KPMG

Aena S.M.E., S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2017

Consolidated Directors' Report

2017

(With Independent Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Aena S.M.E., S.A.:

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Aena S.M.E., S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Key Audit Matters

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

Approval of the Airport Regulation Document (DORA)

See notes 2.3), 2.8), 2.21), 3.1), 4 g), 5,6, 7 and 23 a) to the consolidated annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
The new regulatory framework enshrined in the Airport Regulation Document (DORA) approved on 27 January 2017 sets out Aena S.M.E., S.A.'s obligations and rights for the 2017-2021 period. This new regulatory framework has significant impact on several areas of the consolidated annual accounts of the Aena Group, foremost among which: - The accounting recognition and breakdown of revenue for services regulated by the DORA that are rendered by the Parent. - The calculation and accounting recognition of discounts provided for in the DORA which the Parent applies to the airlines. - Commercial incentives, the establishment of which is provided for in the DORA and which are set and approved by the Parent. - Estimating the recoverable amount of property, plant and equipment and intangible assets included in the cash-generating unit (CGU) called "Network of Airports". - The disclosures required for segment reporting under the terms of the applicable financial reporting framework, as the DORA regulates the criteria for allocating the costs of services rendered by Aena. Given the complexity involved, the high level of judgement needed to analyse the impact of these regulations and the significance of the carrying amounts of the affected items in the consolidated annual accounts, we have considered this to be a key audit matter.	Our audit procedures included, among others: - evaluating the design, implementation and effective operation of the key processes and controls associated with revenue recognition, with the estimation of any impairment of property, plant and equipment and intangible assets included in the CGU called "Network of airports", and with the provisions for discounts and incentives. - evaluating the criteria, standards and accounting policies used by the Group's Directors for the recognition of these revenues, assets and provisions. - performing substantive tests on the aforementioned revenues, assets and provisions related to services provided by Aena and regulated by the DORA such as recalculating revenue based on key information related to the services rendered and the tariffs for 2017, evaluating the indications of impairment and the reasonableness of the methodology and main assumptions used to estimate the recoverable amount of the CGU called "Network of Airports", and validating the criteria and assumptions used to calculate the provisions for discounts and incentives and to allocate costs to the segments. We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2017 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility as regards the content of the consolidated directors'' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the consolidated statement of non-financial information and to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the consolidated directors' report, or where applicable, in a separate report on non-financial information, as provided for in legislation, to which reference is made in the directors' report, and if not, to report on this matter.

b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information mentioned in paragraph a) above has been provided in the consolidated directors' report and the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

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

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

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 27 February 2018.

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 28 June 2016 for a period of three years, from the year ended 31 December 2017.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with number
S0702

(Signed on the original in Spanish)

Manuel Martín Barbón
On the Spanish Official Register of Auditors ("ROAC") with number 16239

27 February 2018

AENA S.M.E., S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management Report for the year ended on 31 December 2017.

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(Amounts in thousands of euros unless otherwise stated)

Consolidated statement of financial position at 31 December 2017 and 2016

	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	13,205,946	13,563,922
Intangible assets	7	491,173	525,647
Investment properties	8	135,108	135,690
Equity-accounted investees	9	63,955	71,741
Other receivables	13	2,831	2,599
Deferred tax assets	21	122,369	143,971
Available-for-sale financial assets	11	347	354
Other financial assets	10	71,506	58,697
Derivative financial instruments	12	360	-
		14,093,595	**14,502,621**
Current assets			
Inventories	14	7,051	8,958
Trade and other receivables	13	351,809	437,579
Cash and cash equivalents	15	854,977	564,616
		1,213,837	**1,011,153**
Total assets		**15,307,432**	**15,513,774**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1,500,000	1,500,000
Share premium	16	1,100,868	1,100,868
Retained earnings	17	3,180,024	2,521,852
Accumulated translation differences	18	(22,523)	(16,261)
Other reserves	18	(75,931)	(113,110)
Non-controlling interests	18	5,426	32,400
		5,687,864	**5,025,749**
Liabilities			
Non-current liabilities			
Borrowings	20	7,276,016	7,912,184
Derivative financial instruments	12	45,645	96,895
Deferred tax liabilities	21	80,153	89,990
Provisions for employee benefit obligations	22	59,126	53,065
Provision for other liabilities and charges	23	70,901	133,639
Grants	24	511,927	544,382
Other non-current liabilities	25	91,409	132,001
		8,135,177	**8,962,156**
Current liabilities			
Trade and other payables	19	588,419	439,045
Borrowings	20	734,943	880,439
Derivative financial instruments	12	37,010	39,651
Grants	24	40,152	38,266
Provision for other liabilities and charges	23	83,867	128,468
		1,484,391	**1,525,869**
Total liabilities		**9,619,568**	**10,488,025**
Total equity and liabilities		**15,307,432**	**15,513,774**

Notes 1 to 37 form an integral part of these consolidated financial statements.

(Amounts in thousands of euros unless otherwise stated)

Consolidated income statement for the years ended on 31 December 2017 and 31 December 2016

	Note	2017	2016 (*)
Continuing operations			
Ordinary income	5	3,960,582	3,709,581
Other operating income	29	10,852	7,761
Work carried out by the Company for its assets		4,751	4,615
Subcontracted work and other supplies	30.a	(174,176)	(180,366)
Employee benefit expenses	28	(417,155)	(390,724)
Other operating expenses	30.b	(910,912)	(901,775)
Depreciation and amortization	6,7,8	(800,035)	(825,805)
Capital grants taken to income	24	42,504	41,590
Provisions surpluses		8,905	8,940
Impairment and gains or losses on disposal of fixed assets	6,7,8	(10,915)	(6,402)
Other net gains / (losses)	27	2,969	399
Operating profit		**1,717,370**	**1,467,814**
Financial income	31	6,891	208,484
Financial expenses	31	(142,134)	(162,024)
Other net financial income / (expenses)	31	(4,347)	(14,276)
Net financial income/(expenses)	31	**(139,590)**	**32,184**
Share of profit of equity-accounted investees	9	18,927	16,121
Profit for the period before tax		**1,596,707**	**1,516,119**
Income tax expense	32	(374,738)	(351,733)
Consolidated profit (/loss) for the period		**1,221,969**	**1,164,386**
Profit / (loss) for the period attributable to non-controlling interest		**(10,036)**	**237**
Profit/ (loss) for the period attributable to the equity holders of the Parent Company	33	**1,232,005**	**1,164,149**
Earnings per share (Euro per share)			
Basic earnings per share	33	8.21	7.76
Diluted earnings per share	33	8.21	7.76

(*) Restated figures (see Note 2.3)

Notes 1 to 37 form an integral part of these consolidated financial statements.

(Amounts in thousands of euros unless otherwise stated)

Consolidated comprehensive income statement for the years ended on 31 December 2017 and 31 December 2016

	Note	2017	2016
Profit/(loss) for the period		**1,221,969**	**1,164,386**
Other comprehensive income - Items that are not reclassified to income for the period		**(824)**	**(23,125)**
- Revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets		-	-
- Actuarial gains and losses and other adjustments	32	(986)	(27,629)
- Share in other comprehensive income recognised for investments in associates and joint arrangements	9	(7)	30
- Other income and expenses that are not reclassified to income for the period		-	-
- Tax effect	32	169	4,474
Other comprehensive income - Items that may be subsequently reclassified to income for the period		**32,434**	**(66,712)**
1. Available-for-sale financial assets		**-**	**-**
- Profits/(Losses) on measurement		-	-
- Amounts transferred to the income statement		-	-
- Other reclassifications		-	-
2. Cash flow hedges	32	**52,581**	**(62,668)**
- Profits/(Losses) on measurement		12,051	(107,140)
- Amounts transferred to the income statement		40,530	44,472
- Amounts transferred to the initial value of the hedged items		-	-
- Other reclassifications		-	-
3. Foreign exchange translation differences		**(7,415)**	**(19,164)**
- Profits/(Losses) on measurement		(7,415)	(19,164)
- Amounts transferred to the income statement		-	-
- Other reclassifications		-	-
4. Share in other comprehensive income recognised for investments in associates and joint arrangements		**-**	**-**
- Profits/(Losses) on measurement		-	-
- Amounts transferred to the income statement		-	-
- Other reclassifications		-	-
5. Other income and expenses that may be reclassified subsequently to income for the period		**-**	**-**
- Profits/(Losses) on measurement		-	-
- Amounts transferred to the income statement		-	-
- Other reclassifications		-	-
6. Tax effect	32	**(12,732)**	**15,120**
Total comprehensive income for the period		**1,253,579**	**1,074,549**
- Attributed to the parent company		1,262,922	1,095,198
- Attributed to non-controlling interests		(9,343)	(20,649)

Notes 1 to 37 form an integral part of these consolidated financial statements.

(Amounts in thousands of euros unless otherwise stated)

Consolidated statement of changes in equity for the years ended on 31 December 2017 and 31 December 2016

	Share capital (Note 16)	Share premium (Note 16)	Retained earnings (Note 17)	Hedging reserves (Note 18.b)	Actuarial gains and losses (Note 18.b)	Accumulated translation differences (Note 18.b)	Share in other comprehensive income of associates (Note 18.b)	Total	Non-controlling interests (Note 18.a)	Total equity
Balance at 31 December 2015	**1,500,000**	**1,100,868**	**1,763,434**	**(57,082)**	**514**	**(3,852)**	**-**	**4,303,882**	**56,399**	**4,360,281**
Profit (/loss) for the period	-	-	1,164,149	-	-	-	-	1,164,149	237	1,164,386
Share in other comprehensive income of associates	-	-	-	-	-	-	30	30	-	30
Other comprehensive profit (/loss) for the period	-	-	-	(44,748)	(11,824)	(12,409)	-	(68,981)	(20,886)	(89,867)
Total comprehensive profit (/loss) for the period	**-**	**-**	**1,164,149**	**(44,748)**	**(11,824)**	**(12,409)**	**30**	**(1,095,198)**	**(20,649)**	**(1,074,549)**
Distribution of dividends	-	-	(406,500)	-	-	-	-	(406,500)	(3,350)	(409,850)
Other movements	-	-	769	-	-	-	-	769	-	**769**
Total contributions by and distributions to shareholders recognised directly in equity	**-**	**-**	**(405,731)**	**-**	**-**	**-**	**-**	**(405,731)**	**(3,350)**	**(409,081)**
Balance at 31 December 2016	**1,500,000**	**1,100,868**	**2,521,852**	**(101,830)**	**(11,310)**	**(16,261)**	**30**	**4,993,349**	**32,400**	**5,025,749**
Profit (/loss) for the period	-	-	1,232,005	-	-	-	-	1,232,005	(10,036)	1,221,969
Share in other comprehensive income of associates	-	-	-	-	-	-	(7)	(7)	-	(7)
Other comprehensive profit (/loss) for the period	-	-	-	37,605	(419)	(6,262)	-	30,924	693	31,617
Total comprehensive profit (/loss) for the period	**-**	**-**	**1,232,005**	**37,605**	**(419)**	**(6,262)**	**(7)**	**1,262,922**	**(9,343)**	**1,253,579**
Distribution of dividends	-	-	(574,500)	-	-	-	-	(574,500)	(17,631)	**(592,131)**
Other movements	-	-	667	-	-	-	-	667	-	**667**
Total contributions by and distributions to shareholders recognised directly in equity	**-**	-	(573,833)	-	-	-	-	**(573,833)**	**(17,631)**	**(591,464)**
Balance at 31 December 2017	**1,500,000**	**1,100,868**	**3,180,024**	**(64,225)**	**(11,729)**	**(22,523)**	**23**	**5,682,438**	**5,426**	**5,687,864**

Notes 1 to 37 form an integral part of these consolidated financial statements.

(Amounts in thousands of euros unless otherwise stated)

Consolidated cash flow statement for the years ended on 31 December 2017 and 31 December 2016

	Note	2017	2016
Profit / (loss) before tax		**1,596,707**	**1,516,119**
Adjustments for:		**935,380**	**829,591**
- Depreciation and amortisation	6,7,8	800,035	825,805
- Impairment adjustments		(6,072)	7,845
- Changes in provisions		50,222	78,349
- Grants taken to income	24	(42,504)	(41,590)
- (Profit)/loss on disposal of fixed assets		10,915	6,402
- (Profit)/loss on disposal of financial instruments	31	7	4,469
- Financial income	31	(6,891)	(208,484)
- Financial expenses	31	101,604	117,552
- Translation differences	31	4,340	9,807
- Losses/(gains) in the fair value of financial instruments	31	40,530	44,472
- Other income and expenses		2,121	1,085
- Share in profit (loss) of equity method companies		(18,927)	(16,121)
Changes in working capital:	**36**	**(122,326)**	**(55,319)**
- Inventories		552	(951)
- Trade and other receivables	36	(4,587)	26,155
- Other current assets		(117)	(42)
- Trade and other payables	36	(73,779)	(42,359)
- Other current liabilities		(43,007)	(36,909)
- Other non-current assets and liabilities		(1,388)	(1,213)
Other cash generated from operating activities		**(395,149)**	**(455,666)**
Interest paid	20,36	(134.661)	(146.825)
Interest received		4,311	1,533
Taxes paid	36	(263,490)	(309,019)
Other amounts paid (received)		(1,309)	(1,355)
Net cash flows from operating activities		**2,014,612**	**1,834,725**

(Amounts in thousands of euros unless otherwise stated)

Consolidated cash flow statement for the years ended on 31 December 2017 and 31 December 2016

	Note	2017	2016
Cash flow from investing activities			
Acquisitions of property, plant and equipment		(339,189)	(287,919)
Acquisitions of intangible assets		(31,220)	(16,120)
Acquisitions of investment properties		(831)	(1,346)
Payments for acquisitions of other financial assets		(12,933)	(3,901)
Proceeds on disposal of/loans to companies of the Group and associates	2.2	5,376	2,027
Proceeds from property, plant and equipment divestment			1
Proceeds from other financial assets		124	11
Dividends received	2.2	17,059	15,609
Net cash flows from investing activities		**(361,614)**	**(291,638)**
Cash flow from financing activities			
Proceeds from ERDF grants	24	9,340	10,665
Proceeds from borrowing	20	991,053	31,739
Other proceeds	20	22,794	19,392
Repayment of bank borrowings	20	(278,285)	(333)
Repayment of Group financing	20	(1,497,288)	(1,172,339)
Dividends paid	36	(592,232)	(409,716)
Other payments	20, 36	(19,656)	(12,490)
Net cash used in financing activities		**(1,364,274)**	**(1,533,082)**
Effect of exchange rate fluctuations		**1,637**	**(2,130)**
Net (decrease)/increase in cash and cash equivalents		290,361	7,875
Cash and cash equivalents at the beginning of the period		**564,616**	**556,741**
Cash and cash equivalents at the end of the period		**854,977**	**564,616**

Notes 1 to 37 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for 2017

1 General information

Aena, S.A. ("the Company", or "Aena") is the Parent Company of a group of companies (the "Group") consisting of 6 subsidiaries and 4 associates at the end of 2017. Aena S.M.E, S.A. was incorporated as an independent legal entity by virtue of Article 7 of Royal Decree Law 13/2010 (3 December), which authorised the Council of Ministers to incorporate the company. The authorisation for effective incorporation took place on 25 February 2011 by resolution adopted by the Council of Ministers on that date authorising the incorporate of the State-owned corporation Aena Aeropuertos, S.A. as provided in Article 166 of Law 33/2003, of 3 November, on Public Institution Assets (LPIA).

