

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

Financial Statements for the year ended
31 December 2016 and Directors' Report,
together with Independent Auditor's
Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
ACS, Actividades de Construcción y Servicios, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of ACS, Actividades de Construcción y Servicios, S.A., which comprise the balance sheet as at 31 December 2016 and the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of ACS, Actividades de Construcción y Servicios, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2.1 to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of ACS, Actividades de Construcción y Servicios, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

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



Ignacio Alcaraz Elorrieta
23 March 2017

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

Financial Statements for the year
ended 31 December 2016 and
Directors' Report, together with the
Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 21). In the event of a discrepancy, the Spanish-language version prevails.

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

Financial statements and
Directors' Report
for the year ended
31 December 2016

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

BALANCE SHEET AT 31 DECEMBER 2016

(Thousands of Euros)

| ASSETS | Note | 31/12/2016 | 31/12/2015 (*) | EQUITY AND LIABILITIES | Note | 31/12/2016 | 31/12/2015 (*) |
|--|--------------|------------------|------------------|---|------|------------------|------------------|
| NON-CURRENT ASSETS | | 5,799,139 | 5,918,836 | EQUITY | 11 | 2,476,850 | 1,753,789 |
| Intangible assets | 5 | 61,307 | 127,660 | SHAREHOLDERS' EQUITY | | 2,491,261 | 1,655,988 |
| Goodwill | | 60,127 | 126,371 | Share capital | | 157,332 | 157,332 |
| Computer software | | 1,180 | 1,289 | Share premium | | 897,294 | 897,294 |
| Property, plant and equipment | 6 | 5,431 | 5,736 | Reserves | | 514,222 | 787,881 |
| Land and buildings | | 395 | 395 | Legal and statutory | | 35,287 | 35,287 |
| Plant and other items of property, plant and equipment | | 5,036 | 5,341 | Other reserves | | 478,935 | 752,594 |
| Investment property | 7 | 1,040 | 1,069 | Treasury shares and equity interests | | (120,981) | (276,629) |
| Non-current investments in Group companies and associates | 9.3 and 17.2 | 5,621,680 | 5,595,171 | Profit (loss) for the year | | 1,043,394 | 90,110 |
| Equity instruments | | 5,621,680 | 5,595,171 | ADJUSTMENTS FOR CHANGES IN VALUE | | (14,411) | 97,801 |
| Non-current financial assets | 9.1 | 4,339 | 3,949 | | | | |
| Equity instruments | | 3,948 | 3,949 | | | | |
| Other financial assets | 9.1 | 391 | - | NON-CURRENT LIABILITIES | | 2,419,568 | 2,752,696 |
| Deferred tax assets | 14.5 | 105,342 | 185,251 | Non-current provisions | 12.1 | 192,567 | 45,079 |
| | | | | Non-current liabilities | 13.1 | 2,100,245 | 2,571,817 |
| | | | | Bonds and other negotiable instruments | | 608,511 | 578,424 |
| | | | | Bank borrowings | | 1,469,557 | 1,982,826 |
| | | | | Non-current liabilities relating to financial derivatives | 10.1 | 22,177 | 10,567 |
| | | | | Deferred tax liabilities | 14.6 | 126,756 | 135,800 |
| | | | | | | | |
| CURRENT ASSETS | | 1,234,579 | 1,070,777 | CURRENT LIABILITIES | | 2,137,300 | 2,483,128 |
| Inventories | | 14 | 1 | Current provisions | | 26,444 | 15,132 |
| Trade and other receivables | | 113,887 | 148,474 | Current liabilities | 13.2 | 667,479 | 1,056,828 |
| Trade receivables for sales and services | | - | 218 | Debentures and bonds | | 436,894 | 428,147 |
| Sundry accounts receivable | | 35,654 | 66,592 | Bank borrowings | | 19,679 | 356,783 |
| Employee receivables | | 4 | 6 | Derivative financial instruments | 10.2 | 58,550 | 118,256 |
| Current tax assets | 14.1 | 78,218 | 81,637 | Other financial liabilities | | 152,356 | 153,642 |
| Other accounts receivable from public authorities | 14.1 | 11 | 21 | Current payables to subsidiaries and associates | 17.2 | 1,433,441 | 1,399,441 |
| Current investments in Group companies and associates | 17.2 | 327,701 | 190,111 | Trade and other payables | | 9,936 | 11,727 |
| Current financial assets | 9.2 | 791,652 | 729,016 | Payable to suppliers | | - | 82 |
| Prepayments and accrued income | | 1,237 | 1,887 | Sundry accounts payable | | 2,420 | 4,387 |
| Cash and cash equivalents | | 88 | 1,288 | Remuneration payable | | 5,949 | 6,051 |
| | | | | Current tax liabilities | 14.1 | - | 11 |
| | | | | Other accounts payable to public authorities | 14.1 | 1,567 | 1,196 |
| TOTAL ASSETS | | 7,033,718 | 6,989,613 | TOTAL EQUITY AND LIABILITIES | | 7,033,718 | 6,989,613 |

(*) Restated amounts

The accompanying Notes 1 to 21 are an integral part of the balance sheet at 31 December 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousands of Euros)

| | Note | 31/12/2016 | 31/12/2015 (*) |
|--|--------------------|------------------|------------------|
| CONTINUING OPERATIONS | | | |
| Revenue | 16.1 | 1,433,853 | 471,673 |
| Procurements | | (970) | (872) |
| Contract work carried out by other companies | | (970) | (872) |
| Other operating income | | 2,044 | 1,665 |
| Staff costs | | (34,554) | (33,457) |
| Wages, salaries and similar costs | | (30,248) | (29,119) |
| Employee benefit costs | 16.2 | (4,306) | (4,338) |
| Other operating expenses | 16.3 | (56,273) | (19,952) |
| Outside services | | (54,275) | (17,924) |
| Taxes other than income tax | | (198) | (228) |
| Losses on, impairment of and change in provisions for trade receivables | | (1,800) | (1,800) |
| Depreciation and amortisation charge | 5, 6, 7 | (63,782) | (63,853) |
| impairment and profit/loss on disposal of fixed assets | | (3,312) | 23 |
| Other profits or loss | 16.7 | (28,487) | - |
| OPERATING INCOME | | 1,248,519 | 355,227 |
| Finance income | 16.4 | 10,457 | 9,346 |
| From marketable securities and other financial instruments | | 10,457 | 9,346 |
| Finance costs | 16.4 | (143,275) | (189,083) |
| On debts to subsidiaries and associates | | (15,330) | (70,424) |
| On debts to third parties | | (127,945) | (118,659) |
| Changes in fair value of financial instruments | 9.2, 10.2 and 16.6 | 38,935 | 67,916 |
| Exchange differences | 15 | - | 2 |
| Impairment and gains or losses on the disposal of financial instruments | 9.3, 16.5 | 117,697 | (176,185) |
| Impairment and losses | | (14,815) | (149,097) |
| Gains or losses on disposals and others | | 132,512 | (27,088) |
| FINANCIAL LOSS | | 23,814 | (288,004) |
| PROFIT/(LOSS) BEFORE TAX | | 1,272,333 | 67,223 |
| Income tax | 14.4 | (228,939) | 22,887 |
| PROFIT/(LOSS) FOR THE YEAR | | 1,043,394 | 90,110 |

(*) Restated amounts.

The accompanying Notes 1 to 21 are an integral part of the 2016 income statement.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of Euros)

A) Statement of recognised income and expenses for the year ended 31 December 2016

| | 31/12/2016 | 31/12/2015 (*) |
|---|------------------|----------------|
| A) Profit (Loss) per income statement | 1,043,394 | 90,110 |
| B) Income and expenses recognised directly in equity | (17,631) | 21,977 |
| I.- Measurement of financial instruments | (46,695) | 83,179 |
| II.- Arising from cash flow hedges | 23,723 | (52,211) |
| III.- Tax effect | 5,341 | (8,991) |
| C) Transfers to profit or loss | (94,581) | 3,144 |
| I.- Measurement of financial instruments | (143,292) | - |
| II.- Arising from cash flow hedges | 7,185 | 4,366 |
| III.- Tax effect | 41,526 | (1,222) |
| Total recognised income and expense (A + B + C) | 931,182 | 115,231 |

(*) Restated amounts

B) Statement of Changes in Total Equity for the year ended 31 December 2016

| | Shareholders' Equity | | | | | Adjustments for changes in value | Total Equity |
|--|----------------------|----------------|------------------|--------------------------------------|----------------------------|----------------------------------|------------------|
| | Share capital | Share premium | Reserves | Treasury Shares and Equity Interests | Profit (loss) for the year | | |
| Beginning balance at 01/01/2015 | 157,332 | 897,294 | 1,095,997 | (201,122) | 455,859 | 72,680 | 2,478,040 |
| Adjustments for changes in accounting criteria | - | - | (361,368) | - | (62,384) | - | (423,752) |
| Adjusted balance at 01/01/2015 | 157,332 | 897,294 | 734,629 | (201,122) | 393,475 | 72,680 | 2,054,288 |
| I. Total recognised income and expenses | - | - | - | - | 90,110 | 25,121 | 115,231 |
| II. Transactions with shareholders or owners | - | - | (346,830) | (75,507) | - | - | (422,337) |
| 1. Capital increases/(reductions) | 3,398 | - | (3,398) | - | - | - | - |
| 2. 2014 acquisition of complementary bonus issue right | - | - | (97,813) | - | - | - | (97,813) |
| 3. Remaining allotment rights from 2014 accounts | - | - | 84,303 | - | - | - | 84,303 |
| 4. 2015 bonus issue rights | - | - | (139,711) | - | - | - | (139,711) |
| 5. Treasury share and equity interest transactions (net) | (3,398) | - | (190,211) | (75,507) | - | - | (269,116) |
| III. Other changes in equity | - | - | 400,082 | - | (393,475) | - | 6,607 |
| 1. Equity instrument based payments | - | - | 6,607 | - | - | - | 6,607 |
| 2. Other changes | - | - | 393,475 | - | (393,475) | - | - |
| Balance at 31/12/2015 | 157,332 | 897,294 | 787,881 | (276,629) | 90,110 | 97,801 | 1,753,789 |
| I. Total recognised income and expenses | - | - | - | - | 1,043,394 | (112,212) | 931,182 |
| II. Transactions with shareholders or owners | - | - | (370,651) | 155,648 | - | - | (215,003) |
| 1. Capital increases/(reductions) | 3,383 | - | (3,383) | - | - | - | - |
| 2. 2015 acquisition of bonus issue right | - | - | (113,989) | - | - | - | (113,989) |
| 3. Remaining allotment rights from 2015 accounts | - | - | 77,894 | - | - | - | 77,894 |
| 4. 2016 bonus issue rights | - | - | (140,026) | - | - | - | (140,026) |
| 5. Treasury share and equity interest transactions (net) | (3,383) | - | (191,147) | 155,648 | - | - | (38,882) |
| III. Other changes in equity | - | - | 96,992 | - | (90,110) | - | 6,882 |
| 1. Equity instrument based payments | - | - | 6,882 | - | - | - | 6,882 |
| 2. Other changes | - | - | 90,110 | - | (90,110) | - | - |
| Balance at 31/12/2016 | 157,332 | 897,294 | 514,222 | (120,981) | 1,043,394 | (14,411) | 2,476,850 |

(*) Restated amounts.

The accompanying Notes 1 to 21 are an integral part of the statement of changes in total equity for 2016.

ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousands of Euros)

| | 31/12/2016 | 31/12/2015 (*) |
|--|--------------------|--------------------|
| A) Cash flows from operating activities (1+2+3+4) | 1,153,601 | 149,092 |
| 1. Profit/(Loss) before tax | 1,272,333 | 67,223 |
| 2. Adjustments to profit (loss) | (1,412,179) | (123,893) |
| (+) Depreciation and amortisation charge (Note 5) | 63,782 | 63,853 |
| (+/-) Other adjustments to profit (loss) (net) (Note 2.7) | (1,475,961) | (187,746) |
| 3. Changes in working capital | (116,617) | 28,190 |
| 4. Other cash flows from operating activities | 1,410,064 | 177,572 |
| (-) Interest payable (Note 16.4) | (127,577) | (179,349) |
| (+) Dividends received (Note 16.1) | 1,397,390 | 370,841 |
| (+) Interest received (Note 16.1) | 22,357 | 9,346 |
| (+/-) Income tax recovered (paid) (Note 14) | 117,894 | (23,266) |
| B) Cash flows from investment activities (1+2) | 450,359 | (2,812,425) |
| 1. Investment payables: | (79,516) | (2,812,500) |
| (-) Group companies, associates and business units (Note 9.3) | (3,000) | (2,811,514) |
| (-) Property, plant and equipment, intangible assets and property investments | (407) | (986) |
| (-) Other financial assets (Note 9.2) | (75,719) | - |
| (-) Other assets | (390) | - |
| 2. Divestment: | 529,875 | 75 |
| (+) Group companies, associates and business units | - | 75 |
| (+) Other financial assets (Note 9.2) | 529,875 | - |
| C) Cash flows from financing activities (1+2+3) | (1,605,160) | 2,663,333 |
| 1. Proceeds and payments relating to equity instruments (Note 11.6) | (51,163) | (261,783) |
| (-) Acquisition | (119,362) | (278,367) |
| (+) Disposal | 68,199 | 16,584 |
| 2. Proceeds and payments relating to financial liability instruments (Note 13.1) | (1,378,191) | 3,080,225 |
| (+) Issue | 458,868 | 5,243,239 |
| (-) Refund and repayment | (1,837,059) | (2,163,014) |
| 3. Dividends paid and remuneration relating to other equity instruments (Note 11) | (175,806) | (155,109) |
| D) Net increase (decrease) in cash and cash equivalents (A+B+C) | (1,200) | - |
| E) Cash and cash equivalents at beginning of year | 1,288 | 1,288 |
| F) Cash and cash equivalents at end of year (D+E) | 88 | 1,288 |

CASH AND CASH EQUIVALENTS AT YEAR END

| | | | |
|---|------------------------|-----------|--------------|
| (+) | Cash and banks | 88 | 1,288 |
| (+) | Other financial assets | - | - |
| Total cash and cash equivalents at end of year | | 88 | 1,288 |

(*) Restated amounts.

The accompanying Notes 1 to 21 are an integral part of the statement of cash flows at 31 December 2016.

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

Notes to the financial statements for the year ended 31 December 2016

1.- Company activities

ACS, Actividades de Construcción y Servicios, S.A. was incorporated by public deed on 13 October 1942, for an indefinite period. Its registered office is at Avda. de Pío XII, 102, Madrid.

In accordance with Article 4 of its Bylaws, the Company's corporate purpose comprises:

1. The business of constructing all kinds of public and private works, as well as the provision of services, for the conservation, maintenance and operation of motorways, freeways, roads and, in general any type of public or private ways and any other type of works, and any kind of industrial, commercial and financial actions and operations which bear a direct or indirect relationship thereto.
2. The promotion, construction, restoration and sale of housing developments and all kinds of buildings intended for industrial, commercial or residential purposes, either alone or through third parties. The conservation and maintenance of works, facilities and services, whether urban or industrial.
3. The direction and execution of all manner of works, facilities, assemblies and maintenance related to production plants and lines, electric power transmission and distribution, substations, transformation, interconnection and switching centres, generation and conversion stations, electric, mechanical and track installations for railways, metros and light rail, railway, light rail and trolleybus electrification, electric dam installations, purifying plants, drinking water treatment plants, wharfs, ports, airports, docks, ships, shipyards, platforms, flotation elements, and any other elements for diagnostics, tests, security and protection, controls for interlocking, operating, metering - either directly remotely - for industries and buildings as well as those suited to the above listed, facilities, electrification, public lighting and illumination, electric installations in mines, refineries and explosive environments; and in general all manner of, facilities related to the production, transmission, distribution, upkeep, recovery and use of electric energy in all its stages and systems, as well as the operation repair, replacement and upkeep of the components thereof. Control and automation of all manner of electric networks and installations, remote controls and computer equipment required for the management, computerization and rationalisation of all kinds of energy consumption.
4. The direction and execution of all manner of works, facilities, assemblies and maintenance related to the electronics of systems and networks for telephone, telegraph, signalling and S.O.S. communications, civil defence, defence and traffic, voice and data transmission and use, measurements and signals, as well as propagation, broadcast, repetition and reception of all kinds of waves, antennas, relays, radio-links, navigation aids, equipment and elements required for the execution of such works, assemblies and facilities.
5. The direction and execution of all manner of works, facilities, assemblies and maintenance related to the development, production, transformation, storage, transmission, channelling, distribution, use, metering and maintenance of any other kind of energy and energy product, and of any other energy that may be used in the future, including the supply of special equipment, elements required for installation and erection, and materials of all kinds.
6. The direction and execution of all manner of works, assemblies, facilities and maintenance of hydroelectric works to develop, store, raise, drive or distribute water, and its piping, transport and distribution, including water and gas treatment facilities.
7. The direction and execution of all manner of works, assemblies, facilities and maintenance for developing, transporting, channelling and distributing liquid and solid gases for all kinds of uses.

8. The direction and execution of all manner of works, assemblies, facilities and maintenance of ventilation, heating, air conditioning and refrigeration works and works to improve the environment, for all kinds of uses.
9. The direction and execution of all manner of works, facilities, assemblies and maintenance related to cable cars, gondola lifts, chair lifts and aerial lifts for both passenger and material transport by means of systems of cables or any type of mechanical element. The retrieval of ships and submerged elements, maritime salvages, ship breaking, naval fleet repairs, repairs and assembly of engines and mechanical elements for ships, and underwater work and sale of aquatic and sports material.
10. The manufacture, transformation, processing, handling, repair, maintenance and all manner of operations of an industrial nature for commercialisation related to machinery, elements, tools, equipment, electric protection material, bare and insulated conductors, insulators, metal fittings, machines, tools and auxiliary equipment for assemblies and installation of railways, metros and light trains, electric power transmission and distribution plants, lines and networks and for telephone and telegraph communications, telecommunication, security, traffic, telematics and voice and data transmission systems; of elements and machines for the development, transformation, transmission and use of all kinds of energies and energy products; of fluid and gas lift pumps, piping and other elements, mechanisms, accessory instruments, spare parts and materials required for execution and performance of any industrial, agricultural, naval, transport, communication and mining works, facilities and assemblies and others listed in the preceding paragraphs. The production, sale and use of electricity and of other energy sources and the performance of studies relating thereto, and the production, exploration, sale and use of all manner of solid, liquid or gaseous primary energy resources, including specifically all forms and kinds of hydrocarbons and natural, liquefied or any other type of gas. Energy planning and rationalisation of the use of energy and combined heat and power generation. The research, development and exploitation of communications and information technologies in all their facets.
11. The manufacture, installation, assembly, erection, supply, maintenance and commercialisation of all kinds of products and elements pertaining to or derived from concrete, ceramics, resins, varnishes, paints, plastics or synthetic materials; as well as metal structures for industrial plants and buildings, bridges, towers and supports of metal or reinforced concrete or any synthetic material for all manner of communications and electric power transmission or distribution, or any other class of energy material or product related to all types of energy.
12. The manufacture, preparation, handling and finishing, diagnosis, treatment and impregnation for protection and preservation and sale of wood in general, and especially of posts used for electric, telephone and telegraph lines, impregnation or servicing for mine and gallery timbering, building supports, construction woodwork, crossties for railways and barricades, and the production and commercialisation of antiseptic products and running of procedures for preserving wood, elements, tools and equipment of this nature. The acquisition, provision, application and use of paints, varnishes, coverings, plating and, in general, construction materials.
13. The management and execution of reforestation and agricultural and fishery restocking works, as well as the maintenance and improvement thereof. Landscaping, planting, revegetation, reforestation, maintenance and conservation of parks, gardens and accessory elements.
14. The manufacture, installation, distribution and use in any way of all manner of ads and advertising supports. The design, construction, fabrication, installation, maintenance, cleaning, upkeep and advertising use of all manner of street furniture and similar elements.
15. The provision of all manner of public and private services of an urban nature, including the execution of any necessary works and facilities, either by administrative concession or leasing. The treatment, recycling and recovery of all kinds of urban, urban-similar, industrial and sanitary waste; the treatment and sale of waste products, as well as the management and operation of waste treatment and transfer plants. Drafting and processing of all manner of environment-related projects.

16. The cleaning services for buildings, constructions and works of any kind, of offices, commercial premises and public places. Preparation, upkeep, maintenance, sterilisation, disinfection and extermination of rodents. Cleaning, washing, ironing, sorting and transportation of clothing.
17. Furniture assemblies and installations, including tables, shelves, office material, and similar or complementary objects.
18. Transports of all kinds, especially ground transportation of passengers and merchandise, and the activities related thereto. Management and operation, as well as provision of auxiliary and complementary services, of all manner of buildings and properties or complexes for public or private use, intended for use as service areas or stations, recreational areas, and bus or intermodal transportation stations.
19. The provision of integral health care and social assistance services by qualified personnel (physicians, psychologists, educators, university graduates in nursing, social workers, physical therapists and therapists) and performance of the following tasks: home care service; tele-home care and social health care; total or partial running or management of homes, day care centres, therapeutic communities and other shelters and rehabilitation centres; transportation and accompaniment of the above-mentioned collectives; home hospitalisation and medical and nursing home care; supply of oxygen therapy, gas control, electro-medicine, and associated activities.
20. Provision of auxiliary services in housing developments, urban properties, industrial facilities, roadway networks, shopping centres, official agencies and administrative departments, sports or recreational facilities, museums, fairgrounds, exhibition galleries, conference and congress halls, hospitals, conventions, inaugurations, cultural and sports centres, sporting, social and cultural events, exhibits, international conferences, general shareholders' and owners' association meetings, receptions, press conferences, teaching centres, parks, farming facilities (agricultural, livestock and fisheries), forests, rural farms, hunting reserves, recreational and entertainment areas, and in general all kinds of properties and events, by means of porters, superintendents, janitors, ushers, guards or controllers, console operators, auditorium personnel, concierges, receptionists, ticket clerks (including ticket collection), telephone operators, collectors, caretakers, first aid personnel, hostesses and similar personnel or personnel who complement their functions, consisting of the maintenance and upkeep of the premises, as well as attention and service to neighbours, occupants, visitors and/ or users, by undertaking the appropriate tasks, excluding in all cases those which the law reserves for security firms. Collection and tallying of cash, and the making, collection and charging of bills and receipts. The development, promotion, exhibition, performance, acquisition, sale and provision of services in the field of art, culture and recreation, in their different activities, forms, expressions and styles.
21. Provision of emergency, prevention, information, telephone switchboard, kitchen and dining hall services. Opening, closing and custody of keys. Turning on and off, running, supervision, maintenance and repair of engines and heating and air conditioning, electricity and lift installations, water, gas and other supply pipes, and fire protection systems. The operation of rapid communication systems with public assistance services, such as police, firemen, hospitals and medical centres. Fire fighting and prevention services in general, in woodlands, forests, rural farms, and industrial and urban facilities.
22. Integral management or operation of public or private educational or teaching centres, as well as surveillance, service, education and control of student bodies or other educational collectives.
23. Reading of water, gas and electricity meters, maintenance, repair and replacement thereof, monitoring and transcription of readouts, meter inspection, data acquisition and updating, and instalment of alarms. Temperature and humidity measurements on roadways and, in general, all kinds of properties and real estate, and public and private facilities, providing all the controls required for proper upkeep and maintenance thereof, or of the goods deposited or guarded therein.

