise to a conflict of jurisdiction. The Conflicts Chamber of the Supreme Court, in its judgment of 5 December 2016, found that the bankruptcy judge acted correctly because the opening of the liquidation phase automatically causes, by operation of law, the termination of the concession contract. It also added that the judge is entitled to indicate the date on which all contracts have to be terminated, since this is part of the bankruptcy process.

The insolvent parties and the State's Attorneys have appealed to the Provincial Court of Madrid against the rulings of inadmissibility of the proposed bankruptcy agreement, as well as the subsequent proceedings for the opening of the liquidation phase. Regarding the insolvency of Accesos of Madrid, the Court itself has resolved to suspend the liquidation operations that could affect the activity of the insolvent party.

The judge has approved the Liquidation Plan submitted by the Insolvency Administration of Accesos of Madrid, in which it is scheduled that the infrastructure will be handed over to the state on 1 July 2017. In the order of approval, issued on 30 December 2016, the Qualification Phase corresponding to the concessionaire's insolvency was also opened. The Alazor Settlement Plan has been expressly censured by the Judge, by means of an order dated 17 January 2017, which requires the application of the supplementary liquidation rules provided for in Article 149 of the Insolvency Act, as well as the formation of the corresponding Qualification Phase.

In relation to the ownership interest in TP Ferro, 15 September 2016 was the date set for the meeting of the Board of Creditors, which voted on the proposal of agreement presented by the company. In the absence of a sufficient quorum for approval, the next decision made by the judge was to determine the entry into liquidation of TP Ferro.

To date, the Group has kept its investment accounted for at zero, not seeing the need to record additional provisions, since no guarantees exist from the Group in relation to this project.

By means of a letter dated 23 November 2016, the States announced the start of the administrative-ruling procedure for the concession contract. Both the Insolvency Administration and the company through its Board of Directors presented arguments. However, despite the application of an irregular procedure that has given rise to defenselessness (i.e., by imposing short deadlines with no basis in the law or the contract, without answering the arguments, etc.), on 16 December 2016, the Grantor States issued a joint resolution for breach on the part of the concessionaire of the Concession Agreement. Finally, on 20 December, in Llers, the termination of the concession was signed, with the effective transfer of the concession to the States. Once the liquidation plan was approved, the judge proceeded to open the qualification phase corresponding to the bankruptcy of the concessionaire, a stage in which banks and funds have been present, pending the report of the Insolvency Administration.

In relation to the concession contract for the Lima Metro Line 2 Project in Peru, the awardee company Metro de Lima Línea 2, S.A. (of which Iridium Concesiones de Infraestructuras S.A. is a 25% shareholder) filed an application on 16 January 2017 for arbitration against the Republic of Peru (Ministry of Transport and Communications) before the International Centre for the Settlement of Investment Disputes between States and Nationals of other States (ICSID) for the Republic of Peru's flagrant breach of concession contract, consisting mainly of: (i) the failure to deliver the Concession Area within the terms and conditions established in the concession agreement, and (ii) the lack of approval and delayed approval of the Detailed Engineering Studies. Through arbitration, the applicant requests an extension of the project execution time and seeks damages compensation pending calculation but exceeding USD 30 million. In addition, the potential contingent damages that would affect various parties participating in the project (the construction group, rolling stock supplier, etc.), whose standing may be called into question, could amount up to USD 280 million.

On 3 December 2015 the CNMC issued its judgment in a case brought against several companies, including Dragados, S.A. because of alleged restrictive practices affecting competition in the modular constructions business. The amount of the decision totals EUR 8.6 million, and it was the subject of an appeal filed during 2016. The Group's Board does not expect that any potential impact will be significant.

10. Financial liabilities

The detail of the ACS Group's non-current financial liabilities at 31 December and 2016 and at 31 December 2015, by nature and category, for valuation purposes, is as follows:

	Thousands of Euros			
	31/12/2016		31/12/2015	
	Non-Current	Current	Non-Current	Current
Debt instruments and other marketable securities	2,228,307	1,747,665	2,815,259	1,028,432
Bank borrowings	2,483,558	1,943,094	4,354,562	2,247,629
- with limited recourse	162,092	39,957	486,266	54,579
- Other	2,321,466	1,903,137	3,868,296	2,193,050
Other financial liabilities	194,979	91,520	212,295	86,683
Total	**4,906,844**	**3,782,279**	**7,382,116**	**3,362,744**

10.1. Debentures and bonds

At 31 December 2016 the ACS Group had non-current debentures and bonds issued amounting to EUR 2,228,307 thousand and EUR 1,747,665 thousand in current issues (EUR 2,815,259 thousand in non-current and EUR 1,028,432 thousand in current, respectively, at 31 December 2015) mainly from Cimic, Hochtief and ACS. Among the short-term convertible bonds and debentures, bonds convertible to Iberdrola shares were issued in the amount of EUR 532,900 thousand (see Note 6.2).

The most significant change at 31 December 2016 with regard to 31 December 2015 is due to the issue during the course of fiscal year 2016 of various notes by ACS, Actividades de Construcción y Servicios, S.A., under the Euro Medium Term Note Programme (EMTN Programme), which was approved by the Central Bank of Ireland for EUR 28 million, which are admitted to trading on the Irish Stock Exchange, maturing in October 2018 and with an annual coupon of 2.5%. In addition, as a result of the maturing in March 2017 of a Hochtief corporate bond issue for a nominal amount of EUR 500 million, this has been classified to short term at 31 December 2016.

In fiscal year 2016, ACS, Actividades de Construcción y Servicios, S.A. renewed the Euro Commercial Paper (ECP) programme for a maximum amount of EUR 750 million, which was registered in the Irish Stock Exchange. Santander Global Banking & Markets is the programme implementation coordinator (arranger), the entity which also acts as designated intermediary (dealer). By means of this programme, ACS will be able to issue promissory notes maturing between 1 and 364 days, thereby enabling it to diversify its means of obtaining financing on capital markets. At 31 December 2016, the issues outstanding under the aforementioned programmes amounted to EUR 427,954 thousand (EUR 419,842 thousand at 31 December 2015).

The market price of the ACS Group's bonds at 31 December 2016 and 31 December 2015 is as follows:

	Price	
	31/12/2016	31/12/2015
ACS 500, 2.875% Maturity in 2020	101.64%	93.45%
ACS Exchangeable 298, 2.625% Maturity in 2018	117.08%	124.25%
ACS Exchangeable 235, 1.625% Maturity in 2019	110.61%	114.72%
HOCHTIEF 500, 5.5% Maturity in 2017	100.62%	104.75%
HOCHTIEF 500, 2.625% Maturity in 2019	103.51%	102.53%
HOCHTIEF 750, 3.875% Maturity in 2020	108.05%	107.05%
LEIGHTON FINANCE 500 USD, 5.95% Maturity in 2022	105.43%	103.08%

10.2 Bank borrowings

“Project finance and limited recourse borrowings” on the liability side of the consolidated statement of financial position mainly includes the amount of the financing related to infrastructure projects. The detail of this heading, by type of financed asset, at 31 December 2016 is as follows:

	Thousands of Euros		
	Current	Non-current	Total
Highways	6,126	98,945	**105,071**
Police station	5,424	38,359	**43,783**
Property assets (Inventories)	26,532	8,255	**34,787**
Water management	1,008	8,902	**9,910**
Other infraestructures	867	7,631	**8,498**
Total	**39,957**	**162,092**	**202,049**

The detail of this heading, by type of financial asset, at 31 December 2015 was as follows:

	Thousands of Euros		
	Current	Non-current	Total
Waste treatment	14,285	299,086	**313,371**
Highways	5,901	79,958	**85,859**
Property assets (Inventories)	23,798	31,158	**54,956**
Police station	6,013	43,785	**49,798**
Water management	1,801	15,709	**17,510**
Other infraestructures	2,781	16,570	**19,351**
Total	**54,579**	**486,266**	**540,845**

On 13 February 2015, ACS, Actividades de Construcción y Servicios, S.A. entered into a financing agreement with a syndicate of banks, composed of forty-three Spanish and foreign institutions, for a total of EUR 2,350 million, divided into two tranches (tranche A of a loan for EUR 1,650 million and tranche B of the liquidity facility for EUR 700 million) and maturing on 13 February 2020. The syndicate was renewed on 20 December 2016 with a change in the division of the tranches, with the tranche A loan amounting to EUR 1,400 million and the tranche B liquidity facility amounting to EUR 950 million, with a new maturity on 13 December 2021.