On 5 July 2014, in virtue of Article 18 of Royal Decree Act 18/2014 (subsequently confirmed by Act 18/2014 of 15 October), the name of Aena Aeropuertos, S.A. was changed to Aena, S.A. and the public business entity "Aeropuertos Españoles y Navegación Aérea" was renamed ENAIRE ("Parent Company"). The integrity of the airport network insofar as its survival ensures the mobility of citizens and economic, social and territorial cohesion in terms of accessibility, adequacy, suitability, sustainability and continuity, was also established in the aforementioned Royal Decree. The latter sets out the framework to which the basic airport services are subject and the characteristics and conditions that the said network must boast in order to guarantee the objectives of general interest. Thus, the closure or sale of all or part of any facilities or airport infrastructure necessary to maintain the provision of airport services is prohibited, unless authorised by the Council of Ministers or the Ministry of Public Works, and which authorisation can only be granted provided it does not affect the objectives of general interest that must guarantee the said network or compromise its sustainability; the absence of such authorisation will render the foregoing as a guarantee for the entire maintenance of the state airport network null and void. Airport charges and their key elements, basic airport services and the framework to determine minimum standards of quality, capacity and conditions for the provision of the services and investments required for compliance, as well as the conditions for recovering the costs of providing these basic airport services have been defined.

As a result of Law 40/2015, of 1 October, concerning the Legal Regime for the Public Sector, at the General Meeting of Shareholders on 25 April 2017 the Company's corporate name was changed to "Aena S.M.E., S.A.".

Before the incorporation of the Company, the economic activity in terms of the management and operation of the airport services, subsidiaries and associates that are included in the scope of consolidation of Aena formed part of the public business entity "Aeropuertos Españoles y Navegación Aérea", its single shareholder and controlling entity at the time. The public business entity "Aeropuertos Españoles y Navegación Aérea," was set up under Article 82 of Law 4/1990 of 29 June on the State General Budget for 1990. It was effectively incorporated on 19 June 1991, once its Statute entered into force, as approved by Royal Decree 905/1991 (14 June).

The Company was incorporated to the issue of 61 fully subscribed and paid shares with a par value of €1,000 by the public business entity "Aeropuertos Españoles y Navegación Aérea". The public business entity "Aeropuertos Españoles y Navegación Aérea" will maintain, in any event, a majority of the share capital in Aena Aeropuertos, S.A. in the terms established by Article 7.1 of Royal Decree Law 13/2010 (3 December), and may sell the rest in accordance with Law 33/2003 (3 November) on Public Institution Equity.

The incorporation of the Company was entered into the trade register based on the resolution adopted by the Board of Directors on 23 May 2011, which approved the contribution to the company of the airport activity branch and its measurement, which took place on 31 May 2011. The non-monetary contribution and the measurement took place using the carrying value of the line of business at 31 May 2011 as a reference, in accordance with the accounting standards in force and, specifically, the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 (16 November), partially amended by Royal Decree 1159/2010 (17 September), as provided for in the Resolution of 25 February 2011.

The Resolution adopted by the Council of Ministers on 3 June 2011 subsequently approved the Company's share capital increase in order to support the Company's activity, and in accordance with Article 9 of Royal Decree Law 13/2010 (3 December), through which the public business entity "Aeropuertos Españoles y Navegación Aérea" made a non-monetary contribution of all of the assets, rights, debts and obligations associated with the airport and commercial activities and other state services associated with the airport management, including the air traffic services at the airport (hereinafter the "Activity").

The Company's single shareholder at the time, the public business entity "Aeropuertos Españoles y Navegación Aérea", adopted the following single shareholder resolutions on 6 June 2011:

a) Reduce the par value of the Company's THOUSAND EUROS (€1,000) shares by dividing the SIXTY ONE outstanding shares into SIX THOUSAND ONE HUNDRED new shares, consisting of ONE HUNDRED new shares for each old share, without changing the amount of the Company's share capital. As a result, the Company's share capital is SIXTY ONE THOUSAND EUROS represented by SIX THOUSAND ONE HUNDRED shares with a par value of TEN EUROS each, and all shares are of the same class and bear the same financial and voting rights.

b) Increase the Company's share capital from €61,000 to €1,500,000,000 (ONE POINT FIVE BILLION EUROS) and, therefore, the share capital increase amounts to €1,499,939,000.

c) Issue of 149,993,900 common shares with a par value of €10 each, all with the same rights and obligations as those already in existence. These new shares were issued with a total share premium of €1,100,868,000 (ONE BILLION ONE HUNDRED MILLION EIGHT HUNDRED AND SIXTY EIGHT THOUSAND EUROS), and therefore the total amount to be paid in as capital and share premium is €2,600,807,000 (TWO BILLION SIX HUNDRED MILLION EIGHT HUNDRED AND SEVEN THOUSAND EUROS).

d) In accordance with Article 9 of Royal Decree Law 13/2010 and the Resolutions dated 25 February and 3 June 2011, the public business entity "Aeropuertos Españoles y Navegación Aérea" fully subscribed and paid the total par value of the shares and the share premium through the contribution of the "Activity".

e) The public business entity "Aeropuertos Españoles y Navegación Aérea" contributes to all of the activities as an operating unit in the state in which they are located (ownership, usage rights, situation, charges, etc.) in the terms of RDL 13/2010. The public business entity "Aeropuertos Españoles y Navegación Aérea" in accordance with Article 66 of the Corporate Enterprises Act approved by Royal Decree Law 1/2010 (2 July) is only liable, with respect to the contribution, if the defect or encumbrance affects all or an essential part of the "Activity". For these purposes, it shall be understood as an essential part that affects 20 % or more the total value of the "Activity" contribution or when it affects an individual airport such that the airport activity cannot be carried out, notwithstanding jurisdictional control over the applicable legal system.

f) In addition to the above, any difference that could arise, during the period between the date of contribution to the date of transfer to private investors of part of the Company's capital, between the estimated value of the contributed assets and liabilities one which the Company's necessary share capital increase and the value of the assets and liabilities actually contributed will be adjusted, in the same amount, as an increase or decrease in the loan granted by the public business entity "Aeropuertos Españoles y Navegación Aérea" to the Company, without the adjustment affecting the share capital increase in any event.

g) All of the personnel of the public business entity "Aeropuertos Españoles y Navegación Aérea" that are necessary to render the activity will be transferred and integrated into the Company under the same collective agreements and conditions currently in force, respecting length of service and any other rights vested when the Company starts to perform its duties.

h) The split and the measurement of the contributed activity will be approved by the Board of Directors of the public business entity "Aeropuertos Españoles y Navegación Aérea" dated 23 May 2011 in accordance with the assessment report prepared that stated that the transferred activity is valued at €2,600,807,000. This measurement took place using the carrying value of the contributed line of business as a reference in accordance with current accounting standards and, specifically, the Spanish General Chart of Accounts, and complied with the requirements of Article 114 of the LPIA.

i) In accordance with Articles 70 and 300.1 of the Corporate Enterprises Act, the members of the Board of Directors of the Company have signed the Directors' report of Aena Aeropuertos, S.A. that has been examined by the single shareholder.

j) The Company will start to carry out the activity on an effective basis on the date determined by the Order of the Ministry of Public Works under the Second Transitory Provision of Royal Decree Law 13/2010.

k) The contribution of the activity is subject to the application of the special system established by Title VII, Chapter

VIII of Royal Decree Law 4/2004 (5 March), which approves the Revised Text of the Corporate Income Tax Act, in accordance with the third additional provision 2 of Royal Decree Law 13/2010.

The non-monetary contribution and the measurement prepared by the technical services of Aena was gathered in the "Measurement Report", which used the carrying value of the line of business at 31 May 2011 as a reference, in accordance with the accounting standards in force and, specifically, the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 (16 November), partially amended by Royal Decree 1159/2010 (17 September), as provided for in the Resolution of 25 February 2011.

The property, plant and equipment contributed relates to rights of any type that were held by the public business entity "Aeropuertos Españoles y Navegación Aérea" regarding the land, buildings and equipment at the airports managed or used by the activity. It also includes the use of rights relating to the public business entity "Aeropuertos Españoles y Navegación Aérea" regarding certain land located at airports, military airport and air bases. The contributed rights refer to the following airports, aerodromes and air bases:

a) Civil airports: La Coruña, Alicante, Almería, Asturias, Barcelona, Bilbao, Burgos, Córdoba, El Hierro, Fuerteventura, Girona, Granada, Huesca Pirineos, Ibiza, Jerez de la Frontera, La Gomera, La Palma, Logroño, Adolfo Suárez Madrid-Barajas, Melilla, Menorca, Palma de Mallorca-Son Bonet, Pamplona, Reus, Sabadell, San Sebastián, Santander, Seville, Tenerife Sur, Valencia, Vigo and Vitoria.

b) Civil part of jointly used airports with the Defence Ministry: Gran Canaria-Gando, Lanzarote, Tenerife Norte, Madrid-Cuatro Vientos, Málaga, Palma de Mallorca-Son Sant Joan, Santiago and Zaragoza

c) Air bases and military airports open to civil use: Talavera La Real (Badajoz), Matacán (Salamanca), San Javier (Murcia), Villanubla (Valladolid), Los Llanos (Albacete), and León military airfield.

d) Heliports: Heliport in Ceuta and Algeciras.

The functional ownership of the Company falls to the Ministry of Development, together with the authority to propose the appointment of one-third of the members of the Board of Directors. Aena Aeropuertos, S.A., is the beneficiary of the expropriations associated with the infrastructures it manages.

In accordance with its statutes, the Company's corporate purpose is as follows:

- The organisation, management, co-ordination, exploitation, maintenance, administration and management of general interest, state-owned airports, heliports and associated services.

- The co-ordination, exploitation, maintenance, administration and management of the civil areas of air bases open to civil aviation traffic and joint-use airports.

- The design and development of projects, execution, management and control deriving from the investments in infrastructures and facilities relating to the preceding sections and in assets intended for the rendering of the services.

- The evaluation of needs and, if appropriate, the proposal for planning new airport infrastructures and airport and acoustic rights of way associated with airports and services for which the Company is responsible for managing.

- The performance of organisational and security services at airport facilities that it manages, notwithstanding the authority assigned to the Ministry of Public Works in this respect.

- Training in areas relating to air traffic, including the training of aeronautical professionals that require licenses, certificates, authorisations or ratings and the promotion, reporting or development of aeronautical or airport activities.

In addition, the company may carry out any other commercial activities that are directly or indirectly related to its corporate purpose, including the management of airport facilities located outside Spain and any associated and supplementary activity that allows yields to be obtained on investments.

The corporate purpose may be carried out by the Company directly or through the creation of mercantile companies and, specifically, the individualised management of airports may be carried out through subsidiaries or service concessions.

The registered address for Aena, S.M.E., S.A. is located in Madrid (Spain), at Arturo Soria St., 109.

Moreover, in the Council of Ministers' meeting of 11 July 2014, the public business entity "Aeropuertos Españoles y Navegación Aérea" was authorised to initiate proceedings for the sale of the share capital of Aena S.M.E., S.A. and to dispose of up to 49% of its capital.

Shares in Aena, S.M.E., S.A. were admitted to trading on the four Spanish stock exchanges, and they have been listed on the Spanish continuous market since 11 February 2015.

It was first listed on the Madrid stock exchange after the IPO for 49 % of their capital, with a starting price of 58 euros per share. Later on, in June 2015, Aena joined the Ibex 35, an indicator that includes the top 35 Spanish companies listed on the stock exchange.

2 Summary of the main accounting policies

The main accounting policies adopted when preparing these consolidated financial statements are described below. These policies have been applied consistently to all years presented unless otherwise stated.

2.1 Basis of preparation

As is described in Note 1 above, Aena Aeropuertos, S.A. was incorporated as an independent legal entity and as a group during the year 2011 (23 May 2011 and 31 May 2011 respectively), in virtue of Royal Decree Law 13/2010, due to the effect of the non-monetary contribution of all of the assets and liabilities associated with the airport activity. Prior to the creation of Aena Aeropuertos, S.A., the economic activity in terms of the management and operation of the airport services carried out by the Company, its subsidiaries and associates formed part of the public business entity "Aeropuertos Españoles y Navegación Aérea".

In the preparation of the consolidated financial statements for the periods ended 31 December 2017, 2016, 2015, 2014, 2013, 2012 and 2011 and in accordance with the EU-IFRS, the Company, taking into account the framework for the reorganisation of the airport activity provided for by the above-mentioned Royal Decree Law 13/2010, recorded the non-monetary contribution as a corporate reorganisation in the context of its shareholder, the public business entity "Aeropuertos Españoles y Navegación Aérea". This posting responds to the analysis and consideration on the part of the Company Management of several factors, taking into account that this type of transaction is not regulated in the regulatory framework of IFRS, and specifically in the framework of the IFRS 3, Business Combinations, as a result of which the company developed an accounting policy for the said transaction to reflect the substance of the same and its underlying transactions. In this context, the Company considered that the combination of a new recently created entity (Aena Aeropuertos, S.A. incorporated on 23 May 2011) with a pre-existing reporting unit does not constitute a business combination, due to it not being the newly created entity nor the purchaser nor a business acquired by the pre-existing reporting unit.

In the development of the accounting policy adopted by the Company for this transaction, it has been taken into account that the airport operations previously included in the public business entity "Aeropuertos Españoles y Navegación Aérea", which were reported in the financial information of the latter as a separate business segment, maintained their accounting records in a segregated manner and constitute an independent reporting unit, subject to an applicable specific regulatory framework, although integrated into ENAIRE and not into a separate legal entity, which enables the various assets to be reliably allocated to the new entity. This conclusion reflects the spirit of Royal Decree Law 13/2010, the purpose of which was to provide the separate legal form, hitherto lacking, to the set of roles and responsibilities previously exercised by ENAIRE with regard to the management and operation of airport services of an historical nature, as has been indicated, in order that the said set of roles and responsibilities constitutes an independent economic unit capable of developing an independent business activity, in the course of business succession, configured as an operating unit and therefore a separate and determinable reporting unit from a historical financial information point of view, whose management has been carried out in the same manner before and after the non-monetary contribution, maintaining continuity in the key management positions of Aena Aeropuertos, S.A.

In this context, the Company also considered that taking into account the legal form of the transaction for the purposes of the presentation of its historical information would have substantially altered the presentation of the airport operations, which were carried out in the same manner before and after the non-monetary contribution, so that the presentation of 2011 as of the transaction date would not have reflected the fundamental economic reality of the business of Aena Aeropuertos, S. A. when the legal event described was conducted exclusively, as has been indicated, with the aim of providing separate legal form to a pre-existing reporting unit.

Therefore, considering that Aena Aeropuertos, S. A. was an existing single reporting unit before and after the non-monetary contribution, this was recorded as a corporate reorganisation in the context of the public business entity "Aeropuertos Españoles y Navegación Aérea". Consequently, the financial information for the year 2011 was presented for the full 12-month financial year, to its historical accounting values, considering the existence of Aena Aeropuertos, S. A. as a separate reporting unit, irrespective of its legal establishment in the course of 2011.

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU, hereinafter the "IFRS") and the IFRIC interpretations in force at 31 December 2017, as well as the commercial legislation applicable to companies that prepare financial information in accordance with IFRS to show a fair image of the consolidated equity and the consolidated financial position of the Group at 31 December 2017, the consolidated results of its operations, consolidated changes in equity and consolidated cash flows for the period ended on that date.

The consolidated financial statements at 31 December 2017 have been reviewed by the auditors. The figures corresponding to 31 December 2016 (audited) are presented solely for purposes of comparison.

The figures set out in the documents making up the consolidated financial statements, the consolidated balance sheet, the consolidated income statement, the consolidated comprehensive income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements are expressed in thousands of euros, unless otherwise indicated, and rounded to the nearest thousand, which is the functional and presentation currency of the Parent Company. The use of rounded figures can in some cases lead to a negligible rounding difference in the totals or in the variations.

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. Similarly, the management is required to exercise its judgement in the application of the Group's accounting policies. Note 4 discloses the areas that require a higher level of judgement or entail greater complexity, and the areas where assumptions and estimates are significant for the consolidated financial statements.