24. Handling, packing and distribution of food or consumer products; processing, flavouring and distribution of food for own consumption or supply to third parties; servicing, replacement and maintenance of equipment, machinery and dispensing machines of the mentioned products; and participation in operations with raw materials, manufactured goods and supplies.
25. Provision of ground services to passengers and aircraft. Integral logistic freight services, such as: loading, unloading, stowing and unstowing, transport, distribution, placement, sorting, warehouse control, inventory preparation, replacement, control of warehouse stocks and storage of all kinds of merchandise, excluding the activities subject to special legislation. Management and operation of places of distribution of merchandise and goods in general, and especially perishable products, such as fish exchanges and wholesale and retail markets. Reception, docking, mooring and service connections to boats.
26. Direct advertising services, postage and mailing of printed advertising and publicity material and, in general, all kinds of documents and packages, on behalf of the clients.
27. Management, operation, administration, maintenance, upkeep, refurbishment and fitting out of all kinds of concessions in the broadest sense of the word, including those that are part of the concessionary firm's shareholders and those that have any type of contractual relation to develop any of the above-listed activities.
28. The acquisition, holding, use, administration and disposal of all manner of own-account securities, excluding activities that special legislation, and in particular the legislation on the stock market, exclusively ascribes to other entities.
29. To manage and administer fixed-income and equity securities of companies not resident in Spain, through the related organisation of the appropriate material and human resources in this connection.
30. Preparation of all manner of studies, reports and projects, and entering into contracts concerning the activities indicated in this article, as well as supervision, direction and consulting in the execution thereof.
31. Occupational training and recycling of people who provide the services described in the preceding points.

The activities included in the corporate purpose may be performed fully or partially indirectly by the Company through shares in other companies.

Grupo Dragados, S.A. was merged by absorption with ACS, Actividades de Construcción y Servicios, S.A. in 2003, effective for accounting purposes from 1 May 2003. This merger by absorption was subject to the tax neutrality system set forth in Chapter VIII of Title VIII of Corporation Tax Law 43/1995, of 27 December, and the applicable provisions of this law are outlined in the notes to financial statements for 2003.

The Company is the parent of a group of subsidiaries, and in accordance with the legislation in force, is required to separately prepare consolidated financial statements. The consolidated financial statements of the ACS Group for 2016 will be prepared by the directors at the Board of Directors Meeting held on 23 March 2017. The consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting of ACS, Actividades de Construcción y Servicios, S.A. on 5 May 2016, and were filed at the Mercantile Registry of Madrid.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IAS/IFRS) as adopted by the European Union. Note 4.5.1 includes the consolidated information related to the main assets and liabilities of the ACS Group's 2016 and 2015 financial statements prepared under the aforementioned international standards.

2.- Basis of presentation of the financial statements

2.1 Regulatory Financial Reporting Framework

The regulatory financial reporting framework applicable to the Company consists of the following:

- a) The Spanish Commercial Code and all other Spanish corporate law.
- b) The Spanish National Chart of Accounts and its industry adaptations.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and its supplementary rules.
- d) All other applicable Spanish accounting legislation.

2.2 Fair presentation

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework and, accordingly, present fairly the Company's equity, financial position, results, changes in equity and cash flows for the corresponding financial year. These financial statements, which were formally prepared by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes.

2.3 Non-obligatory accounting principles applied

No non-obligatory accounting principles were applied. Additionally, the directors prepared these financial statements taking into account all the mandatory accounting policies and measurement bases with a material effect on these financial statements. All obligatory accounting principles were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment for determining possible impairment losses on certain assets (see Notes 4.1 and 4.5.1).
- The calculation of impairment of goodwill (see Note 5).
- The market value of certain financial instruments and derivatives (see Note 4.5.1).
- The calculation of provisions (see Note 4.9).
- The assumptions used in the actuarial calculation of liabilities arising from pensions and other obligations to employees (see Note 4.12)
- The useful life of the property, plant and equipment and intangible assets (see Notes 4.1 and 4.2).
- The recovery of deferred tax assets (see Note 14).
- Financial risk management (see Note 9.4).

Although these estimates were made on the basis of the best information available at 2016 year end on the facts analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

Going-concern principle of accounting

The Company has a working capital deficiency amounting to EUR 902,721 thousand (see Note 9.4.2) due mainly to the recognition of a balance payable of EUR 1,433,441 thousand to subsidiaries of ACS, Actividades de Construcción y Servicios, S.A. included within the ACS Group under "Current liabilities". Whether or not this balance is payable will depend on the decisions taken by the Company at the date of its maturity, since it may be renewed for periods of more than 12 months.

Based on the foregoing, and also taking into consideration the capacity of the Group companies to generate cash, with the consequent distribution of dividends to the Company, the directors believe that it will be able to adequately finance its transactions in 2017.

2.5 Comparative information

Comparative information

As required by Spanish corporate and commercial law, in addition to the figures for 2016 for each item in the balance sheet, income statement, statement of changes in equity and statement of cash flows, the figures for the previous year are presented.

Changes in accounting policies

Royal Decree 602/2016 dated 2 December was approved in December 2016 modifying the General Accounting Plan that had been approved by Royal Decree 1514/2007 dated 16 November. Royal Decree 602/2016 applies to years beginning as from 1 January 2016. The main change introduced by Royal Decree 602/2016 affecting the Company relates to the change to the rule on recognition and valuation of intangible assets (goodwill in particular). In line with the changes made to the Code of Commerce introduced by Law 22/2015 of 20 July, it is established that intangible assets are assets with a defined useful life, and should therefore be systematically amortised during the period that it can reasonably be considered that the economic benefits inherent to the asset will provide returns to the company. When the useful life of such assets cannot be estimated in a reliable manner, they should be amortised over a maximum term of ten years, notwithstanding the terms established in the specific rules applicable to the intangible item. In the case of goodwill, this should be amortised over its useful life, and it is stated that it shall be assumed, barring evidence to the contrary, that its useful life is ten years and it is recovered on a straight-line basis. Previously such intangible assets and goodwill were assets with an indefinite useful life, and were not subject to regular amortisation, only deterioration.

On the matter of the new information requirements to be included in the financial statements, and as allowed by Additional Provision Two of the mentioned Royal Decree, the Company has opted to include the corresponding comparative information in Note 5 to the financial statements. In the case of the amortisation of goodwill, and as allowed by the Sole Additional Provision of Royal Decree 602/2016:

- The Company has applied the new amortisation criteria established in the regulations to the book value of the goodwill, opting to amortise the resulting amounts with a charge to reserves in line with the transition rules. According to these rules, the amortisation with a charge to reserves has been calculated on a straight-line recovery basis, taking into account a useful life of ten years counted as from the start of the year in which the current General Accounting Plan was implemented, as the acquisition date preceded it.
- According to Additional Provision Two, under this option comparative information should be provided that is adapted to the new criteria. As a result, balances corresponding to the annual fiscal year ended 31 December 2015 shown in these annual financial statements have been modified in relation to those shown on the financial statements corresponding to that year as a consequence of the changes introduced by Royal Decree 602/2016. Figures prior to 1 January 2015 have been restated against the reserve accounts. Below is a detail of the effects of the application of the new amortisation criteria to years 2015 and previous years.
- The cumulative effect at 1 January 2016 is as follows:

| | Thousands of Euros |
|--|---------------------------|
| Impact on opening reserves at 1 January 2015 | 423,752 |
| Impact on results for fiscal 2015 | 62,384 |
| Total | 486,136 |

Therefore, the adjustments made to the comparative figures for each of the balance sheet items and the income statement are the following:

- Balance at 31 December 2015:

| | Thousands of Euros |
|--|---------------------------|
| | Dr/(Cr) |
| Reserves (reduction) | 423,752 |
| Result for year (reduction) | 62,384 |
| Intangible assets / goodwill (reduction) | 505,484 |
| Deferred tax liabilities (reduction) | 19,348 |

- Income statement corresponding to the year ended 31 December 2015:

| | Thousands of Euros |
|--|---------------------------|
| | Income/(Expense) |
| Amortisation of the intangible assets/goodwill | 63,186 |
| Tax on Income | (802) |
| Result for fiscal 2015 after restatement | 90,110 |

In addition, the comparative figures on the statement of changes in equity and the statement of cash flows have been restated accordingly.

2.6 Correction of accounting errors

No material errors were detected in the preparation of the accompanying financial statements which gave rise to the restatement of the amounts included in the 2015 financial statements.

2.7 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and cash-flow statement are grouped together to aid their understanding although, to the extent that it is significant, the information has been included separately in the related notes to the financial statements.

In the statement of cash flows, the detail of items included under "Other adjustments to profit (net)" are as follows:

| | Thousands of Euros | |
|--|---------------------------|------------------|
| | 2016 | 2015 |
| Dividend income | (1,390,696) | (363,964) |
| Interest expense | 143,275 | 189,083 |
| Interest income | (41,714) | (103,536) |
| Changes in the fair value of financial instruments | (38,935) | (67,916) |
| Impairment and gains (losses) on the disposal of financial instruments | (117,697) | 176,185 |
| Other | (30,194) | (17,598) |
| Total | (1,475,961) | (187,746) |

3.- Distribution of profit

As in previous years, at the date of the call notice of the Annual General Meeting, the Board of Directors agreed to propose an alternative remuneration system allowing shareholders to receive bonus shares of the Company, or cash through the sale of the corresponding bonus issue rights. This option would be instrumented through an increase in paid-in capital, which will be subject to approval by the shareholders at the Annual General Meeting. In the event that it is approved, the increase in paid-in capital may be executed by the Board of Directors up to two times, in July and at the start of the following year, coinciding with the times when dividends are customarily paid. During each capital increase, each shareholder of the Company receives a bonus issue right for each share. The free allotment rights will be traded on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. Depending on the alternative chosen, shareholders would be able to either receive additional paid-in shares of the Company or sell their bonus issue rights on the market or sell them to the Company at a specific price calculated using the established formula. Note 11 specifies the various actions undertaken by the Directors as regards the compensation systems developed by the shareholders as well as the year-end accounting effects thereof.

The distribution of the profit for 2016 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting consists in the transfer of the total sum of the year's net income (EUR 1,043,394 thousand) to the voluntary reserves.

4.- Accounting policies and measurement bases

The principal accounting policies and measurement bases used by the Company in preparing its financial statements for 2016, in accordance with the Spanish National Chart of Accounts, were as follows:

4.1 Intangible assets

As a general rule, intangible assets are recognised initially at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and any recognised impairment losses. These assets are amortised over their useful life.

a) Goodwill

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to each of the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. The aforementioned cash-generating units must be tested for impairment at least once a year in accordance with the methodology indicated below (see Note 5), recognising, if applicable, the required valuation adjustment.

Impairment losses recognised for goodwill must not be reversed in a subsequent period.

Specifically, the Company recognises the goodwill arising from the merger by absorption of Grupo Dragados, S.A. under this heading, as described in Note 1.

The Accounts Audit Act 22/2015 of 20 July introduced certain amendments to the Commercial Code (Article 39.4) affecting intangible assets and goodwill. The new text provides that intangible assets are assets with a finite useful life and that they shall be subject to amortisation over a ten-year period if their useful life cannot be reliably estimated, unless another law or regulation establishes a different term. It further specifies that goodwill shall be presumed to have a useful life of ten years, unless proved otherwise. Such amendments apply to financial statements for fiscal years starting from 1 January 2016.

Royal Decree 602/2016 dated 2 December was published on 17 December and includes a sole transitional provision under which the Company has opted to amortise these assets against reserves, including the reserve for goodwill, following a straight-line recovery criterion and a useful life of 10 years as from the beginning of the year in which the current General Accounting Plan was first applied, as the date of acquisition was earlier. This effect has meant a reduction in Goodwill, which together with

the amortisation for 2016 and the reduction from the sale of Urbaser (see Note 5) shows a net balance of 60,127 thousand euros at 31 December 2016. Based on this criterion, the Company estimates that at 31 December 2017 Goodwill will have been fully amortised.

b) Computer software

The Company recognises under “Computer Software” the costs incurred in the acquisition and development of computer programs. Computer software maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over 4 years.

Impairment of intangible assets and tangible assets and property, plant and equipment

At the end of each reporting period, the Company tests goodwill for impairment to determine whether the recoverable amount of these assets has been reduced to below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use. Company management performs impairment tests based on the recoverable amounts calculated for each cash-generating unit. Estimates of future results and investments are obtained each year for each cash-generating unit.

Other variables affecting the calculation of the recoverable amount are:

- The discount rate to be used, which is taken to be the weighted average cost of capital, the main variables with an effect on its calculation being borrowing costs and the specific risks associated with the assets.
- The cash flow growth rate used to extrapolate the cash flow projections to beyond the period covered by the budgets or forecasts.

The projections are prepared on the basis of past experience and of the best estimates available, taking into account the information obtained from external sources.

If an impairment loss has to be recognised for a cash-generating unit to which all or part of an item of goodwill has been allocated, the carrying amount of the goodwill relating to that unit is written down first. If the loss exceeds the carrying amount of this goodwill, the carrying amount of the other assets of the cash-generating unit is then reduced, on the basis of their carrying amount, down to the limit of the highest of the following values: fair value less costs to sell; value in use and zero.

Where an impairment loss subsequently reverses (not permitted in the specific case of goodwill), the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income.

4.2 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4.1.

At year-end no indications of the impairment of the Company’s property, plant and equipment were identified, and since the Company’s directors estimate that the recoverable value of the assets is higher than their carrying amount, no impairment loss was recognised.

Property, plant and equipment upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Where the period required to put property, plant and equipment into operating conditions lasts more than one year, the capitalised costs include the borrowing costs incurred prior to the entry into operation of the asset and generated by the supplier

or relating to loans or another specific or general type of external financing directly attributable to the acquisition or manufacturing thereof.

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

| | Years of Estimated Useful Life |
|--|---|
| Plant and machinery | 3 - 18 |
| Buildings and other structures | 33 - 60 |
| Transport equipment | 5 - 10 |
| Computer hardware | 1 - 5 |
| Other items of property, plant and equipment | 3 - 25 |

4.3 Investment property

"Investment Property" in the balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

These assets are measured in accordance with the criteria indicated in Note 4.2, in relation to property, plant and equipment.

4.4 Leases

Finance lease obligations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases. The Company had not entered into any finance lease agreements at 31 December 2016 or 31 December 2015.

Operating leases

If the Company acts as lessor:

Lease income and expenses from operating leases are charged to income in the year in which they are incurred.

Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the costs directly attributable to the lease, which are recognised as an expense over the lease term, applying the same method as that used to recognise lease income.

If the Company acts as lessee:

Expenses arising from operating leases are recognised in income on an accrual basis.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment which will be allocated to profit or loss over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

4.5 Financial Instruments

4.5.1 Financial assets

Classification

The financial assets held by the Company are classified in the following categories:

- a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.
- b) Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Company has the positive intention and ability to hold to the date of maturity.
- c) Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.
- d) Available-for-sale financial assets these include debt securities and equity instruments of other companies that are not classified in any of the aforementioned categories.

Initial recognition

Financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs.

In the case of equity investments in Group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognised directly in profit or loss.

Subsequent measurement

Loans and receivables and held-to-maturity investments are measured at amortised cost.

Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

The Company is the Parent of a Group of companies listed in Note 9.3. The financial statements do not reflect the effect that would arise from applying consolidation bases. The main aggregates in the ACS Group's consolidated financial statements for 2016 and 2015 prepared in accordance with Final Provision Eleven of Law 62/2003, of 30 December, applying the International Financial Reporting Standards approved by the European Union, are as follows:

| | Thousands of Euros | |
|-----------------------------------|--------------------|-------------------|
| | 2016 | 2015 (*) |
| Total assets | 33,373,266 | 35,279,828 |
| Equity | 4,981,937 | 5,197,269 |
| - Of the Parent | 3,581,835 | 3,421,008 |
| - Of minority interests | 1,400,102 | 1,776,261 |
| Income | 31,975,212 | 33,291,309 |
| Profit (loss) for the year | 1,016,910 | 1,054,247 |
| - Of the Parent | 751,016 | 725,322 |
| - Of minority interests | 265,894 | 328,925 |

(*) Restated amounts

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

At least at each reporting date the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the income statement.

With respect to any valuation adjustments related to trade and other receivables, in order to calculate such adjustments the Company takes into account the existence of events which might lead to a delay or a reduction in future cash flows which might be caused by the debtor's insolvency.

The Company derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards incidental to ownership of the financial asset have been transferred, such as in the case of the outright sale of assets, factoring of trade receivables in which the Company does not retain any credit or interest rate risk, sale of financial assets under an agreement to repurchase them at their fair value or the securitisation of financial assets in which the transferor does not retain any subordinated debt, provide any type of guarantee or assume any other type of risk.

However, the Company does not derecognise financial assets, and recognises and maintains a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting, with-recourse factoring, sales of financial assets under an agreement to repurchase them at a fixed price or at the selling price plus interest and the securitisation of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses.

4.5.2 Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Liability derivative financial instruments are measured at fair value, following the same criteria as for financial assets held for trading described in the previous section.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist.

4.5.3 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity at the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in profit or loss.

4.5.4 Derivative financial instruments

The Company uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed. Basically, these risks relate to changes interest rates. The Company arranges hedging financial instruments in this connection.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Company verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e., that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

The Company uses hedges of the following types, which are accounted for as described below:

- Fair value hedges: In this case, changes in the fair value of the hedging instrument and the hedged item attributable to the hedged risk are recognised in profit or loss.
- Cash flow hedges: In hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Assessment

The fair value of the various derivative financial instruments is calculated using techniques widely used in financial markets, by discounting the flows envisaged in each contract on the basis of its characteristics, such as the notional amount and the collection and payment schedule based on spot and futures market conditions at the end of each year.

Interest rate hedges are measured by using the zero-coupon rate curve, determined by employing the Black-Scholes methodology in the case of caps and floors for the deposits and rates that are traded at any given time, to obtain the discount factors.

Equity swaps are measured as the result of the difference between the quoted price at year-end and the strike price initially agreed upon, multiplied by the number of contracts reflected in the swap.

Derivatives whose underlying asset is quoted on an organised market and are not qualified as hedges, are measured using the Black-Scholes methodology and applying market parameters such as implicit volatility and estimated dividends.

For those derivatives whose underlying asset is quoted on an organised market, but in which the derivative forms part of financing agreement and where its arrangement substitutes the underlying assets, the measurement is based on the calculation of its intrinsic value at the calculation date.

In accordance with the ICAC consultation dated 4 June 2013, in addition to the measurement indicated in the previous paragraphs, the Company measures the credit or default risk which reduces the value of the derivative, whereby the lesser value of the asset or liability derivative instrument is recognised as a change in income or in equity based on the hedge type. Therefore, when a derivative records an unrealised gain, this amount is adjusted downward according to the risk of the banking counterpart due to make payment to a Group company, whereas when there are unrealised losses, this amount is reduced on the basis of own credit risk, as it will be the Group entity that will have to pay the counterparty.

Evaluation of own and counterparty risks take into account the existence of contractual guarantees (collateral) that may be used to compensate for a loss of credit in the event of suspension of payment.

In the case of derivatives with unrealised losses, the own credit risk applied to adjust the market price is that of each individual company or project being assessed, and not that of the Group or sub-group to which they belong. To do so, an internal rating is drawn up for each company/project using objective parameters such as financial ratios, indicators, etc.

In the case of derivatives with unrealised gains, as accounting rules do not provide the specific methodology to be applied, a method considered to be a best practice is used that takes into account three elements to calculate the adjustment, which is the result of multiplying the level of exposure of the position by the probability of default and the loss in the case of default.

The exposure level measures the estimated risk that a given position can reach as a consequence of changes in market conditions. To these ends it is possible to apply a MonteCarlo method, a simulation exercise with probability scenarios assigned externally, or the market value at each moment as the best reference. In the case of the Group, for the sake of simplicity this latter criterion is applied. Specifically, in the case of the IRS (interest rate swaps) and derivatives for exchange rate differences, the market price provided by the counterparties is used (revised by each company using its own valuation methods); while in the case of options and equity swaps the market price of premiums on the options contracted is calculated applying a standard option valuation method that takes into account variables such as the price of the underlying asset, its volatility, time to exercise, interest rates, etc.