Among the most significant variations from fiscal year 2015 is the derecognition of EUR 600 million of Urbaser's syndicated loan, as well as the financing of projects associated with waste treatment, which at 31 December 2015 amounted to EUR 313,371 thousand as a result of the sale of this group in December 2016.

The long-term financing from the investee Hochtief was reduced to EUR 2,269 thousand (EUR 87,096 thousand at 31 December 2015).

In fiscal years 2016 and 2015, the ACS Group satisfactorily met its bank borrowing payment obligations on maturity. At the date of preparation of the condensed consolidated financial statements, the Group had also complied with all its financial obligations.

Note 21 to the financial statements for 2015 details the main financial risks to which the ACS Group is exposed (interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk of listed shares). The most significant changes in fiscal year 2016 regarding the financial risks of the ACS Group detailed in the 2015 financial statements are as follows:

- The renewal of the Euro Commercial Paper (ECP) programme for EUR 750 million and the Euro medium Term Note Programme for EUR 1,500 million.
- The issue of notes on the Euromarket for EUR 28 million maturing in 2018.
- The significant reduction in market risk associated with its exposure to Iberdrola as a consequence of the forward sale and the derivatives entered into, as well as the finalization of the put spread as detailed in Note 6 b).
- The renewal of the syndicated loan for EUR 2,350 million and extension until 2021.
- The strengthening of the Group's financial position with the receipt from the December 2016 sale of Urbaser and the deconsolidation of the associated debt of that group.

The amount corresponding to “Other financial liabilities” includes mainly the financing obtained from public bodies in various countries to carry out certain infrastructure projects.

11. Derivative financial instruments

The detail of the financial instruments is as follows:

	Thousands of Euros			
	31/12/2016		31/12/2015	
	Assets	Liabilities	Assets	Liabilities
Hedges	12,532	70,340	2,094	113,980
Non-qualified hedges	54,714	-	9,737	690
Non-current	**67,246**	**70,340**	**11,831**	**114,670**
Hedges	1,085	4,415	2,358	60,103
Non-qualified hedges	97,106	58,574	376	63,934
Current	**98,191**	**62,989**	**2,734**	**124,037**
Total	**165,437**	**133,329**	**14,565**	**238,707**

The assets and liabilities designated as hedging instruments include the amount corresponding to the effective part of the changes in fair value of these instruments designated and classified as cash flow hedges. They relate mainly to interest rate hedges (interest rate swaps) and foreign exchange rate hedges, tied to asset and liability items in the statement of financial position, and to future transaction commitments qualifying for hedge accounting because they meet the requirements provided for in IAS 39, on hedge accounting.

The assets and liabilities relating to financial instruments not qualified as hedges include the fair value of the derivatives which do not meet hedging conditions.

It should be noted that there were embedded derivatives in the issues of bonds exchangeable for Iberdrola shares for a nominal amount of EUR 532,900 thousand (see Note 10). With regard to this financing, in order for the Group to be able to guarantee the possible future monetarisation of the Iberdrola, S.A. shares, and ensure their share options can be settled in cash, a future sales agreement was entered into in the first quarter of fiscal year 2016 for the purchase of 52.9 million American-style purchase options falling due in the last quarter of 2018 on Iberdrola shares and a further 37.09 million American-style call options on Iberdrola shares falling due in the first quarter of 2019. These American call options were issued at a reference price of EUR 6.02 per exercisable share, at the option of ACS, in the period between the signing of the prepaid forward contract and the maturity of each of the bond issues (fourth quarter of 2018 and first quarter of 2019) on the same number of Iberdrola shares. The contracting of this derivative is intended to mitigate the risk of an increase in the debt associated with the bonds, which could be triggered by an increase in the Iberdrola share price. This further strengthens the transfer position of all the risks and benefits associated with Iberdrola's market value. The financial derivative was thereby recognised in the amount of the premium disbursed at the time of its contracting in the amount of EUR 70.8 million and recorded under current assets. The subsequent valuation of the derivative is made with changes in the income statement that are fully offset in the income statement with the amount of the embedded derivatives of the bonds.

The contracting of these derivatives marked the termination of the financial transaction called the "Share forward sale", which the Group had contracted in the last quarter of 2015, and the impact of which resulted in the reclassification in the income statement of the adjustments that temporarily and in accordance with hedging mechanisms, were recorded in equity on the sale date in the amount of EUR 44,060 thousand, before tax (EUR 33,045 million [*sic*] after tax). The complete breakdown of the capital gains arising from the aforementioned share sale and the termination of the derivatives contracted in the last quarter of fiscal year 2015 are indicated in Note 6.2. Also, since the date of the sale, the embedded derivatives of the bond issues are recorded at fair value, with changes in value reflected in the profit and loss statement upon the ceasing of the hedge created by the financial transaction agreed to in the last quarter of fiscal year 2015. The fair value of the derivatives related to the issue of convertible Iberdrola bonds amounted to EUR 37,468 thousand at 31 December 2016 (EUR 56,143 thousand at 31 December 2015) and was recognised under “Current financial instruments receivable” in the accompanying consolidated statement of financial position. In addition, the market value of the American-style purchase options on Iberdrola shares at 31 December 2016 amounted to EUR 88,189 thousand, recorded under “Short-term financial instrument debtors” on the accompanying consolidated statement of financial position. The global result of all these derivatives in relation to the issues of convertible Iberdrola bonds has represented a gain of EUR 16,985 thousand in fiscal year 2016 (see Note 17).

In addition, in the case of Iberdrola it should be noted that the Group closed a put spread on shares of Iberdrola, S.A. in June 2016, (158,655,797 shares at 31 December 2015), without any significant effect on the income statement and freeing up collateral associated with this derivative. In fiscal year 2015 the derivative corresponding to the equity swap on 164,352,702 shares of Iberdrola, S.A. was settled, with an associated result that was recorded on the profit and loss account for that period in the amount of EUR 75,490 thousand (see Note 17).

At 31 December 2016, the Company had recognised a liability for the derivative relating to the outsourcing to a financial institution of the 2014 stock option plan amounting to EUR 24,413 thousand (EUR 43,324 thousand at 31 December 2015). The financial institution acquired these shares on the market to be delivered to executives who are beneficiaries of the plan in accordance with the conditions included therein and at the exercise price of the option EUR 33.8992 per share). The change in fair value of this instrument is included under “Changes in fair value of financial instruments” in the accompanying consolidated income statement (see Note 17). In the contract with the financial institution, the latter does not assume any risk relating to the drop in the market price of the share below the exercise price, which is assumed by ACS, Actividades de Construcción y Servicios, S.A. This put option in favour of the financial institution is recognised at fair value at the end of the reporting period and, therefore, the Group recognises a liability in profit or loss with respect to the value of the option in the previous year. The risk of an increase in the market price of the share is not assumed by the financial institution or the Group, since, in this case, executives would exercise their call option and directly acquire the shares from the financial institution, which agrees to sell them to the beneficiaries at the exercise price. In addition and according to the contract, at the time of final maturity of the plan, if there are options that have not been exercised by executives, the outstanding options are settled by differences and the result of the settlement, whether positive or negative, is received by ACS, Actividades de Construcción y Servicios, S.A. in cash (never in shares). Consequently, the Company never receives shares arising from the plan and therefore they are not considered treasury shares.