These consolidated financial statementswere prepared by the Board of Directors on 27 February 2018, and will be presented for approval by the Shareholders' Meeting on 10 April 2018.

2.1.2 Changes in accounting policies

2.1.2.1 Standards and interpretations approved by the European Union applied for the first time in 2017.

The accounting policies used in the preparation of these consolidated financial statements for the year ended 31 December 2017 are the same as those applied in the consolidated financial statements for the year ended 31 December

2016, except for the following standards, interpretations and amendments:

Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses.

The amendment clarifies the requirements for recording deferred tax assets derived from expected losses on financial instruments that have not yet been realised but does not amend the underlying general principles for the recognition of deferred tax assets. In particular it clarifies the accounting for deferred tax assets when a financial asset is measured at fair value and this fair value is less than the tax base of the asset.

The amendments clarify that the existence of a temporary deductible difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by any future changes in the carrying amount or the expected form of asset recovery.

The amendment also includes guidance on how to assess future tax benefits that may be used to offset tax losses. In accordance with IAS 12, a deferred tax asset will be recognised for all deductible temporary differences to the extent that it is probable that the entity will have future taxable profit against which these temporary deductible differences are charged. In essence the deferred tax asset benefit lies in a reduction of future taxable profits.

The application of this amendment has had a material impact on the consolidated financial statements in the initial period of application.

Amendments to IAS 7 "Statement of Cash Flows" - Disclosure initiative

This amendment is part of the changes related to the information to be disclosed and requires entities to break down information that enables users to know and evaluate changes in liabilities arising from financing activities in the statement of cash flows.

To achieve this objective, the amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities “for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities”.
The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

This new information to be disclosed has been described in Note 20 and has been supplemented with additional information in Note 36. As allowed by the standard, the Group has opted not to provide comparative information.

2.1.2.2 Standards, interpretations and amendments to existing standards that do not apply until subsequent years

At the date of formulation of these consolidated financial statements, the Group had not adopted early any other standard, interpretation or amendment which had not yet come into force.

In addition, as of the date of preparation of these consolidated financial statements, the IASB and IFRIC had published a number of standards, amendments and interpretations that have not been adopted by the European Union or have been adopted by the European Union but do not apply until later periods.

The standards, amendments and interpretations already adopted by the European Union are as follows:

(Amounts in thousands of euros unless otherwise stated)

Area	Fundamental requirements	Effective date
IFRS 9 "Financial instruments". This standard replaces guideline IAS 39.	The IASB has published the full version of IFRS 9, "Financial Instruments", which replaces the IAS 39 guide. This final version includes the requirements for the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the model for impairment losses incurred that is currently used.	IFRS 9 comes into effect for financial years beginning on or after 01 January 2018.
IFRS 15 "Income from Contracts with Customers". This standard replaces the following standards: (a) IAS 11 Construction Contracts; (b) IAS 18 Income from Ordinary Activities.	Under this standard, the income is recognised when a customer obtains the control of the good or service sold. A customer obtains the control when it has both the capacity to direct the use and to obtain the benefits of the good or service. A transfer of control is not the same as a transfer of risks and benefits, nor is it necessarily the same as the culmination of a process of profits as is considered today. Entities will also have to implement a new guide to determine whether they should recognise the income over time or at a given time. In comparison with the regulations currently in force, IFRS 15 requires extensive information to provide a greater knowledge of both the income that has been recognised and the income expected to be recognised in the future in relation to existing contracts. Likewise, quantitative and qualitative information shall be provided on the significant judgements made by management in determining the income to be recognised, as well as on the changes in terms of these judgements.	IFRS 15 will come into effect for financial years beginning on or after 1 January 2018. This standard shall apply in accordance with one of the following methods: a) Retroactively for each prior period for which information is presented in accordance with IAS 8, subject to certain practicalities; or b) Retroactively recognising the cumulative effect of initially implementing this standard on the date of initial application.
IFRS 15 (Amendment): "Clarifications to IFRS 15: "Income from Contracts with Customers".	Clarify guidance for identifying performance obligations, accounting for industrial property licences, and presentation of net versus gross income.	For financial years beginning on or after 1 January 2018.
IFRS 16 "Leases".	The new international standard on leases (IFRS 16) was approved on January 2016, which entails a significant change in approach to the applicable standard (IAS 17).	IFRS 16 comes into effect for financial years beginning on or after 1 January 2019.

In addition, at the date of formulation of these consolidated financial statements, the IASB and IFRIC had published a series of standards, amendments and Interpretations detailed hereunder and which are pending adoption by the European Union:

Area	Fundamental requirements	Effective date
IFRS 14 — Regulatory Deferral Accounts	IFRS 14 is an optional standard that allows an entity which is a first-time adopter of International Financial Reporting Standards and whose activities are subject to rate regulation, to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its prior accounting policies. Entities adopting IFRS 14 must present regulatory deferral accounts as separate items in the statement of financial position and present the movements of these accounts as separate items in the income statement and in the statement of other comprehensive income. The standard requires disclosures regarding the nature and risks associated with the entity's regulated rates as well as the impact of regulated rates on its financial statements. As the Group has not adopted IFRS in this year, this standard will not apply.	This standard has not yet been adopted by the EU.

(Amounts in thousands of euros unless otherwise stated)

Area	Fundamental requirements	Effective date
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	This amendment seeks to eliminate the conflict between IFRS 10 and IAS 28 for contributions from businesses to associates or joint ventures.	This standard has not yet been adopted by the EU.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	Clarification on the way of classifying and accounting for financial assets that include particular contractual prepayment options.	This standard has not yet been adopted by the EU.
Amendments to IFRS 2 - Classification and measurement of share-based payment transactions	The amendment affects the classification and quantification of share-based payments in three areas: • Accounting for cash-settled share-based payment transactions that include a performance condition • The classification of share-based payments settled net of tax withholdings • Accounting in case of modification of share-based payment transactions from cash-settled to equity-settled	This standard has not yet been adopted by the EU.
Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration	This interpretation deals with the accounting record of advance consideration provided in a currency other than the functional currency for the purchase of goods and how the differences in exchange for such advance compensation should be recognised.	This standard has not yet been adopted by the EU.
Improvements to IFRS, 2014-2016 cycle	It includes changes to IFRS 1, eliminating certain exemptions, and IAS 28, allowing certain entities to measure their investments in associates or joint ventures at fair value through profit or loss.	This standard has not yet been adopted by the EU.
Improvements to IFRS, 2015-2017 cycle	It includes changes to IAS 12 (Income Taxes), IAS 23 (Borrowing Costs) and IAS 28 (Investments in Associates and Joint Ventures).	This standard has not yet been adopted by the EU.
Interpretation IFRIC 23, Uncertainty over Income Tax Treatments	This Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.	This standard has not yet been adopted by the EU.
Amendments to IAS 40; Transfers of investment property	This amendment clarifies the cases and circumstances that allow the transfer of inventories or property, plant and equipment to investment property.	This standard has not yet been adopted by the EU.

Based on the analyses to date, the Group believes that the application of most of these standards and amendments will not have a significant impact on the consolidated financial statements in the initial period of application. However, for the most relevant standards (IFRS 9, 15 and 16) the Group has carried out the following analyses to date with the following conclusions.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014 and amended in April 2016. The standard provides a new five-step model that applies to the accounting of income from contracts with customers. Under IFRS 15, an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(a) Recognition of revenue

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group has carried out analysis in which it has concluded that the implementation of this standard will not have a significant impact on the operations it performs or on the equity position in the 2018 financial year. The majority of the Group's income is from the airport services provided, which mainly correspond to the use of airport infrastructure by airlines and passengers (including airport charges and private prices). Under IFRS 15, customers are considered to be airlines with which there are no long-term contracts and to which the regulated charges that are approved by law in accordance with the current regulatory framework are applied as the infrastructure is used, and hence income is recognised at that time of provision of the airport service. This procedure is the same as the one used until the entry into force of the IFRS (see Notes 2.21 and 4.1).

(b) Presentation and disclosure requirements

IFRS 15 includes presentation and disclosure requirements that are more detailed than in the current standards. The presentation requirements represent a significant change with respect to current practice and significantly increase the volume of disclosures required in the Group's financial statements. In particular, the Group expects that the notes to the financial statements will be expanded by the disclosures concerning judgements made about the identification of the performance obligations and other judgement aspects in the standard.

(c) Transition strategy

As for its transition strategy, the Aena Group has chosen 1 January 2018 as the initial application date. In addition, the Aena Group has decided to opt for option C3 b) established in the standard, which means applying IFRS 15 retroactively with the cumulative effect of the initial application recognised at the date of initial application.

In summary, the adoption of IFRS 15 is not expected to have a significant impact on the AENA Group's accounts.

IFRS 9 "Financial instruments"

On 24 July 2014 the IASB issued IFRS 9, which as of 1 January 2018 replaces IAS 39 and includes requirements for the classification and financial measurement of financial instruments, impairment of financial assets and general hedge accounting.

In 2017 the Group has carried out a detailed evaluation of the impacts of the three aspects of IFRS 9. This evaluation is based on the information currently available and may be subject to changes due to additional information that becomes available in 2018 when the Group adopts IFRS 9.

- Classification and measurement of financial assets and liabilities

The classification criterion for financial assets will depend on the business model for its management and on the characteristics of its contractual flows. Based on the above, the asset will be measured at amortised cost, at fair value with changes in equity, or at fair value through profit or loss.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payment of principal and interest. The Group analysed the cash flow characteristics of these instruments and concluded that they meet the criteria to be measured at amortised cost in accordance with IFRS 9. Consequently these instruments do not have to be reclassified.

Regarding the classification of available-for-sale financial assets and aside from their minimal relevance, the Group will opt to classify them at cost, as allowed by the standard, so there will be no impact on the transition to IFRS 9.

The classification of liabilities under IFRS 9 remains similar to the one in IAS 39. Generally, liabilities will be measured at amortised cost, except for financial liabilities that are held for trading such as derivatives, for example, that will be measured at their fair value through profit or loss. Hence there is no impact in this respect.

- Impairment of financial assets

The new impairment model in IFRS 9 is based on expected loss unlike the incurred loss model in IAS 39. Under the new standard, the loss allowance will be calculated at an amount equal to either expected losses over the following 12 months or for the full lifetime of the financial instruments resulting from the significant increase in risk. The Group will use the simplified approach and will register expected losses over the lifetime of the asset for trade and lease receivables whether or not they have a significant financial component. Taking into account the credit conditions of the Group's customers, a significant impact it is not expected. On the date of initial application, this impact on the consolidated statement of financial position amounts to 2,543 thousand euros of lower reserves.

- General hedge accounting

The Group has carried out an analysis of the hedges contracted and has concluded that they are fully effective and the application of IFRS 9 will have no impact on its consolidated financial statements.

Furthermore, the hedge accounting of IFRS 9 is applied prospectively, so there will be no first-time adjustment.

- Debt restructuring

The Group has not carried out any significant debt restructuring in the past that is affected by the new standard while the refinancing of the LLAH III subgroup conducted in 2017 (see Note 20) entailed a substantial modification of existing loans. As a result the impacts derived from this due to the application of IFRS 9 are limited to an amount of 1,748 thousand euros of lower borrowings, increasing reserves by the same amount, which will be offset by an increase in the financial expense during 2018, 2019 and 2020 until that figure is reached.

- Transition strategy

As for its transition strategy, the Aena Group has decided not to restate previous periods with only one initial application date for all the requirements (1 January 2018). In particular, the Aena Group has chosen to apply the requirements of Chapter 6 of IFRS 9 from the date of initial application since in general the IFRS 9 model is more advantageous than the IAS 39 one as it enables the application of hedge accounting to more transactions.

IFRS 16 "Leases"

This Standard replaces the following Standards and Interpretations:

(a) IAS 17 Leases;
(b) IFRIC 4 Determination of whether an Agreement contains a Lease;
(c) SIC-15 Operating Leases - Incentives; and
(d) SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 specifies how companies acting as lessees are to recognise assets and liabilities arising from all leases (unless the lease is short term or the underlying asset has a low value) in the balance sheet.

In this new context, companies should record an Asset for the usage right the leased property and a Liability for the present value of the future minimum payments (also including the final payment of the property, as the case may be, and there are expectations that it will be incurred).

Compared to current regulations, IFRS 16 eliminates classification of operating and financial leases.

Therefore, IFRS 16 barely impacts the lessor's accounting but rather it mainly impacts the lessee's accounting, so the most significant part of the Aena Group related to leases will not be affected given that it refers to its role as lessor.

The Aena Group has carried out detailed analysis of all the leases it has signed both as lessor and lessee. The conclusion of this analysis is that the Group will have to register the rights-of-use and their corresponding liabilities related to the rent of the land and the constructions of the business in the United Kingdom (see Note 2.24), those corresponding to leases of vehicles in the facilities of such airport, and some leases for vehicles and buildings of the business in Spain.

The impact to be recorded has not yet been accurately determined as there are a number of transition alternatives and the estimates are complex and depend on the specific conditions on the date of effective application. However, considering the volume and characteristics of the affected contracts, the Aena Group's initial estimates of the impact that the amendments introduced by IFRS 16 would have on the Group's financial statements from the date of adoption represent an increase in financial liabilities and fixed assets coming to less than 1% of the current balances of these assets and liabilities, including recognition in the balance sheet of the rights-of-use assets and the corresponding liabilities in relation to most of the agreements that under current regulation are classified as operating leases. The depreciation of the right to use the assets and the recognition of interest on the lease liabilities will replace a significant part of the amount recognised in the income statement as an operating lease expense under the current standard. The classification of payments in the statement of cash flows will also be impacted by this new regulation. In 2018 the Group will continue to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

As for its transition strategy, the Aena Group has chosen the practical solution in paragraph C3 and therefore:

— Aena applies IFRS 16 to leases previously identified in accordance with IAS 17 and IFRIC 4 "Determination of Whether an Agreement Contains a Lease";

— it does not apply IFRS 16 to agreements previously identified as agreements that do not contain leases in accordance with IAS 17 and IFRIC 4; and

— it applies the lease definition in IFRS 16 to assess whether agreements concluded after the date of initial application of the new standard are or contain leases.

In addition, as a lessee the Aena Group chooses to apply IFRS 16 using the modified retroactive approach and hence will not restate comparative information, but will recognise the cumulative effect of initially applying the standard as an adjustment to equity on the date of initial application. Under the modified retroactive approach, the lessee chooses for each lease how to measure the right-of-use asset at the time of transition to IFRS 16.

2.2 Consolidation and changes in the scope

a) *Subsidiaries*

Subsidiaries are all entities (including special-purpose companies) over which the Group has the power to direct financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights. When assessing whether the Group controls a company, the existence and effects of potential voting rights which may be currently exercised or converted are taken into account. The Group also evaluates the existence of control when it does not hold more than 50% of the voting rights but it is capable of directing financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used for the acquisition of the business combinations by the Group. The consideration paid for the acquisition of a subsidiary consists of the fair value of the assets transferred, the liabilities incurred with the former owners of the acquired company and the equity shares issued by the Group. The consideration transferred includes the fair value of any asset or liability that originates from a contingent consideration arrangement.

Any contingent compensation to be transferred by the Group is recognised at fair value on the date of acquisition. Subsequent changes in the fair value of the contingent compensation that is considered to be an asset or a liability are recognised in the income statement or a change in other comprehensive results in accordance with IAS 39. Contingent compensation that is classified as equity is not remeasured and subsequent payment is recorded under equity. The costs relating to the acquisition are recognised as an expense in the year in which they are incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially valued at their fair value at the acquisition date.

If the business combination takes place in phases, the carrying value on the date of acquisition of the stake in the equity of the acquiree previously held by the acquirer is again measured at fair value on the acquisition date and any loss or gain arising from this new measurement is recognised in profit/(loss) for the period.