On the matter of the probability of default, that is to say that the debtor counterparty might not be capable of paying the contractual amounts at some point in the future, a figure is used that is calculated by dividing the credit spread by the expected loss rate, with the loss rate as a unit less the recovery rate expected in the event of default. The data used is obtained from estimates published by Moody's. The precision of the information on the credit spread depends on the extent the markets remain liquid. Thus, for example,

- When there are unrealised gains from a derivative, as an approximation to the credit spread for the banking entity that would have to pay a Group company, the price of its credit default swap (CDS) is used. When the listed term does not coincide with the specific term, it is interpolated. If the CDS market for a given entity exists but is not very liquid, a correction coefficient is applied to the market price. When there is simply no CDS market for the banking entity that acts as a counterparty, probability of default is calculated by means of correlation between the rating levels published by the rating agencies and the accumulated historical rates of default according to term, based on estimates by agency Standard and Poor's.
- In the case of a derivative showing an unrealised loss, as there is no CDS market for projects, unlisted Group subsidiaries, or for the holding group itself, calculation of the probability of default makes a distinction between whether or not the company has issued listed bonds. If the answer is affirmative, a reconciliation is made between the

credit spread of the listed bonds issued by similar companies and a corporate CDS index for the various terms. When necessary interpolation is made between terms. If it has not, use is made of correlation between the rating levels assigned and the historical accumulated default rates. To this end shadow credit ratings are used, prepared either by the company or requested from third parties.

Lastly, to calculate the loss in the event of default:

- When there are unrealised gains from a derivative, the recovery rates for each banking entity published by Reuters are used, or those declared by the financial institution itself.
- In the case of a derivative showing an unrealised loss, use is made of the recovery rate published by Moody's, depending on the sector in which the project, subsidiary or the holding company is positioned. In the particular case of projects, correction factors are also applied according to the phase the project is at – the period of construction, launch (ramp-up) or consolidated exploitation.

4.6. Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. The resulting gains or losses are recognised directly in profit or loss in the year in which they arise.

4.7. Income Tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and except for those associated with investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The recognised deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

Since 1 January 1999, the Company has filed consolidated tax returns and is the head of the Tax Group 30/99.

4.8. Income and expenses

Revenue and expenses are recognised on an accrual basis, i.e., when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income. Pursuant to the consultation published in Gazette no. 79 of the ICAC, dividends and finance income are to be recognised under "Revenue" in the accompanying income statement.

4.9. Provisions and contingencies

When preparing the financial statements of the Company, their respective directors made a distinction between:

- a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed in the notes to the financial statements, to the extent that they are not considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

Provision for third-party liability

The Company has recorded provisions for contingencies and charges relating to the estimated amount required for probable or certain third-party liability and to obligations outstanding whose exact amount cannot be determined or whose date of payment is uncertain, since it depends on compliance with certain conditions. A provision is made when the liability or obligation arises.

4.10 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Accordingly, the termination benefits that are reasonably quantified are recognised as an expense in the year in which the decision to terminate is adopted. The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

4.11 Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

In view of their nature, the Company's activities did not have a significant environmental impact in 2016 or 2015.

4.12 Pension obligations

Provisions for pensions

The Company is required, under specific conditions, to make monthly payments to a group of employees to supplement the mandatory public social security system benefits for retirement, permanent disability, death of spouse or death of parent.

Additionally, the Company has obligations to certain members of the management team and the Board of Directors. These obligations have been formalised through several group savings insurance policies which provide benefits in the form of a lump sum.

The most relevant features of these plans are detailed in Note 12.1.1.

4.13 Share-based payments

The Company recognises the services received as an expense when delivered, on the basis of their nature and also as an increase in equity, since the transaction is always settled with equity instruments.

The transactions are settled with equity instruments, and accordingly, the services recognised as an increase in equity are measured at the fair value of the equity instruments transferred on the concession agreement date. This fair value is calculated on the basis of the estimated market value at the date of the plan concession and is charged to income on the basis of the period in which these instruments are consolidated or are no longer revocable by the beneficiary.

The share-based payments of ACS, Actividades de Construcción y Servicios, S.A. are made to directors carrying out executive functions and to the senior executives of the ACS Group.

4.14 Joint ventures

The Company accounts for its interests in Unincorporated Joint Ventures (*Uniones Temporales de Empresas* - UTEs) by recognising in its balance sheet the share corresponding to it, in proportion to its ownership interest, of the jointly controlled assets and of the jointly incurred liabilities. Also, it recognises in the income statement its share of the income earned and expenses incurred by the joint venture. In addition, the proportionate part corresponding to the Company of the related items of the joint venture are included in the statement of changes in equity and the statement of cash flows.

In 2016 the Company ceded its participation in UTE Dramar to the other partner, without the recording of any significant result in the year, and without assuming any future commitment in relation to it. At 31 December 2015 the only unincorporated joint venture owned by the Company was UTE Dramar, which engages in contract works for Spanish state ports, and the amounts related thereto in the balance sheet and income statement were not material.

4.15 Related-party transactions

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

4.16 Cash flow statement

The following terms are used in the cash flow statement, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of the Company and other activities that are not investing or financing activities.
- Investing activities. The acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

5.- Intangible assets

The changes in "Intangible assets" in the balance sheet in 2016 and 2015 were as follows (in thousands of Euros):

| | Balance at 01/01/2015 | Additions / Charges for the Year | Application of sole transitional provision of R.D. 602/2016 | Balance at 31/12/2015 (*) | Additions / Charges for the Year | Eliminations, disposals or reductions | Balance at 31/12/2016 |
|---------------------------------------|-----------------------|----------------------------------|---|---------------------------|----------------------------------|---------------------------------------|-----------------------|
| Cost: | | | | | | | |
| Goodwill | 631,855 | - | - | 631,855 | - | (30,583) | 601,272 |
| Computer software | 3,802 | 832 | - | 4,634 | 207 | - | 4,841 |
| Total cost | 635,657 | 832 | - | 636,489 | 207 | (30,583) | 606,113 |
| Accumulated amortisation: | | | | | | | |
| Goodwill | - | - | (505,484) | (505,484) | (62,931) | 27,270 | (541,145) |
| Computer software | (3,255) | (90) | - | (3,345) | (316) | - | (3,661) |
| Total accumulated amortisation | (3,255) | (90) | (505,484) | (508,829) | (63,247) | 27,270 | (544,806) |
| Total net cost | 632,402 | 742 | (505,484) | 127,660 | (63,040) | (3,313) | 61,307 |

(*) Restated amounts

At the end of 2016 the Company had fully amortised intangible assets still in use relating to computer software whose gross carrying value amounted to EUR 3,229 thousand (EUR 3,229 thousand in 2015).

At the end of 2016 and 2015, the Company had no material firm commitments for the purchase of software.

With the change in the General Accounting Plan there are no longer any assets with an indefinite useful life held by the Company at 31 December 2016, and the Goodwill is now considered to have a defined useful life, being amortised on a straight-line basis over 10 years, in line with the legally-established presumption..

The net change in the balance of "Goodwill" in 2016 and 2015 has been as follows:

| | Thousands of Euros | | | | | |
|-----------------|-----------------------|---|--------------------------------|-----------------------|----------------|-----------------------|
| | Balance at 31/12/2015 | Application of sole transitional provision of R.D. 602/2016 | Restated Balance at 31/12/2015 | Amortisation for year | Deletion | Balance at 31/12/2016 |
| Goodwill | 631,855 | (505,484) | 126,371 | (62,931) | (3,313) | 60,127 |

There was no movement in 2015; the effect is included for comparative purposes as consequence of the application of the sole transitional provision explained in Notes 2.5 and 4.1 a).

The goodwill arising from the merger with Grupo Dragados, S.A. corresponds to the excess of paid value on top of the value of the assets on the acquisition date and is mainly allocated to the Construction (Dragados) and Industrial Services cash-generating units. As a result of the sale of Urbaser in December 2016, the Company has eliminated the part corresponding to it amounting to a cost net of amortisation of 3,313 thousand euros.

The ACS Group assessed the recoverability thereof in both 2016 and 2015 on the basis of an impairment test performed in the fourth quarter each year using figures for September, without any aspect of relevance coming to light in the last quarter that could be relevant to the aforementioned test. In addition, the result of the sale of Urbaser has meant recover of a significant portion of the goodwill that had been assigned to it.

In order to measure the various business generating units, in the case of Dragados Construction and Industrial Services the valuation is carried out using the discounted cash flow method.

The discount rate used in each business unit is its weighted average capital cost. In order to calculate the discount rate of each business unit the yield of 10-year Spanish government bonds, the deleveraging beta of the sector according to Damodaran, releveraged by the debt of each business unit and the market risk premium according to Damodaran. The cost of the gross debt is the consolidated actual effective cost of the debt of each business unit at September 2016 and the tax rate used is the theoretical tax rate for Spain. The perpetual growth rate (*g*) used is the CPI increase in 2021 for Spain according to the IMF report issued in October 2016.

The key assumptions used to measure the most significant cash-generating units were as follows:

Dragados Construction:

- Sales: compound annual growth rate in the 2016-2021 period of 1.2%.
- EBITDA Margins: average margin from 2017 to 2021 of 6.6% and final margin of 6.6%.
- Amortisations/Operating investments: convergence at a ratio to sales up to 1.3% in the last year forecast.
- Working capital: maintain the days of the working capital for the period, calculated in line with September 2016 year-end.
- Perpetual growth rate of 1.56%.
- Cash flow discount rate of 5.84%.

Industrial Services:

- Sales: compound annual growth rate in the 2016-2021 period of 1.1%.
- EBITDA Margins: average margin from 2017-2021 of 10.1% and final margin of 10.1%.
- Amortisations/Operating investments: convergence at a ratio to sales up to 1.6% in the last year forecast.
- Working capital: maintain the days of the working capital for the period, calculated in line with September 2016 year-end.
- Perpetual growth rate of 1.56%.
- Cash flow discount rate of 5.75%.

The above assumptions are each supported by historical financial data for the various units and project future growth trends that are inferior to those obtained in previous years. We further note that the main indicators for financial year 2016 have not varied significantly from those projected under the previous year's impairment test, and some have exceeded expectations.

After testing the impairment of each of the cash-generating units to which the goodwill arising from the merger with Dragados Group in 2003 is assigned, it has been determined, with the aforementioned assumptions that under no circumstances is the estimated recoverable amount of the cash-generating unit less than its carrying amount, as there is no evidence of its impairment.

Similarly, a sensitivity analysis was carried out for all divisions by considering different scenarios for the two key parameters in determining the value through discount cash flows, which are the perpetual growth rate (*g*) and the discount rate used (weighted average cost of capital) of each of the cash-generating units. No reasonable scenario gave rise for the need to recognise an impairment loss. By way of example, the impairment tests on the cash-generating units, such as Dragados Construction and Industrial Services, withstand increases in the discount rates of 750 and 2,200 basis points, respectively, without any impairment being recognised. Similarly, the aforementioned tests withstand negative deviations of 60% in budgeted cash flows for Dragados Construction and 85% for Industrial Services.

Based on the foregoing, the Directors consider that the sensitivity scales for the aforementioned tests as regards the key assumptions support a reasonable range of possible deviations, allowing the conclusion that there is no indication of impairment in 2016 or 2015.

6.- Property, plant and equipment

The changes in 2016 and 2015 in “Property, Plant and Equipment” in the balance sheet and the most significant information affecting this heading were as follows (in thousands of Euros):

| | Balance at 01/01/2016 | Additions / Charges for the Year | Disposals or reductions | Balance at 31/12/2016 |
|---------------------------------------|--------------------------|--|----------------------------|--------------------------|
| Cost | | | | |
| Land | 395 | - | - | 395 |
| Tools | 376 | - | - | 376 |
| Transport equipment | 432 | 88 | (106) | 414 |
| Other | 19,068 | 113 | - | 19,181 |
| Total cost | 20,271 | 201 | (106) | 20,366 |
| Accumulated depreciation | | | | |
| Tools | (376) | - | - | (376) |
| Transport equipment | (365) | (42) | 106 | (301) |
| Other | (13,794) | (464) | - | (14,258) |
| Total accumulated depreciation | (14,535) | (506) | 106 | (14,935) |
| Total net cost | 5,736 | (305) | - | 5,431 |

| | Balance at 01/01/2015 | Additions / Charges for the Year | Disposals or reductions | Balance at 31/12/2015 |
|---------------------------------------|--------------------------|--|----------------------------|--------------------------|
| Cost | | | | |
| Land | 395 | - | - | 395 |
| Tools | 376 | - | - | 376 |
| Transport equipment | 434 | 25 | (27) | 432 |
| Other | 18,917 | 151 | - | 19,068 |
| Total cost | 20,122 | 176 | (27) | 20,271 |
| Accumulated depreciation | | | | |
| Tools | (373) | (3) | - | (376) |
| Transport equipment | (363) | (29) | 27 | (365) |
| Other | (13,278) | (516) | - | (13,794) |
| Total accumulated depreciation | (14,014) | (548) | 27 | (14,535) |
| Total net cost | 6,108 | (372) | - | 5,736 |

In 2016 and 2015 the Company acquired the following items of property, plant and equipment from Group companies:

In 2016 and 2015 the Company did not capitalise any finance costs under “Property, Plant and Equipment”.

At 2016 and 2015 year end, the Company did not hold any property, plant or equipment outside Spain. Also, there were no significant property, plant and equipment firm purchase commitments at 31 December 2016 and 2015.

At the end of 2016 the Company had fully depreciated items of property, plant and equipment (none relating to construction) still in use, amounting to EUR 10,410 thousand (EUR 10,232 thousand in 2015).

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2016 and 2015 year-end these risks were adequately covered.

7.- Investment property

The investment included under "Investment property" in the accompanying balance sheet relates to fully occupied offices rented to Group companies.

In 2016 the rental income from investment property owned by the Company amounted to EUR 131 thousand (EUR 136 thousand in 2015), and operating expenses of all kinds relating thereto were charged to the lessee.

The amortisation recognised in 2016 amounted to EUR 29 thousand (EUR 29 thousand in 2015).

At the end of 2016 and 2015, there were no restrictions on carrying out new property investments, on the collection of income therefrom or in connection with the proceeds to be obtained from a possible disposal.

8.- Leases

Operating leases

The Company, as lessor, has a lease with a Group company, per the lease agreement in force and without taking into account future changes in rent, amounting to EUR 131 thousand (EUR 136 thousand in 2015). This agreement matures annually and is automatically renewable, except in the case of notice of termination by the parties thereto (see Note 7) and it terminated on 31 December 2016.

No contingent rent was paid in 2016 or in 2015.

The most significant operating leases held by the Company as lessee at the end of 2016 and 2015 related to the office rent to ACS Group companies. The annual minimum lease payments, without taking into account increases due to CPI reviews or common expenses or related taxes amounts to EUR 2,489 thousand (EUR 2,494 thousand in 2015). Of this amount, EUR 35 thousand (EUR 25 thousand in 2015) was charged to various ACS Group companies in relation to subleases in 2015. In general the lease agreements mature annually and are renewable except in the case of termination by the parties thereto.

9.- Financial assets (non-current and current)

9.1 Non-current financial assets

The balance of "Non-current financial assets" at the end of 2016 and 2015 is as follows (in thousands of Euros):

| Types Categories | Non-Current Financial Instruments | | | | | |
|---------------------------|-----------------------------------|--------------|----------------------------------|----------|--------------|--------------|
| | Equity instruments | | Deposits, derivatives and others | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Available-for-sale assets | | | | | | |
| - Measured at cost | 3,948 | 3,949 | - | - | 3,948 | 3,949 |
| - Other financial assets | - | - | 391 | - | 391 | - |
| Total | 3,948 | 3,949 | 391 | - | 4,339 | 3,949 |

The equity instruments valued at cost reflect minority interests of the Company.

The difference between their face value and fair value is not material.

9.2 Current financial assets

The detail of “Current financial assets” at the end of 2016 and 2015 is as follows (in thousands of Euros):

| Categories | Current financial assets | | | | | |
|---------------------------|--------------------------|----------------|----------------------------------|----------------|----------------|----------------|
| | Equity instruments | | Credits, derivatives, and others | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current financial assets | - | - | 695,188 | 157,323 | 695,188 | 157,323 |
| Available-for-sale assets | | | | | | |
| - Valued at fair value | - | 571,693 | - | - | - | 571,693 |
| Derivatives (Note 10.2) | - | - | 96,464 | - | 96,464 | - |
| Total | - | 571,693 | 791,652 | 157,323 | 791,652 | 729,016 |

Equity instruments:

The most significant equity instrument related to the ownership interest in Iberdrola, which was measured at fair value in 2015.

At the end of March 2016 the Company executed the sale of the forward contract, bringing forward collection of the full amount of its participation in Iberdrola, S.A. amounting to 89,983,799 shares representing 1.4% of the capital stock of that company, at an average price of €6.02 per share. In doing so the Company ceded the full amount of all its economic rights (including dividends), there being no future cash-flows for the Company from the investment sold. At the same time it took out purchase options on the same number of Iberdrola shares to eliminate the market risk associated with the convertible bonds issued during 2013 and 2014. As a result of the substantial transfer of the risks and benefits associated with the Iberdrola shares, basically because of the assigning of the economic rights, there being no monetary compensating mechanism covering future variations in share price, the Company has proceeded to cease to recognise them on its balance sheet. The combined result of these transactions, together with their recycling to the income statement from the “Valuation Adjustments – Financial assets available for sale” heading in shareholders’ equity on the attached balance sheet, was a net pre-tax gain of EUR 132,980 thousand recorded under “Impairment and gains or losses on the disposal of financial instruments” on the attached statement of income (see Note 16.5). In addition, from the amount received, at 31 December 2016 an amount of EUR 532,901 thousand is recorded as collateral in guarantee of the transaction under the “Other current financial assets” heading on the attached balance sheet. In the case of the options purchased, derivative financial instruments are held as assets on the balance sheet for an amount of EUR 88,189 at 31 December 2016. These options have the same duration as the bond issues that are explained below.

At 31 December 2015, the Company held 87,281,316 shares representing 1.38% of the share capital of Iberdrola, S.A. at that date. The average cost, before valuation adjustments, amounted to EUR 4.373 per share). This investment in Iberdrola was recorded at its market price at the end of each year (EUR 6.550 per share at 31 December 2015) for an amount of EUR 571,693 thousand. In addition, at 31 December 2015 a positive valuation adjustment of EUR 135,919 thousand net of tax effect was recognised under “Valuation Adjustments – Financial assets available for sale”.

These shares, recorded as current assets on the attached balance sheet as at 31 December 2015 are pledged in guarantee of the issue of bonds convertible into Iberdrola shares made through ACS Actividades Finance B.V. and ACS Actividades Finance 2 B.V. as at 31 December 2016 (see Note 17.2) with final maturity for an amount of EUR 297,600 thousand in October 2018 and EUR 235,300 thousand in March 2019, with the possibility of early redemption at the discretion of the holder in certain conditions. In addition, as part of the above-mentioned transaction, on 7 April 2016 the Company has notified bondholders that the payment of the bonds associated with these shares will be made in cash.

The most relevant operation carried out in 2015 by the Company relating to its interest in Iberdrola, S.A. was the equity swap settlement agreed with Natixis in respect of 164,352,702 shares of Iberdrola, S.A. (see Note 10.2), in which ACS, Actividades de Construcción y Servicios, S.A. previously had a right of usufruct over the shares. During 2016 the Company definitively cancelled the put spread (at 31 December 2015 it included an underlying asset of 73,247,754 shares of Iberdrola S.A.), which implied the limited exposure of ACS, Actividades de Construcción y Servicios, S.A. to market-based fluctuations in the shares of the mentioned company, valued at market value at year-end with changes in the net income. At the market value at 31 December 2015, Iberdrola S.A.'s share price exceeded by over 30% the put spread's maximum fiscal year amount, which supposed the absence of a recorded liability for this item. Additionally, other ACS Group companies had derivative instruments in respect of 85,408,043 shares of the mentioned companies, which limited their exposure to market-based fluctuations and were also terminated in 2016.

With regard to the impairment of the ownership interest in Iberdrola, given that at 31 December 2015 the quoted price was significantly higher than the carrying amount, the Company did not consider there to be any indications of impairment and, therefore, did not perform any impairment test to verify such a possibility.

Likewise, the market value of the derivative financial instruments in relation to the Iberdrola, S.A. shares during fiscal year 2015 represented earnings of EUR 16,985 thousand (EUR 63,752 thousand in 2015) which were recognised under "Changes in fair value of financial instruments" in the accompanying income statement.

In 2015 the Company did not receive any dividends from Iberdrola, S.A. as all the shares had been lent to Statement Structure, S.L. and Funding Statement, S.L. In 2016 it also received no dividends as it had definitively ceded the risks and gains in relation to such shares.

Credits, derivatives, and others

At 31 December 2016 this heading includes the balances related to current deposits at various financial institutions amounting to EUR 690,470 thousand (EUR 152,214 thousand at 31 December 2015) which accrue interest based on Euribor, of which EUR 564,609 thousand (EUR 152,206 thousand in 2015) are restricted in their use (see Note 10.2). Significant among this latter figure is the amount of EUR 532,901 thousand remaining at 31 December 2016 as collateral in guarantee of the transaction for the sale and brought forward collection of Iberdrola shares included under the heading of "Other current financial assets" on the attached balance sheet.

Impairment losses:

In 2016 and 2015 the Company did not recognise any reduction for impairment in its current financial instruments.