As a result of the 2010 stock option plan having expired, the derivative associated therewith, was cancelled in 2015, with a gain in that year of EUR 3,241 thousand recognised under “Changes in fair value of financial instruments” of the accompanying consolidated statement of income (see Note 17).

In addition, at 31 December 2016 ACS, Actividades de Construcción y Servicios, S.A. holds other derivatives on ACS shares that did not qualify for hedge accounting, including the measurement at fair value of the financial instruments that are settled by differences and whose positive market value amounted to EUR 11,606 thousand (negative market value of EUR 18,412 thousand at 31 December 2015). At 31 December 2016, these amounts include the shares that the financial institution holds to be delivered to executives who are beneficiaries of the plan once the option exercise price is assigned thereto. The change in fair value of this instrument is included under “Changes in fair value of financial instruments” in the accompanying consolidated income statement (see

Note 17). In the contract with the financial institution, the latter does not assume any risk relating to the drop in the market price of the share below the exercise price.

The amounts provided as collateral (see Note 6.6) relating to the aforementioned derivatives arranged by the Group totalled EUR 564,609 thousand at 31 December 2016 (EUR 203,347 thousand at 31 December 2015).

The Group has recognised both its own credit risk and that of the counterparty based on each derivative for all derivative instruments measured at fair value through profit or loss, in accordance with IFRS 13.

With regard to the assets and liabilities measured at fair value, the ACS Group followed the hierarchy set out in IFRS 7:

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Inputs other than prices quoted included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

	Thousands of Euros			
	Value at 30/06/2016	Level 1	Level 2	Level 3
Assets	**1,082,940**	**422,002**	**501,353**	**159,585**
Equity instruments	359,249	196,294	54,754	108,201
Debt securities	558,254	225,708	332,546	-
Financial instrument receivables				
Non-current	67,246	-	15,862	51,384
Current	98,191	-	98,191	-
Liabilities	**133,329**	**-**	**133,329**	**-**
Financial instrument receivables				
Non-current	70,340	-	70,340	-
Current	62,989	-	62,989	-

	Thousands of Euros			
	Value at 31/12/2015	Level 1	Level 2	Level 3
Assets	**1,677,649**	**1,072,474**	**463,314**	**141,861**
Equity instruments	940,828	656,620	142,347	141,861
Debt securities	722,256	415,854	306,402	-
Financial instrument receivables				
Non-current	11,831	-	11,831	-
Current	2,734	-	2,734	-
Liabilities	**238,707**	**-**	**238,707**	**-**
Financial instrument receivables				
Non-current	114,670	-	114,670	-
Current	124,037	-	124,037	-

The changes in financial instruments included under Level 3 during fiscal year 2016 are as follows:

	Thousands of Euros				
	01/01/2016	Comprehensive income	Transfer Level 2	Others	31/12/2016
Assets - Equity instruments	**141,861**	6,418	270	11,036	**159,585**
Liabilities - Financial instrument receivables	**-**	-	-	-	**-**

The changes in financial instruments included under Level 3 in 2015 were as follows:

	Thousands of Euros				
	01/01/2015	Comprehensive income	Transfer Level 2	Others	**31/12/2015**
Assets - Equity instruments	**121,413**	5,494	0	14,954	**141,861**
Liabilities - Financial instrument receivables	**-**	-	-	-	**-**

No derivative instruments measured at fair value through profit or loss were transferred between levels 1 and 2 of the fair value hierarchy either during fiscal year 2016 nor during 2015.

The changes in fair value for Level 3 in fiscal year 2016 arose mainly as a result of the impairment of the investment in non-current equity instruments (in 2015 it took mainly because of changes in the scope of consolidation and the increase in value taken directly to equity).

12. Tax matters

12.1. Deferred tax assets and liabilities

The detail of the deferred tax assets at 31 December 2016 and 31 December 2015 is as follows:

	Thousands of Euros					
	31/12/2016			31/12/2015		
	Tax Group in Spain	Other companies	Total	Tax Group in Spain	Other companies	Total
Credit for tax loss	496,992	234,163	731,155	494,496	213,400	707,896
Other temporary differences	538,974	812,869	1,351,843	473,451	782,694	1,256,145
Tax credits and tax relief	227,814	735	228,549	214,637	2,789	217,426
Total	**1,263,780**	**1,047,767**	**2,311,547**	**1,182,584**	**998,883**	**2,181,467**

Tax loss carryforwards of the ACS Tax Group in Spain arose from the estimated consolidated tax loss for 2012, arising mainly from impairment and unrealised losses related to the investment in Iberdrola, S.A., which is a tax credit that does not expire under the law.

The temporary differences of the companies not included in the Spanish Tax Group arose mainly from the companies of the Hochtief group.

In overall terms, assets increased by EUR 113,861 thousand given the net balance movement due to changes in the consolidation scope due to the business combinations.

The deferred tax assets were recognised in the consolidated statement of financial position because the Group's directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

The deferred tax liabilities amounting to EUR 1,188,177 thousand (EUR 1,333,750 thousand at 31 December 2015) have not substantially changed with respect to 31 December 2015.

12.2. Change in income tax expense

The main items affecting the quantification of income tax expense are as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015 (*)**
Consolidated profit/(loss) before tax	1,002,483	1,286,716
Profit or loss of companies accounted for using the equity method	(75,128)	(288,023)
	927,355	**998,693**
Tax charge at 25% (2016) / 28% (2015)	231,839	279,634
Effect of long-term differences	(47,808)	(64,913)
Deductions for tax incentives	(10,597)	(20,628)
Effect of the difference between applicable national rates	6,533	12,478
Provision over valuation of assets and liabilities for deferred taxes	155,000	-
Expenses for non-recognition of deferred tax assets generated during the fiscal year, and other adjustments from prior fiscal years	71,706	85,178
Income tax expense / (income)	**406,673**	**291,749**

(*) Restated data

The most significant item included at 31 December 2016 and 31 December 2015 under “Effect of long-term differences” relates to extraordinary benefits, which by their nature are not subject to taxation in the countries in which they are generated.

Furthermore, it is worth noting the extraordinary provision of EUR 155,000 thousand, provided to obtain an estimate of the impact of the recently approved Spanish Royal Decree Law 3/2016, dated 2 December, on deferred tax assets and liabilities of all entities that are members of the Tax Group in Spain, especially those related to the impairment of subsidiaries and investees. Given the complexity of this standard and the relative proximity between its approval and the preparation of the annual financial statements, it was decided to provide a conservative estimate of the impact based on a detailed analysis of the assets affected, but preliminary in terms of the weighting of future relevant events.

Also, in fiscal year 2016, a Treasury Audit of the Spanish tax group was concluded for fiscal years 2009 to 2012, and certificates of conformity were issued with no impact on the consolidated income statement as it was accounted for against provisions from previous years.

Lastly, the heading "After-tax income from discontinued operations" reflects a tax expense of EUR 18,727 thousand (EUR 18,841 thousand in 2015).

13. Business segments

In accordance with the ACS Group’s internal organisational structure and, consequently, its internal reporting structure, the Group carries on its business activities through lines of business, which are the operating reporting segments as indicated in IFRS 8. The Construction segments include Dragados, Hochtief, and the concession business carried out through Iridium. Note 25 to the consolidated financial statements of the ACS Group for the year ended 31 December 2015 details the bases used by the Group to define its operating segments.