Goodwill is initially measured by the amount the total compensation paid exceeds the identifiable net assets acquired and the liabilities assumed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit/(loss) for the period. For each business combination, the Group may choose to recognise any non-controlling interest in the acquiree at fair value or the proportional part of the non-controlling interest in the recognised amount of the acquiree's identifiable net assets.

A business combination between companies or businesses under joint control is a business combination in which all of the entities or businesses that are being combined are ultimately controlled by the same party or parties, both before and after the combination takes place and this control is not transitional in nature.

(Amounts in thousands of euros unless otherwise stated)

When the Group is involved with a business combination under joint control, the acquired assets and liabilities are recorded at the same carrying value at which they were previously recognised and are not measured at fair value. No goodwill relating to the transaction is recognised. Any difference between the acquisition price and the carrying value of the net acquired assets is recognised under equity.

During the consolidation process, intra-group income and expense transactions are eliminated together with any credit and debit balances between Group companies. All losses and gains that arise on intra-group transactions are also eliminated. The accounting policies followed by subsidiaries have been standardised where necessary to ensure uniformity with the policies adopted by the Group.

The breakdown of the Group's subsidiaries at 31 December 2017 and 2016, all consolidated using the full consolidation method, is as follows:

2017

Subsidiaries	Address	Activity	%		Owner of the shareholding
			Direct	Indirect	
Aena Desarrollo Internacional, S.M.E., S.A. ("ADI") (1)	Madrid	Operation, maintenance, management and administration of airport infrastructures, as well as supplementary services.	100	-	Aena S.M.E., S.A.
London Luton Airport Holdings III Limited ("LLAH III") (2)	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	Aena Desarrollo Internacional S.M.E., S. A.
London Luton Airport Holdings II Limited ("LLAH II") (2)	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings III Limited (LLAH III)
London Luton Airport Holdings I Limited ("LLAH I") (2)	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings II Limited (LLAH II)
London Luton Airport Group Limited ("LLAGL") (2)	Luton (United Kingdom)	Guarantor company for the acquisition of the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings I Limited (LLAH I)
London Luton Airport Operations Limited ("LLAOL") (2)	Luton (United Kingdom)	Company holding the concession for the operation of Luton Airport.	-	51	London Luton Airport Group Limited ("LLAGL")

(1) Companies audited by KPMG Auditores, S.L.
(2) Companies audited by the KPMG network

2016

Subsidiaries (1)	Address	Activity	% Direct	% Indirect	Owner of the shareholding
Aena Desarrollo Internacional, S.M.E., S.A. ("ADI")	Madrid	Operation, maintenance, management and administration of airport infrastructures, as well as supplementary services.	100	-	Aena S.M.E., S.A.
London Luton Airport Holdings III Limited ("LLAH III")	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	Aena Desarrollo Internacional S.M.E., S. A.
London Luton Airport Holdings II Limited ("LLAH II")	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings III Limited (LLAH III)
London Luton Airport Holdings I Limited ("LLAH I")	Luton (United Kingdom)	Holding of shares in the company that holds the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings II Limited (LLAH II)
London Luton Airport Group Limited ("LLAGL")	Luton (United Kingdom)	Guarantor company for the acquisition of the concession for the operation of Luton Airport.	-	51	London Luton Airport Holdings I Limited (LLAH I)
London Luton Airport Operations Limited ("LLAOL")	Luton (United Kingdom)	Company holding the concession for the operation of Luton Airport.	-	51	London Luton Airport Group Limited ("LLAGL")

(1) Companies audited by PWC or the PWC network.

At 31 December 2017 and 2016, none of the subsidiaries are listed on a stock market and all end their financial year on 31 December. In compliance with Article 155 of the Corporate Enterprises Act, the Group has notified all of these companies that it holds more than a 10% interest either directly or indirectly.

In the 2017 and 2016 financial years, Aena Desarrollo Internacional, S.A. ("ADI") has not distributed dividends.

The Company has control of London Luton Airport Holding III Limited (hereinafter "LLAH III") and its investees through Aena Desarrollo Internacional, S.M.E., S.A. The key amounts of share capital, equity, earnings and carrying value, expressed in local currency and under local accounting principles, relating to this company and its investees at the close of 2017 and 2016 are as follows (expressed in thousands of pounds):

31 December 2017

Name / Address / Line of business	% Holding	Share capital	Profit/(loss) for the period	Other equity	Total equity
		Thousand GBP	Thousand GBP	Thousand GBP	Thousand GBP
London Luton Airport Holdings III Limited (*) (1)	51.0 %	986	(17,955)	26,795	9,826
London Luton Airport Holdings II Limited (*) (1)	51.0 %	986	(14,515)	(13,274)	(26,803)
London Luton Airport Holdings I Limited (*) (1)	51.0 %	1,930	(6,940)	73,382	68,372
London Luton Airport Group Limited (*) (1)	51.0 %	5,274	35,420	22,425	63,119
London Luton Airport Operations Limited (**) (1)	51.0 %	5,274	32,249	2,424	40,047

(*) Data obtained from the consolidated financial statements at 31 December 2017
(**) Data obtained from the individual financial statements at 31 December 2017
(1) Company audited by the KPMG network.

(Amounts in thousands of euros unless otherwise stated)

31 December 2016

Name / Address / Line of business	% Holding	Share capital	Profit/(loss) for the period	Other equity	Total equity
		Thousand GBP	Thousand GBP	Thousand GBP	Thousand GBP
London Luton Airport Holdings III Limited (*) (1)	51.0 %	986	396	54,995	56,377
London Luton Airport Holdings II Limited (*) (1)	51.0 %	986	2,197	7,854	11,047
London Luton Airport Holdings I Limited (*) (1)	51.0 %	1,930	9,800	94,517	106,247
London Luton Airport Group Limited (*) (1)	51.0 %	5,274	34,805	2,811	42,890
London Luton Airport Operations Limited (**) (1)	51.0 %	5,274	36,835	1,999	44,108

(*) Data obtained from the consolidated financial statements at 31 December 2016
(**) Data obtained from the individual financial statements at 31 December 2016
(1) Company audited by PwC network.

In 2014, Aena Desarrollo Internacional S.M.E., S.A. (ADI) reached 51% of the capital stock of London Luton Airport Holdings III Limited (LLAHL III), with Aerofi S.a.r.l. the other shareholder of the company with a stake of 49%.

As a result of this operation, in 2014 Aena Desarrollo Internacional S.M.E., S.A. (ADI) acquired control of LLAHL III and therefore the Aena Group consolidated this company (and its subsidiaries) by means of full consolidation.

LLAH III is a special-purpose vehicle created with the objective, through its 100%-owned subsidiary London Luton Airport Holdings II Limited (LLAH II), which in turn owns 100% of London Luton Airport Holdings I Limited (LLAH I), to carry out the acquisition, dated 27 November 2013, of London Luton Airport Group Limited and its subsidiary London Luton Airport Operations Limited, the management company of Luton airport in the United Kingdom, under an administrative concession (see Note 2.6.d).

During 2017, the subsidiary LLAH III has distributed to its shareholders dividends amounting to GBP 31,900 thousand (35,930 thousand euros at the transaction exchange rate), of which Aena Desarrollo Internacional S.M.E., S.A. has received 18,299 thousand euros and the remaining 17,631 thousands euros was received by external partners.

During 2016, LLAH III distributed to its shareholders dividends amounting to GBP 5,200 thousand (6,836 thousand euros at the transaction exchange rate), of which Aena Desarrollo Internacional received 3,486 thousand euros and the remaining 3,350 thousands euros was received by external partners.

b) __Jointly controlled companies and associates__

Joint control is the contractual agreement to share control over a joint venture and will only exist when decisions about the relevant activities of that business require the unanimous consent of all the partners that share control.

Associates are all the entities over which the Group has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of voting rights. Investments in associates are recorded using the equity method. Under the equity method, the investment is initially recognised at cost and the carrying value is increased or decreased to recognise the investor's stake in the results obtained by the associate after the acquisition date. The Group's investment in associates includes goodwill identified on acquisition.

The group's interest in subsequent losses or gains on the acquisition of associates is recognised in the income statement, and its share in movements subsequent to the acquisition in other comprehensive income is recognised in "Other comprehensive income" by making the relevant adjustment to the carrying value of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

If the stake in an associate is reduced but significant influence is maintained, only the proportional stake in the previously recognised amounts in other comprehensive income is reclassified to income.

On each financial reporting date, the Group determines if there is any objective evidence of impairment affecting the investment in the associate. If there is, the Group calculates the amount of the impairment loss as the difference between the recoverable amount for the associate and its carrying value, and this is recognised in the income statement.

(Amounts in thousands of euros unless otherwise stated)

Losses and gains resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent that they relate to the shareholdings held by other investors in the associates not related to the investor. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the value of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the Group's accounting policies.

The breakdown of jointly controlled companies and associates as of 31 December 2017 is as follows:

Associates: Company and registered office	**Activity**	**%**		**Value of investments in associates (Note 9)**	**Owner of the shareholding**	**Consolidation method**
		Direct	**Indirect**	**31/12/2017**		
Aeropuertos Mexicanos del Pacífico, S.A. de CV (AMP) Mexico DF (1)	Stake in the operator of Grupo Aeroportuario del Pacífico (GAP)	-	33.33	54,093	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Sociedad Aeroportuaria de la Costa S.A. (SACSA) Rafael Núñez Airport Cartagena de Indias – Colombia (1)	Operation of Cartagena Airport.	-	37.89	4,873	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Aeropuertos del Caribe, S.A. (ACSA) Ernesto Cortissoz Airport Barranquilla – Colombia (2)	No activity (*)	-	40	-	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Aerocali, S.A. Alfonso Bonilla Aragón Cali Airport - Colombia (2)	Operation of Cali Airport.	-	50	4,989	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method

(1) Companies audited by the KPMG network
(2) Companies audited by other auditors
(*)The Barranquilla airport concession ended in 2012.

(Amounts in thousands of euros unless otherwise stated)

The breakdown of associates at 31 December 2016 is as follows:

Associates: Company and registered office	Activity	%		Value of investments in associates (Note 9)	Owner of the shareholding	Consolidation method
		Direct	Indirect	31/12/2016		
Aeropuertos Mexicanos del Pacífico, S.A.P.I. de CV (AMP) Mexico DF (1)	Stake in the operator of Grupo Aeroportuario del Pacífico (GAP)	-	33.33	59,364	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Sociedad Aeroportuaria de la Costa S.A. (SACSA) Rafael Núñez Airport Cartagena de Indias – Colombia (1)	Operation of Cartagena Airport.	-	37.89	4,490	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Aeropuertos del Caribe, S.A. (ACSA) Ernesto Cortissoz Airport Barranquilla – Colombia (1)	No activity (*)	-	40	-	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method
Aerocali, S.A. Alfonso Bonilla Aragón Cali Airport - Colombia (1)	Operation of Cali Airport.	-	50	7,887	Aena Desarrollo Internacional, S.M.E., S.A.	Equity method

Companies audited by other auditors
(*)The Barranquilla airport concession ended in 2012.

At 31 December 2017 and 2016, none of the associates were listed on a stock market.

The General Meeting of Shareholders of the associate company Aeropuertos Mexicanos del Pacífico, S.A.P.I. de C.V. held on 9 May 2017 approved a reduction of share capital in its variable part by 340,000 thousand shares, leaving it set at 1,903,350 thousand Mexican pesos. As a result of this transaction, the Group has recognised a cash receipt of 5,376 thousand euros, reduced the shareholding in the associate by 4,734 thousand euros and recorded the difference as a result of this transaction in equity. This transaction has not generated changes in the shareholding percentage (see Note 9).

On 28 April 2016 the General Meeting of Shareholders of the associate company Aeropuertos Mexicanos del Pacífico, S.A.P.I. de C.V. approved a reduction of share capital in its variable part by 135,000 thousand shares, leaving it set at 2,243,350 thousand Mexican pesos. As a result of this transaction, the Group recognised a cash receipt of 2,296 thousand euros, reduced the shareholding in the associate by 1,457 thousand euros and recorded the difference as a result of this transaction in equity. This transaction did not generate changes in the shareholding percentage (see Note 9).

On 29 May 2014, the subsidiary Aena Desarrollo Internacional, S.M.E., S.A. purchased 63,000 Aerocali, S.A. ordinary shares. As a result of this acquisition the Group came to hold a 50% interest in the company. The amount paid for this acquisition came to 2,036 thousand euros. In accordance with the analysis conducted by the Group's management, with this acquisition it would not obtain control of the investee due to the existence of joint control, which is why in 2016 and 2017 it continued to use the equity method with the change in the shareholding percentage since the acquisition of the new shares.

On 24 February 2006, Grupo Aeroportuario del Pacífico, S.A. (a company in which AMP has invested) was listed on the Mexican and New York stock markets through an IPO carried out by the Mexican Government (former owner of the remaining 85% of the share capital). In addition, Aeropuertos Mexicanos del Pacífico acquired 2.296% of Grupo Aeroportuario del Pacífico, S.A. on the stock market for 286,297,895 Mexican pesos (MXN), thereby increasing its stake to 17.296% of its share capital. In May 2008, 640,000 shares were acquired on the stock market for 26,229,376 Mexican pesos (MXN), representing 0.11396%, thereby raising the stake held by Grupo Aeroportuario del Pacífico, S.A. to 17.40996%. The average acquisition price for the shares that Aeropuertos Mexicanos del Pacífico holds in Grupo

Aeroportuario del Pacífico comes to 23.12 Mexican pesos (MXN), while the listed value at 31 December 2017 was 202.00 Mexican pesos (MXN) 2016: 170.48 Mexican pesos (MXN)).

The Group also estimates the recoverable amount of the aforementioned investment in AMP as the current value of future cash flows arising from it, taking into account the estimates included in the business plan drawn up by Grupo Aeroportuario del Pacífico, S.A.B. de C.V. (GAP), the main asset of AMP, as well as income from the management contracts between the two companies. By applying discount rates consistent with recent historical experience, a recoverable amount is obtained that exceeds the cost recorded by the Group. The latter has carried out, in 2017 and 2016, a sensitivity analysis for the calculation of the recoverable amount according to the changes in key assumptions and has compared the results obtained with recent transaction amounts for the buying and selling of airports. On the basis of the foregoing, the Group's management considers that the recoverable amount calculated, at 31 December 2017 and 2016, is greater than the acquisition cost of the aforementioned investment in AMP.

In compliance with Article 155 of the Corporate Enterprises Act, the Group has notified all of these companies that it holds an interest of more than 10% either directly or indirectly.

All the associates close their financial year on 31 December.

During 2017, the subsidiary Aena Desarrollo Internacional S.M.E., S.A. has collected dividends from associates amounting to 16,630 thousand euros (2016: 15,609 thousand euros).

2.3 Comparison of information

During the year ended 31 December 2017 there have been no changes in significant accounting policies with respect to the policies applied in 2016, as explained in note 2.1.2.

Notwithstanding the foregoing, the segmented information for the period ended 31 December 2017 which is broken down in Note 5 has been prepared in accordance with the cost allocation criteria established by the DORA approved on 27 January 2017 for regulatory purposes as indicated in that note.

For the purposes of comparing information, the amount of - 44,472 thousand euros that was shown in 2016 in "Gains/(Losses) due to interest rate derivatives: interest rate hedge" under "Other net financial income/(expenses)" has been restated under "Financial expenses" (Note 31) in accordance with current accounting regulations.

2.4 Transactions denominated in foreign currency

a) *<u>Functional and presentation currency</u>*

The items included in the consolidated financial statements of each of the Group's companies are measured using the currency of the principal economic environment in which the company operates ("functional currency"). The consolidated financial statements are presented in thousands of euros. The euro is the functional and presentation currency of Aena S.M.E., S.A.

b) *<u>Transactions and balances</u>*

Transactions in foreign currency are translated to the functional currency using the exchange rates in force on the transaction dates. Foreign currency gains and losses resulting from the settlement of these transactions and the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when deferred in other comprehensive income as cash flow hedges or net investment hedges. Gains and losses on exchange differences relating to loans and cash and cash equivalents are presented in the consolidated income statement under "Other net financial income/ (expenses)". All other gains or losses on exchange differences are presented in the same line item.