9.3 Non-current investments in Group companies, multigroup companies and associates

Equity instruments:

The most significant information relating to Group companies, multigroup companies and associates at the end of 2016 is as follows:

| Company Name | Registered Office | % of Ownership | | Thousands of Euros | | | | | | | | |
|---|--|----------------|----------|--------------------|-----------------|---------|--------------|-----------------------|--------------------------------|------------------|--|-------------------------------|
| | | Direct | Indirect | Share Capital | Profit | | Other Equity | Total Equity Received | Dividends Received (Note 16.1) | Carrying amount | | |
| | | | | | from Operations | Net | | | | Cost | Impairment Loss Recognised in the Year | Accumulated Impairment Losses |
| GROUP | | | | | | | | | | | | |
| CONSTRUCTION | | | | | | | | | | | | |
| Dragados, S.A. | Avda. Camino de Santiago, 50 - Madrid | 100.00% | - | 200,819 | 60,286 | 77,006 | 323,588 | 601,413 | 83,674 | 342,679 | - | - |
| Comunidades Gestionadas, S.A. (COGESA) | Orense, 34 – Madrid | - | 100.00% | 63,105 | 13,109 | 9,272 | 168,052 | 240,429 | - | - | - | - |
| Hochtief, A.G. | Essen – Germany | 71.72% | - | 164,608 | 628,536 | 320,483 | 1,339,196 | 1,824,287 | 92,236 | 3,083,991 | - | - |
| Novovilla, S.A. | Avda. Pío XII, 102 – Madrid | 100.00% | - | 75,997 | 4,509 | (913) | 138,843 | 213,927 | - | 87,845 | - | - |
| INDUSTRIAL SERVICES | | | | | | | | | | | | |
| ACS, Servicios, Comunicaciones y Energía, S.L. | Cardenal Marcelo Spínola, 10 – Madrid | 100.00% | - | 75,159 | 272,654 | 214,342 | 62,898 | 352,399 | 212,700 | 215,677 | - | - |
| SERVICES | | | | | | | | | | | | |
| ACS, Servicios y Concesiones, S.L. | Avda. Camino de Santiago, 50 - Madrid | 100.00% | - | 386,249 | 53,614 | 962,443 | (721,086) | 627,606 | 1.001,877 | 476,880 | - | - |
| OTHER | | | | | | | | | | | | |
| ACS, Telefonía Móvil, S.L. (Telecommunications) | Avda. Pío XII, 102 - Madrid | 100.00% | - | 3,114 | (1) | 67,648 | (69,878) | 884 | - | 90,895 | 865 | (90,011) |
| Residencial Monte Carmelo, S.A.U. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 99.99% | - | 1,000 | 1,188 | (268) | 1,351,652 | 1,352,384 | - | 3,226,749 | 1,101 | (1,874,429) |
| Cariátide, S.A. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 1,821 | 24 | 15,990 | 3,714 | 21,525 | - | 163,165 | (138,475) | (141,640) |
| Major Assets, S.L. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 99.98% | 0.02% | 12 | 38 | 21,112 | 39,245 | 60,369 | - | 32,452 | - | - |
| Funding Statement, S.A. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 60 | 15,413 | (339) | 13,981 | 13,702 | - | 60 | - | - |
| ACS Actividades Finance, B.V. (Investments in securities) | Amsterdam. The Netherlands. | 100.00% | - | 90 | (122) | 629 | 2,340 | 3,059 | - | 5,150 | - | - |
| Statement Structure, S.A. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 60 | 10,800 | (242) | 7,616 | 7,434 | - | 60 | - | - |
| ACS Actividades Finance 2, B.V. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 90 | (108) | 55 | 2,086 | 2,231 | - | 2,100 | - | - |
| Binding Statement, S.A. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 60 | (1) | (1) | (2) | 57 | - | 60 | (1) | (3) |
| ASSOCIATES | | | | | | | | | | | | |
| TP Ferro Concesionaria, S.A. (Concessions) | Ctra. de Llers a Hostalets GIP-5107 p.k. 1, s/n 17730 Llers (Girona) Spain | 16.53% | 33.47% | (*) | (*) | (*) | (*) | (*) | - | 8,504 | - | (8,504) |
| Total | | | | | | | | | 1,390,487 | 7,736,267 | (136,509) | (2,114,587) |

(*) No accounts are available as the company is in the hands of the bankruptcy administrator as the liquidation phase has begun.

The most significant information relating to Group companies, multigroup companies and associates at the end of 2015 was as follows:

| Company Name | Registered Office | % of Ownership | | Thousands of Euros | | | | | | | | |
|---|--|----------------|----------|--------------------|-----------------|----------|--------------|--------------|--------------------------------|------------------|--|-------------------------------|
| | | Direct | Indirect | Share Capital | Profit | | Other Equity | Total Equity | Dividends Received (Note 16.1) | Carrying amount | | |
| | | | | | from Operations | Net | | | | Cost | Impairment Loss Recognised in the Year | Accumulated Impairment Losses |
| GROUP | | | | | | | | | | | | |
| CONSTRUCTION | | | | | | | | | | | | |
| Dragados, S.A. | Avda. Camino de Santiago, 50 - Madrid | 100.00% | - | 208,819 | 68,553 | 106,417 | 292,846 | 608,082 | 87,021 | 342,679 | - | - |
| Comunidades Gestionadas, S.A. (COGESA) | Orense, 34 – Madrid | - | 100.00% | 63,105 | 7,325 | 3,619 | 171,045 | 237,769 | - | - | - | - |
| Hochtief, A.G. | Essen – Germany | 66.54% | - | 177,432 | 575,350 | 208,287 | 1,758,182 | 2,143,901 | - | 3,083,991 | - | - |
| Novovilla, S.A. | Avda. Pío XII, 102 – Madrid | 100.00% | - | 75,997 | (90) | (6,125) | 144,967 | 214,839 | - | 87,845 | - | - |
| INDUSTRIAL SERVICES | | | | | | | | | | | | |
| ACS, Servicios, Comunicaciones y Energía, S.L. | Cardenal Marcelo Spinola, 10 – Madrid | 100.00% | - | 75,159 | 252,895 | 227,156 | 48,443 | 350,758 | 246,522 | 215,677 | - | - |
| SERVICES | | | | | | | | | | | | |
| ACS, Servicios y Concesiones, S.L. | Avda. Camino de Santiago, 50 - Madrid | 100.00% | - | 386,249 | 66,289 | 57,005 | 223,788 | 667,042 | 25,216 | 476,880 | - | - |
| OTHER | | | | | | | | | | | | |
| ACS, Telefonía Móvil, S.L. (Telecommunications) | Avda. Pío XII, 102 - Madrid | 100.00% | - | 3,114 | 386 | (3,025) | (66,854) | (66,765) | - | 90,895 | - | (90,895) |
| Residencial Monte Carmelo, S.A.U. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 99.99% | - | 1,000 | (59) | (189) | 1,351,842 | 1,352,653 | - | 3,226,749 | (23,844) | (1,875,530) |
| Cariátide, S.A. (Construction) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 1,803 | 53,414 | 97,088 | (234,923) | (136,032) | - | 3,165 | (3,165) | (3,165) |
| Major Assets, S.L.(Construction) | Avda. Pío XII, 102 – Madrid | 99.98% | 0.02% | 12 | 26,491 | 105,350 | (69,824) | 35,538 | - | 32,452 | - | - |
| Funding Statement, S.A. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 60 | 14,236 | 4,043 | 11,084 | 15,187 | - | 60 | - | - |
| ACS Actividades Finance, B.V. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 90 | (87) | (247) | 2,344 | 2,186 | - | 2,150 | - | - |
| Statement Structure, S.A. (Investments in securities) | Amsterdam, the Netherlands. | 100.00% | - | 60 | 9,981 | 2,650 | 4,996 | 7,706 | - | 60 | - | - |
| ACS Actividades Finance 2, B.V. (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 90 | (80) | 100 | 1,999 | 2,189 | - | 2,100 | - | - |
| Binding Statement S.A (Investments in securities) | Avda. Pío XII, 102 – Madrid | 100.00% | - | 60,000 | (419) | (302) | (1,956) | 57,743 | - | 60 | - | (2) |
| ASSOCIATES | | | | | | | | | | | | |
| TP Ferro Concesionaria, S.A. (Concessions) | Ctra. de Llers a Hostalets GIP-5107 p.k. 1, s/n 17730 Llers (Girona) Spain | 16.53% | 33.47% | 51,435 | (5,799) | (25,751) | 336,155 | 361,839 | - | 8,504 | (8,504) | (8,504) |
| Total | | | | | | | | | 358,759 | 7,573,267 | (35,513) | (1,978,096) |

The changes in the equity instruments of Group companies and associates in 2016 were as follows:

| Item | Thousands of Euros | | | | | | | | | |
|--------------|--------------------|--------------------|------------------|----------------|-----------|---------------------|--------------|------------------|--------------------|------------------|
| | Beginning balance | | | Cost | | Provision | | Ending balance | | |
| | Cost | Allowance | Net Balance | Additions | Disposals | Charge for the year | Reversals | Cost | Allowance | Net Balance |
| Group | 7,564,763 | (1,969,592) | 5,595,171 | 163,000 | - | (138,476) | 1,985 | 7,727,763 | (2,106,083) | 5,621,680 |
| Associates | 8,504 | (8,504) | - | - | - | - | - | 8,504 | (8,504) | - |
| Total | 7,573,267 | (1,978,096) | 5,595,171 | 163,000 | - | (138,476) | 1,985 | 7,736,267 | (2,114,587) | 5,621,680 |

The changes in the equity instruments of Group companies and associates in 2015 were as follows:

| Item | Thousands of Euros | | | | | | | | | |
|--------------|--------------------|--------------------|------------------|------------------|------------|---------------------|-----------|------------------|--------------------|------------------|
| | Beginning balance | | | Cost | | Provision | | Ending balance | | |
| | Cost | Allowance | Net Balance | Adiciones | Disposals | Charge for the year | Reversals | Cost | Allowance | Net Balance |
| Group | 4,753,249 | (1,942,582) | 2,810,667 | 2,811,520 | (6) | (27,016) | 6 | 7,564,763 | (1,969,592) | 5,595,171 |
| Associates | 8,504 | - | 8,504 | - | - | (8,504) | - | 8,504 | (8,504) | - |
| Total | 4,761,753 | (1,942,582) | 2,819,171 | 2,811,520 | (6) | (35,520) | 6 | 7,573,267 | (1,978,096) | 5,595,171 |

The most significant changes in 2016 and 2015 were as follows:

2016

- Cariátide, S.A.

The Company has capitalised the subordinated participating loan it had granted Cariátide, S.A. within the framework of the financing of the investment in the shares of Hochtief, A.G. that has now been fully discharged, so that there is no longer any obligation to maintain the participating loan, pursuant to the terms of articles 286 and 301 of the consolidated text of the Spanish Corporate Enterprises Act [*Ley de Sociedades de Capital*]. The capitalised amount included a balance of EUR 160,000 thousand in principal plus EUR 253 thousand for accrued interest unpaid and not capitalised that was fully liquid and claimable. To do so it was agreed that a capital increase should be made in Cariátide for EUR 18 thousand, with a total issue premium of EUR 159,982 thousand. This amount corresponds to the increase in the balance of the "Non-current investments in Group companies and associates" account on the Company's balance sheet, with a consequent reduction under the "Current investments in Group companies and associates" heading on the attached balance sheet.

- Hochtief, A.G.

At 31 December 2016 the Company held a total of 46,118,122 shares representing 71.72% of the share capital of that company.

As regards the Company's ownership interest in Hochtief, A.G., a company listed on the Frankfurt Stock Exchange, because of the development in its listed price, which stood at EUR 128.96 in the last quarter of 2016 and EUR 133.05 per share at 31 December 2016, amounts that are almost twice the Company's carrying value for the ownership interest which stands at EUR 66.87 per share, and although the Company has not considered the possibility of the existence of indications of impairment in

the individual books of account referred to in this report, with the aim of determining the recoverability of the Goodwill in its Consolidated Annual Financial Statements, the ACS Group has prepared an impairment test.

In order to perform this test, the Company has carried out a valuation of Hochtief through the sum of the parts of its main business units: Hochtief Asia Pacific (CIMIC), Hochtief Americas, Hochtief Europe and the rest of Hochtief, using discounted cash flows for each of the operational units. To perform the impairment test on the goodwill for Hochtief assigned to the Asia Pacific business, the ACS group has taken as a basis internal forecasts for years 2017 to 2019 according to the Hochtief business plan for that division, and estimates for the 2020 and 2021 period, discounting the free cash flows at a weighted average cost of capital (WACC) of 10.2% and a perpetual growth rate of 2.5%. The weighted average cost of capital (WACC) represents a profitability premium on the long-term rate of interest (10-year Australian Bond) published by Factset at 31 December 2016 and standing at 625 basis points. Similarly, the perpetual growth rate used corresponds to the estimated CPI for Australia for the year 2021 as published by the IMF in its *World Economic Outlook* report for October 2016.

Internal forecasts for the Asia Pacific business are based on historical data and internal estimates by Hochtief through to December 2019, and for the 2020-2021 period use has been made of estimates in line with the projections for previous years.

In the case of the sensitivity analysis for the impairment test relating to the goodwill assigned to Hochtief's Asia Pacific business, the most relevant aspects are that the goodwill test withstands 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 minus 4%. Also, it would bear an annual drop in cash flows of approximately 50% with regard to the projected flows.

In addition, this value has been compared to the average target price determined by CIMIC analysts according to Factset at 31 December 2016 and to CIMIC's market price at that same date, concluding that there is no deterioration in either of the scenarios analysed.

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

- Five-year forecasts, based on the Hochtief business plan for the division through to 2019 and estimates for the 2020-2021 period.
- Perpetual growth rate of 2.3%, based on IMF forecasts for US CPI in 2021 according to the *World Economic Outlook* report published by the IMF in October 2016.
- Discount rate of 12.35%.

In the case of the sensitivity analysis for the impairment test relating to the goodwill assigned to Hochtief's Americas business, the most relevant aspects are that even assuming a cash position of zero euros, the goodwill test withstands a discount rate of up to approximately 50%, representing a range of approximately 3,765 basis points, and it would tolerate an annual drop in cash flows of over 75% with regard to the projected flows.

The above assumptions are each supported by historical financial data for the various units and project future growth trends that are lower than those obtained in previous years. In addition, it should be noted that the main variables for financial year 2016 have not varied significantly from those projected under the previous year's impairment test, and in some cases have exceeded expectations.

In addition, that value has been compared with analyst valuations for that Hochtief division, concluding that it shows no impairment in any of the scenarios analysed. Also, the stock market price at 31 December 2016 (EUR 133.05 per share) is significantly higher than the average carrying cost.

Management considers that the impairment test is within reasonable sensitivity ranges for variations in its key assumptions allowing it to conclude that there is an absence of any impairment in the investment.

The investment in subsidiary TP Ferro is explained in Note 12.1 of this report, for which reason the investment has been fully provisioned.

2015

- Hochtief, A.G.

On 13 October 2015 the Company acquired 4,050,000 shares in Hochtief A.G. on the market at a price of EUR 77 per share, representing 5.84% of the share capital of that company.

On 8 May 2015 the Company also acquired 23,643,501 shares in Hochtief A.G. in respect of Cariátide, S.A. and 13,948,778 shares in respect of Major Assets, S.L. at the price of EUR 66.51 per share. As a result of this share purchase, the Company had to allocate a provision for its equity interest in Cariátide for an amount of EUR 3,165 thousand as well as the financing granted to that company, which is included in the "Impairments and losses" heading in the accompanying income statement (see Note 16.5).

Following these acquisitions, the total number of shares in Hochtief, A.G. held by the ACS Group through the Company amounted to 46,118,122 shares, representing 66.54% of its share capital.

As regards the Company's ownership interest in Hochtief, A.G., a company listed on the Frankfurt Stock Exchange, because of the development in its listed price, with this standing at EUR 83.77 in the last quarter of 2015 and at EUR 85.87 per share at 31 December 2015, being amounts 20% above the Company's carrying value for the ownership interest which stood at EUR 66.87 per share. Although the Company had not considered the possibility of the existence of indications of impairment in the individual books of account referred to in this report to the end of determining the recoverability of the Goodwill in its Consolidated Annual Financial Statements, the ACS Group proceeded to carry out an impairment test.

In order to perform this test, the Company carried out a valuation of Hochtief through the sum of the parts of its main business units: Hochtief Asia Pacific (CIMIC), Hochtief Americas, Hochtief Europe and the rest of Hochtief, using discounted cash flows on each of the operational units, based on the Hochtief business plan with forecasts up to December 2018 and estimates for the 2019-2020 financial years and in line with the forecasts for previous years. Meanwhile, for the remainder of Hochtief (Headquarters + Adjustments) valued by applying an EV/EBITDA multiple. The discount rate used was WACC at 9.5% for Leighton, 8.8% for CIMIC, and 4.9% for HT Europe. As regards CIMIC, the weighted average costs of capital (WACC) involved a profitability premium on the long-term rate of interest (10-year Australian Bond) published by Factset at 31 December 2015 and standing at 665 basis points. Similarly, the growth rate used corresponded to the estimated CPI for Australia for the year 2020 as published by the IMF in its *World Economic Outlook* report for October 2015. As for Hochtief Americas a perpetual growth rate of 2% was used, this being based on the IMF's estimate for the USA's CPI by 2020 as per the *World Economic Outlook* report published by the IMF in October 2015. As for Hochtief Europe a perpetual growth rate of 1.9% was used, this being based on the IMF's estimate for the Germany's CPI by 2020 as per the *World Economic Outlook* report published by the IMF in October 2015.

As for the sensitivity analysis on the impairment test relating to the Company's ownership interest in Hochtief, A.G., with the other constants remaining fixed, carried out for the division that is most important by volume of activity, Hochtief Asia Pacific, the test withstood a discount rate of up to approximately 28.9%, representing a range of 1,943 basis points and up to a growth rate of more than 30%. For its part it would bear and annual drop in cash flows in the Hochtief Asia Pacific division of more than 90% with regard to the projected flows.

The above assumptions are each supported by historical financial data for the various units and project future growth trends that are lower than those obtained in previous years.

Management considers that the impairment test is within reasonable sensitivity ranges for variations in its key assumptions allowing it to conclude that there is an absence of any impairment in the investment.

- Equity Share, S.L. and Residencial Monte Carmelo, S.A.U.

On 6 July 2015, the merger by absorption of Residencial Monte Carmelo, S.A.U., the absorbing company, and Equity Share, S.L. (pertaining to the Company) and Admirabilia, S.L. (pertaining to Residencial Monte Carmelo, S.A.U.), the absorbed companies, was formalised, whereby the absorbed companies were dissolved and extinguished, without liquidation, effective for accounting purposes from 1 January 2015. In accordance with the equity arising from the merger, the Company made the related provisions for the asset portfolio amounting to EUR 23,844 thousand at 31 December 2015 (see Note 16.5).

Of the interest in Group companies, associates and financial assets held for sale, the following are directly or indirectly listed on the stock exchange:

| Company | Euros per share | | | |
|-----------------|--------------------------------|---------------|--------------------------------|---------------|
| | Average Fourth Quarter of 2016 | 2016 Year-end | Average Fourth Quarter of 2015 | 2015 Year-end |
| Iberdrola, S.A. | 5.928 | 6.234 | 6.428 | 6.550 |
| Hochtief, A.G. | 128.96 | 133.05 | 83.77 | 85.870 |

At 31 December 2016 and 2015, the Company had no firm purchase or sale commitments.

9.4 Information on the nature and level of risk of financial instruments

9.4.1 *Qualitative information*

The Company's financial risk management is centralised in its General Corporate management, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. The main financial risks that affect the Company are as follows:

a) *Credit risk:*

In general, the Company holds its assets from financial derivatives, other financial assets and current financial assets at financial institutions with high credit ratings.

b) *Liquidity risk:*

The ACS Group has a policy for the proactive management of liquidity risk through the comprehensive monitoring of cash and anticipation of the expiration of financial operations. The Group also manages liquidity risk through the efficient management of investments and working capital and the arrangement of lines of long-term financing.

The Company, for the purpose of ensuring liquidity and enabling it to meet all the payment obligations arising from its business activities, has the cash and cash equivalents disclosed in its balance sheet, together with the credit and financing facilities detailed in Note 13.

c) *Market risk (includes interest rate, foreign currency and price risks):*

Both the Company's cash and its bank borrowings are exposed to interest rate risk, which could have an adverse effect on financial profit or loss and cash flows. Therefore, Company policy is to ensure that, at any given time, to the extent possible its non-current bank borrowings are tied to fixed interest rates.

In view of the Company's activities, it is not exposed to foreign currency risks. With regard to the exposure to price fluctuations, this is produced by exposure to the Iberdrola, S.A. listed price, both through its direct ownership in respect of the bonds exchangeable for shares in Iberdrola and ACS, Actividades de Construcción y Servicios, S.A. itself, due to its treasury shares, and to the derivatives related to the share option plans.

9.4.2 Quantitative information

a) *Interest rate risk:*

At 31 December 2016, the Company had a syndicated loan for a nominal amount of EUR 2,350,000 thousand divided in two tranches: Tranche A for the loan in the amount of EUR 1,400 million (EUR 1,650 million at 31 December 2015) and Tranche B for a liquidity line in the amount of EUR 950 million (EUR 700 million at 31 December 2015), with a single maturity that has been switched from 13 February 2020 to 13 December 2021. The Company has entered into a derivative contract (interest rate swap) to hedge the interest rate risk of Tranche A. This cover is for 70% of the total nominal amount (70% of the syndicated loan at the 2015 year end). It further issued fixed-interest rate bonds amounting to EUR 113 million and EUR 500 million which mature in 2018 and 2020 respectively.

This cash flow hedge is detailed in Note 10.1.

b) *Liquidity risk:*

With regard to liquidity risk, as mentioned previously, in 2016 the ACS Group increased non-bank financing including various bond issues amounting to EUR 28 million within the framework of its debt issue Programme, called the Euro Medium Term Note Programme (EMTN Programme), which was approved by the Central Bank of Ireland with maturity in 2018, as well as the renewal of the Euro Commercial Paper (ECP) programme for a maximum amount of EUR 750 million which was registered with the Irish Stock Exchange and which is expected to be renewed in 2017.

In addition, at 31 December 2016 the Company records EUR 564,609 thousand (EUR 152,206 at 31 December 2015) in short-term investments with restricted availability (see Note 9.2). This amount includes an amount of EUR 532,901 thousand that at 31 December 2016 is recorded as collateral in guarantee of the transaction under the "Other current financial assets" heading on the attached balance sheet. At 31 December 2016 and 2015 both the Company and the ACS Group were in compliance with the ratios required by their loan contracts.