The reconciliation of revenue, by segment, to consolidated revenue at 31 December 2016 and at 31 December 2015 is as follows:

Segments	Thousands of Euros					
	2016			2015 (*)		
	External income	Inter-segment income	**Total income**	External income	Inter-segment income	**Total income**
Construction	24,210,649	5,913	**24,216,562**	25,313,888	5,601	**25,319,489**
Services	1,535,561	2,181	**1,537,742**	1,502,898	2,216	**1,505,114**
Industrial Services	6,229,002	27,302	**6,256,304**	6,474,523	26,200	**6,500,723**
(-) Adjustments and eliminations of ordinary inter-segment income	-	(35,396)	**(35,396)**	-	(34,017)	**(34,017)**
Total	**31,975,212**	**-**	**31,975,212**	**33,291,309**	**-**	**33,291,309**

(*) Restated unaudited

Inter-segment sales are made at market prices.

The reconciliation of the profit/loss, by business, with consolidated profit/loss before taxes at 31 December 2016 and at 31 December 2015 is as follows:

	Thousands of Euros	
	2016	**2015 (*)**
Segments		
Construction	494,307	573,594
Services	93,175	83,115
Industrial Services	308,255	368,142
Total profit of the segments reported upon	**895,737**	**1,024,851**
(+/-) Non-assigned profit	113,639	20,246
(+/-) Elimination of internal profit (between segments)	-	-
(+/-) Other profits (loss)	-	-
(+/-) Income tax and /or profit (loss) from discontinued operations	(6,893)	241,619
Profit/(Loss) before tax	**1,002,483**	**1,286,716**

(*) Restated unaudited

Revenue by geographical area at 31 December 2016 and at 31 December 2015 is as follows:

Net amount of turnover by Geographical Area	Thousands of Euros	
	2016	2015 (*)
Domestic market	4,293,089	4,924,499
Foreign market	27,682,123	28,366,810
a) European Union	2,537,567	2,679,594
b) O.E.C.D countries	20,273,155	20,374,002
c) Rest of countries	4,871,401	5,313,214
Total	**31,975,212**	**33,291,309**

(*) Restated unaudited

The detail of sales by principal countries is as follows:

Net Revenue by Geographical Area	Thousands of Euros	
	2016	2015 (*)
United States	12,224,916	11,271,919
Australia	5,078,964	6,033,012
Spain	4,293,089	4,924,500
China	1,601,934	2,073,269
México	1,393,873	1,583,654
Canada	1,049,931	1,060,403
Germany	940,669	894,380
Saudi Arabia	648,619	473,760
Poland	492,015	571,680
Indonesia	396,635	632,171
Brazil	371,963	209,466
Chile	363,571	356,808
United Kingdom	361,600	475,251
Peru	322,285	396,835
Portugal	252,549	254,521
South Africa	150,635	13,330
Uruguay	121,412	93,202
Other	1,910,552	1,973,148
Total	**31,975,212**	**33,291,309**

(*) Restated unaudited

14. Finance income

As a consequence of the substantial transfer of the risks and benefits associated with the shares of Iberdrola whereby the ACS Group has ceased to recognise them on its consolidated statement of financial position (see Note 6.2), the figure for finance income at 31 December 2016 no longer includes the dividends from Iberdrola, S.A. which amounted to EUR 25,335 thousand at 31 December 2015.

15. Average headcount

The detail of the average number of employees, by professional category and gender, is as follows:

	Average number of employees					
	2016			2015 (*)		
	Men	Women	TOTAL	Men	Women	TOTAL
University graduates	15,909	4,610	**20,519**	16,030	4,708	**20,738**
Junior college graduates	7,654	3,711	**11,365**	6,433	3,162	**9,595**
Non-graduate line personnel	12,675	4,875	**17,550**	14,739	4,578	**19,317**
Clerical personnel	3,777	4,640	**8,417**	3,967	4,491	**8,458**
Other employees	57,367	54,548	**111,915**	60,149	55,493	**115,642**
Total	**97,382**	**72,384**	**169,766**	**101,318**	**72,432**	**173,750**

(*) Restated unaudited

The restatement in the number of people is mainly due to the sale of Urbaser, which reduces the average workforce by 27,063 employees.

16. Impairment and gains or losses on disposal of financial instruments

This heading in the accompanying consolidated income statement for fiscal year 2016 mainly highlights the result of the execution of the prepaid forward sale of its entire holding in Iberdrola, S.A. and the simultaneous purchase of call options on the same number of Iberdrola shares to eliminate the market risk associated with the exchangeable bonds maturing in 2018 and 2019. As a result of the substantial transfer of the risks and benefits associated with the shares of Iberdrola, S.A., the ACS Group has proceeded to remove them from its statement of financial condition. The joint result of these transactions, together with the transfer to the income statement from the "Valuation adjustments. Available –for-sale financial assets" account under shareholders' equity on the accompanying consolidated statement of financial position was a pre-tax gain of EUR 95,326 thousand (see Note 6.2).

This heading also highlights the capital gain from the December 2016 sale of Cimic's remaining 29% stake in Nextgen to the Ontario Teachers' Pension Plan for an amount of EUR 47.2 million (AUD 70.1 million). A provision at the consolidated level has been made for EUR 175 million to cover the value of certain assets in relation to risks of a financial nature that could arise in the future in the Group.

In fiscal year 2015, the most significant capital gains were attributable to Iridium's concession-based assets for the sale of virtually all of the ownership interest in the Majadahonda Hospital amounting to EUR 36,978 thousand, the sale of 75% of its 50% ownership interest in the concessionaire company Nouvelle Autoroute 30 of Quebec (Canada), the sale of 80% of its ownership interest in Servicios, Transportes y Equipamientos Públicos Dos, S.L., which is the company holding 50% of the concession of Line 9, section II of the Barcelona metro, and of the company responsible for the maintenance of both section II and section IV of that metro line, with a capital gain of approximately EUR 70 million. In addition, it reflected proceeds from the IPO of Saeta Yield (see Note 1.6.1) and the sale of certain interests in concession-based assets and non-strategic assets totalling EUR 92,104 thousand from the Hochtief Corporation and its subsidiary Cimic.

17. Changes in fair value of financial instruments

This heading includes the effect on the income statement of derivative instruments which do not meet the efficiency criteria provided in IAS 39, or which are not hedging instruments. The most significant effect in fiscal year 2016 corresponds to the marking to market of the derivatives on ACS shares that have meant a gain of EUR 43,263 thousand (EUR 29,245 thousand in losses in 2015) and the marking to market of the Iberdrola derivatives for a net gain of EUR 16,985 thousand (EUR 63,748 thousand in 2015).

18. Other profit or loss

The most significant effect in fiscal years 2016 and 2015 relates to the costs incurred in the restructuring carried out in international investees as well as in other construction projects abroad, partly offset by the reversal of the provision for certain assets generated in the Purchase Price Allocation process at the time of taking control of Hochtief for a net amount of EUR 66,678 thousand.

19. Related party balances and transactions

The following information relating to transactions with related parties is disclosed in accordance with the Spanish Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, and applied through the Spanish National Securities Market Commission.