The conversion of the results obtained by equity method consolidated companies to the presentation currency is done by converting all assets, rights and obligations at the exchange rate in force at the date on which the consolidated financial statements are closed and converting the items in the consolidated income statement for each foreign company to the presentation currency using the average annual exchange rate, which is calculated as the mathematical average of the average exchange rate in each of the 12 months of the year which do not differ significantly from the exchange rate in force on the transaction date. The difference between equity, including income calculated as indicated in the preceding point, converted using the historic exchange rate and the net equity position that results from the conversion of assets, rights and obligations is recognised as a positive or negative figure, as applicable, under equity in “Foreign exchange differences”.

Group entities

The results and the financial position of all the Group’s entities (none of which have the currency of a hyperinflationary economy) whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

(i) The assets and liabilities of each balance sheet presented are converted at the closing exchange rate on the balance sheet date;

(ii) The income and expenses for each income statement are converted at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of current rates on the transaction dates, in which case the income and expenses are converted on the date of the transactions); and

(iii) All the resulting translation differences are recognised in other comprehensive income.

Adjustments to goodwill and fair value that arise in the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are converted at the closing exchange rate. The exchange differences that arise are recognised in “Other comprehensive income”.

2.5 Property, plant and equipment

Land and buildings mainly relate to airport infrastructure. Property, plant and equipment is recognised at acquisition or production cost, adjusted for accumulated depreciation and for any impairment losses that are applicable. Historic cost includes the expenses directly attributable to purchases of property, plant and equipment.

The Group capitalises the initial estimate of the cost of refurbishing the site on which it stands as an increase in fixed assets when these are obligations incurred as a result of using the item. Thus all the obligations envisaged for carrying out noise insulation and soundproofing of residential areas in order to comply with current legislation on noise generated by airport infrastructures are capitalised as an increase in airport assets (see Note 23 with regard to the provision of noise insulation).

Subsequent costs are included in the asset’s carrying value or recognised as a separate asset, as applicable, only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset may be reliably determined. The carrying value of the replaced component is derecognised. All other repair and maintenance expenses are charged to the income statement in the financial year in which they are incurred. Work carried out by the Group on its own property, plant and equipment is measured at production cost and is stated as an ordinary income item in the income statement.

Land is not depreciated. The depreciation of other property, plant and equipment components is calculated on a straight-line basis during their estimated useful lives as follows:

▪ Buildings	12-51 years
▪ Technical installations	4-22 years
▪ Machinery	5-20 years
▪ Other installations	6-12 years
▪ Furniture	4-13 years
▪ Other property, plant and equipment	5-7 years

(Amounts in thousands of euros unless otherwise stated)

Airport assets are depreciated on a useful life basis as shown below:

▪ Passenger and cargo terminals	32-40 years
▪ Airport civil engineering	25-44 years
▪ Terminal equipment	4-22 years
▪ Transport of passengers between terminals	15-50 years
▪ Airport civil engineering equipment	15 years

The assets' useful lives are reviewed, and adjusted if need be, on each balance sheet date.

When an asset's carrying value is greater than its recoverable amount, its carrying value is immediately written down to its recoverable amount (Note 2.8).

Gains and losses on the sale of property, plant and equipment are calculated by comparing the income obtained with the carrying value of such property, plant and equipment and are recognised in the income statement under "Impairment and gains/(losses) on disposal of assets".

2.6 Intangible assets

a) *Goodwill*

Goodwill arises in the acquisition of subsidiaries and is equivalent to the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value on the acquisition date of any prior shareholding in the equity of the acquiree over the fair value of the identifiable net assets acquired. If the total of the consideration transferred, the recognised non-controlling interest and the previously maintained shareholding measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of an acquisition on extremely favourable terms the difference is recognised directly in the income statement.

In order to carry out the tests for impairment losses, goodwill acquired in a business combination is assigned to each of the cash-generating units, or groups of cash-generating units, which are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity for which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

Reviews of the impairment losses in goodwill value are conducted annually or more frequently if events or changes in circumstances indicate a potential impairment loss. The carrying value of the CGU that includes goodwill is compared with the recoverable amount, which is the value in use or the fair value minus costs to sell, whichever is higher. Any impairment loss is recognised immediately as an expense and is not subsequently reversed.

b) *Software*

This line item records the amounts paid with respect to the acquisition and development of software.

Software licences acquired are capitalised based on the acquisition costs incurred and the costs arising from installing the specific software ready for use. Development costs directly attributable to the design and testing of software which is identifiable, original and can be controlled by the Group are recognised as intangible assets when the following conditions are met:

- It is technically possible to complete production of the intangible asset so that it will be available for use or sale;
- The Group intends to complete the intangible asset in question to use or sell it;
- The Group has the capacity to use or sell the intangible asset;
- The way in which the intangible asset will generate probable profits in the future can be demonstrated;

- Adequate technical, financial or other types of resources are available to complete the development and to use or sell the intangible of asset; and

- Payments attributable to the intangible asset may be reliably measured.

Attributable direct costs that are capitalised as part of the software include employee costs for developing such software and an appropriate percentage of relevant overheads.

Expenses that do not meet these criteria are recognised as an expense at the time when they are incurred. Payments for an intangible asset initially recognised as an expense for the year are not subsequently recognised as intangible assets.

Software is amortised over its estimated useful life which is not normally any longer than six years.

Expenses associated with maintaining software are recognised as an expense as they are incurred.

c) *Development expenses*

Development expenses are individualised by projects, are capitalised based on studies that support their viability and financial profitability, and are reviewed on an annual basis during the time the project is being developed when they meet the following criteria:

- It is likely that the project will be successful (taking into consideration its technical and commercial viability) such that the project will be available for use or sale;

- It is likely that the project will generate future profits in terms of both external and internal sales;

- The Group has the intention of completing the project in question to use or sell it;

- The Group has the capacity to use or sell the intangible asset;

- Adequate technical, financial or other types of resources are available to complete the development and to use or sell the intangible of asset; and

- Its costs may be reliably estimated.

In the event of any change in the circumstances that enabled a project to be capitalised, the accumulated cost is assigned to the income statement. Capitalised development expenses are amortised over their useful life which is estimated to be 4 years. Research costs are recognised as an expense in the year in which they are incurred.

d) *LLAH II service concession*

The service concession arrangement for London Luton Airport (property of Luton Borough Council) is not subject to IFRIC 12 since this airport's charges are not subject to regulated prices. This arrangement is recorded as an operating lease in accordance with IAS 17. The related intangible asset is amortised on a straight-line basis throughout its remaining useful life. The remaining useful life of this intangible asset is calculated based on the expiry date of this service concession arrangement which is 2031.

e) Service concessions

See Note 2.24

f) *Other intangible fixed assets*

As other intangible fixed assets the Group mainly capitalises the airports' Master Plans and the studies associated with them, and they are amortised over 8 years.

(Amounts in thousands of euros unless otherwise stated)

2.7 Investment properties

Investment properties consist of land, buildings, other structures and areas outside the Group's airport terminals that are held to obtain non-current income and are not occupied by the Group. The items included under this heading are measured at acquisition cost net of accumulated depreciation and any impairment losses.

Depreciation is applied to investment properties on a straight line basis in accordance with the estimated useful lives of the assets concerned.

	Years
Buildings and warehouses	32-51
Technical installations	15

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life and intangible fixed assets that are not in a condition to be used are not subject to amortisation and are tested annually for impairment. Property, plant and equipment and intangible assets subject to depreciation/amortisation are subject to impairment reviews provided that some event or change in circumstances indicates that their carrying value may not be recoverable. Impairment losses are recognised for the carrying value of the asset that exceeds its recoverable amount. The recoverable amount is determined as fair value net of costs to sell and value in use, whichever is higher.

Aena S.M.E., S.A. deems that all its assets are cash flow generators. For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Throughout the parent Company's history, the determination of cash-generating units has been influenced by the regulation applicable in each period and the mechanisms for establishing the airport charges associated with the assets included in these cash-generating units.

As of fiscal year 2011, the legislation applicable to airport charges has been Act 1/2011 which regulates the determination of the airport charges associated with the assets assigned to airport activity, establishing a single till principle for recovery of the assets and only considering in the calculation of airport charges the investments and costs of the network of airports as a whole, including commercial activities inside airport terminals, although excluding car parks and other off-terminal services.

This initial regulatory framework was amended in Royal Decree Act 20/2012, of 13 July, on measures to ensure budgetary stability and foster competitiveness, in which Title VI amends the formula for updating the airport charges received by Aena Aeropuertos, S.A., so that income, expenses and investments derived from commercial services and activities that are not strictly aeronautical are not included for the purpose of determining airport charges. This Royal Decree establishes as a substantial change the progressive decoupling of commercial activities from the determination of airport charges through the application of a weighting coefficient (2014: 80%, 2015: 60%, 2016: 40%, 2017: 20% and 2018: 0%). As a result, starting in 2018 the dual till system will apply entirely.

Until fiscal year 2015, the management of the parent Company had identified cash-generating units in the individual assets that make up the off-terminal services segment (which is composed mainly of each of the real estate assets and the car parks considered as a whole), in the financial investments and in the airport network for the Airports segment (which consists of the infrastructure assigned to aeronautical activity and the commercial areas included in it).

The establishment of the "progressive dual till" with Royal Decree Act 20/2012, of 13 July, on measures to ensure budgetary stability and foster competitiveness, and Act 18/2014 referred to above (see Note 1) breaks the connection of commercial activities within the terminal with the establishment of airport charges, particularly from 2016 onwards in which most (60%) of the commercial costs and income of such activities is not included in the calculation of airport charges. As a result, the value judgement that underlay all airports, including commercial areas, being treated as a single cash-generating unit due to the interrelationship of the cash flows of both activities had to be reconsidered starting in 2016.

The analysis carried out for this purpose concluded that the commercial activity within the terminal should continue to be part of the cash-generating unit of the airport network together with aeronautical activity. Among other reasons this was firstly because of the high interdependence of income between the two activities and the existence of a single asset shared by both activities due to the legal impossibility of disposing of, selling or splitting airport assets; and secondly, and for the same reasons, it is also concluded that activity corresponding to the "car park network", until 2015 included in the cash-generating unit and segment of "Off-terminal services" and as it is not included in the single till, should from 2016 onwards become part of the cash-generating unit and the segment of the "airports network" within the "Commercial" sub-segment. As a consequence, in 2016 the segment and the cash-generating unit of "Off-terminal services" was renamed "Real estate services" as it is constituted exclusively by each of the real estate assets.

As regards the calculation of the recoverable value, the procedure implemented by the Company's management to perform impairment tests at the cash-generating unit level, where appropriate, is as follows:

- Management prepares a business plan on an annual basis that generally covers a period of five years, including the current year. The main components of this plan, on which the impairment tests are based, are as follows:

    - Projected results.

    - Projected investments and working capital.

These projections take into account the financial projections included in the Airport Regulation Document (DORA) for the period 2017-2021 (see Note 3).

- Other variables that influence the recoverable value calculation are:

    - Discount rate to be applied, where this is the weighted average cost of capital, and the main variables that influence its calculation are the cost of liabilities and the specific of risks affecting the assets.

    - The cash flow growth rate used to extrapolate the cash flow projections beyond the period covered by the budgets or projections.

- The business plans are prepared based on the best estimates available and are approved by the Board of Directors.

In the event that an impairment loss has to be recognised, the parent Company reduces the assets of the cash-generating unit in proportion to their carrying value down to the recoverable value of that unit. Impairment is charged against the income statement.

The possible reversal of impairment losses affecting the value of non-financial assets is analysed at all dates on which financial information is reported. When an impairment loss is subsequently reversed, the carrying value of the cash-generating unit is increased up to the limit of the carrying value that the unit's assets would have had at that time if the impairment had not been recognised. This reversal is classified in the same line in which the impairment loss was originally recognised.

2.9 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised over the period of time needed to complete and prepare the asset for its intended use. Other borrowing costs are recorded under expenses in the year when they are incurred.

2.10 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management classifies its investments at the time of initial recognition.

Routine acquisitions and disposals of financial assets are recognised on the trading date, i.e., on the date the Group undertakes to acquire or sell the asset.

Financial assets are removed from the balance sheet when the rights to receive cash flows from them have expired or have been transferred and the Group has substantially transferred all the risks and advantages deriving from owing them.

Financial assets and liabilities are offset and the net amount is recognised in the balance sheet when there is the legal right to offset the recognised amounts and the Group has the intention of settling at the net amount or simultaneously realising the asset and cancelling the liability. During 2017 and 2016 the Group has not offset financial assets and liabilities because the requirements for doing so were not met.

a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets which are held for trading. A financial asset is classified under this category if it is acquired mainly for the purpose of being sold in the immediate future. Derivatives are also categorised as held-for-trading unless they are designated as hedge instruments. The assets in this category are classified as current assets if they are expected to be liquidated within twelve months. If not, they are classified as non-current assets.

Financial assets at fair value through profit and loss are initially and subsequently recognised at their fair value, excluding transaction costs, which are charged to the income statement. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement under "Other net financial revenue/(expense)" in the period in which they arise.

b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for assets maturing in more than 12 months from the balance sheet date which are classified as non-current assets. "Loans and receivables" from the Group include the balance sheet items "Trade receivables" and "Cash and cash equivalents in the balance sheet" (Notes 2.13 and 2.14).

Investments in "Loans and receivables" are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently recognised at their amortised cost in accordance with the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the income statement under the heading "Financial income".

At the balance sheet date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. A financial asset or group of financial assets is impaired, and an impairment loss arises, if and only if there is objective evidence of the impairment as a result of one or more events taking place after the initial recognition of the asset and this event (or events) causing the loss has an impact on the future estimated cash flows relating to the financial asset or group of financial assets that may be reliably estimated.

The evidence for impairment losses includes indications that debtors or groups of debtors are undergoing significant financial difficulties, defaults or delays in the payment of interest or principal, the likelihood they will become bankrupt or undergo any other financial reorganisation, and when observable data indicate that there is a measurable decline in future estimated cash flows, such as changes in payment conditions or in financial conditions that may correlate with defaults.

For "Loans and receivables", the amount of the impairment loss is measured as the difference between the carrying value of the asset and the present value of the future estimated cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of the financial asset. The carrying value of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If subsequently the amount of the impairment decreases and the decrease can be objectively attributed to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the impairment previously recognised will be recorded in the consolidated income statement.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included under non-current assets unless they mature within 12 months of the balance sheet date or if management has the intention of disposing of the investment within that period.

Investments in "Available-for-sale financial assets" are initially recognised at fair value plus transaction costs.

Available-for-sale financial assets are subsequently recognised at their fair value and any changes in the fair value are recorded under "Other comprehensive income", provided that it is possible to reliably determine the aforementioned fair value. If this is not the case, they are stated at their cost net of impairment losses.

When financial assets classified as "Available-for-sale financial assets" are disposed of or suffer impairment, the accumulated adjustments to fair value recognised under "Other comprehensive income" are included in the income statement as "Other net financial income / (expenses)". Dividends from available-for-sale equity instruments are recognised in the income statement under "Financial income" when the Group's right to receive the payment is established.

At the end of each accounting period the Group evaluates whether or not there is objective evidence that a financial asset or group of financial assets classified in this category has become impaired. In the case of financial investments in equity instruments classified as "Available-for-sale financial assets", a significant or prolonged decline in the fair value of the instrument to a point below its cost is also considered to be evidence that the asset has become impaired. If there is any evidence of this type for available-for-sale financial assets, the cumulative loss, which is measured as the difference between the acquisition cost and current fair value net of any impairment loss in the financial asset previously recognised in the income statement, is eliminated from equity and recognised in the income statement. Impairment losses on equity instruments recognised in the consolidated income statement are not reversed in the consolidated income statement. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase may be objectively attributed to an event taking place after the impairment loss was recognised in the income statement, the impairment loss will be reversed in the consolidated income statement.