The Company has a working capital deficiency amounting to EUR 902,721 thousand, primarily as result of its maintaining a balance of EUR 1,433,441 thousand in its current liabilities in debt to Group companies. The other bank borrowings relate mainly to short-term credit facilities for an amount of EUR 19,679 thousand that the Company understands will be renewed at their maturity, some of which having been rolled over in 2016 for the long term (see Note 2.4).

The Company's directors have prepared these financial statements based on the going-concern principle, since they do not have any doubts with regard to the Company's and its Group's ability to refinance or restructure their financial debt, as well as to generate resources for their operations, through the disposal of non-strategic assets and recourse to the capital markets, enabling them to adequately finance their transactions in 2017.

10.- Derivative financial instruments

10.1 Hedging financial instruments

The Company uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed. Within the framework of these transactions, the Company has arranged a hedging instrument, consisting of an interest rate swap for the cash flows related to the syndicated loan (see Note 13).

| | | | | | | Fair Value (Thousands of Euros) | |
|--------------------|------------------------|----------------------|---|------------------|--|------------------------------------|----------|
| | Classification | Type | Amount Contracted (Thousands of Euros) | Maturity Date | Inefficient Portion Recognised in the Income Statement (Thousands of Euros) | 2016 | 2015 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 1,650,000 | 13/02/2020 | - | (22,177) | (10,567) |
| Interest rate swap | Interest rate hedge | Floating to fixed | 768,000 | 22/07/2015 | - | - | - |

The Company has not complied with all the requirements detailed in Note 4.5.4 on measurement bases in order to be able to classify the financial instruments as hedges. Although these instruments were formally designated as hedges it has been determined that their coverage is only partially effective, because as a result of the amount contracted being EUR 250 million higher than the hedged amount of Tranche A of the syndicated loan there is an excess of coverage that is not effective. This has led to the recognition on the income statement of a loss of EUR 3,360 thousand under "Changes in fair value of financial instruments".

10.2 Derivative Instruments which are not hedges

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.

Of note with regard to the loans received by the Company from ACS Actividades Finance B.V. and ACS Actividades Finance 2 B.V., related with the issues of bonds exchangeable for shares in Iberdrola, S.A. for an amount of EUR 532,900 thousand (see Note 9.2) is the existence of embedded derivatives in the issuance thereof. With regard to this financing so that it could ensure the possibility of future monetisation of the shares of Iberdrola, S.A. from these convertible bonds and ensure their settlement in cash, in the first quarter of 2016 the Company entered into a contract to acquire 52.9 million American-style purchase options on

the Iberdrola shares falling due in the last quarter of 2018 and 37.09 million in American-style purchase options on Iberdrola shares falling due in the first quarter of 2019. These American purchase options have been entered into at a reference value of EUR 6.02 per exercisable share, at the option of ACS, in the period between the signing of the prepaid forward and the maturity of each of the bond issues (fourth quarter of 2018 and first quarter of 2019) on an equal number of Iberdrola shares. This derivative has been entered into with the aim of mitigating the risk of an increase in the debt associated with the bonds that might derive from a rise in the market price of Iberdrola shares. Doing so further strengthens the position for the transfer of all risks and benefits associated with Iberdrola's share price. The derivative financial asset in the amount of the first disbursement was recognised as a current asset at the moment of its contracting in an amount of EUR 70.8 million. Subsequent valuation of the derivative is made by means of changes in the income statement that are fully offset in the income statement by the value of the embedded derivatives of the bonds.

As a consequence of the contracting of these derivatives the Group settled the Share Forward Sale financial transaction that it had entered into in the last quarter of 2015, the impact of which has implied the recycling to the income statement of the adjustments that on a transitory basis, in line with the hedge mechanism, were recorded in equity on the date of the sale for an amount of EUR 44,060 thousand [sic] before tax (EUR 33,045 thousand [sic] net of the tax effect). The combined result of the gain on the mentioned sale of shares and the cancellation of the derivatives contracted in the last quarter of 2015 is indicated in Note 16.5. In addition, as from the sale date the embedded derivatives in the bond issues are again recognised at fair value with changes to their value posted to the income statement as the hedge represented by the financial transaction entered into in the final quarter of 2015 no longer exists. The fair value of the derivatives linked to the loans received by the company from ACS Actividades Finance B.V. and ACS Actividades Finance 2 B.V. related to the exchange of bonds convertible into Iberdrola, S.A. shares at 31 December 2016 amounts to EUR 37,468 thousand (EUR 56,143 at 31 December 2015), and is included under the "Current liabilities relating to financial derivatives" heading on the attached balance sheet. Furthermore, the fair value of the American-style purchase options on Iberdrola shares at 31 December 2016 amounts to EUR 88,189, included under the heading "Current financial investments" on the attached balance sheet. During 2016 the combined result of all these derivatives related to the issues of Iberdrola convertible bonds has meant a gain of EUR 16,985 thousand (see Note 9.2), recorded in the "Changes in fair value of financial instruments" in the accompanying income statement.

Non-hedge financial instruments include the settlement in 2015 of the derivative corresponding to the equity swap on 164,352,702 shares of Iberdrola, S.A. with an associated gain recorded under the income statement heading for the period in an amount of EUR 75,490 thousand (see Note 16.5). During 2016 the Company definitively cancelled the put spread (at 31 December 2015 it had an underlying asset in relation to 73,247,754 shares of Iberdrola, S.A.) that implied a limited exposure of ACS, Actividades de Construcción y Servicios, S.A. to market fluctuations in the price of the shares of that company, valued at closing date at their market value, with changes recorded on the income statement. The market value at 31 December 2015, when the listed price of Iberdrola, S.A. shares was more than 30% higher than the maximum exercise price of the put spread, meant that no liability was recorded for this reason. In addition, other companies in the ACS Group held financial derivatives on 85,408,043 shares of that company that limited their exposure to market fluctuations and were also terminated in 2016.

At 31 December 2016, the Company had recorded liabilities arising from derivatives in respect of the outsourcing to a financial institution of the 2014 share 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 for delivery to management who are beneficiaries of this Plan in accordance with the conditions included therein, at the exercise price of the option. The change in the fair value of these instruments is included under "Changes in fair value of financial instruments" in the accompanying income statement (see Note 16.6), with a gain of EUR 18,911 thousand (loss of EUR 12,303 thousand in 2015).

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 exercise price of the option for the Plan is EUR 33.8992 per share. Therefore, this risk relating to the drop in the market price below the option price is assumed by ACS, Actividades de Construcción y Servicios, S.A., and was not subject to any hedging with another financial institution. This put option in favour of the financial institution, is

recognised at fair value at the end of the reporting period and, therefore, the Company recognises a liability with an impact on the income statement with respect to the value of the option in the previous year. The risk of an increase in the share price is not assumed by either the financial institution or the Company, since, in this case, management would exercise its call option and directly acquire the shares from the financial institution, which agrees to sell them to the beneficiaries at the exercise price. Consequently, upon completing the plan, if the shares have a higher market price than the value of the option, the derivative will have zero value at that date.

Additionally, according to the contract, at the time of final maturity of the Plan, in the event that there are options that have not been exercised by their directors (i.e., due to voluntary resignation from the ACS Group), the pending options are settled by differences. In other words, the financial institution sells the pending options on the market, 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, at the end of the Plan, the Company never receives shares arising therefrom and, thus, they are not considered treasury shares.

Upon the expiration of the 2010 Stock Options Plan, the derivative associated therewith was discharged with a gain amounting to EUR 3,241 thousand recorded under "Changes in fair value of financial instruments" (See Note 16.6) on the accompanying income statement.

Additionally, at 31 December 2016, ACS, Actividades de Construcción y Servicios, S.A. held other derivatives in respect of shares in ACS that did not qualify for hedge accounting, which included 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 (a negative EUR 18,412 thousand at 31 December 2015). At 31 December 2016 these amounts included shares which the financing entity held for beneficiary directors under the Plan upon the assignment thereto of a call option price. The change in the fair value of these instruments is recognised under the "Changes in fair value of financial instruments" heading of the attached profit and loss statement (see Note 16.6) and amounts to EUR 26,519, (a loss of EUR 20,181 thousand in 2015). Pursuant to the contract with the financing entity, the latter does not assume any risk arising from the decline of the share price below the call price.

The amounts provided as guarantees corresponding to the above-mentioned derivatives contracted by ACS, Actividades de Construcción y Servicios, S.A. amounted to EUR 564,609 thousand at 31 December 2016 (EUR 152,206 thousand at 31 December 2015) recorded under "Current financial investments" on the accompanying balance sheet. These amounts are remunerated at market rates, and there are restrictions on their availability.

The Company has recognised both its own credit risk and that of the counterparty based on each derivative, whereby the impact on the income statement was a gain of EUR 1,080 thousand (EUR 800 thousand gain in 2015) for all derivative instruments measured at fair value through profit or loss, in accordance with the ICAC consultation of 4 June 2013.

11.- Equity

At 31 December 2016 and 2015, the share capital of ACS, Actividades de Construcción y Servicios, S.A. amounted to EUR 157,332 thousand and was represented by 314,664,594 fully subscribed and paid shares of EUR 0.5 par value each, all with the same voting and dividend rights.

At 31 December 2016, the only shareholder with an ownership interest of over 10% in the share capital of the Company is Inversiones Vesán, S.A. with 12.52%.

The shareholders at the Annual General Meeting held on 29 May 2014 authorised, in accordance with that set forth in article 297 of the Consolidated Text of the Spanish Corporate Enterprises Act –*Texto Refundido de la Ley de Sociedades de*

Capital–, 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 having previously submitted a proposal to the shareholders at the Annual General Meeting. Accordingly, the Board of Directors may set all of the 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 unsubscribed shares in the preferential subscription period; and in the event of incomplete subscription, cancel the capital increase or increase capital solely by the amount of the subscribed shares.

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 that set forth in article 506 of the Consolidated Text of the Spanish Corporate Enterprises Act, the Board of Directors was expressly empowered to exclude preferential subscription 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 Spanish Mercantile Registry on any occasion in which the power to exclude preferential subscription 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 Annual General Meeting held on 29 May 2014, the shareholders resolved to delegate to the Board of Directors the power as applicable to issue fixed income securities, either simple and exchangeable or convertible, as well as warrants on the newly issued shares or shares in circulation of the Company or of any other companies, in brief under the following terms:

1. The securities that the Board of Directors is empowered to issue may be debentures, bonds, promissory notes and other fixed income securities of an analogous nature, both simple and, in the case of debentures and bonds, exchangeable for shares in the Company or in any of the companies in its Group or convertible into shares in the Company or in other companies, as well as warrants for newly issued shares or shares in circulation in the Company or in other companies.
2. Securities may be issued on one or more occasions at any time within the maximum period of five years following the date of adoption hereof.
3. The total amount of the issue or issues of securities agreed under this delegation of powers, whatever 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 three thousand million euros.
4. Based on the aforementioned authorisation hereby granted to the Board of Directors the latter is to determine the following for each issue, including but not limited to: its amount within the total maximum indicated above; the place, the date and the currency of the issue, setting as applicable its equivalent amount in euros (EUR); its denomination, whether bonds or debentures, subordinated or not, warrants or any other form, admissible in Law; the interest rate, dates and procedures for its payment; in the case of warrants, the amount and form of calculation, as applicable, of the premium and the strike price; the perpetual or amortisable value and, in the latter case, the repayment period and the maturity dates; the rate of repayment, premiums and batches; the guarantees that might be enjoyed; the way they are represented, whether in the form of physical securities or as book entries; preferential subscription rights, as applicable, and the subscription regime; applicable legislation; the application for admission of the securities issued for trading on secondary markets, official or unofficial, organised or not, national or foreign; the appointment, as applicable, of the Commissioner and the approval of the rules governing the legal relationships between the Company and the Syndicate of Holders of the issued debt.

On the basis of these authorisations granted by the shareholders of the Annual General Meeting held on 29 May 2014 of ACS, Actividades de Construcción y Servicios, S.A., of note is the formalisation in subsequent years, within the framework of its debt issue Programme, called the Euro Medium Term Note Programme (EMTN Programme), of the issue of Notes in the eurozone amounting to EUR 500 million, and admitted for trading on the Irish Stock Exchange. In addition, the renewal of the Euro Commercial Paper programme for a maximum amount of EUR 750 million is expected (see Note 9.4.2).

The General Shareholders' Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 5 May 2016 resolved among other matters to make a share capital increase and reduction. It was agreed to increase share capital to a maximum of EUR 366 million with a charge to the Company's voluntary reserves whereby the first capital increase may not exceed EUR 224 million and the second increase may not exceed EUR 142 million, indistinctly 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 Annual General Meeting held in 2016 and if a second increase is to be made, during 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 redemption 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.

On 14 June 2016, ACS, Actividades de Construcción y Servicios, S.A. agreed to implement the first capital increase chargeable to reserves, as approved by the General Shareholders' Meeting held on 5 May 2016, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5, at 3,825,354. The nominal amount of the capital increase was EUR 1,912,677, with a simultaneous reduction in capital for EUR 1,912,677 by means of the redemption of 3,825,354 treasury shares and an allocation of an equal amount of EUR 1,912,677 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.3).

On 9 January 2017, ACS Actividades de Construcción y Servicios, S.A., using the powers delegated by resolution of the Company's Shareholders in the Annual General Meeting held on 5 May 2016 and with the approval of the Board of Directors dated 22 December 2016, agreed to execute the second capital increase charged against reserves for a maximum of EUR 142 million (equivalent to approximately EUR 0.45 per share), which was approved by the aforementioned General Meeting for the purpose of allowing the shareholders to opt between continuing to receive remuneration in cash or in Company shares. Following the period of negotiation of the bonus shares corresponding to the second increase in paid-up capital, the irrevocable commitment to purchase the rights assumed by ACS was accepted by holders of 43.73% of the bonus rights, which has determined the acquisition by ACS of the rights for a total gross amount of EUR 61,236 thousand. The definitive number issued of ordinary shares, each with a nominal value of EUR 0.5, amounts to 2,534,969, with the nominal amount of the corresponding capital increase amounting to EUR 1,267,484.50. Simultaneously a reduction took place in capital for EUR 1,267,484.50 by means of the redemption of 2,534,969 treasury shares and an allocation of an equal amount of EUR 1,267,484.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.3).

On 17 February 2015, ACS, Actividades de Construcción y Servicios, S.A. agreed to implement a second capital increase chargeable to reserves, as approved by the General Shareholders' Meeting held on 29 May 2014, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5 at 2,616,408. The nominal amount of the capital increase was EUR 1,308,204. On the same date, a reduction in the capital of ACS, Actividades de Construcción y Servicios, S.A. in the amount of EUR 1,308,204 was implemented, by way of the redemption of 2,616,408 treasury shares and an allocation of an equal amount of EUR 1,308,204 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, governing the nominal value of the redeemed shares (see Note 11.3).

The Shareholders of ACS, Actividades de Construcción y Servicios, S.A. in the Annual General Meeting held on 28 April 2015 resolved, among other matters, to make a share capital increase and reduction. In this regard, the Company resolved to increase the 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, indistinctly 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 Annual General 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 ACS, Actividades de Construcción y Servicios, S.A. 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 redemption 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 addition to the aforementioned authorisation to reduce capital, at the Annual General Meeting held on 28 April 2015, the shareholders resolved, among other matters, to expressly allow the treasury shares acquired by the company or its subsidiaries to be earmarked, in full or in part, for sale or redemption, for delivery to the employees or directors of the Company or the Group and for reinvestment plans for dividends or similar instruments. The Board of Directors is granted the power for its execution.

Specifically, and by virtue of this delegation, on 18 June 2015 the Company resolved to carry out the first capital increase for a maximum amount of EUR 224 million. This capital increase is aimed at establishing an alternative remuneration system, as in many Ixex companies, that would allow shareholders to receive bonus shares from ACS or cash through the sale of the related bonus issue rights which are traded on the Stock Market, or that may be sold to ACS at a certain price based on a formula approved by the shareholders at the General Meeting. In this respect, on 17 July 2015 ACS, Actividades de Construcción y Servicios, S.A. agreed to execute the first capital increase charged against reserves as approved by the Shareholders in the Annual General Meeting held on 28 April 2015, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5 at 4,719,245. The nominal amount of the capital increase was EUR 2,089,622.50. On 6 August 2015 a capital reduction of EUR 2,089,622.50 was approved and 4,719,245 treasury shares redeemed.

On 4 January 2016, ACS Actividades de Construcción y Servicios, S.A., using the powers delegated by resolution of the Company's Shareholders in the Annual General Meeting held on 28 April 2015 and with the approval of the Board of Directors dated 17 December 2015, agreed to execute the second capital increase charged against reserves for a maximum of EUR 142 million (equivalent to EUR 0.45 per share), which was approved by the aforementioned General Meeting for the purpose of allowing the shareholders to opt between continuing to receive remuneration in cash or in Company shares. Following the period of negotiation of the bonus shares corresponding to the second increase in paid-up capital, the irrevocable commitment to purchase the rights assumed by ACS was accepted by holders of 44.25% of the bonus rights, which has determined the acquisition by ACS of the rights for a total gross amount of EUR 61,817 thousand. The definitive number issued of ordinary shares, each with a nominal value of EUR 0.5, amounts to 2,941,011, with the nominal amount of the corresponding capital increase amounting to EUR 1,470,505.50.

On 4 February 2016 there was the capital reduction in ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 1,470,505.50 through the redemption of 2,941,011 treasury shares and with the allocation, for the same amount of EUR 1,470,505.50 to the reserve provided for in section c) of article 335 of the Spanish Corporate Enterprises Act as the nominal value of the redeemed shares (see Note 11.3).

ACS, Actividades de Construcción y Servicios, S.A. recorded in the "Other current liabilities" heading of the attached balance sheet at 31 December 2016 the maximum amount of potential liability at that date of 100% of the fair value of the approved

dividend, which amounted to EUR 140,026 thousand, though the final amount was EUR 61,236 thousand. For that reason, EUR 78,790 thousand was reversed in the Company's equity in 2017.

The shares representing the capital of ACS, Actividades de Construcción y Servicios, S.A. are admitted for trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are listed on the continuous market.

11.1 Legal reserve

Under Article 274 of the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At the end of 2016 and 2015 the balance of this reserve had reached the legally required minimum.

11.2 Reserve for goodwill

In accordance with Article 273 of the Consolidated Text of the Spanish Corporate Enterprises Act, effective until 31 December 2015, when distributing the profit for each year an appropriation of at least 5% of the goodwill recognised on the asset side of the balance sheet must have been made to a restricted reserve for that goodwill. If no profit was recognised, or it were insufficient, this amount would be transferred from unrestricted reserves. At 31 December 2015, the balance of this heading amounted to EUR 288,455 thousand.

As a result of the repeal of that provision by final disposition 4.12 of the Law 22/2015, of 20 July, in the years beginning on or after 1 January 2016, and pursuant to the resolutions adopted by the General Shareholders' Meeting held on 5 May 2016, the reserve for goodwill has been reclassified to the voluntary reserves of the Company and will be available from that date in respect of the amount exceeding the goodwill recorded in the balance sheet.

11.3 Reserve for retired capital

As a result of the retirement of the Parent's shares carried out in 2016 and 2015, in accordance with that established in Article 335.c) of the Consolidated Text of the Spanish Corporate Enterprises Act, ACS, Actividades de Construcción y Servicios, S.A. arranged a restricted reserve for retired capital amounting to EUR 17,593 thousand (EUR 14,210 thousand at 31 December 2015), which is equivalent to the nominal value of the reduced share capital.

11.4 Capitalisation reserve

The Company records on its balance sheet at 31 December 2016 a Capitalisation Reserve account pursuant to the terms of Article 25 of Law 27/2014 on Corporate Income Tax in an amount of EUR 27,000 in relation to the calculation of that tax corresponding to fiscal 2015 (see Note 14).

11.5 Limitations on the distribution of dividends

In Note 3 the interim dividend paid and the proposed distribution of profit is indicated, and included the allocation made to a restricted reserve in relation to goodwill and retired capital.

11.6 Treasury shares

The changes in “Treasury shares” in 2016 and 2015 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) |
| Retirement | (6,766,365) | (177,162) | (6,795,653) | (194,736) |
| At end of the year | 4,677,422 | 120,981 | 9,898,884 | 276,629 |

On 4 January 2016, ACS, Actividades de Construcción y Servicios, S.A. agreed to implement the second capital increase chargeable to reserves, as approved by the General Shareholders' Meeting held on 28 April 2015, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5, at 2,941,011. The nominal amount of the capital increase was EUR 1,470,505.50, with a reduction in capital of ACS, Actividades de Construcción y Servicios, S.A. on the same date for EUR 1,470,505.50 by means of the redemption of 2,941,011 treasury shares and an allocation of an equal amount of EUR 1,470,505.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.3).

On 11 July 2016, ACS, Actividades de Construcción y Servicios, S.A. agreed to implement the first capital increase chargeable to reserves, as approved by the General Shareholders' Meeting held on 5 May 2016, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5, at 3,825,354. The nominal amount of the capital increase was EUR 1,912,677, with a simultaneous reduction in capital of ACS, Actividades de Construcción y Servicios, S.A. for EUR 1,912,677 by means of the redemption of 3,825,354 treasury shares and an allocation of an equal amount of EUR 1,912,677 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.3).

On 9 January 2017, ACS, Actividades de Construcción y Servicios, S.A. agreed to implement the second capital increase chargeable to reserves, as approved by the General Shareholders' Meeting held on 5 May 2016, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5, at 2,534,969. The nominal amount of the capital increase was EUR 1,267,484.50, with a simultaneous reduction in capital of ACS, Actividades de Construcción y Servicios, S.A. for EUR 1,267,484.50 by means of the redemption of 2,534,969 treasury shares and an allocation of an equal amount of EUR 1,267,484.50 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, equivalent to the nominal value of the redeemed shares (see Note 11.3).