20. Transactions between individuals, companies or Group entities related to Group shareholders or directors

The transactions performed in the course of fiscal year 2016 were as follows (in thousands of euros):

2016 Related transactions	Significant shareholders		Directors and executives	Other related parties							Total
Expenses and income	**Grupo Iberostar**	**Total**	**Total**	**Fidalser, S.L.**	**Rosán Inversiones, S.L.**	**Terratest Técnicas Especiales, S.A.**	**Zardoya Otis, S.A.**	**March-JLT, S.A.**	**Others**	**Total**	
Management or collaboration agreements	-	**-**	-	-	-	4,289	-	-	-	**4,289**	**4,289**
Leases	-	**-**	-	192	-	-	-	-	-	**192**	**192**
Services received	104	**104**	-	72	-	2,924	1,783	-	-	**4,779**	**4,883**
Other expenses	-	**-**	-	-	-	-	-	33,461	-	**33,461**	**33,461**
Expenses	**104**	**104**	**-**	**264**	**-**	**7,213**	**1,783**	**33,461**	**-**	**42,721**	**42,825**
Services rendered	1,746	**1,746**	-	-	40	-	102	-	185	**327**	**2,073**
Sale of goods	-	**-**	1,625	-	-	-	-	-	-	**-**	**1,625**
Income	**1,746**	**1,746**	**1,625**	**-**	**40**	**-**	**102**	**-**	**185**	**327**	**3,698**

2016 Related transactions	Significant shareholders		Other related parties			Total
Other transactions	**Banca March**	**Total**	**Banco Sabadell**	**Fapin Mobi, S.L.**	**Total**	
Financing agreements: loans and capital contributions (lender)	14,550	**14,550**	583,150	-	**583,150**	**597,700**
Guarantees and other sureties provided	10,310	**10,310**	-	-	**-**	**10,310**
Dividends and other profit distributed	-	**-**	-	695	**695**	**695**
Other transactions	19,983	**19,983**	-	-	**-**	**19,983**

The transactions performed in the course of fiscal year 2015 were as follows (in thousands of euros):

2015 Related transactions	Significant shareholders		Directors and executives	Other related parties									Total
Expenses and income	**Grupo Iberostar**	**Total**	**Total**	**Fidalser, S.L.**	**Rosán Inversiones, S.L.**	**MAF Inversiones ,S.A.**	**Terratest Técnicas Especiales, S.A.**	**Indra**	**Zardoya Otis, S.A.**	**March-JLT, S.A.**	**Others**	**Total**	
Management or collaboration agreements	-	**-**	-	-	-	-	683	-	-	-	-	**683**	**683**
Leases	-	**-**	-	177	-	-	-	-	-	-	-	**177**	**177**
Services received	166	**166**	-	66	-	94	1,177	218	878	-	-	**2,433**	**2,599**
Other expenses	-	**-**	-	-	-	-	-	-	-	38,914	-	**38,914**	**38,914**
Expenses	**166**	**166**	**-**	**243**	**-**	**94**	**1,860**	**218**	**878**	**38,914**	**-**	**42,207**	**42,373**
Services rendered	1,655	**1,655**	810	-	337	-	-	368	66	-	-	**771**	**3,236**
Sale of goods	-	**-**	-	-	-	-	-	-	-	-	631	**631**	**631**
Income	**1,655**	**1,655**	**810**	**-**	**337**	**-**	**-**	**368**	**66**	**-**	**631**	**1,402**	**3,867**

2015 Related transactions	Significant shareholders		Other related parties				
Other transactions	**Banca March**	**Total**	**Banco Sabadell**	**Fapin Mobi, S.L.**	**Fidalser, S.L.**	**Total**	**Total**
Financing agreements: loans and capital contributions (lender)	16,940	**16,940**	526,109	-	-	**526,109**	**543,049**
Guarantees and other sureties provided	14,620	**14,620**	-	-	-	**-**	**14,620**
Dividends and other profit distributed	-	**-**	-	435	254	**690**	**690**
Other transactions	30,320	**30,320**	-	-	-	**-**	**30,320**

At 31 December 2016 the outstanding balance payable to Banca March for credit facilities and loans granted to ACS Group companies amounted to EUR 6,855 thousand (EUR 12,353 thousand at 31 December 2015). The transactions being maintained at 31 December 2016, in accordance with the information available regarding ACS Group companies, amounted to EUR 10,004 thousand (EUR 14,709 thousand at 31 December 2015) in guarantees and EUR 20,031 thousand (EUR 31,561 thousand at 31 December 2015) in reverse factoring transactions with suppliers.

At 31 December 2016, the balance payable to Banco Sabadell amounted to EUR 107,833 thousand (EUR 186,572 thousand at 31 December 2015) for loans and credit facilities granted to ACS Group companies. Accordingly, the transactions maintained by this bank at 31 December 2016, in accordance with the information available regarding ACS Group companies, amounted to EUR 331,269 thousand (EUR 366,188 thousand at 31 December 2015) in guarantees and sureties and EUR 37,797 thousand (EUR 43,310 thousand at 31 December 2015) in reverse factoring transactions with suppliers.

Corporación Financiera Alba, S.A. and its significant shareholder Banca March are noted for their mutual affiliation maintained through the fiscal years due to the board membership of Pablo Vallbona and Javier Fernández until their resignation on 29 July 2016. Banca March, as a financial institution, has performed typical transactions relating to its ordinary course of business such as granting loans, providing guarantees for bid offers and/or the execution of works, reverse factoring and non-recourse factoring to several ACS Group companies.

Iberostar is disclosed due to its membership on the board of ACS, Actividades de Construcción y Servicios, S.A. until 22 December 2016, the date of its resignation. As a tourism and travel agency, this group has provided services to ACS Group companies as part of its business transactions. The ACS Group has mainly carried out air-conditioning activities in hotels owned by Iberostar.

Rosán Inversiones, S.L. is disclosed as a result of its relationship with the Chairman and CEO of the Company, which holds a significant ownership interest through Inversiones Vesán, S.A.

The transactions with other related parties are listed as a result of the relationship of certain directors of ACS, Actividades de Construcción y Servicios, S.A. with companies in which they are either shareholders or senior executives. In this regard, the transactions with Fidalser, S.L., Terratest Tecnicas Especiales, S.A. and Fapin Mobi, S.L. are listed due to the relationship of the director, Pedro Lopez Jimenez, with these companies. The transactions performed with Zardoya Otis, S.A. are indicated due to its relationship with director José María Loizaga. The transactions with Banco Sabadell are listed due the bank's relationship with director Javier Echenique. The transactions with the insurance broker, March-JLT, S.A., are listed due to the company's relationship with Banca March, although in this case the figures listed are intermediate premiums paid by ACS Group companies, rather than considerations for insurance brokerage services.

"Other transactions" includes all transactions not related to the specific sections included in the periodic public information reported in accordance with the regulations published by the CNMV. In fiscal year 2016 "Other transactions" related exclusively to Banca March. Banca March, as a financial institution, provides various financial services to ACS Group companies in the ordinary course of business for a total of EUR 19,983 thousand (EUR 30,320 thousand in 2015), and in this case they relate to the reverse factoring lines of credit for suppliers.

All these commercial transactions were carried out on an arm's length basis in the ordinary course of business, and related to ordinary Group company transactions.

The transactions performed between ACS consolidated Group companies were eliminated in the consolidation process and form part of the normal business activities of the companies in terms of their company object and conditions. The transactions were carried out on an arm's length basis and they do not have to be disclosed to present fairly the equity, financial position and results of the Group's operations.

21. Board of Directors and senior executives

21.1. Remuneration of directors

In fiscal years 2016 and 2015 the Board members of ACS, Actividades de Construcción y Servicios, S.A. received the following remuneration either as members of the boards of directors of the Parent and the Group companies or as senior executives of Group companies.

	Thousands of euros	
	2016	2015
Fixed remuneration	3,972	3,972
Variable remuneration	5,019	5,019
Bylaw-stipulated directors' emoluments	3,652	3,678
Other	1,000	-
Total	**13,643**	**12,669**

In addition, in 2016, EUR 1,419 thousand (EUR 1,419 thousand in 2015) were charged to income as a result of the share options granted to members of the Board of Directors with executive posts. This amount relates to the proportion of the value of the plan on the date it was granted.

The benefits relating to pension funds and plans, and life insurance premiums are as follows:

Other benefits	Thousands of euros	
	2016	2015
Pension funds and plans: Contributions	1,673	1,686
Life insurance premiums	20	19

The amount recognised under "Pension funds and plans: Contributions" includes the portion relating to the net payments made by the Company during each fiscal year.

The ACS Group has not granted any advances, loans or guarantees to any of its board members.