2.11 Derivative financial instruments and hedges

The Group uses derivative financial instruments fundamentally to hedge against changes in interest rates. Derivative financial instruments are initially stated at their fair value at the date on which the relevant contract is concluded. Subsequent to initial recognition, they are again measured at their fair value. The method of recognising the resulting gain or loss from changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so on the nature of the item being hedged. The Group designates certain derivatives to be hedges for a specific risk associated with a recognised asset or liability or a highly likely expected transaction (cash flow hedges).

At the beginning of the transaction the Group documents the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its evaluation, both at the beginning and on a continuous basis, as to whether the derivatives that are being used in the hedge transactions are highly effective to offset changes in the effective flows from the hedged items, i.e., it may be expected that changes in cash flows from the hedged item will be nearly completely offset by those from the hedging instrument and that retrospectively the results obtained from the hedge have ranged from 80% to 125% with respect to the results obtained from the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and specified as cash flow hedges is recognised in "Other comprehensive income". The gain or loss relating to the ineffective portion is recognised immediately under "Other net financial income / (expenses)" in the income statement.

Accumulated equity amounts are reclassified to the income statement in the periods in which the hedged item affects income. The gain or loss on the effective part of interest rate swaps which cover variable interest rate loans is recognised in the income statement under “financial expenses”. However, when the planned transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold or when the requirements for hedge accounting are no longer met, any accumulated gain or loss in equity up until that moment remains in equity and is recognised when the planned transaction is finally recognised in the income statement. When it is expected that the planned transaction will not take place in the end, the gain or loss accumulated in equity is transferred immediately to the income statement under “Other net financial income / (expenses)”.

2.12 Inventories

Inventories mostly include spare parts and sundry materials located in the parent Company’s central warehouses and logistical support depot and they are measured at cost or their net realisable value, whichever is lower. Cost is determined using the average weighted cost method. Acquisition cost is determined based on the historical price for the items identified in the purchase orders. The net realisable value is the estimated sale price in the ordinary course of business net of applicable variable costs to sell.

2.13 Trade receivables

“Trade receivables” are amounts owed by customers for the sale of goods or services rendered during the normal course of operations. If the receivable is expected to be collected within one year or less, it is recognised under current assets. Otherwise they are presented as non-current assets.

“Trade receivables” are recognised initially at their fair value and subsequently measured at their amortised cost using the effective interest method, net of the provision for impairment (see Note 2.10.b).

2.14 Cash and cash equivalents

“Cash and cash equivalents” include cash, demand deposits at credit institutions, other current highly liquid investments with an original maturity of three months or less, and bank overdrafts. Bank overdrafts are classified as borrowings in current liabilities on the balance sheet.

2.15 Share capital

The Company’s ordinary shares are classified as equity (Note 16).

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of taxes, from the income obtained.

When a Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax), is deducted from equity attributable to the Company’s equity holders through to redemption, reissue or disposal. When these shares are subsequently reissued, any amount received, net of any incremental cost of the transaction which is directly attributable and the corresponding income tax effects, is included in equity attributable to the Company’s equity holders.

2.16 Trade payables

“Trade payables” are payment obligations for assets or services that have been acquired from suppliers during the normal course of operations. “Trade payables” are classified as current liabilities if the payments fall due in one year or less. Otherwise they are presented as non-current liabilities.

Trade payables are initially carried at their fair value and subsequently they are measured at their amortised cost using the effective interest rate method.

Prepayments received from customers are recognised at fair value as liabilities under the heading “Prepayments from customers”. Those with maturities greater than one year are presented as non-current liabilities under the heading “Other non-current liabilities”.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of the transaction costs incurred. Subsequently, borrowings are recognised at their amortised cost. Any differences between the funds obtained (net of costs required to obtain them) and their repayment value are recognised in the income statement over the life of the loan using the effective interest method.

Any commissions paid for obtaining lines of credit are recognised as loan transaction costs to the extent that it is likely that some or all of the line of credit will be drawn down. In these cases the commissions are deferred until the line of credit is drawn down. Insofar as it is not likely that the line of credit will be drawn down in whole or in part, the commission is capitalised as an advance payment for liquidity services and amortised over the period during which the line of credit is available.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement for at least 12 months as from the consolidated statement of financial position date.

2.18 Current and deferred taxes

Income tax expense for the year consists of current and deferred taxes. Tax is recognised in the income statement, except to the extent that it relates to items that are recognised in the other comprehensive income statement or directly under equity. In this case tax is also recognised under other comprehensive income or directly under equity, respectively.

Current tax is the amount that the Company pays as a result of the tax returns it files for income tax for a particular financial year. Current tax expense is calculated based on the laws that have been approved or are about to be approved at the balance sheet date. Tax credits and other tax benefits applicable to tax due, excluding withholdings and prepayments and tax loss carry forwards from previous years applied in the current year, result in a reduction in current tax.

Management regularly evaluates the positions held with respect to tax returns as they relate to situations in which applicable tax legislation is open to interpretation, and when appropriate creates provisions based on the amounts that are expected to be paid to the tax authorities.

Deferred tax is recognised according to the balance sheet method for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred taxes are not recognised if they arise from the initial recognition of an asset or liability in a transaction other than a business combination which at the time of the transaction has no effect on accounting profit or loss or on the tax gain or loss. Deferred tax is determined using tax rates that have been enacted or are about to be enacted on the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that future tax benefits are expected to arise against which temporary differences can be offset. Recognised deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made to them to the extent that there are doubts as to their future recoverability. Likewise, deferred tax assets not recognised in the balance sheet are also reviewed at the end of each reporting period and are recognised insofar as their recovery with future tax benefits becomes probable.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and associates, except for those deferred tax liabilities where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally recognised right to offset current tax assets against current tax liabilities and when the deferred tax assets and deferred tax liabilities derive from income tax relating to the same tax authority and affect the same company or taxpayer or different companies or taxpayers that intend to settle current tax assets and liabilities at their net amount.

2.19 Provision for employee benefit obligations (Note 22)

The Group has post-employment commitments (pension plans) and other long-term defined contribution and defined benefit compensation commitments with employees:

a) *Long-term employment commitments*

- Defined contribution plans

  A defined contribution post-employment commitment is an obligation under which the Group makes fixed contributions to a fund and will not have any legal or implicit obligation to make additional contributions if the fund does not hold sufficient assets to pay all employees the benefits for services rendered in the current year and prior years. For defined contribution commitments, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

- Defined benefit plans

  A defined contribution employee benefit commitment is an obligation that establishes the amount of the benefit that will be received by an employee at the time of retirement, normally on the basis of one or more factors such as age, years of service or compensation.

The liability recorded in the balance sheet with respect to defined benefit commitments is the present value of the obligation accrued at the balance sheet date, net of the fair value of the plan's assets. Defined benefit obligations are calculated on an annual basis by independent actuaries using the projected credit unit method. The current value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds denominated in the currency in which such benefits are to be paid, and with similar maturities to those of the corresponding defined benefit obligation.

For post-employment plans, actuarial gains and losses that arise from adjustments applied due to experience and changes in actuarial assumptions are recognised in equity under "Other comprehensive income" in the period in which they arise. Past service costs are recognised immediately in the income statement.

The expected cost for other long-term benefits that are not post-employment accrues over the term of employment of the employees using the same accounting method that is used for defined benefit pension plans. Actuarial gains and losses that arise from adjustments applied due to experience and changes in actuarial assumptions are charged and credited in the consolidated income statement in the period in which they arise. These obligations are measured on an annual basis by qualified independent actuaries.

Specifically, the Group records the following long-term employment commitments:

Length of service awards

Article 138 of the 1st Collective Bargaining Agreement for the Aena Group of Companies (public business entity Enaire and Aena, S.M.E., S.A.) stipulates length of service awards for services effectively rendered for a period of 25, 30 or more years. The Company makes provision for the present value of the best possible estimate of future commitments based on an actuarial calculation.

(Amounts in thousands of euros unless otherwise stated)

The most relevant assumptions taken into account to obtain the actuarial calculation are as follows:

	31 -12 -2017	**31 -12 -2016**
Technical interest rate	1.43%	1.42 %
Salary increases	2.0 %	2.0 %
Mortality table	PERM/F 2000 N	PERM/F 2000 N
Financial system used	Individual capitalisation	Individual capitalisation
Accrual method	Projected Unit Credit	Projected Unit Credit
Retirement age	According to Act 27/2011	According to Act 27/2011
Disability tables	MO 77	MO 77

Early retirement awards

Article 154 of the 1st Collective Bargaining Agreement for the Aena Group of Companies (public business entity Aena and Aena, S.M.E., S.A.) stipulates that any employee between the ages of 60 and 64 who is entitled to do so under current provisions may take voluntary early retirement and will receive an indemnity which taken together with the vested rights in the pension plan at the time the employment contract is terminated is equal to four monthly base salary payments and the length of service bonus for each year remaining until they reach the age of 64 or the relevant prorated amount.

In 2004 the early retirement awards were outsourced by taking out a single payment life insurance policy with Mapfre Vida on 25 March 2004. Currently, pension obligations are insured through Group Life Insurance policies. The Company makes provision for the present value of the best possible estimate of future commitment obligations based on an actuarial calculation.

The main actuarial assumptions used are as follows:

	31 -12 -2017	**31 -12 -2016**
Technical interest rate	1.48 %	1.57 %
Long-term salary growth	2.00 %	1.00% (2% following years)
Yield on Defined Contribution Fund	4.00 %	4.00 %
Rate guaranteed by Mapfre	3.1 %	3.1 %
Mortality table	PERM/F 2000 N	PERM/F 2000 N
Financial system used	Individual capitalisation	Individual capitalisation
Accrual method	Projected Unit Credit	Projected Unit Credit
Retirement age	Between 60-63 years and 11 months	Between 60-63 years and 11 months

Pension plans

Under the Collective Bargaining Agreement, the Group has to have in place a defined contribution pension plan. However, Act 3/2017, of 27 June, and Act 48/2015, of 29 October, on the GSB for 2017 and 2016, respectively, provide that public enterprises cannot make contributions to employee pension schemes or group insurance policies that include coverage of the contingency of retirement, and hence the provision of the Collective Agreement has not been applicable in 2017 and 2016 (see Note 22.c).

London Luton Airport Operations Limited (LLAOL) pension plans

Until 31 January 2017 LLAOL had a defined benefit pension plan, the London Luton Airport Pension Scheme ("LLAPS"), whose assets are owned and managed by funds legally separate from LLAOL. This plan was turned into a defined contribution pension plan (See Note 22.d).

(Amounts in thousands of euros unless otherwise stated)

The main actuarial assumptions used in the valorations are as follows:

	31 -12 -2017	**31 -12 -2016**
Technical interest rate	2.40 %	2.55 %
Inflation	3.10 %	3.15 %
Pension growth rate	2.90 %	2.95 %
Accrual method	Projected Unit Credit	Projected Unit Credit
Retirement age	65 years	65 years

Under IAS 19 requirements, the 2.40% discount rate used is based on the market interest rate of high quality corporate bonds and maturity years consistent with the expected maturity of the post-employment obligations.

Length of service at 65 years of age for current pensioners (years):

- Men: 21.9; 2016: 21.8)

- Women: 24.1; 2016: 23.9)

Length of service at 65 years of age for future pensioners, currently aged 45 (years):

- Men: 23.6; 2016: 23.5)

- Women: 26.0; 2016: 25.8)

b) *Termination benefits*

Termination benefits are paid to employees when the Group decides to terminate their employment agreement before the normal retirement date or whenever an employee accepts voluntary separation in exchange for these benefits. The Group recognises these benefits on the first of the following dates: (a) when the Group can no longer withdraw the offer of such benefits; or (b) when the entity recognises restructuring costs under IAS 37 and this entails the payment of the termination benefits. When an offer is made to encourage voluntary separation, the termination benefits are determined based on the number of employees that are expected to accept the offer. Benefits which are not going to be paid within 12 months from the balance sheet date are discounted at their present value.

2.20 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation, whether legal or implicit, as a result of a past event; it is likely that there will have to be an outflow of resources which include future economic benefits to settle the obligation; and the amount of the obligation can be reliably estimated.

The amounts recognised in the consolidated statement of financial position correspond to the best estimate at the closing date of the disbursements necessary to meet the present obligation, once the risks and uncertainties related to the provision and the financial effect produced by the discount when it is significant have been considered, provided that the disbursements to be made in each period can be reliably determined. The discount rate is determined before taxes considering the time value of money and the specific risks that have not been considered in the future flows related to the provision at each closing date. The increase in the provision due to the passage of time is recognised as an interest expense.

Provisions are not recognised for future operating losses.

When there is a number of similar obligations, the probable need for an outflow to settle the obligation is determined taking into account the class of obligations as a whole. A provision is recognised even if the probability of an outflow with respect to any item included in the same class of obligations may be regarded as remote.

Under the accounting policy set out in Note 2.5, the corresponding environmental provisions are made (in particular the provision for sound insulation), with a balancing entry of an increase in fixed assets, for the amount of the initial estimate of the costs of refurbishing the site on which the fixed asset items stand when they constitute obligations incurred by the Group as a result of using these items. Likewise, the provision for expropriations records the best estimate of the amount relating to the difference between the valuations paid for the expropriation of land acquired for the expansion of airports and the estimates of the prices that the Group might have to pay, considering that it is likely that certain legal claims in progress regarding some of the valuations paid will be successful for the claimants (see Note 23).

Contingent liabilities represent potential obligations to third parties and existing obligations that are not recognised, given that it is not likely that an outflow of cash will be required to satisfy that obligation or, where applicable, the amount cannot be reasonably estimated. Contingent liabilities are not recognised in the consolidated statement of financial position unless they have been acquired in return for payment as part of a business combination.

2.21 Revenue recognition

Ordinary revenue is measured at the fair value of the compensation received or to be received, and represents the amounts receivable for goods sold net of discounts, refunds and value added tax. Ordinary income is recognised when the income may be reliably measured, it is likely that the company will receive a future financial benefit and certain conditions are met for each of the Group's activities.

Ordinary revenue is recognised as follows:

- Sales of goods are recognised when a Group company has delivered the products to the customer, the customer has accepted the products and the collectability of the relevant trade receivable is reasonably assured.

- Sales of services are recognised in the reporting period in which the services are rendered, with reference to the end of the specific transaction evaluated based on the actual service provided as a percentage of the total service to be provided, when the income and costs relating to the service agreement and the extent to which it has been completed may be reliably estimated and it is likely that the related receivables will be recoverable. Where one or more of these service agreement items cannot be reliably estimated, income from sales of services is recognised only up to the limit of the costs of the agreement incurred that are likely to be recovered.

<u>Rendering of services:</u>

The majority of the Group's income is from the airport services provided, which mainly correspond to the use of airport infrastructure by airlines and passengers (including airport charges and private prices). In addition, the Company has commercial income that mainly consists of the rental of areas in airport terminals for stores, food and beverage outlets and advertising and also off-terminal facilities such as the rental of premises and land, vehicle parking and rental cars.

<u>Aeronautical (airport charges):</u>

Airport charges are set pursuant to Act 1/2011, of 4 March, which establishes the State Operational Security Programme for Civil Aviation and amends the Aviation Safety Act 21/2003, of 7 July. Furthermore, Article 68 of Act 21/2003 specifies the following items as airport charges:

- Use of runways at civil and joint-use airports and the airbases open to civil aircraft traffic and the rendering of the services required for such use, other than ground handling of aircraft, passengers and cargo.