On 17 February 2015, ACS Actividades de Construcción y Servicios, S.A., agreed to execute the second capital increase charged against reserves and which was approved by the General Meeting held 29 May 2014, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5 at 2,616,408. The nominal amount of the capital increase was EUR 1,308,204. On the same date, a reduction in the capital of ACS, Actividades de Construcción y Servicios, S.A. in the amount of EUR 1,308,204 was implemented, by way of the redemption of 2,616,408 treasury shares and an allocation of an equal amount of EUR 1,308,204 to the reserve provided for in paragraph c) of Article 335 of the Companies Act, governing the nominal value of the redeemed shares.

On 17 July 2015 ACS, Actividades de Construcción y Servicios, S.A. agreed to execute the first capital increase charged against reserves as approved by the Shareholders in the Annual General Meeting held on 28 April 2015, leaving the definitive number of ordinary shares issued, each with a nominal value of EUR 0.5 at 4,719,245. The nominal amount of the capital increase was EUR 2,089,622.50.

On 6 August 2015 there was the capital reduction in ACS, Actividades de Construcción y Servicios, S.A. for an amount of EUR 2,089,622.50 through the redemption of 4,719,245 treasury shares with a book value of EUR 118,771 thousand, with charge to the unrestricted reserves and allocation, for the same amount of EUR 2,089,622.50 to the reserve provided for in section c) of article 335 of the Spanish Corporate Enterprises Act as the nominal value of the redeemed shares.

At 31 December 2016, the Company held 4,677,422 treasury shares, with a par value of EUR 0.5 each, representing 1.5% of the share capital, with a net consolidated book value of EUR 120,981 thousand recognised under "Treasury shares" under equity in the balance sheet. At 31 December 2015, the Group held 9,898,884 treasury shares, with a par value of EUR 0.5 each, representing 3.1% of the share capital, with a carrying amount of EUR 276,629 thousand which was recognised under "Treasury shares" under equity in the balance sheet.

12.- Provisions and contingent liabilities

12.1 Non-current provisions

The detail of provisions in the balance sheet at the end of 2016, and of the main changes therein during the year are as follows (in thousands of Euros):

| Non-current provisions | 2016 | | | |
|-------------------------------------|-----------------------|---------------------|----------------------------|-----------------------|
| | Balance at 01/01/2016 | Charge for the year | Reversals and amounts used | Balance at 31/12/2016 |
| Liabilities and taxes | 45,079 | 155,000 | (7,512) | 192,567 |
| Total non-current provisions | 45,079 | 155,000 | (7,512) | 192,567 |

| Non-current provisions | 2015 | | | |
|-------------------------------------|-----------------------|---------------------|----------------------------|-----------------------|
| | Balance at 01/01/2015 | Charge for the year | Reversals and amounts used | Balance at 31/12/2015 |
| Liabilities and taxes | 71,393 | 937 | (27,251) | 45,079 |
| Total non-current provisions | 71,393 | 937 | (27,251) | 45,079 |

The Company recognises provisions for the estimated amount required for probable or certain third-party liability, and outstanding obligations the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfilment of certain conditions. These liabilities include, inter alia, the provision relating to the uncertain amount of tax obligations which depend on the final decisions handed down in relation thereto. This provision is recorded when the related liability matures.

The change in 2016 corresponds to an extraordinary provision of EUR 155,000 set up mainly to reflect the impact of the recently approved Royal Decree Law 3/2016 of 2 December on deferred tax assets and liabilities from impairments to subsidiary and investee companies for all the entities in the Tax Group. Given the complexity of the rule and the relative proximity of its enactment and the preparation of the annual accounts, it has been decided to make a conservative estimate of the impact based on a detailed analysis of the assets affected, although only preliminary as regards the weighting of future significant events (see Note 14.4)

Reversals and amounts used in 2015 corresponded mainly to the reclassification of the EUR 23,341 thousand investment in TP Ferro Concesionaria, S.A., downgrading the corresponding asset in response to its initiation of preliminary insolvency proceedings with creditors (see Notes 9.3 and 17.2).

12.1.1 Employee benefit obligations

Long-term defined benefit obligations

The detail of the current value of the post-employment commitments assumed by the Company at the end of 2016 and 2015 is as follows:

| | Thousands of Euros | |
|-------------------|--------------------|---------|
| | 2016 | 2015 |
| Retired employees | 176,058 | 183,656 |
| Serving employees | 6,665 | 9,574 |

These defined benefit pension obligations are funded by group life insurance policies, in which investments have been assigned whose flows coincide in time and amount with the payment schedule of the insured benefits.

The current value of the obligations was determined by qualified independent actuaries, and the actuarial assumptions used are as follows:

| Actuarial Assumptions | 2016 | 2015 |
|--|---------------|---------------|
| Technical interest rate (*) | 1.14% | 1.72% |
| Mortality tables | PERM/F – 2000 | PERM/F – 2000 |
| Annual rate of increase of maximum social security pension | 2% | 2% |
| Annual wage increase | 2.35% | 2.35% |
| Retirement age | 65 years | 65 years |

(*) The technical interest rate ranged from 5.93% to 1.14% since the externalisation of the plan.

The pension obligations have not given rise to any recognition under “Staff costs” in the income statement for 2016, (EUR 69 thousand in 2015). The income is a result of the rebate received by the Company from the insurance company due to certain insured persons having reached the age envisaged in the actuarial calculations without having retired. The contributions made by the Company to the insurance policy in relation to defined contribution and defined benefit pension plans amounted to EUR 2,775 thousand (EUR 2,789 thousand in 2015), which are also recognised under “Staff costs” in the income statement.

At 31 December 2016 and 2015, there were no outstanding accrued contributions.

12.1.2 Share-based payment

As described in the measurement bases (see Note 4.13) in connection with the share-based employee remuneration plan, the Company recognises, on the one hand, the services received as an expense, based on their nature, at the date on which they are obtained and, on the other, the related increase in equity upon settling the share-based payment plan.

Share option plans

ACS, Actividades de Construcción y Servicios, S.A. agreed on the proposal of the Appointments and Remuneration Committee in its meeting held in July 2014 in execution of the resolution adopted by the Annual General Meeting of ACS, Actividades de Construcción y Servicios, S.A. held on 15 April 2010 to establish an Option Plan on the shares of ACS, Actividades de Construcción y Servicios, S.A. (Option Plan 2014) regulated as follows:

- a. The number of shares to be covered by the Option Plan is to be a maximum of 6,293,291 shares each with a nominal value of fifty cents of a euro.
- b. The beneficiaries are to be 62 executives with options from 540,950 to 46,472.
- c. The acquisition price is to be EUR 33.8992 per share. This price is to be modified by the corresponding amount in the event of dilution.
- d. The options may be exercised in two equal parts, cumulative if the beneficiary so wishes, during the following second and third years after 1 May 2014, inclusive. However, should 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 the taxes payable as a result of exercising the share options will be borne exclusively by the beneficiaries.

The ACS Group's 2010 Stock Option Plan expired in 2015. No stock option was exercised pursuant to these Plans in the 2016 or 2015 financial years. Cover for the current plan is provided through a financing entity (see Note 10).

The stock market price of ACS shares at 31 December 2016 and 31 December 2015 was EUR 30.020 and EUR 27.015, respectively.

12.2 Contingencies

Environment

In view of the business activity carried on by the Company (see Note 1), it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to financial statements

CO₂ Emissions

Given the activities carried on by the Company, there are no matters relating to CO₂ emissions affecting the Company.

13.- Non-current and current payables

13.1 Non-current financial liabilities

The balance of "Non-current payables" at the end of 2016 and 2015 was as follows (in thousands of Euros):

| Types Categories | Non-Current Financial Instruments | | | | | | | |
|-------------------------|--|----------------|------------------|------------------|-----------------------|---------------|------------------|------------------|
| | Obligations and other negotiable instruments | | Bank Borrowings | | Derivatives and Other | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Accounts payable | 608,511 | 578,424 | 1,469,557 | 1,982,826 | - | - | 2,078,068 | 2,561,250 |
| Derivatives (Note 10.1) | - | - | - | - | 22,177 | 10,567 | 22,177 | 10,567 |
| Total | 608,511 | 578,424 | 1,469,557 | 1,982,826 | 22,177 | 10,567 | 2,100,245 | 2,571,817 |

The detail, by maturity, of "Non-current payables" is as follows (in thousands of Euros):

| | 2016 | | | | |
|--|---------|--------|---------|---------------------------|-----------|
| | 2018 | 2019 | 2020 | 2021 and Subsequent Years | Total |
| Obligations and other negotiable instruments | 113,293 | - | 495,218 | - | 608,511 |
| Bank borrowings | 7,244 | 57,820 | 7,821 | 1,396,672 | 1,469,557 |

| | 2015 | | | | |
|--|---------|--------|--------|---------------------------|-----------|
| | 2017 | 2018 | 2019 | 2020 and Subsequent Years | Total |
| Obligations and other negotiable instruments | - | 84,679 | - | 493,745 | 578,424 |
| Bank borrowings | 264,583 | 16,333 | 66,333 | 1,635,577 | 1,982,826 |

On 13 February 2015 ACS, Actividades de Construcción y Servicios, S.A. signed a finance agreement with a syndicate of banks, made up of forty-three Spanish and foreign entities, for a total amount of EUR 2,350 million, divided into two tranches (tranche A in a loan for EUR 1,650 million and tranche B as a liquidity facility for an amount of EUR 700 million) and maturing in 13 February 2020. The amount of the finance was used to repay the existing syndicated loan on that date, entered into at 9 February 2012 for a principal of EUR 1,430,300 thousand and recognised in current bank borrowings at 31 December 2014, with maturity at July 2015, and three loans granted for financing the acquisition of Hochtief, A.G. shares for a total current principal of EUR 694.5 million. On 20 December 2016 the Company performed a novation of that syndicated loan, the full amount of which remains at EUR 2,350 million, although the split of the two tranches has changed (Tranche A of the loan for an amount of EUR 1,400 million has been fully drawn, Tranche B of the liquidity line for EUR 950 million, not yet drawn down), with the new maturity date established at 13 December 2021. It bears interest at a rate that continues to be tied to Euribor and is secured by other ACS Group companies, and to require that the ACS Group undertakes to comply with certain ratios in relation to EBITDA and net indebtedness of the consolidated group, which ACS has met at the end of the year.

Additionally, on 16 March 2015, ACS, Actividades de Construcción y Servicios, S.A, issued notes in the Euro market for the amount of EUR 500 million, with a total demand of EUR 1,337 million, under the Euro Medium Term Note Programme (EMTN Programme), approved by the Central Bank of Ireland and approved in its most recent draft on 11 March 2015. The issue matures at five years and the disbursement date is planned for 1 April 2015, with an annual coupon of 2.875% and an issue price of 99.428%. The Notes are admitted to trading on the Irish Stock Exchange. The list price of the note at 31 December 2016 was 101.64%. In October 2015 the Company issued notes for the amount of EUR 85 million under the EMTN Programme, which are likewise admitted to trading on the Irish Stock Change and are set to mature October 2018 with an annual coupon of 2.5%. In the early months of 2016, under the terms of the EMTN Programme the Company carried out the issue of EUR 28

million that have also been listed on the Irish Stock Exchange and mature in October 2018, with an annual coupon of 2.5%. At 31 December 2016 costs directly attributable to the above-mentioned financing in an amount of EUR 4,889 thousand are pending posting to results.

At 31 December 2016, the Company had granted long-term credit policies of up to EUR 1,528,537 thousand (EUR1,050,000 thousand at 31 December 2015) that at 31 December 2016 had been drawn down in the amount of EUR 363 thousand (EUR 208,250 thousand drawn down at 31 December 2015). .

13.2 Current financial liabilities

The detail of "Current Payables" at 2016 and 2015 year-end is as follows (in thousands of Euros):

| Types Categories | Current Financial Instruments | | | | | | | |
|-----------------------------------|-------------------------------|----------------|-----------------|----------------|-----------------------|----------------|----------------|------------------|
| | Bonds and other securities | | Bank Borrowings | | Derivatives and Other | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Accounts payable | 436,894 | 428,147 | 19,679 | 356,783 | 152,356 | 153,642 | 608,929 | 938,572 |
| Derivatives (Notes 10.1 and 10.2) | - | - | - | - | 58,550 | 118,256 | 58,550 | 118,256 |
| Total | 436,894 | 428,147 | 19,679 | 356,783 | 210,906 | 271,898 | 667,479 | 1,056,828 |

The "Bonds and other securities" heading includes the 5 April 2016 renewal of the Euro Commercial Paper (ECP) Programme for a maximum amount of EUR 750 million, which was registered on the Irish Stock Exchange. Santander Global Banking & Markets is the arranger of programme implementation, an entity that also acts as designated broker (dealer). Through this program, ACS may issue notes maturing between 1 and 364 days, thus enabling the diversification of financing channels in the capital market. At 31 December 2016, current issues under the aforementioned programmes amounted to EUR 427,954 thousand (EUR 419,842 thousand at 31 December 2015).

At 31 December 2016, the Company had short term credit facilities with a limit of EUR 184,987 thousand (EUR 296,900 thousand in 2015), of which EUR 12 thousand had been drawn down at 31 December 2016 (EUR 295,880 thousand in 2015).

At 31 December 2016, "Other financial liabilities" includes the dividend payable amounting to EUR 140,026 thousand (EUR 139,711 thousand at 31 December 2015). This cash dividend was paid on 7 February 2017 for an amount of EUR 61,236 thousand (see Note 3). The cash dividend payable at 31 December 2015 was paid on 3 February 2016 for an amount of EUR 61,817 thousand.

Financial cost in 2016 for debts with third parties amounts to EUR 127,945 thousand (EUR 118,659 thousand in 2015).

14.- Tax matters

14.1 Current tax receivables and payables

The detail of the current tax receivables and payables is as follows (in thousands of Euros):

Tax receivables

| | 31/12/2016 | 31/12/2015 |
|----------------------------|---------------|---------------|
| Corporation tax receivable | 78,218 | 81,637 |
| Other taxes receivable | 11 | 21 |
| Total | 78,229 | 81,658 |

The balance with the Tax Authorities in the two years includes the consolidated income tax refundable for the Tax Group 30/99, includes both the estimate of the amounts refundable for the year ended, as well as the amount which arose in the previous year and has yet to be refunded. Specifically, the balance at 31 December 2016 includes, along with the estimate of the corresponding tax at 2016, amounting to 75,458 thousand euros, the tax refund corresponding to the 2015 financial year collected in January 2017.

Tax payables

| | 31/12/2016 | 31/12/2015 |
|-------------------------------|--------------|--------------|
| Tax withheld | 1,263 | 786 |
| Social security taxes payable | 58 | 58 |
| Tax liabilities | 246 | 352 |
| Other taxes payable | - | 11 |
| Total | 1,567 | 1,207 |

14.2 Reconciliation of accounting profit to taxable profit

The Company pays tax under the tax consolidation regime, as the controlling company of Tax Group 30/99.

The reconciliation of the accounting profit to the tax loss for income tax purposes is as follows:

| | 2016 | | |
|--|--------------------|-------------|------------------|
| | Thousands of Euros | | |
| | Increases | Decreases | Total |
| Accounting profit (loss) before tax | | | 1,272,333 |
| Permanent differences on individual taxable base: | | | |
| Provisions for Group entities | 15,016 | - | 15,016 |
| Grupo Dragados merger goodwill | 57,312 | - | 57,312 |
| Exemption for Fiscal Group intra-Group dividends | - | (1,298,251) | (1,298,251) |
| Hochtief, A,G, dividend exemption | - | (92,236) | (92,236) |
| Non-deductible expenses and other differences | 13,719 | (756) | 12,963 |
| Timing differences: | | | |
| Arising in the year: | | | |
| Merger goodwill | - | (6,243) | (6,243) |
| Externalised pension commitments | 2,565 | - | 2,565 |
| Reversal of investee company provision Royal Decree Law 3/2016 | 16,339 | - | 16,339 |
| Other differences | 3,800 | - | 3,800 |
| Arising in prior years: | | | |
| Financial instruments unrecognized in equity | - | (34,307) | (34,307) |
| Externalised pension commitments | - | (5,185) | (5,185) |
| Reversal of adjustment to provisions on loans | - | (15,432) | (15,432) |
| Use of provisions and others | - | (212) | (212) |
| Measurement of financial instruments recognised in equity (reversal) | - | (147,830) | (147,830) |
| Taxable base | | | (219,368) |

| | 2015 | | |
|--|--------------------|-----------|-----------------|
| | Thousands of Euros | | |
| | Increases | Decreases | Total |
| Accounting profit (loss) before tax (restated) | | | 67,223 |
| Permanent differences on individual taxable base: | | | |
| Provisions for Group entities | 148,485 | - | 148,485 |
| Non-deductible expenses and other differences | 13,693 | (124) | 13,569 |
| Permanent difference from 2015 restatement 2015 | 60,322 | - | 60,322 |
| Timing differences: | | | |
| Arising in the year: | | | |
| Merger goodwill | - | (3,262) | (3,262) |
| Externalised pension commitments | 2,983 | - | 2,983 |
| Financial expenses not deductible in tax consolidation | 1,291 | - | 1,291 |
| Timing difference in 2015 consolidation | 2,864 | - | 2,864 |
| Other differences | 5,976 | - | 5,976 |
| Arising in prior years: | | | |
| Financial instruments unrecognized in equity | - | (5,471) | (5,471) |
| Externalised pension commitments | - | (5,535) | (5,535) |
| Use of provisions and others | - | (231) | (231) |
| Measurement of financial instruments recognised in equity (reversal) | 41,022 | - | 41,022 |
| Individual taxable base | | | 329,236 |
| Tax consolidation adjustments for intra-Group dividends | | | (358,758) |
| Taxable profit attributable on tax consolidation | | | (29,522) |

Furthermore, in determining the consolidated Corporate Income Tax for the Fiscal Group corresponding to 2015, a negative adjustment was made to the consolidated taxable base as a Capitalisation Reserve in accordance with the terms of Article 25 and 62 of Law 27/2014 on Corporate Income Tax for an amount of EUR 38,569 thousand, equivalent to 10% of the consolidated taxable base before the offsetting of negative taxable bases.

To comply with the requirements for the mentioned adjustment, the Company and other members of the Tax Group have set up a Capitalisation Reserve on their balance sheets for the following amounts:

| | Thousands of Euros |
|--|--------------------|
| ACS, Actividades de Construcción y Servicios, S.A. | 27,000 |
| Dragados, S.A. | 3,000 |
| ACS Servicios y Concesiones, S.L. | 3,000 |
| Cobra Instalaciones y Servicios, S.A. | 7,000 |
| Total | 40,000 |

The recognition the Capitalisation Reserve on this Company's balance sheet took place in the half-yearly closing at 30 June 2016, once the definitive information from the 2015 consolidated return became known.

The global reserve set up for EUR 40,000 thousand represents an amount slightly lower than the 10% increase in computable shareholders' equity for the Tax Group in 2015 which determines the legal maximum for the reserve, notwithstanding the fact that the correlative adjustment to the consolidated taxable base is restricted to 10% of the previous taxable base, with the Tax Group being able to make a further adjustment in subsequent years because of the excess in the global reserve created in relation to the adjustment made in 2015, as long as it meets the necessary requirements.

14.3 Taxes recognised in equity

In addition, the detail of the taxes for adjustments for changes in value recognised directly in equity is as follows:

| | 2016 | | |
|---|--------------------|------------------|-----------------|
| | Thousands of Euros | | |
| | Charge to Equity | Credit to Equity | Total |
| Deferred taxes: | | | |
| Measurement of hedging financial instruments | 7,200 | - | 7,200 |
| Measurement of available-for-sale financial assets | - | (10,656) | (10,656) |
| Current taxes: | | | |
| Measurement of available-for-sale financial assets | - | (43,411) | (43,411) |
| Total deferred tax recognised directly in equity | 7,200 | (53,950) | (46,867) |

| | 2015 | | |
|---|--------------------|------------------|---------------|
| | Thousands of Euros | | |
| | Charge to Equity | Credit to Equity | Total |
| Deferred taxes: | | | |
| Measurement of hedging financial instruments | - | (11,812) | (11,812) |
| Measurement of available-for-sale financial assets | 10,539 | - | 10,539 |
| Current taxes: | | | |
| Measurement of available-for-sale financial assets | 11,486 | - | 11,486 |
| Total deferred tax recognised directly in equity | 22,025 | (11,812) | 10,213 |

14.4 Reconciliation of accounting profit/loss to the income tax expense

The reconciliation of accounting profit/loss from continuing operations to the income tax expense is as follows (in thousands of Euros):

| | 2016 | 2015 |
|---|----------------|-----------------|
| Accounting profit (loss) before tax from continuing operations | 1,272,333 | 67,223 |
| Gross tax payable 25% (2016) / (28%) (2015) | 318,083 | 18,822 |
| Impact for non-taxation of Tax Group and Hochtief A.G. dividends | (347,622) | (100,452) |
| Impact from measurement of financial instruments attributable to equity in previous years | 6,571 | - |
| Impact of other permanent differences | 19,031 | 59,696 |
| Deductions: | (1,558) | (1,519) |
| Adjustment to previous years' taxation | 234,434 | 566 |
| Total income tax expense recognised in profit or loss from continued and discontinued operations | 228,939 | (22,887) |

The expense in respect of adjustments to taxes on profits corresponds to various items other than the tax arising in the year. Specifically, the balance for 2016 includes the following items:

- An extraordinary provision of EUR 155,000 set up mainly to reflect the impact of the recently approved Royal Decree Law 3/2016 of 2 December on deferred tax assets and liabilities from impairments to subsidiary and investee companies for all the entities in the Tax Group. Given the complexity of the rule and the relative proximity of its

enactment and the preparation of the annual accounts, it has been decided to make a conservative estimate of the impact based on a detailed analysis of the assets affected, although only preliminary as regards the weighting of future significant events.