21.2. Remuneration of senior executives

The remuneration in fiscal years 2016 and 2015 of the Group's senior executives who are not also executive directors was as follows:

	Thousands of euros	
	2016	2015
Salary remuneration (fixed and variable)	28,135	30,332
Pension plans	1,704	1,630
Life insurances	28	35

The reduction in remuneration between the periods is mainly due to the Urbaser sale.

EUR 7,756 thousand at 31 December 2016 (EUR 7,756 thousand at 31 December 2015) were charged to income as a result of the share options granted to the Group's senior executives, and were not recognised under the aforementioned remuneration heading. Similarly, as indicated in the case of directors, these amounts relate to the proportion of the value of the plan on the date it was granted. In addition, EUR 1,704 thousand (EUR 1,630 thousand at 31 December 2015) related to pension plans and EUR 28 thousand (EUR 35 thousand at 31 December 2015) related to life insurance premiums.

21.3. Stock option plans

At the request of the Appointments and Remuneration Committee in July 2014, the ACS Group agreed, in executing the resolution adopted at the Ordinary General Shareholders' Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 15 April 2010, to set up a stock option plan for ACS, Actividades de Construcción y Servicios, S.A. shares (2014 option plan). The plan is governed as follows:

a. The number of shares subject to the option plan will be a maximum of 6,293,291 shares, of EUR 0.50 par value each.
b. The beneficiaries are 62 executives with options from 540,950 to 46,472.
c. The acquisition price will be EUR 33.8992 per share. In the event that a dilution takes place, said price will be modified accordingly.
d. The options may be exercised in two equal parts, cumulative if the beneficiary so wishes, during the second and third years after 1 May 2014, inclusive. However, in the event an employee is terminated without just cause or if it is the beneficiary's own will, the options may be exercised six months following the event in question in the cases of death, retirement, early retirement or permanent disability, and after 30 days in all other cases.
e. Tax withholdings and taxes to be paid as a result of exercising the share option will be borne exclusively by the beneficiary.

The ACS Group's 2010 stock option plan expired in fiscal year 2015. No options relating to these plans were exercised in 2016 or during fiscal year 2015. The commitments arising from the plan in force are hedged through a financial institution (see Note 11).

The market price of ACS shares at 31 December 2016 and 31 December 2015 was EUR 30.02 and EUR 27.015 per share, respectively.

Within the Hochtief Group there are also share-based payment remuneration systems for the Group's management. All of these stock option plans form part of the remuneration system for senior executives of Hochtief, and long-term incentive plans. The total amount provisioned for these share-based payment plans at 31 December 2016 is EUR 15,574 thousand (EUR 14,811 thousand at 31 December 2015). EUR 5,537 thousand (EUR 8,335 thousand in 2015) were taken to the consolidated income statement in this connection in fiscal year 2016. To hedge the risk of exposure to changes in the market price of the Hochtief shares, it has a number of derivatives which are not considered to be accounting hedges.

Explanation added for translation to English

These condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1.a). Certain accounting practices applied by the Group that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules.

APPENDIX I

CHANGES IN THE SCOPE OF CONSOLIDATION

The main companies included in the scope of consolidation are as follows:

Tedagua Singapore Pte.Ltd.
Al Hamra Water Co LLC
Mantiqueira Transmissora de Energia, S.A.
CBCI
Lighthouse Innovation
Turner/Commercial/Mahogony Tri-Venture
CIMIC Group Investments No. 2 Pty Limited
Pacific Partnerships Services Pty Limited
Hochtief IKS Schweiz, A.G.
CGT Industrial
Construct Signs
Turner-Kiewit JV
Switchgear & Substation Alliance Ltd (SSA)
Operadora Autovia Medinaceli Calatayud
ACS 288 Holdings, LLC
Blueridge Transportation Group HoldCo, LLC
Blueridge Transportation Group, LLC
Humiclima Barbados, Ltd
Imesapi, S.A.C.
Sermicro Perú, S.A.C.
Dale Care, Ltd
Hartwig Care, Ltd
Turner Canada, LLC
Turner International Cyprus Ltd.
Turner Consulting and Management Services Private Ltd. (TCMS)
Contrelec Engineering Pty Ltd
Intermet Engineering Pty Ltd
Tambala PTY Ltd.
Thiess Khishig Arvin JV LLC
Canberra Metro Holding Trust
Canberra Metro Holding Pty. Ltd.
On Talent Pty. Ltd.
Leighton China State Van Oord JV
JHCPB JV
LLECPB Crossing Removal JV
NRT - Design & Delivery JV
ACN 610 912 484 Pty. Ltd.
Canberra Metro Operations Pty. Ltd.
GSJV SCC
Great Eastern Alliance
Hochtief PPP Transport Westeuropa GmbH
Consorcio Tráfico Urbano de Medellín
Cobra Azerbaiyan LLC
Fides Hispalia Servicios Generales, S.L.
Accent Social S.L.
Integra Mantenimiento, Gestión y Servicios Integrados CEE Murcia, S.L.
Debod PV Plant SAE

Debod Wind Farm
Turner JLN JV
Flatiron/Aecom LLC
Turner Construction/Sano-Rubin ConsTrustion Services
Turner - Eastern York Annex JV
Turner Hunt LA NFL JV
ViA6West Verwaltungsgesellschaft mbH
CTS (ASDE) Inc.
NV Care Ltd
Zetmira, S.A.
Sedralir, S.A.
Makiber Gulf LLC
Gestión de créditos sanitarios insulares, S.L.
SICE Ardan projects
Ofiteco-Gabi Shoef
SPA Mobeal
Masa Pipelines, SLU
FTG O&M Solutions ACS GP Ltd.
FTG O&M Solutions Limited Partnership
Blueridge Tolling Company, LLC
Dragados Besalco Estaciones, S.A.
Afelco Engineering, S.L.
Pilot Offshore Renewables Limited
Kinkandine Offshore Windfarm Limited
Turner International Cyprus Ltd.
Turner Clayco Willis Tower JV
Turner-Rodgers JV
CPB Contractors (PNG) Limited
Sedgman Consulting Unit Trust
GSJV Guyana
Arus Tenang SDN BHD3
BKP Electrical Limited (In liquidation)3
Fleetco Canada Rentals LTD
Fleetco Chile SPA
Fleetco Rentals UG PTY Limited
Ganu Puri Sdn. Bhd3
Inspection Testing & Certification Pty Ltd3
Moving Melbourne Together Finance Pty. Ltd.
MTCT Services Pty Ltd (formerly United Group Pty Ltd)3
Newcastle Engineering Pty Ltd3
Olympic Dam Maintenance Pty Ltd3
Railfleet Maintenance Services Pty Ltd3
Ruby Equation Sdn Bhd3
Trafalgar EB Unit Trust
Tribune SB Unit Trust
UGL (Asia) Sdn Bhd3
UGL (NZ) Limited3
UGL (Singapore) Pte Ltd3
UGL Canada Inc3
UGL Engineering Private Limited3
UGL Engineering Pty Ltd3
UGL Limited3
UGL Operations and Maintenance (Services) Pty Limited3