- Airport air traffic services provided by the airport operator, regardless of whether such services are rendered through duly certified air traffic service providers that have been contracted by the airport operator and designated for this purpose by the Ministry of Public Works.

- Weather services provided by the airport operator, regardless of whether such services are rendered through duly certified weather service suppliers and furthermore designated for this purpose by the Ministry of the Environment and Rural and Marine Affairs.

- Inspection and screening services for passengers and luggage on airport premises as well as the resources, facilities and equipment required for the provision of services for control and monitoring in aircraft movement areas, open access areas, controlled access areas and restricted security areas on the entire airport grounds connected to airport charges.

- Airport facilities made available to passengers, and which are not accessible to visitors, in terminals, on aprons and on runways which are required to perform their air transport contract.

- Services that allow the general mobility of passengers and the necessary assistance to persons with reduced mobility to allow them to travel between the point of arrival at the airport to the aircraft, or from the aircraft to the exit, including boarding and disembarkation from the aircraft.

- Use of aircraft stand areas prepared for this purpose at airports.

- Use of airport facilities to facilitate passenger boarding and disembarking for airlines using airbridges or the mere use of an apron position that impedes the use of the airbridge by other users.

- Use of airport premises for the transport and supply of fuel and lubricants, regardless of the means of transport or supply.

- Use of airport premises to render ground assistance services that are not subject to any other specific compensation.

Title VI of Royal Decree Act 20/2012, of 13 July, on measures to guarantee budgetary stability and encourage competitiveness, amends the adjustment of the airport charges received by Aena Aeropuertos, S.M.E., S.A., in order to change the formula used for updating and under which income, expenses and investments deriving from commercial services and activities which are not strictly aeronautical are not included when calculating airport charges.

Notwithstanding the foregoing, in order to smooth the increase in airport charges it states that from 2014 and for a period of five years and in order to obtain the regulated income required, the operating costs generated by activities related to private prices in terminal areas will be added to the result provided by the formula while income from private prices resulting from these terminal areas will be subtracted from it, in both cases using the K correction coefficient which in 2014 is represented by 80% of commercial income, in 2015 by 60%, in 2016 by 40%, in 2017 by 20% and 0% in 2018.

On 5 July 2014, Royal Decree Act 8/2014, of 4 July, was published in the Official State Gazette (BOE) and subsequently confirmed by Act 18/2014, of 15 October, enacting urgent measures for growth, competitiveness and efficiency. This regulation sets out:

- The system governing the network of general interest airports as a service of general economic interest with the objective of guaranteeing the mobility of the public and economic, social and territorial cohesion to ensure the accessibility, adequacy and suitability of airport infrastructure capacity, the financial sustainability of the network and the continuity and appropriate provision of basic airport services. Moreover, network management ensures the financial sustainability of the airports included in the network by allowing support for loss-making infrastructures under conditions of transparency, objectivity and non-discrimination.

- The closure or disposal of all or part of any airport facilities or infrastructures required to maintain the provision of airport services is prohibited, unless authorised either by the Cabinet or by the Secretary of State for Infrastructure, Transport and Housing depending on the amount concerned.

- Under regulations a procedure may be implemented making it possible to close down or sell any of the airport facilities or infrastructures. Such regulatory implementation could also provide for transfers to the national government of capital gains generated during the disposal process.

- The Airport Regulation Document (DORA) is created with a five-year term and will determine Aena's maximum revenue per passenger in the period, quality conditions for the provision of services, the capacity of facilities and the investments to be made.

- The income of the airport operator in relation to basic airport services is considered to be airport charges. Regulation of them complies with the principle of legal provision in their creation by the Aviation Safety Act 21/2003, as amended by Act 1/2011, and in the specification of their essential components. Non-essential airport services together with the commercial management of infrastructures and their development operation are subject to the free market.

- In compliance with Act 18/2014, the Dirección General de Aviación Civil (Spanish Civil Aviation Authority) is responsible for drafting the Airport Regulation Document (DORA) and presenting it to the relevant bodies in the Ministry of Public Works for its subsequent approval by the Cabinet.

- The airport operator's income associated with basic airport services will be subject to compliance with a maximum annual revenue per passenger (MARP) determined on the basis of the recovery of efficient costs as recognised by the regulator along with traffic forecasts. The maximum annual revenue per passenger contained in the DORA will be adjusted annually in line with a series of incentives or penalties based on the degree of compliance with service quality levels and penalties for any delay in the execution of strategic investments. Aena believes that it has met the required quality levels in 2017 and has also executed the planned strategic investments. Consequently it does not expect the maximum annual revenue per passenger to be penalised on these grounds.

  However, the difference between the MAIP approved in the DORA and the actual MAIP for 2017 entails a difference in income of 57.8 million euros that should be included, capitalised at the cost of capital in the regulatory period (6.98%), in the 2019 charges review by means of the K factor,(1) leading to higher income in that year.

- For the 2015-2025 period, the maximum increase in charges will be zero. Charges may only be increased above this maximum increment if during the period of the second Airport Regulation Document (DORA) and due to exceptional reasons, such as unpredictable and non-deferrable investment required by regulation, the annual average investment is increased above the amount approved subject to the prior agreement of the Cabinet. For the first DORA, which should enter into force within at most three years from the publication date of Act 8/2014, it has been established that at its completion any accumulated shortfall in charges corresponding to previous years may not be transferred to the following DORA.

Through the application of Act 48/2015, of 29 October, on the General State Budget for 2016, airport charges decreased by 1.9% from 1 March 2016 onwards, thus affecting January and February in 2017.

On 27 January 2017, the Cabinet approved the Airport Regulation Document (DORA) for the 2017-2021 period. This document establishes an annual reduction of 2.2% in the Maximum Annual Revenue per Passenger (MARP) for this period (see Note 3.1).

In application of the provisions of Article 34 of Act 18/2014, of 15 October, after the conclusion of the consultation process and approval of the aforementioned Airport Regulation Document, the Board of Directors of Aena at its meeting on 21 February 2017 approved a 2.22% decrease in airport charges as of 1 March 2017 which affects January and February of 2018.

All these new regulatory rules has not resulted in any changes to the Company's income recognition policy, which continues to be subject to the rules set out at the beginning of this Note (see also Note 23 with regard to "Contingent assets due to charges shortfall").

<u>Commercial:</u>

Income from the rental of commercial areas located within the airport infrastructures are recognised on a straight-line basis in accordance with the lease agreements concluded with the counterparties. The contingent part of the income for leases relating to the variable level of income generated by commercial areas is recognised as income in the period in which it accrues. Car park income is recognised as the services are provided.

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(1) *The K factor is the compliance factor at 100% of the maximum annual income per passenger adjusted in year t. It refers to the adjustment for unforeseen modifications in the traffic structure occurring in period t-2, whose calculation methodology is determined in paragraph 2 of Annex IX of Act 18/2014.*

Real estate services:

Real estate service income is from leases of land, warehouses and hangars and the management and operation of cargo centres. Income from the rental contracts is recognised on a straight-line basis in accordance with the lease agreements concluded with the counterparties. The conditional part of income from leases is recognised as income in the period in which it accrues.

Interest and dividends

- Interest income is recognised using the effective interest method. When a loan or receivable is impaired its carrying value is reduced to its recoverable amount by discounting the estimated future cash flows at the original effective interest rate of the instrument and maintaining the discount as a reduction in interest income. Interest income on impaired loans is recognised either when cash is collected or on a cost-recovery basis when the conditions are guaranteed.

- Dividend income is recognised when the right to receive payment is established.

2.22 Leases

Leases for property, plant and equipment in which the Group is the lessee and has a significant portion of the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the beginning of the contract at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is made up of the liability and financial charges. The relevant lease obligations, net of financial charges, are included under non-current payables. The portion relating to interest on financial charges is charged to the income statement over the term of the lease to give a constant regular interest rate on the debt outstanding in each period. Where there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the depreciation period will be the useful life of the asset; otherwise, property, plant and equipment acquired under finance leases will be depreciated over the shorter of their useful lives and the lease period.

Leases in which the Group is the lessee and does not have a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

When the Group leases assets under operating leases to third parties, the asset is included in the balance sheet in accordance with the type of asset concerned. Income from leases is recognised during the term of the lease on a straight-line basis.

2.23 Government grants

Capital grants that do not have to be repaid are recognised at fair value when it is considered that there is reasonable certainty that the grant will be collected and that the conditions established for the grant by the relevant authority will be adequately met.

Operating grants are deferred and recognised under other operating income in the income statement over the period required to match them to the costs which they are intended to offset.

Government grants for the acquisition of property, plant and equipment are included in non-current liabilities as deferred government grants and credited to the income statement on a straight-line basis over the expected lives of the corresponding assets.

2.24 Service concession arrangements

Service concession arrangements are public-private arrangements in which the public sector controls or regulates the services which the concessionaire is to provide with the infrastructure, who has to render such services and at what price, and in which it has contractual control of any significant residual stake in the infrastructure at the end of the term of the arrangement. The infrastructures recognised by the Group as concessions are for the heliports in Ceuta and

Algeciras. The term of the two concessions is 30 years and 25 years, respectively, and they will end in 2033 and 2034, respectively.

The infrastructure used in a concession may be classified as an intangible asset or a financial asset, depending on the nature of the payment rights established in the arrangement.

The Group recognises an intangible asset insofar as it is entitled to receive payments from end customers for the use of the infrastructure. This intangible asset is amortised on a straight-line basis over the term of the concession.

The above concession arrangements have been classified as belonging to the Intangible Assets model in IFRIC 12, and there are no concession arrangements that qualify as financial assets.

The most significant accounting policies applied by the Group with respect to the service concession arrangements and in compliance with IFRIC 12 are as follows:

- ordinary income from the fees received from users of the infrastructure are recognised in each period;
- operating and maintenance expenses that do not lead to an extension of the useful life of the assets are charged to the income statement in the year in which they are incurred;
- intangible assets are amortised on a straight-line basis over the term of the concession;
- any financial expenses accrued over the time the asset is being built are capitalised as an increase in the value of asset and are recognised as an expense subsequent to the time the asset comes into service;
- the total cost of construction or acquisition is recognised as an intangible asset and the benefits attributed to the construction phase of the infrastructure are recognised by applying the percentage of completion method, based on the fair value assigned to the construction phase and the concession phase.

2.25 Activities affecting the environment

Any operation designed mainly to prevent, lessen or repair damage to the environment is treated as an environmental activity.

Investments arising from environmental activities are measured at their acquisition cost and capitalised as an increase in the cost of the fixed asset in the year in which they are incurred.

Costs incurred to protect and improve the environment are assigned to the income statement when they accrue irrespective of when the related monetary or financial flow takes place.

Provisions for probable or certain liabilities, litigation in progress and outstanding indemnity payments or obligations of an indeterminate amount related to environmental issues are constituted at the time when the liability or obligation determining the indemnity arises.

2.26 Jointly controlled assets (Note 6)

The company maintains interests in controlled assets along with the Ministry of Defence to operate Air Bases Open to Civilian Traffic (ABOCT) via an agreement with the Ministry of Defence which stipulates the rules on the assignment and compensation criteria of civilian aircraft using the ABOCTs in Villanubla, León, Albacete, Matacán, Talavera and San Javier, and the joint-use airfield in Zaragoza. This agreement is grounded upon the application of Royal Decree 1167/1995 dated 7 July 1995 on the system of airfields used jointly by an air base and an airport and on Air Bases Open to Civilian Traffic.

The Group's interests in these assets is reported in their portion of the jointly controlled assets, which are classified according to their nature and any liability they may have incurred; their share of the liabilities which they have jointly incurred with the other shareholders in relation to the joint business; any income through sale or use of its share in the production of the joint business, along with its share of any expense which was incurred in the joint business; and any expense that it has incurred in relation to its share in the joint business.

Given that the assets, liabilities, expenses and income of the joint business are already reported in the Company's annual accounts, no adjustments or other consolidation procedures are needed with these headings when developing and submitting the consolidated annual accounts.

The Air Bases Open to Civilian Traffic included in the agreement with the Ministry of Defence are the ones in Villanubla, León, Albacete, Matacán, Talavera and San Javier, along with the joint-use airfield in Zaragoza by civilian aircraft. This agreement is grounded upon the application of Royal Decree 1167/1995 dated 7 July 1995 on the system of using airfields used jointly by an air base and an airport and on Air Bases Open to Civilian Traffic. This agreement initially lasted 5 years with annual extensions associated with the validity of RD 1167/1995 and any subsequent provision which may serve as its continuation.

2. 27 Related-party transactions

As a company that belongs to the public business sector, Aena is exempt from including the information contained in the section of the report on related-party transactions when the other company is also controlled or significantly influenced by the same Public Administration, as long as there are no signs of influence between them, or when the transactions are not significant in terms of their size. This influence is understood to exist when the operations are not conducted under normal market conditions (unless these conditions are imposed by a specific regulation), among other cases.

The dominant Company conducts all its related-party transactions at market values. Additionally, the transfer prices are properly supported, so the Company administrators believe that there are no significant risks in this respect which could come from any liabilities that may exist in the future. Generally speaking, the transactions among the companies in the Group are entered in the books initially at their fair value. If needed, if the price agreed upon differs from its fair value, the difference is posted bearing in mind the economic reality of the transaction. The subsequent valuation is performed in line with the provisions of the corresponding regulations.

Despite this, in transactions of mergers, splits or non-monetary contributions of a company, the constituent elements of the acquired business are valued for the proper amount once the transaction has been performed in the annual consolidated accounts of the group or subgroup.

When the dominant company is not involved, from the group or subgroup, and its dependent company, the annual accounts to consider for these purposes will be those of the largest group or subgroup in which the assets whose dominant Company is Spanish belong.

In these cases, the differences which may be found between the net value of the assets and liabilities of the acquired Company, adjusted by the balance of the groupings of grants, donations and legacies received and adjustments of changes in value, and any amount of the capital and share premium, if applicable, issued by the absorbing company are recorded in reserves.

3 Operational and financial risk management

3.1 Description of key operational risks

Regulatory risks

Aena operates in a regulated sector and changes or future developments in the applicable regulation may have a negative impact on the income, operating profit and financial position of Aena. Act 18/2014 introduces the mechanism governing the determination of airport charges for the first Airport Regulation Document ("DORA").

On 27 January 2017, the Council of Ministers approved the DORA for the period 2017-2021, in which the minimum service conditions that will be in force in airports in the Aena network are set forth the next five years, providing a foreseeable regulatory framework in the medium-term that will enable improved levels of efficiency and competitiveness in terms of airport operations.

DORA has been prepared by the Directorate General of Civil Aviation (DGAC), following the proposal submitted by Aena and approved by its Board of Directors on 8 March 2016, duly adjusted to the conditions and principles set out in Act 18/2014, of 15 October. It contains Aena's obligations for a period of five years, establishing amongst other aspects:

- The tariff path, with the establishment of a maximum annual income per passenger (IMAP (MAIP)) that allows Aena to recover costs associated with the provision of basic airport services, costs that also respond to efficiency criteria set forth by the regulator. Aena IMAP (MAIP) will undergo an annual decrease of 2.22 % over the period 2017-2021, starting from 1 March 2017.
- CAPEX investments that Aena must carry out and that have to meet the standards of capacity and service levels, whilst also remaining in line with traffic forecasts. Regulated CAPEX related to airport services amounts to 2,185 million euros for the five years (437.1 million euros on average per year). Furthermore, a series of strategic investment projects have been drawn up, although any delay in their execution will mean a penalty in the IMAP (MAIP).
- The levels of service quality, as well as a system of incentives and penalties to ensure compliance with them. The penalty / maximum annual bonus applicable to Aena for this item would be a ±2% of IMAP (MAIP).
- The amount of operating costs reported in the DORA 2017-2021 were estimated without price effect and prospectively and must be updated through the P index[1], so any unexceptional deviation such as the current inflationary pressure which may be transferred to service providers is considered an operator risk.