- Also as an effect of Royal Decree Law 3/2016, in addition to the provision indicated in the previous paragraph, given its special nature as an internal item made within the Tax Group (eliminated in consolidation), an expense of EUR 61,388 has been recorded for the settlement of deferred tax assets from the sale of shares to other tax group companies performed in previous years.
- A net expense of EUR 18,096 thousand for deviations in provisions for taxation in previous years, particularly as regards their distribution among companies in the Tax Group.

The breakdown of the Income tax expense is as follows (in thousands of Euros):

| | 2016 | 2015 |
|---------------------------------|----------------|-----------------|
| Continuing operations | | |
| Current income tax | (8,938) | (34,665) |
| Deferred tax | 237,877 | 12,580 |
| Total income tax expense | 228,939 | (22,085) |

There were no discontinued operations in 2016 or 2015.

14.5 Recognised deferred tax assets

The detail of the balance of this account at the end of 2016 and 2015 is as follows (in thousands of Euros):

| | 2016 | 2015 |
|--|----------------|----------------|
| Temporary differences (prepaid taxes): | | |
| Pension obligations | 25,468 | 26,023 |
| Measurement of interest rate hedging financial instruments | 5,138 | 12,338 |
| Non-deductible finance charges | 35,320 | 34,682 |
| Unhedged derivative financial instruments | 6,084 | 14,660 |
| Losses eliminated in tax consolidation | - | 61,338 |
| Non-deductible provisions | 18,581 | 22,931 |
| Other | 2,245 | 2,328 |
| Unused tax credits | 12,506 | 10,951 |
| Total deferred tax assets | 105,342 | 185,251 |

The aforementioned deferred tax assets were recognised because the Company's directors consider that, on the basis of the best estimate of the Company's future earnings, these assets will probably be recovered within the tax group in the period established by accounting regulations.

The only deferred tax assets subject to the legal expiry term are the pending deductions that mainly include the deduction on extraordinary gains generated in 2013, 2014 and 2015, with a term to expiry of 15 years. For the purpose of analysing the recoverability tax assets of the consolidated Group, the ACS Group has created a model which uses the latest earnings projections available for the Group companies. According to this model, all of the tax assets arising from deductions will be recovered in full.

On the matter of the deduction because of the reinvestment of profits, in previous years the Company included in this deduction a portion of the gain obtained from the sale of the shares of Unión Fenosa S.A. in 2008 and 2009. As explained in the notes to the years in question, these reinvestments were made within the term of three years established by the law, initially concluding in 2011; nevertheless, as some of the assets resulting from the reinvestment were transferred to third parties in 2012 before the required period for them to be held had been completed, a new obligation to reinvest was generated that ended in 2015 and was covered in that year. Following a consultation submitted to the General Tax Directorate, the Company modified on its 2015 Corporate Tax Return the reinvestment amounts credited for years 2014 and 2015 that thus differ from those initially foreseen and posted to the annual accounts for those years. Therefore, the deductions from reinvestment generated in years 2013 to 2015, in the second reinvestment period, and the corresponding investment that they have given rise to, in thousands of euros, are as follows:

| | 2013 | 2014 | 2015 | |
|---|--------------|----------------|----------------|-------------------------------|
| Deduction generated in year | 418 | 6,868 | 3,771 | |
| Reinvestment made by: | | | | |
| ACS, Actividades de Const. y Servicios, S.A. | - | - | 113,000 | Shares in Hochtief, A.G. |
| Iridium Concesiones de Infraestructuras, S.A. | 7,476 | - | 2,053 | Capital of concession-holders |
| Serrezuela Solar II, S.L. | - | 250,089 | - | Thermosolar plant |
| Energía y Recursos Ambientales, S.A. | - | - | 1,000 | Financial investment |
| Urbaser, S.A. | - | - | 17,803 | PPE and financial investment |
| Clece, S.A. | - | - | 3,460 | Property plant and equipment |
| Total reinvestment made | 7,476 | 250,089 | 137,316 | |

There were no significant unrecognised deferred tax assets.

14.6 Deferred tax liabilities

The detail of the balance of this account at the end of 2016 and 2015 is as follows (in thousands of Euros):

| | 31/12/2016 | 31/12/2015(*) |
|--|----------------|-----------------|
| Gains eliminated in the tax consolidation process | 125,082 | 125,082 |
| Measurement of available-for-sale financial assets | - | 10,539 |
| Merger financial goodwill and other | 1,674 | 179 |
| Total deferred tax liabilities | 126,756 | 135,800 |

(*) Restated amounts

The restatement of the balance sheet at 31 December 2015 includes the cancellation of the deferred tax liability for an amount of EUR 19,348 million from the tax amortisation of the merger goodwill derived from the takeover of Grupo Dragados, S.A. This cancellation took place following the partial amortisation of the goodwill in 2016 against equity accounts as a result of the new accounting rule.

14.7 Years open for review and tax audits

In 2016 the inspection begun in 2014 by the State Tax Administration Agency on the consolidated Corporate Income Tax for years 2009 to 2012 was concluded with the issue of assessments that have determined a tax debt for the tax group as a whole of EUR 1,485 thousand, including tax, interest on arrears and penalties. Specifically, the impact of the assessment for the Company, ACS, Actividades de Construcción y Servicios, S.A., including the part of the tax debt attributable to it, as well as, and more significantly, the resulting adjustment to the tax assets pending application, has amounted to EUR 6,819 thousand. This

amount has been booked against the provisions for liabilities and taxes recorded in previous years, without any effect therefore on the income statement in 2016.

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the statute-of-limitations period has expired. Specifically, in the case of the various taxes to which the Company is subject, the years from 2013 to the present remain open.

The Company's directors consider that the tax returns have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

15.- Foreign currencies

During 2016 no significant foreign currency transactions were carried out. In 2015 such transactions amounted to USD 20 thousand.

There were no significant exchange differences in 2016 and 2015.

16.- Revenue and expense recognition

16.1 Revenue:

The detail of revenue is as follows (in thousands of Euros):

| | 2016 | 2015 |
|---|------------------|----------------|
| Dividends of subsidiaries and associates (Notes 9.3 and 17.1) | 1,390,487 | 358,759 |
| Dividends from non-current financial assets (Note 9.1) | 209 | 5,205 |
| Finance income of subsidiaries and associates | 31,257 | 94,190 |
| Service provision (Note 17.1) | 11,900 | 13,519 |
| Total | 1,433,853 | 471,673 |

The Company did not receive any dividends from Iberdrola, S.A. in either 2016 or 2015, as all the risks and benefits from the investment in Iberdrola had been transferred (see Note 9.2) and the full amount of the shares was loaned to Statement Structure, S.L. and Funding Statement, S.L.

16.2 Employee welfare costs

The detail of "Employee Benefit Costs" in 2016 and 2015 is as follows (in thousands of Euros):

| | 2016 | 2015 |
|--|--------------|--------------|
| Employee benefit costs | | |
| Employer social security taxes | 623 | 620 |
| Contributions to pension plans (Note 12.1) | 2,526 | 2,858 |
| Other employee benefit costs | 1,157 | 860 |
| Total | 4,306 | 4,338 |

16.3 Other operating costs

This heading on the attached income statement for 2016 includes compensation paid to various Group companies, mainly for restructuring costs incurred in relation to personnel from the liquidated company Grupo Dragados, S.A. (absorbed by ACS Actividades de Construcción y Servicios, S.A) in an amount of EUR 20,289 thousand, as well as the costs incurred by the various companies following changes in the original planning as a result of the merger with Dragados, Obras y Proyectos, S.A. for an amount of EUR 13,000.

16.4 Finance income and finance costs

The detail of the finance income and finance costs calculated by applying the effective interest method is as follows (in thousands of Euros):

| | 2016 | | 2015 | |
|--|----------------|---------------|----------------|---------------|
| | Finance income | Finance costs | Finance income | Finance costs |
| Application of the effective interest method | 10,457 | 143,275 | 9,346 | 189,083 |

This heading includes EUR 7,562 thousand (EUR 4,366 thousand in 2015) related to the settlement of hedging instruments,

16.5 Impairment and gains or losses on disposals of financial instruments

This heading in the accompanying income statement mainly includes the result of the execution of the forward contract, bringing forward collection of the full amount of its participation in Iberdrola, S.A., at the same time that it took out purchase options on the same number of Iberdrola shares to eliminate the market risk associated with the convertible bonds issued due in 2018 and 2019. As a result of the substantial transfer of the risks and benefits associated with the Iberdrola shares the Company has proceeded to cease to recognise them on its balance sheet. The combined result of these transactions, together with their recycling to the income statement from the "Valuation Adjustments – Financial assets available for sale" heading in shareholders' equity on the attached balance sheet, was a net pre-tax gain of EUR 132,980 thousand (see Note 9.2).

In addition, the provision for the investment in investee Cariátide S.A. in an amount of EUR 138,475 thousand has been recorded under this heading, as well a reversal of the provision for the loan granted to that company in an amount of EUR 121,475 as a consequence of the capitalisation of the syndicated loan (see Note 9.3)

This heading in the accompanying income statement for 2015 included mainly contributions to investee Cariátide, S.A., both in terms of financial investment and financing granted, amounting to EUR 124,640 thousand (see Note 9.3 and 17.2) as a result of its financial situation upon disposal of its stake in Hochtief, A.G., and as well as provision in the stake in in Residencial Monte Carmelo, S.A.U. amounting to EUR 23,844 thousand. Expenses associated with share sales amounting to EUR 27,088 thousand were also recorded.

16.6 Change in fair value of financial instruments

This heading in the accompanying income statement for 2016 includes mainly the gains due to the marking to market of the Company's derivatives, in relation to shares of ACS for an amount of EUR 45,430 and the loss of value of the derivatives in relation to the Iberdrola, S.A. shares for an amount of 3,134 thousand (see Note 10.2).

This heading in the accompanying income statement for 2015 included mainly the gains due to the marking to market of the Company's derivatives, in relation to shares of Iberdrola, S.A. (such as the equity swap), amounting to EUR 97,159 thousand and in relation to losses recorded by the derivatives on the shares of ACS, Actividades de Construcción y Servicios, S.A. amounting to EUR 29,245 thousand (see Note 10.2).

16.7 Other results

This heading in the accompanying income statement for 2016 includes EUR 25,487 corresponding to the costs borne by the Company as the controlling entity from the compensation agreements with different Tax Group companies for the timing losses incurred within the framework of the tax consolidation based on the specific conditions of each company.

17.- Related party transactions and balances

17.1 Transactions with related parties

The detail of the transactions with related parties during 2016 is as follows (in thousands of Euros):

| Income (-), Expense (+) | 2016 | |
|------------------------------------|--------------|------------|
| | Subsidiaries | Associates |
| Services received (Note 16.3) | 36,978 | - |
| Operating lease agreements | 2,276 | - |
| Interest received | 15,330 | - |
| Interest paid | (31,257) | - |
| Accrued interest not yet collected | 30,832 | - |
| Accrued interest not yet paid | (1,812) | - |
| Dividends (Note 16.1) | (1,390,487) | - |
| Cost apportionment agreement | (1,547) | (23) |
| Service provision (Note 16.1) | (11,900) | - |
| Other results (Note 16.7) | 25,487 | - |

The detail of the transactions with related parties during 2015 is as follows (in thousands of Euros):

| Income (-), Expense(+) | 2015 | |
|------------------------------------|--------------|------------|
| | Subsidiaries | Associates |
| Services received | 872 | - |
| Operating lease agreements | 2,271 | - |
| Interest received | 9,129 | - |
| Interest paid (Note 16.1) | (93,596) | (594) |
| Accrued interest not yet collected | 23,417 | - |
| Accrued interest not yet paid | (1,770) | - |
| Dividends (Note 16.1) | (358,759) | - |
| Cost apportionment agreement | (1,515) | - |
| Service provision (Note 16.1) | (13,519) | - |

17.2 Balances with related parties

The detail of the balances with related parties in the balance sheet at 31 December 2016 is as follows (in thousands of Euros):

| | 31/12/2016 | |
|-------------------------------------|------------------|------------|
| | Subsidiaries | Associates |
| Non-current financial assets | 5,621,680 | - |
| Equity instruments (Note 9.3) | 5,621,680 | - |
| Sundry accounts receivable | 27,414 | 26 |
| Current financial assets | 327,701 | - |
| Loans to companies | 206,225 | - |
| Other financial assets | 121,476 | - |
| Current liabilities | 1,433,441 | - |

The detail of the balances with related parties in the balance sheet at 31 December 2015 was as follows (in thousands of Euros):

| | 31/12/2015 | |
|-------------------------------------|-------------------|------------|
| | Subsidiaries | Associates |
| Non-current financial assets | 5,595,170 | - |
| Equity instruments (Note 9.3) | 5,595,170 | - |
| Sundry accounts receivable | 58,055,013 | - |
| Current financial assets | 190,112 | (1) |
| Loans to companies | 61,942 | (1) |
| Other financial assets | 128,170 | - |
| Current liabilities | 1,399,441 | - |

The amount included under "Other financial assets" both at 31 December 2016 and at 31 December 2015, relate in full to the accrued dividends payable at the year-end from ACS Group companies, Additionally, the Company recognised under "Other financial liabilities" an interim dividend payable at the end of 2016 amounting to EUR 140,026 thousand (EUR 139,711 thousand at 31 December 2015) (see Note 13.2).

The detail, at 31 December 2016 and 31 December 2015 of "Current loans to group companies" is as follows:

| | Thousands of Euros | |
|-----------------------------------|--------------------|---------------|
| | 31/12/2016 | 31/12/2015 |
| ACS Servicios y Concesiones, S.L. | 175,403 | - |
| Cariátide, S.A. | - | 161,640 |
| Others of lesser amounts | 30,822 | 21,776 |
| Provisions | - | (121,475) |
| Total | 206,225 | 61,941 |

The Company has granted a loan to ACS Servicios y Concesiones S.L. for a nominal amount of EUR 175,393 with initial maturity on 20 February 2017 that has been rolled over on maturity, with a variable interest rate base don three-month Euribor plus a market spread.

The Company has capitalised the subordinated participating loan it had granted Cariátide, S.A.(see Note 9.3) within the framework of the financing of the investment in the shares of Hochtief, A.G. that has now been fully discharged, so that there is no longer any obligation to maintain the participating loan, pursuant to the terms of articles 286 and 301 of the consolidated text of the Spanish Corporate Enterprises Act. The capitalised amount included a balance of EUR 160,000 thousand in principal plus EUR 253 thousand for accrued interest unpaid and not capitalised that was fully liquid and claimable. To do so it was agreed that a capital increase should be made in Cariátide for EUR 18 thousand, with a total issue premium of EUR 159,982 thousand. The loan to Cariátide S.A. consisted of a participatory loan of EUR 160,000 thousand maturing on 31 August 2016, with one fixed rate and one variable rate depending on the capitalisable income until maturity. This loan was provided for at 31 December 2015 in the amount of EUR 121,475 thousand (see Note 16.5).

At 31 December 2016 and 2015 the Company does not have any “Non-current payables to Group companies”. The detail of “Current payables to Group companies” at 31 December 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|--------------------|------------------|
| | 31/12/2016 | 31/12/2015 |
| Residencial Monte Carmelo, S.A. | 674,402 | 648,076 |
| ACS Actividades Finance, B.V. | 302,157 | 298,563 |
| ACS Actividades Finance, 2 B.V. | 237,580 | 237,616 |
| Major Assets, S.L. | 57,610 | 57,565 |
| Cariátide, S.A. | 49,559 | 53,814 |
| Novovilla, S.L. | 38,494 | 43,882 |
| Funding Statement, S.A. | 25,622 | 8,033 |
| ACS Servicios y Concesiones , S.L. | 17,577 | 2,369 |
| Dragados, S.A. | 11,763 | 2,779 |
| Iridium Concesiones de Infraestructuras, S.A. | 2,846 | 2,846 |
| ACS Servicios, Comunicaciones y Energía, S.L. | - | 12,842 |
| Other lesser amounts | 15,831 | 31,056 |
| Total | 1,433,441 | 1,399,441 |

The debt with Residencial Monte Carmelo, S.A.U. relates to a credit facility with a balance at 31 December 2016 of EUR 672,663 thousand (EUR 574,304 thousand at 31 December 2015), which automatically matures and is renewable annually with an interest rate tied to Euribor and to the balance corresponding to 2016 income tax amounting to EUR 1,707 thousand (EUR 73,772 thousand in 2015) included in Tax Group 30/99. The accrued interest outstanding collection at the 2016 year end amounted to EUR 32 thousand (EUR 8 thousand outstanding payment at 31 December 2015).

The debt with ACS, Actividades Finance, B.V. relates to a loan granted by this company with the funds obtained from the issue of a bond exchangeable for Iberdrola, S.A. shares maturing on 22 October 2018 and bearing interest at a fixed rate (see Note 9.2).

The debt with ACS Actividades Finance 2, B.V. corresponds to a loan granted by this company in March 2014 with the funds obtained from the issue of a bond exchangeable for shares in Iberdrola, S.A. maturing on 27 March 2019 at a fixed rate (see Note 9.2).

The debt with Major Assets, S.L. corresponds to a credit line with a balance at 31 December 2016 of EUR 57,607 thousand (EUR 53,516 thousand at 31 December 2015) rolling over automatically annually with an interest rate tied to Euribor. Accrued interest pending collection at the end of 2016 amounts to EUR 3 thousand.

The debt with Cariátide, S.A. corresponds to a credit line with a balance at 31 December 2016 of EUR 48,682 thousand (EUR 40,165 thousand at 31 December 2015) rolling over automatically annually with an interest rate tied to Euribor and to the balance corresponding to 2016 income tax amounting to EUR 875 thousand (EUR 13,649 thousand in 2015) included in Tax Group 30/99. Accrued interest pending collection at the end of 2016 amounts to EUR 2 thousand.

The debt with Novovilla, S.L. corresponds to a credit line with a balance at 31 December 2016 of EUR 38,492 thousand (EUR 43,882 thousand at 31 December 2015) rolling over automatically annually with an interest rate tied to Euribor. Accrued interest pending collection at the end of 2016 amounts to EUR 2 thousand.

The debt with Dragados, S.A. and with ACS Servicios y Concesiones, S.L. relates entirely to balances in relation to corporate income tax included in Tax Group 30/99 in both 2016 and 2015.

The transactions between Group companies and associates are performed on an arm's-length basis as in the case of transactions with independent parties.

17.3 Remuneration of directors and senior executives

The breakdown of the remuneration received in 2016 and 2015 by the members of the Board of Directors and senior executives of the Company is as follows (in thousands of Euros):

| | 2016 | | |
|--------------------|----------------------------------|--|-------|
| | Salaries (fixed and variable) | Bylaw-stipulated directors' emoluments | Other |
| Board of Directors | 8,543 | 2,434 | 1,000 |
| Senior executives | 3,976 | - | - |

| | 2015 | |
|--------------------|----------------------------------|--|
| | Salaries (fixed and variable) | Bylaw-stipulated directors' emoluments |
| Board of Directors | 8,543 | 2,624 |
| Senior executives | 4,757 | - |

The amount under the "Other" heading reflects the extraordinary payment in 2016 made to one of the outside directors as a consequence of the dedication and effort in recent years for the positive transformation of Hochtief and Cimic in which that director played a leading role as a member of the Boards of both companies and as Chairman of the Supervisory Council of the former.

Other amounts payable to the members of the Board of Directors and senior executives of ACS, Actividades de Construcción y Servicios, S.A. are as follows (in thousands of Euros):

| | 2016 | | |
|--------------------|---------------|--------------------|-------|
| | Pension Plans | Insurance premiums | Other |
| Board of Directors | 1,673 | 20 | - |
| Senior executives | 755 | 2 | - |

| | 2015 | | |
|--------------------|---------------|--------------------|-------|
| | Pension Plans | Insurance premiums | Other |
| Board of Directors | 1,686 | 19 | - |
| Senior executives | 681 | 4 | - |

At 2016 and 2015 year end, no advances or loans had been granted to the members of the Board of Directors or senior executives of the Company. The members of the Board of Directors and senior executives did not receive any termination benefits.

The amount recognised in the income statement as a result of the share options granted to the directors with executive duties amounted to EUR 1,419 thousand (EUR 1,419 thousand in 2015) for the directors and EUR 894 thousand (EUR 894 thousand in 2015) for senior executives. This amount relates to the proportion of the value of the plan at the date on which it was granted.

17.4 Further information on the Board of Directors

No situations have come to light of conflicts of interest, whether direct or indirect, with the Company as set out in current regulations (currently in accordance with that set forth in article 229 of the Spanish Corporate Enterprises Act), all without prejudice to the information on related party transactions reflected in the annual report. The Company has paid EUR 408 thousand in 2016 as premiums on civil liability insurance for directors.

In 2016 and 2015, the Company had commercial relationships with companies in which certain of its directors perform management functions. All these commercial relationships were carried out on an arm's-length basis in the ordinary course of business, and related to ordinary Company transactions.

18.- Discontinued operations

At 31 December 2016 and 2015 there were no balances, income or expenses relating to discontinued operations.

19.- Other disclosures

19.1 Staff

The average number of employees at the Company in 2016 and 2015, by category, is as follows:

| Category | 2016 | | |
|-------------------------------------|-----------|-----------|-----------|
| | Men | Women | TOTAL |
| University graduates | 22 | 8 | 30 |
| Further education college graduates | 4 | 2 | 6 |
| Non-graduate line personnel | - | - | - |
| Other staff | 4 | 11 | 15 |
| Total | 30 | 21 | 51 |

| Category | 2015 | | |
|-------------------------------------|-----------|-----------|-----------|
| | Men | Women | TOTAL |
| University graduates | 23 | 7 | 30 |
| Further education college graduates | 4 | 2 | 6 |
| Non-graduate line personnel | - | - | - |
| Other staff | 5 | 11 | 16 |
| Total | 32 | 20 | 52 |

Also, the distribution by sex at the end of 2016 and 2015, by category, is as follows:

| Category | 2016 | | |
|-------------------------------------|-----------|-----------|-----------|
| | Men | Women | TOTAL |
| University graduates | 22 | 8 | 30 |
| Further education college graduates | 4 | 2 | 6 |
| Non-graduate line personnel | - | - | - |
| Other staff | 4 | 11 | 15 |
| Total | 30 | 21 | 51 |

| Category | 2015 | | |
|-------------------------------------|-----------|-----------|-----------|
| | Men | Women | TOTAL |
| University graduates | 23 | 8 | 31 |
| Further education college graduates | 4 | 2 | 6 |
| Non-graduate line personnel | - | - | - |
| Other staff | 5 | 11 | 16 |
| Total | 32 | 21 | 53 |

The Company has not employed during 2016 or during 2015 any persons with a disability equal to or exceeding thirty three per cent.