UGL Operations and Maintenance Pty Limited3
UGL Rail (North Queensland) Pty Ltd3
UGL Rail Fleet Services Pty Limited3
UGL Rail Pty Ltd3
UGL Rail Services Pty Limited3
UGL Resources (Contracting) Pty Ltd3
UGL Resources (Malaysia) SHD BHD3
UGL Unipart Rail Services Pty Ltd3
United Goninan Construction Pty Ltd3
United Group Infrastructure (NZ) Limited3
United Group Infrastructure (Services) Pty Ltd3
United Group International Pty Ltd3
United Group Investment Partnership3
United Group Melbourne Transport Pty Ltd3
United Group Water Projects (VIC) Pty Ltd3
United Group Water Projects Pty Ltd3
United KG (No. 1) Pty Limited3
United KG (No. 2) Pty Ltd3
United KG Construction Pty Ltd3
United KG Engineering Services Pty Ltd3
United KG Maintenance Pty Ltd3
Metro Trains Melbourne Pty Ltd1
Canberra Metro PTY LTD
Metro Trains Sydney Pty Ltd1
Metro Trains Australia Pty. Ltd.
CH2 – UGL1
CPB Contractors UGL Engineering Joint Venture
NRT Systems1
Thiess KMC JV
UGL Cape1
UGL Kaefer 1
UGL Kentz1
Building ROE 8
Thiess Sedgman Joint Venture
ACN 610 912 484 PTY LTD (old Canberra Metro Operations PTY LTD)1
Australian Terminal Operations Management Pty Ltd1
Naval Ship Management (Australia) Pty Ltd1
Sedgman Civmec Joint Venture
MPeet Pty. Ltd.
ViA7N Verwaltungs GmbH
Herrentunnel Verwaltungs GmbH
ViA6 West GmbH & Co. KG
Via6West Service GmbH & Co. KG
Sedgman - Red Mountain Mining RMX.ASX
Sedgman -Cardero Resource Corp
Sedgman - Vital Metals
UGL - Energy Renaissance Pty Ltd
LMIPL - Investment in LCIP
Sedgman - Convertible Note Exergen

The main companies no longer incluided in the scope of consolidation are as follows :

Riansares Eólica, S.L.
Calvache Eólica, S.L.
P.E. Marcona S.R.L.
Berea Eólica, S.L.
UFS-United Facility Solutions
Boggo Road Lots 6 and 7 Pty. Ltd.
Canberra Metro Finance Pty. Ltd.
Green Construction Company
AHBUD Sp. z o.o.
Neva Traverse GmbH i.L.
EOS Verwaltungs GmbH
Jägerstraße Verwaltungs GmbH
Projektgesellschaft Jägerstraße GmbH & Co. KG
Kentz E & C Pty. Ltd.
Vaderell, S.L.
Consorcio GSI Spa
HT Construction Inc.
Turner Caribe, Inc.
Caribbean Operations, Inc.
Turner Support Services, Inc.
Offshore Services, Inc.
Turner International Limited
Turner Construction Company of Indiana, LLC
Canadian Turner Construction Company (Nova Scotia)
2501 Constructors LLC
Turner Cayman Ltd.
Turner Cornerstone Korea
TC Professional Services, LLC
Bethesda View Constructors LLC
Henry Street Builders, LLC
TCCO of South Carolina, LLC
Turner International/Acropolis Management Consultants
Turner Sundt
Turner Alpha Joint Venture
McKissack & McKissack, Brailsford & Dunlavey and Turner LLC
Leighton Contractors Mauritius Ltd.
Leighton International Holdings Ltd.
Leighton Engineering Joint Venture
Thiess John Holland JV (Lane Cove Tunnel)
Garlanja JV
Leighton Fabrication and Modularization Ltd.
Thiess Alstom JV
Thiess Downer EDI Works JV
Cockatoo Iron Ore
Thiess Barnard JV
OOO Hochtief
Žilinská Dial'Nica s.r.o.
Bonaventura Straßenerrichtungs-GmbH

Antennea Technologies, S.L.
Hochtief Concessions India Private Limited
Flatiron Construction International LLC
Graham Flatiron
Flatiron/Aecon
Flatiron Dragados Ruskin JV
Leighton Geotech Ltd.
Paradip Mutli Cargo Berth Private Ltd.
Hochtief PPP Schools Capital Ltd.
HTD Smart Office Nr. 1 GmbH
Western Carpathians Motorway Investors Company GmbH
Manchester School Services Holdings Ltd.
CSM PPP Services (Holdings) Ltd.
FCC (East Ayrshire) Holdings Ltd.
PPP Services (North Ayrshire) Holdings Ltd.
Bangor and Nedrum Schools Services Holdings Ltd.
Salford Schools Solutions Holdco Ltd.
Süddeutsche Geothermie-Projekte GmbH & Co. KG
Sintax Navigomes Ltda.
SEMI Bulgaria, S.L.U.
Servicios Administrativos Offshore S.A., de C .V .
Servicios Operativos Offshore S.A., de C. V .
ACS Infrastructure Australia PTY LTD
Intebe, S.A.
Infraestructuras Energéticas Aragonesas, S.L.
Termosesmero, S.L.
Tecneira Acarau Geraçao e Comercialiçao En Elec, S.A.
Tecneira Embuaca Geração e Comercialização de Energia, S.A.
Tecneira Solar
Tecneira Brasil Participações, S.A.
Planestrada - Operação e Manutenção Rodoviária SA
Marestrada-Operações e Manutenção Rodoviária S.A.
Rotas Do Algarve Litoral S.A.
SPER-Soc.Por.Construção e Exploração Rodoviária S.A.
BOS Australia PTY. LTD.
Thiess Southland Pty Ltd
Leighton Asia (China) Limited
Thiess Infraco Pty Ltd
Leighton International Projects (India) Private Limited4
Moonamang Joint Venture Pty Ltd
111 Margaret Street Pty Ltd
Victoria Point Docklands Pty Ltd
Leighton Gbs Sdn. Bhd.
Queens Square Pty Ltd
Woodforde JV Pty Ltd3
Fleetco Rentals GE PTY. Limited
Link 200 Station Joint Venture1
Link 200 Tunnel Joint Venture1
Link 200 Joint Venture1
Thiess Pty Ltd & York Civil Pty Ltd
Thiess Southbase Joint Venture
A.C.N. 115 687 057 Pty Ltd (formerly known as Promet Engineers Pty Limited)1
Fallingwater Trust1

The Kurunjang Development Trust1
Kurunjang Development Pty Ltd1
Marine & Civil Pty Ltd2
Nextgen Group Holdings Pty Limited
Soduker B.V.
Tirpser B.V.
ACL Investment a.s.
Euripus s.r.o.
Inserta s.r.o.
Hochtief Canada Holding 3 Inc.
Hochtief ABC Schools Partner Inc.
FM Holding GmbH
Streif Baulogistik Ukraine LLC
Hepolico Investments Sp. z o.o.
Streif Baulogistik Bulgarien EOOD
TBB Serwis Sp. z o.o.
ViA6West Verwaltungsgesellschaft mbH
Le Quartier Central Teilgebiet C Verwaltungs GmbH
Franklinstraße 65, Frankfurt am Main GmbH & Co. KG
Le Quartier Central Teilgebiet C GmbH & Co. KG
ABC Schools Partnership
TINT - Lane Cove Tunnel
PPCo - Investment in Aquasure
LC India - Vizag General Cargo Berth Ltd.
JHINT - Lane Cove Tunnel
LAL _Southern - Nextgen Group Holdings Pty. Ltd.
LAL _ Northern - Nextgen Group Holdings Pty. Ltd.
LH_TIPL - Nextgen Group Holdings Pty. Ltd.
Tirme S.A.
Urbaser Limited
Tractaments Ecologics S.A.
Pilagest S.L.
Electrorecycling S.A.
Tresima Limpiezas Industriales S.A. (TRELIMSA)
Centro de Transferencias S.A.
Empordanesa de Neteja S.A.
Gestión y Protección Ambiental S.L.
Gestión y Protección Ambiental S.L.
Residuos de la Janda S.A.
Residuos Sólidos Urbanos de Jaén S.A.
Socamex S.A.
Valenciana de Eliminación de Residuos S.L.
Valenciana de Protección Ambiental S.A.
Desarrollo y Gestión de Residuos S.A. (Degersa)
Zoreda Internacional S.A.
Orto Parques y Jardines S.L.
Betearte S.A.
Valorga International S.A.
Sertego Servicios Medioambientales S.L.
Urbamar Levante Residuos Industriales S.L.
Salins Residuos Automoción S.L.
Gestión de Marpol Galicia S.L.
Urbaser S.A.