19.2 Auditor's fees

In 2016 the fees for financial audit services provided by the Company's auditors, Deloitte, S.L. or by a firm in the same group or related to the auditors amounted to EUR 195 thousand (EUR 200 thousand in 2015). No fees were billed for tax advisory services in 2016 or 2015. Additional fees billed by Deloitte, S.L. in 2016 for services related to the audit amounted to EUR 425 thousand (EUR 425 thousand in 2015). The amounts billed by Deloitte as other services amounted to EUR 282 thousand in 2016 (EUR 993 thousand in 2015).

19.3 Guarantee commitments to third parties and other contingent liabilities

The Company basically acts as a guarantor for Group companies and associates with regard to government agencies and private customers, mainly in certain concession projects, to ensure the success of the execution of the projects. The surety bonds and guarantees granted at 31 December 2016 amounted to EUR 354,335 thousand (EUR 358,699 thousand at 31 December 2015). The Company's directors consider that any unanticipated liabilities that might arise from the guarantees provided would not be material.

In the year 2014, some of the financial institution creditors of a company owned by the ACS Group (Alazor Inversiones S.A.) initiated proceedings against the shareholders and guarantors for the enforcement of any obligations in respect of the financial debt. In this regard, in February 2014 notification was received that enforcement proceedings had been initiated regarding the guarantees granted to ACS, Actividades de Construcción y Servicios, S.A. amounting to EUR 73,350 thousand (which includes both the principal and the interest and cost estimates), however, the Company has filed claims related thereto which it considers will be resolved in its favour. Specifically, in March 2015 the Court issued an Order rejecting the opposition to the enforcement and ordering delivery of the amounts already recorded to the Banks. This decision was appealed by the parties to the Madrid Provincial Court of Appeals and is pending setting of a court date for a ruling. Nevertheless, by means of a court order, the Court instructed the transfer to the execution creditor the amounts determined (excluding estimated costs and certain credit assignments that have been held pending), as a result of which ACS has to date paid financial institutions EUR 56.4 million. Should the appeal be granted, the banks would have to return the amounts transferred. The directors of the Company consider that the possible effect on the financial statements would not be significant.

In addition, in relation to the proceedings filed against ACS, Actividades de Construcción y Servicios, S.A. and others to the exercise the share sale options in respect of Alazor Inversiones, S.A. (sole shareholder of Accesos de Madrid, S.A.), the Supreme Court of Madrid in September 2015 issued a judgment rejecting the annulment request brought by the other shareholders in respect of the award issued May 2014, dismissing all claims contained therein. On 2 June 2016 the Civil and Criminal Chamber of the Supreme Court of Madrid issued a judgment rejected for a second time the appeals for annulment filed against the Arbitration Award.

On the matter of the investment in TP Ferro, 15 September 2016 was the date set for the holding of the Creditors' Meeting for a vote on the proposed Creditors' Agreement submitted by the Company. As there was insufficient quorum for its approval, the judge ruled that TP Ferro should enter into liquidation.

The Company currently value this investment at zero, and does not consider it necessary to record additional provisions, as the Group has issued no guarantees in relation to this project.

By means of a letter dated 23 November 2016 the States notified the start to the procedure for an administrative termination of the concession contract. Both the Insolvency Administration and the Company through its Board of Directors filed pleadings. Nevertheless, despite the adoption of an irregular procedure giving rise to defencelessness (for example, imposing short terms not justified either in law or in contract, without reply to the pleadings, etc.), on 16 December 2016 the Granting States issued a joint termination of the concession because of default by the concession-holder. Finally, on 20 December at Llers it was agreed to terminate the concession with its effective transfer to the States. Following the approval of the Liquidation Plan, the judge proceeded to open the corresponding section for evaluation of the degree of fault in relation to the bankruptcy of the concession-holder, a proceeding at which the Banks and Funds have appeared, while the report of the Insolvency Administration remains pending.

19.4 Average payment period for suppliers**Information on the average payment periods for suppliers pursuant to Final Provision Two of Law 31/2014 of 3 December.**

The following is a summary of the disclosures required under Final Provision Two of Law 31/2014 of 3 December, which was prepared in application of the Resolution of 29 January 2016 of the Institute of Accounting and Auditing, in respect of disclosures to be included in the annual financial statements report with respect to the average payment periods for suppliers in commercial transactions and which is applicable to financial statements prepared from 1 January 2015:

| | 2016 | 2015 |
|---------------------------------------|----------------------|----------------------|
| | Days | Days |
| Average term to payment of suppliers | 25 | 15 |
| Ratio of transactions paid | 27 | 15 |
| Ratio of transactions pending payment | 13 | 19 |
| | EUR thousands | EUR thousands |
| Total payments made | 20,654 | 25,983 |
| Total payments outstanding | 2,334 | 1,240 |

The above data on supplier payments relates to those suppliers which, due to their nature, are trade payables to suppliers of goods and services, such that the information includes data relating to "Commercial creditors and other accounts payable" under current liabilities in the attached balance sheet.

"Average payment period for suppliers" is understood to mean the term that elapses from the delivery of goods or rendering of services by the provider and the effective payment for the transaction. This "Average payment period for suppliers" is calculated as the quotient resulting from the numerator as the sum of the ratio of transactions paid versus the total amount of payments plus the ratio of outstanding payment transactions versus the total amount of outstanding payments, and in the denominator, by the total amount of payments made and outstanding payments.

The ratio of paid transactions is calculated as the quotient resulting from the numerator as the sum of the products corresponding to amounts paid, by the number of days until payment, and from the denominator, the total amount of payments. Days until payment is understood to mean the number of calendar days that have elapsed from the start date of the effective payment term for the transaction.

Likewise, the ratio of outstanding payment transactions corresponds to the quotient resulting from the numerator as the sum of the products corresponding to payable amounts by the number of days during which the payment is outstanding, and in the denominator, the total amount of payable amounts. The number of days in which an amount is payable is understood to mean the number of calendar days that have elapsed from the start date of the payment period to the last day of the period in the annual financial statements.

The Company will use the date of receipt of the goods or provision of services as the start date of the term for both the number of payment days and the days outstanding payment. In the absence of reliable information as to when this circumstance occurs, the Company will use the date of receipt of the invoice.

20.- Events after the reporting date

On 22 December 2016 the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A. approved the distribution of an interim dividend of EUR 0.45 per share. Its distribution through a flexible dividend system was carried out during the month of February 2017. In this process 43.73% of the bonus shares were bought up by ACS, Actividades de Construcción y Servicios, S.A. by virtue of the purchase commitment assumed by the company. The remaining shareholders were issued with a total of 2,534,969 shares, which were redeemed simultaneously in accordance with what was resolved by the shareholders in the Annual General Meeting held on 5 May 2016 (see Note 11).

21.- Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.



*2016 Directors' Report of ACS, Actividades de
Construcción y Servicios, S.A.*

March 23th 2017

1 Company performance in 2016

In 2016, the Company recorded healthy results, confirming the positive development of the Group's process of transformation over recent years. Furthermore, the Group has achieved a significant additional reduction in its level of indebtedness, which now stands at EUR 1,214 million euros following a solid cash increase and the sale of Urbaser at the end of the year.

Following is a summary of the consolidated financial aggregates, prepared in accordance with IFRS-EU:

| Key financial and operating figures | | | |
|-------------------------------------|---------------|---------------|---------------|
| Million Euro | 2016 | 2015 | Var. |
| Turnover | 31,975 | 33,291 | -4.0% |
| Backlog | 66,526 | 58,942 | +12.9% |
| Months | 23 | 20 | |
| EBITDA⁽¹⁾ | 2,023 | 2,141 | -5.5% |
| Margin | 6.3% | 6.4% | |
| EBIT⁽¹⁾ | 1,445 | 1,421 | +1.7% |
| Margin | 4.5% | 4.3% | |
| Attributable Net Profit | 751 | 725 | +3.5% |
| EPS | 2.44 € | 2.35 € | +3.7% |
| Net Investments | (523) | 259 | n.a |
| Investments | 1,545 | 2,085 | |
| Disposals | 2,068 | 1,827 | |
| Total Net Debt | 1,214 | 2,624 | -53.7% |
| Businesses' Net Debt | 1,012 | 2,083 | |
| Project Financing | 202 | 541 | |

Note: In accordance with IFRS 5, Urbaser has been reclassified as a discontinued business following its sale, and the income statement for the period of comparison has been restated.

Data presented in accordance with ACS Group management criterion and the IFRS in force.

(1) Includes Net Earnings of Joint Operations Entities (jointly managed project implementation companies) not consolidated throughout the Group.

Attributable consolidated net profit reached EUR 751 million, implying an increase of 3.5% broken down as follows by area of activity:

| Net profit breakdown by activity | | | |
|------------------------------------|------------|------------|--------------|
| Million Euro | 2016 | 2015 | Var. |
| Construction | 311 | 304 | +2.2% |
| Industrial Services ⁽¹⁾ | 305 | 314 | -3.0% |
| Services | 84 | 73 | +14.9% |
| Net Profit from activities | 699 | 691 | +1.2% |
| Renewable assets | (0) | 6 | |
| Corporation | 52 | 28 | |
| TOTAL Net Profit | 751 | 725 | +3.5% |

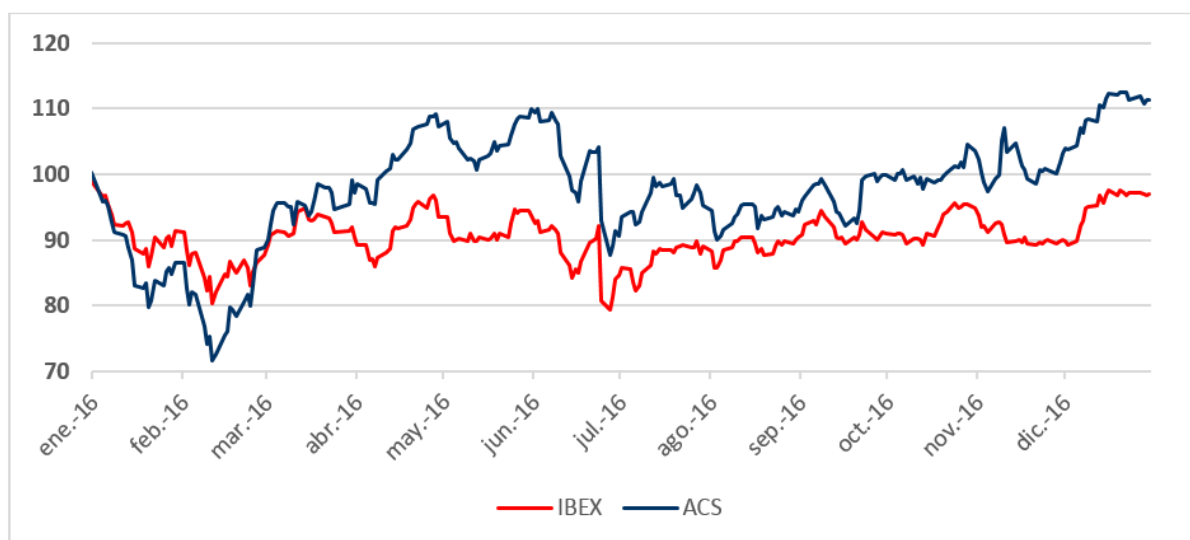
(1) It excludes renewable assets sold in 1Q/2015. Further detail in Industrial Services

The main item of income of ACS, Actividades de Construcción y Servicios, S.A. relates to the dividends and financial revenues received from companies forming part of the consolidated group, a detail of which is as follows (in millions of Euros):

| | 2016 | 2015 |
|--|--------------|------------|
| Dividends from affiliates | 1,391 | 359 |
| Dividends from long term financial investments | - | 5 |
| Financial income from affiliates | 31 | 94 |
| Revenues from services | 12 | 14 |
| Total | 1,433 | 472 |

2 Stock market evolution

The share price for ACS, Actividades de Construcción y Servicios, S.A. has performed well during the year, gaining 11.12% over the course of 2016, while the main Spanish stock exchange indicator, the IBEX 35, was down 2.01% in that same period.



Details for the main stock exchange data of the ACS share are the following:

| Datos de la acción de ACS | 2016 | 2015 |
|----------------------------------|---------|---------|
| Closing price | 30.02 | 27.02 |
| Performance | 11.12% | -6.75% |
| Maximum in the period | 30.56 | 34.40 |
| Maximum Date | 20-dic | 27-feb |
| Minimum in the period | 19.31 | 25.06 |
| Minimum Date | 11-feb | 29-sep |
| Average in the period | 25.88 | 30.04 |
| Total volume ('000) | 220,750 | 238,296 |
| Daily average volume ('000) | 859 | 931 |
| Total traded effective (EUR mn) | 5,714 | 7,158 |
| Daily average effective (EUR mn) | 22,23 | 27,96 |
| Number of shares (mn) | 314,66 | 314,66 |
| Market cap (EUR mn) | 9,446 | 8,501 |

At 31 December 2016, ACS, Actividades de Construcción y Servicios, S.A. held 4,677,422 treasury shares, accounting for 1.5% of its share capital. The detail of the transactions performed in the year is 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 | 107,084 | 10,134,317 | 285,693 |
| Scrip dividend | - | - | 173,839 | 6 |
| Sales | (3,125,000) | (85,570) | (532,999) | (15,456) |
| Depreciation | (6,766,365) | (177,162) | (6,795,653) | (194,736) |
| At year end | 4,677,422 | 120,981 | 9,898,884 | 276,629 |

3 Risk management policies

3.1 Main risks and uncertainties faced by ACS, Actividades de Construcción y Servicios, S.A.

The ACS Group operates in sectors, countries and social, economic and legal environments which involve the assumption of different levels of risk caused by these determining factors.

The ACS Group monitors and controls the aforementioned risks in order to prevent an impairment of profitability for its shareholders, a danger to its employees or corporate reputation, a problem for its customers or a negative impact on the company as a whole.

For this purpose, the ACS Group has instruments enabling it to identify such risks sufficiently in advance or to avoid them, minimising the risks, prioritizing their significance as necessary.

The ACS Group's 2016 Corporate Governance Report details these risk control instruments, as well as the risks and uncertainties to which it was exposed over the year.

3.2 Financial risk management

As in the previous case, the ACS Group is exposed to various financial risks, including the risks of changes in interest rates and exchange rates, as well as liquidity and credit risk.

Risks arising from changes in interest rates on cash flows are mitigated by hedging the interest rates through financial instruments that curb the effect of any fluctuations therein. In this connection, the Company uses interest rate swaps to reduce exposure to non-current loans.

Foreign currency risk is managed by arranging debt in the same functional currency as that of the asset financed by the Group abroad. In order to hedge net positions in currencies other than the euro, the Group uses various financial instruments in order to mitigate exposure to foreign currency risk.

To manage the liquidity risk arising from temporary imbalances between funding requirements and receipt of the necessary funds, a balance is procured between the two terms involved while, at the same time, the Group borrows on a flexible basis designed to cater for its funding needs at any given time. This goes hand in hand with the Group's capital management, which preserves an optimum financial and equity structure in order to reduce the cost of capital whilst safeguarding the Group's ability to continue operating with sound debt/equity ratios.

Finally, credit risk caused by the non-payment of commercial loans is dealt with through the preventive assessment of the solvency rating of potential Group customers, both at the commencement of the relationship with these customers for each work or project and during the term of the contract, through the evaluation of the credit quality of the outstanding amounts and the revision of the estimated recoverable amounts in the case of balances considered to be doubtfully collectible.

A full detail of the mechanisms used to manage financial risks and of the financial instruments used to hedge these risks is included in the notes to the both the Company's individual financial statements and the Group's consolidated financial statements for 2016.

4 Human resources

In 2016 ACS, Actividades de Construcción y Servicios, S.A. employed 51 individuals. The Company's human resources policy is in the same line as that of the ACS Group, and is aimed at maintaining and hiring committed teams of individuals, with a high level of knowledge and specialisation, capable of offering the best service to the customer and generating business opportunities with rigour and efficiency.

The Consolidated Group had a total of 176,755 employees at 31 December 2016, of whom 12% hold University degrees.

5 Technological and environmental protection

ACS, Actividades de Construcción y Servicios, S.A. considers that sustainable growth, its vocation to care for and respect the environment and the meeting of the expectations that society places on it must all have a decisive influence on its strategy and on each of its actions.

This commitment is identified in each of the activities in which the Group is present, in each of the investments that it promotes and in the decisions that it takes in order to satisfy its customers and shareholders, to boost profitable growth, quality and technological development, while also attending to growing demands for respect for the environment by implementing measures to prevent or minimise the environmental impact of the Group's infrastructure development and service activities.

5.1 Research and development activities

On an individual basis, the Company does not engage in research and development. However, the ACS Group is committed to a policy of ongoing improvement of its processes and of applied technology in all activities. For this purpose, the ACS Group has its own research program aimed at developing new technological know-how applicable to the design of processes, systems, new materials, etc., in all its activities.

5.2 Environmental protection

As in the previous case, on an individual basis, the Company does not carry out any environmental activity. However, the ACS Group's main activity, namely the development and maintenance of infrastructures, involves environmental impacts including the use of materials arising from natural resources, the use of energy (both during construction as well as during the life of the various infrastructures), the generation of waste, as well as both visual effects and effects on the landscape.

The ACS Group, as a result of its commitment since its creation, continues to protect the environment, and is working on various initiatives to continue to promote the main criteria of its environmental policy: reduce its impact on climate change, minimise the use of resources, reduce water usage and have a minimal impact on biodiversity. Once again, in 2016 the Group continued to employ its Environmental Management System which includes the detailed environmental protection initiatives of each Group company.

6 Relevant facts after the end of the period

On 22 December 2016, the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A. approved the distribution of an interim dividend of EUR 0.45 per share. It was distributed in February 2017 using a flexible dividend system in which process 43.73% of the bonus rights were acquired by ACS, Actividades de Construcción y Servicios, S.A. assumed by the company. For the remaining shareholders a total of 2,534,969 shares were issued on 24 February, these being simultaneously redeemed in accordance with the resolution adopted by the shareholders in the General Meeting held on 5 May 2016.

7 Outlook for 2017

In 2017 the ACS Group expects to increase its return for ACS shareholders, maintaining the upward trend in net profit, strengthening the transformation process that began 5 years ago and reinforcing the leadership position held by the Group at a global level.

Specifically, the objectives of the ACS Group in 2017 are focused on:

- Promoting the sustainable growth of the Group's business in line with the current strategy and the business model defined for the various activities. In particular, it is planned to achieve an increase in annual production of around 10% on average in each of the next two years.
- Obtaining additional operations and financial efficiencies to enable the generation of synergies and cost optimisation, particularly in the case of the activities recently incorporated to HOCHTIEF Asia Pacific.
- Deepening the optimisation of the financial structure by means of evaluation of alternatives that will help to simplify and improve the current capital structure.

8 Average payment period for suppliers

Information on supplier payment deferrals. Final Provision Two of Law 31/2014 of 3 December.

Below is a summary of the information required under the Final Provision Two of Law 31/2014, of 3 December, which was drafted to implement the Accounting Institute's Resolution of 29 January 2016 on information to be included in the annual report on the financial statements in relation to the average payment period for suppliers in commercial transactions, applicable to annual financial statements for years begun as from 1 January 2015:

| | 2016 | 2015 |
|--|---------------|---------------|
| | Days | Days |
| Average payment period to suppliers | 25 | 15 |
| Ratio of transactions paid | 27 | 15 |
| Ratio of transactions pending to be paid | 13 | 19 |
| | Euro thousand | Euro thousand |
| Total payments | 20,654 | 25,983 |
| Total pending payments | 2,334 | 1,240 |

The figures disclosed in the above table on payments to suppliers refer to trade creditors from the supply of goods and services, and therefore include data in relation to the "Trade and Other Payables – Payments to Suppliers" account in current liabilities on the attached balance sheet.

"Average period for payment to suppliers" is understood as the period between the delivery of the goods or services by the supplier and effective payment of the transaction. This "Average period for payment to suppliers" is calculated as the quotient formed by the numerator, which is the result of adding the paid operations ratio times the total amount of payments made to suppliers plus the operations outstanding ratio by the total amount of payments outstanding, the denominator of which is the total amount of payments made and payments outstanding.

The paid operations ratio is calculated as the quotient formed by the numerator which is the sum of the products related to the amounts paid, times the number of days to payment and the denominator which is the total amount of payments made. The number of days to payment shall be understood as the number of calendar days elapsed from the time the period begins to run up to actual payment of the transaction.

The ratio of transactions pending payment refers to the quotient formed by the numerator which is the sum of the products related to the amounts outstanding, times the number of payment outstanding days, and the denominator, which is the total amount of payments outstanding. The number of payment outstanding days shall be understood as the number of calendar days elapsed as from the period begins to run up to the last day of the period covered by the annual accounts.

To calculate both the number of days to payment and the number of days pending payment the Company will begin to calculate the period from the date the products are received or the services are provided. Nevertheless, when there is a lack of reliable information as to when this actually takes place, the date of receipt of the invoice has been taken.

9 Annual Corporate Governance Report

In accordance with corporate law, the Annual Corporate Governance Report is attached for reference purposes, which is also available on the CNMV website, forming an integral part of the 2016 Directors' Report.