Aguas del Gran Buenos Aires S.A.
Urbaser Barquisimeto C.A.
Demarco S.A.
UBB Waste (Gloucestershire) Ltd.
UBB Waste (Gloucestershire) Intermediate Ltd.
UBB Waste (Essex) Ltd.
UBB Waste (Essex) Intermediate Ltd.
Sertego C.A.
Valoram, S.A.S.
Suma Tratamiento, S.A.
ENVISER Servicios Medioambientales, S.A.U.
Valveni Soluciones para el Desarrollo Sostenible, S.L.
Hunaser, Servicios Energeticos, A.I.E.
Saco 3 Escombros, S.L.
Sertego G.R.I. Mexico S.A. de C.V.
Enerxico Energía Mexico, S.A. de C.V
Biosteam Energia, S.L.
Urbaser LLC
Urbaproprete IDF
Balear de Trituracions, S.L.
Mac Insular Segunda, S.L.
Urbaser Bahrain CO WWL
Ecoparc del Mediterrani S.A.
Ecoparc de Barcelona S.A.
Empresa Mixta de Aguas del Ferrol S.A.
Energías y Tierras Fértiles S.A.
Gestión Medioambiental de Torrelavega S.A.
KDM S.A.
Urbaser Mérida C.A.
Servicios de Aguas de Misiones S.A.
Somasur S.A.
Starco S.A.
Servicios Urbanos e Medio Ambiente S.A.
Tratamiento Industrial de Residuos Sólidos S.A.
Urbaser Argentina S.A.
Urbaser de Méjico S.A.
Urbana de Servicios Ambientales S.L.
Urbaser Transportes S.L.
Urbaser Valencia C.A.
Urbaser Libertador C.A.
Mora la Nova Energía S. L.
Evere S.A.S.
Urbaser Environment S.A.S.
Urbasys S.A.S.
Urbaser San Diego C.A.
Monegros Depura S.A.
CCR Las Mulas S.L.
Laboratorio de Gestión Ambiental S.L.
Mac Insular S.L.
Octeva S.A.S.
Residuos Industriales de Zaragoza S.A
Valorgabar S.A.S.
Residuos Industriales de Teruel S.A.

Ecoentorno Ambiente S.A.
Urbaser INC.
Urbacet S.L..
Tratamiento Integral de Residuos de Cantabria SLU
Tecmed Energy de Sonora S.A. de C.V.
Sevicios Corporativos TWC S.A. de C.V.
Tecmed Técnicas Mediamb. de México S.A. de C.V.
Tecmagua, S.A. de C.V.
Técnologías Medioambientales del Golfo S.A de C.V
Olimpia S.A. de C.V.
Tecmed Serv Recolección Comercial e Industrial S.A. de C.V.
International City Cleaning Company
Pruvalsa S.A.
Urbaser S.r.l.
Tecmed Maroc S.A.R.L.
Ecoparc del Besós S.A.
Eco Actrins S.L.U.
Urbaser Environnement RDP S.A.S
Sertego Maroc S.A.
Sertego TGMD S.A.
Valortegia S.A.S.
Mercia Waste Management Ltd.
Severn Waste Management Ltd.
Urbaser Envirnonmental Ltd.
Urbaser Investments Ltd.
UBB Waste (Gloucestershire) Holding Ltd.
UBB Waste (Essex) Holding Ltd.
Vertederos de Residuos S.A. (Vertresa)
Valdemingomez 2000 S.A.
Salmedina Tratamiento de Residuos Inertes
Tratamiento Integral de Residuos Zonzamas S.A.U.

EXPLANATORY NOTE CONCERNING SELECTED INDIVIDUAL FINANCIAL INFORMATION OF ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. CORRESPONDING TO THE FISCAL YEAR ENDED 31 DECEMBER 2016

Basis of the presentation of the selected individual financial information

Accounting standards applied

The Selected Individual Financial Information (hereinafter, the selected financial information) has been prepared in accordance with current commercial laws and the General Accounting Plan approved by Royal Decree 1514/2007 of 16 November and its subsequent amendments, adapted to the summary models provided in Royal Decree 1362/2007 and in accordance with Circular 5/2015 of 28 October of the Spanish National Securities Market Commission [CNMV - *Comisión Nacional del Mercado de Valores*].

This Selected Financial Information does not include all the information required to complete the individual financial statements in accordance with generally accepted accounting principles and standards under Spanish law. In particular, the attached Selected Financial Information has been prepared with the content necessary to comply with the requirements for selected individual financial information set forth in the second rule of Circular 1/2008 for those cases in which the issuer may be compelled, in accordance with the applicable law, to prepare the condensed consolidated financial statements in the report which it is submitting. Accordingly, the selected financial information must be read together with the financial statements of the Company for the fiscal year ended 31 December 2015 and together with the Condensed Consolidated Financial Statements for the period between 1 January 2016 and 31 December 2016.

At close of fiscal year ended 31 December 2016, we note the implications of the Accounts Auditing Act 22/2015 dated 20 July 20, which introduced certain amendments to the Commercial Code (article 39.4) affecting intangible assets and goodwill. The new wording establishes that intangible assets are assets with a defined useful life and that when the useful life of such assets may not be reliably estimated, they will be amortised over a period of ten years, unless another legal or regulatory provision establishes a different term. In respect of goodwill, it provides that, barring evidence to the contrary, it is presumed to have a useful life of ten years. These amendments are applicable to the financial statements corresponding to fiscal years beginning on or after 1 January 2016.

In addition, the December 2016 publication of Royal Decree 602/2016 (2 December) includes a single transitional provision, by which the Company has opted to amortise these assets by charging its reserves, including the goodwill reserve, following a straight line recovery method and a useful life of 10 years from the beginning of the year in which the current General Accounting Plan was first applied, since the acquisition date was prior thereto. This event has resulted in a reduction in Goodwill, which together with the amortisation from 2016 leaves a net balance of EUR 60,127 at 31 December 2016. On the basis of the foregoing, the Company estimates that at 31 December 2017, the Goodwill arising from the merger with Grupo Dragados will fully amortise. This event has necessitated, for comparative purposes, a balance sheet restatement on 31 December 2015, which resulted in a reduction of voluntary reserves of EUR 423,753 on said date and of EUR 62,383 in the income statement for the fiscal year in respect of the amount reflected in the individual financial statements approved in 2015. The effect on the Goodwill heading of the balance sheet is as follows:

	EUR Thousand					
	Balance at 31/12/2015	Implementation of the single transitional provision of RD 602/2016	Restated balance at 31/12/2015	Amortisation for the fiscal year	Write-down	Balance at 31/12/2016
Goodwill	**631,855**	**(505,484)**	**126,371**	**(62,931)**	**(3,313)**	**60,127**

In relation to the preparation of the selected individual financial information pursuant to the consultation published by the Institute of Accounting and Accounts Auditing [ICAC - *Instituto de Contabilidad y Auditoría de Cuentas*] in its Official Gazette, issue number 79, September 2009, we highlight that consideration forms part of the net turnover, the dividends received, and the interest accrued from the financing granted to the investee companies.

The breakdown of the individual turnover is as follows (EUR thousand):

	2016	2015
Dividends from Group Companies and Associates	1,390,487	358,759
Dividends from long-term financial investments	209	5,205
Financial income from Group Companies and Associates	31,257	94,190
Services provision	11,900	13,519
Total	**1,433,853**	**471,673**

This Selected Individual Financial Information has been prepared with reference to the publication of the semi-annual financial report required under article 35 of the Securities Market Act 24/1998 dated 28 July, developed by Royal Decree 1362/2007 dated 19 October.