In implementation of Law 48/2015 dated 29 October 2015 on General State Budgets for 2016, airport fares dropped 1.9% starting on 1 March 2016, which affects the months of January and February 2017.

In addition, the activity of Aena is regulated by both domestic and international law in terms of operational safety regarding persons, property and the environment, which may limit activities or growth of Aena airports, and/or require significant investments or expenses.

Operational risks

The Group's activity is directly related to the levels of passenger traffic and air operations in its airports, so it can be affected by the following factors:

- The economic evolution in both Spain and in the main origin / destination countries of air traffic (United Kingdom, Germany, France and Italy, among others).
- In this sense, after the result of the referendum in the United Kingdom in favour of its leaving the European Union (Brexit), the following risks are considered, whose ultimate expression is subjected to the negotiation process that the British government must initiate with the European Union to determine the ultimate conditions of its exit:

[1] *The DORA establishes that the MAIP will be adjusted by the increase or decrease in prices (the "P factor") to recognise the impact on the base of operating costs that variations in the price of inputs outside the control of the operator will have. This index is awaiting regulatory definition.*

  - Currently, 18.1% of passengers of the airport network of Aena S.M.E., S.A. in Spain have their origin / destination in the UK.

  - From an operational viewpoint, the risk is focused on airlines as it would involve agreements that will allow the movement of aircraft between the European Union and the United Kingdom. Regarding border control operations, the United Kingdom already enjoyed special treatment since it was not adhered to the Schengen Treaty, so there would be no additional impact. Having said this, although the volume of passengers going to or coming from the United Kingdom has increased by 9% in 2017 compared to 2016, the last few months of 2017 witnessed a gradual deceleration in this growth.

  - From the standpoint of commercial income, the depreciation of the pound compared to the euro means a loss in purchasing power for British passengers, which is affecting the sales of the retail concessions in the airports, and therefore Aena's revenues, although much of Aena's commercial activity is ensured by the Annual Guaranteed Minimums.

  - Activity at Luton Airport could be reduced as a result of restrictions on the free movement of persons or economic developments in the United Kingdom, given that a high percentage of its traffic is international.

- It operates in a competitive environment both compared to other airports and compared to other means of transport, which could affect its revenues.

- It faces risks arising from the concentration of airlines and depends on the income of its two main airports.

- Commercial revenues are associated with the sales of the companies that rent the retail spaces, which could be affected by both the volume of passengers and their higher or lower spending power.

- In the operation of its airports, the Group depends on the services provided by third parties, which may have an impact on its activity.

- Events like terrorist attacks, wars or global epidemics may have a negative impact on international air traffic. In this sense, the recovery of geopolitical stability which competing tourist destinations are beginning to experience affects the number of passengers in the Aena network of airports who may return to those destinations.

- Industrial disputes may have an impact on Aena's activities.

- Aena is dependent on information and communication technology and systems and infrastructures face certain risks including the risks of cybersecurity.

- Aena is exposed to risks related to airport operations (operational and physical security).

- Aena is exposed to the risk of a major aviation accident.

- Natural disasters and weather conditions may adversely affect the business.

- On the other hand, the Group's international activity is subjected to risks associated with operations in third countries and the fact that the profitability outlooks may not be what was expected.

- Aena's profitability could be affected if it is unable to maintain its current efficiency levels.

- Changes in tax legislation could result in additional taxes or other forms of harm to the tax position of Aena.

- The group is and will continue to be exposed to the risk of loss in the legal or administrative proceedings in which it is involved.

The Company's management bodies have implemented mechanisms aimed at identifying, quantifying and covering situations of risk. Regardless of the above, situations that can entail a major risk are closely tracked, as are the measures taken in this regard.

3.2 Description of the main financial risks

The activities of the Aena Group expose it to several financial risks: market risk (including exchange rate risk, fair value risk due to interest rates and price risk), credit risk and liquidity risk. The Group's global risk management programme focuses on the uncertainty of the financial markets and aims to minimise the potential adverse effects on the Group's financial profitability. In specific cases, the Group uses derivative financial instruments to hedge certain risk exposures.

The Board of Management issues policies to manage global risk, as well as specific areas, such as foreign exchange risk, interest rate risk, liquidity risk, the use of derivatives and investment of surplus liquidity.

There is an acknowledgement of financial debt contract between Aena S.M.E., S.A. and its parent company ENAIRE, which originated in the non-monetary contribution that led to the creation of Aena Aeropuertos, S. A (see Note 1), through which 94.9% of the parent company's bank debt was initially taken on. On 29 July 2014 this contract was novated as outlined in Note 20.

The main financial risks are described below:

a) *Market risk*

(i) *Currency risk*

The Group is exposed to fluctuations in the exchange rate that can affect its sales, results, equity and cash flows, primarily stemming from:

1. Investments in foreign countries (mainly the United Kingdom, Mexico and Colombia) (see Note 2.2).
2. Transactions conducted by affiliate companies and other related parties which operate in countries with currencies other than the euro (mainly the United Kingdom, Mexico and Colombia).

The foreign exchange risk over net assets of the Group's transactions abroad are primarily managed with outside resources in denominations of the corresponding foreign currencies. In particular, with respect to the operation of Luton Airport, its business is hedged as its operational collections and payments are in pounds.

In 2017 there has been a loss of 2.1 million euros due to exchange differences associated with a loan between companies in the group denominated in pounds (Notes 20 and 31).

(ii) *Interest rate risk on cash flows and fair value*

The Group's interest rate risk results from borrowings. Loans issued at variable rates expose the Group to interest rate risk from cash flows. Fixed interest rate loans expose the Group to fair value interest rate risks.

The Group's goal when managing interest rates is to optimise the financial expense within the risk limits established, with the risk variables being the Euribor at three and six months, the main reference for long-term debt.

In addition, the value of the financial expense risk over the horizon of the projects is calculated and rate trend scenarios are established for the period to be taken into consideration.

Financial expenses are mainly due to the borrowings recognised by Aena S.M.E., S.A. with the parent company as well as the Company's own debt to credit institutions.

The Group manages the interest rate risk in the cash flows through swaps from variable to fixed interest rates (see Note 12). On 10 June 2015, the Company engaged in an operation from variable interest coverage to fixed for a notional amount of 4.195 million euros to cover part of its exposure to this debt with the parent company ENAIRE. The average spread of these loans over 3- and 6-month Euribor is 1.0379%. the execution fixed rate was 1.978%. The objective of the transaction was to provide a stable framework of interest rates in the DORA 2017-2021 period.

On 31 December 2017, the total amount of liability for these swaps in interest rate was 82,655 thousand euros (2016: 129,506 thousand euros) (see Note 12). On that date, if the interest rate of the variable-interest loans had increased or decreased by 20 basic points while the other variables remained constant, the pre-tax profit for the year would have been 1,802 thousand euros more and 1,802 thousand euros less, respectively (2016: 3,620 thousand euros more and 3,620 thousand euros less, respectively).

The revisable interest rate, which is primarily applicable to the loan with the European Investment Bank, has a fixed interest rate which remains steady throughout the entire period (usually 4 years). Upon termination of this period, it is reviewed by the Group to decide whether to continue with the same system or change it for a fixed rate at maturity or a variable rate.

In this respect the Group has modified the interest rate system for loans likely to be revised in 2017. The total amount revised is 478,632 thousand euros, which corresponds to all the EIB loans which have shifted from fixed at maturity to an annual average rate of 0.78% (previously an annual 1.14%).

On the other hand, in 2017 797,160 thousand euros of debt with Depfa ACS Bank at a variable interest rate reached early maturity and 650,000 thousand euros was taken out with several banks at an annual average fixed rate of 0.69% (Note 20.b).

As a result of all of this, the composition of debt by type of interest rate has changed; on 31 December 2017 the percentage of debt with fixed interest rate was 88% compared to 12% with variable interest (on 31 December 2016: 78% fixed and 22% variable), if the effect derived from the exchange rate swaps contracted is taken into account.

b) <u>Credit Risk</u>

The Group's credit risk originates from cash and cash equivalents, derivative financial instruments and bank and other deposits, as well as exposure to trade receivables and agreed transactions.

Credit risk relating to trade accounts is reduced, given that the main clients are airlines, usually collected in cash or in advance. As for retail customers who have leased premises in the various airports, their risk is managed by obtaining sureties and guarantees. As of 31 December 2017, the Group has sureties and other guarantees related to the normal course of business for an amount of 191,369 thousand euros (31 December 2016: 174,447 thousand euros).

On 5 March 2011 the Official Gazette published Law 1/2011 dated 4 March 2011, which amends Law 21/2003 dated 7 July 2003 on Air Security, which stipulated that for the management, liquidation and payment of all public airport charges of Aena or its subsidiaries, debt collection proceedings may be used to effect the payment, which shall be managed by the collecting bodies of the State Tax Administration Agency.

Credit limits have not been exceeded during the year and the management does not expect any losses not provisioned as a result of default by these counterparties.

c) <u>Liquidity Risk</u>

The main risk variables are: limitations in the financial markets, increase in planned investment and reduction in cash flow generation.

The credit risk policy described in the previous section results in short average collection periods. Additionally, the Group has undertaken a substantial reduction in costs and investments needs to be made in the forthcoming years, which have had a positive effect on its cash flow generation. However, on 31 December 2017 the Group had a negative working fund (calculated as total current assets minus total current liabilities) of 270,554 thousand euros (2016: 514,716 thousand euros), an EBITDA, calculated as the sum of the operating income and depreciation and amortisation in financial year 2017 of 2,517,405 thousand euros (2016: 2,293,619 thousand euros) and does not believe that there is a risk to deal with its short-term commitments given the positive operating cash flows, which have made it possible to reduce the negative working fund in the past few financial years, which the Group predicts will remain positive in the short term. The Group tracks cash flow generation to ensure that it is capable of meeting its financial commitments.

(Amounts in thousands of euros unless otherwise stated)

On 31 December 2017, the dominant company Aena had 1 billion euros in credit lines that was fully available, with long-term due dates (note 20.b), and 550 million euros in available financing (unused) corresponding to a loan with Unicaja of 150 million euros and a loan from the EIB of 400 million euros, with financing dates from the availability period of 31 December 2018 and 1 December 2019, respectively. The dependent subgroup LLAH III has 66 million pounds sterling in unused credit lines (2016: 56 million pounds sterling).

The table below includes an analysis of the cash flows generated by the financial liabilities and other receivables associated with the Group and by the financial liabilities related to EINAIRE (Group) borrowings. The classification of debts with financial institutions has been made and complies with the schedule of maturities and the clauses included in the respective financing agreements with these institutions based on the events that might affect each agreement.

At 31 December 2017	2018	2019	2020	2021	2022	Following	Total
ENAIRE loan (Note 34.f)	665,199	666,959	666,834	579,564	569,051	3,626,676	**6,774,283**
Interests accrued pending payment on ENAIRE loans (Note 34.f)	18,812	-	-	-	-	-	**18,812**
Bank borrowings Aena (Note 20.b)	-	-	-	-	650,000	-	**650,000**
Interest accrued pending payment on loans from credit institutions (Note 20.b)	1,848	-	-	-	-	-	**1,848**
Bank borrowings (Note 20.b)	19,346	-	-	-	-	346,585	**365,931**
Financial lease liabilities (Note 20.c)	2,153	2,235	2,315	2,403	2,491	10,707	**22,304**
Loans with LLAH III shareholders (Note 20.b)	-	-	-	-	-	52,280	**52,280**
Interest paid from loan with LLAH III shareholders (Note 20)	401	-	-	-	-	-	**401**
Other financial liabilities (Note 20)	27,656	11,003	35,201	6,799	21,217	28,673	**130,549**
Trade and other payables (excluding customer advances and tax liabilities) (Note 19)	473,555	-	-	-	-	-	**473,555**
Interest on AENA S.M.E., S.A. debt (*)	93,278	84,549	75,815	67,261	55,176	199,897	**575,976**
Interest on LLAH III bank debt	16,977	16,977	16,977	16,977	16,977	61,640	**146,525**
Interest on LLAH III shareholder loan (Ardian)	4,215	4,215	4,215	4,215	4,215	4,215	**25,290**

(*)Estimated calculation of the interest on the average annual loan from each period calculated with the average interest rate in the period January-December 2017.

(Amounts in thousands of euros unless otherwise stated)

At 31 December 2016	2017	2018	2019	2020	2021	Following	Total
ENAIRE loan (Note 34.f)	777,629	742,701	744,461	744,335	657,066	4,605,379	**8,271,571**
Interests accrued pending payment on ENAIRE borrowings (Note 34.f)	33,812	-	-	-	-	-	**33,812**
Bank borrowings (Note 20.b)	40,383	-	-	-	-	258,259	**298,642**
Financial lease liabilities (note 20.c)	1,996	2,177	2,258	2,341	2,429	13,444	**24,645**
Loans with LLAH III shareholders (Note 20.b)	-	-	-	-	-	54,403	**54,403**
Interest paid from loan with LLAH III shareholders III (Note 20)	418	-	-	-	-	-	**418**
Other financial liabilities (Note 20)	27,240	8,606	6,577	33,475	5,908	35,126	**116,932**
Trade and other payables (excluding advances from customers) (Note 19)	320,756	-	-	-	-	-	**320,756**
Interest on AENA S.M.E., S.A. debt (*)	108,428	97,856	87,715	77,568	67,612	284,551	**723,730**
Interest on LLAH III bank debt	9,914	10,107	9,078	9,680	11,918	2,265	**52,962**
Interest on LLAH III shareholder loan (Ardian)	4,352	4,352	4,352	4,364	4,352	8,251	**30,023**

(*)Estimated calculation of the interest on the average annual debt with ENAIRE from each period calculated with the average interest rate in the period January-December 2016.

The breakdown of Aena S.M.E., S.A. loans by applicable interest rate and the annual average interest rate on 31 December 2017 and 31 December 2016, taking into account the hedging derived from the interest rate swaps contracted (see Note 12), is the following:

Thousand euros	31 December 2017		31 December 2016	
	Balance	**Average rate**	**Balance**	**Average rate**
Variable	901,008	0.16	1,810,244	0.16
Reviewable	27,400	1.23	543,404	1.30
Fixed	6,495,875	1.55	5,917,923	1.78
TOTAL	**7,424,283**	**1.45**	**8,271,571**	**1.36**

3.3 Capital management

The Group's objectives when managing capital are to safeguard its capacity to remain a viable business and to provide shareholders with profits and maintain an optimal capital structure in order to lower the cost of capital.

The Group monitors the capital structure on the basis of the debt index. This index is calculated following the ratios defined in the financing contracts (see Note 20).

3.4 Fair value estimate

The following table presents an analysis of the financial instruments that are measured at fair value, classified by measurement method. The different levels have been defined as follows:

- Listed prices (not adjusted) on active markets for identical assets and liabilities (Tier 1).
- Data other than the list price included in Tier 1 which are observable for the asset or liability, both directly (that is, prices) and indirectly (that is, derived from the prices) (Tier 2).
- Information regarding the asset or liability that is not based on observable market data (non-observable data) (Tier 3).

(Amounts in thousands of euros unless otherwise stated)

The table below shows the Group's financial instruments valued at a fair value on 31 December 2017:

	Tier 1	Tier 2	Tier 3	Total balance
Assets				
Derivates (Note 12)	-	360	-	360
Total assets	**-**	**360**	**-**	**360**

	Tier 1	Tier 2	Tier 3	Total balance
Liabilities				
Derivates (Note 12)	-	82,655	-	82,655
Total liabilities	**-**	**82,655**	**-**	**82,655**

The table below shows the Group's financial instruments valued at a fair value on 31 December 2016:

	Tier 1	Tier 2	Tier 3	Total balance
Assets				
Derivates (Note 12)	-	-	-	-
Total assets	**-**	**-**	**-**	**-**

	Tier 1	Tier 2	Tier 3	Total balance
Liabilities				
Derivates (Note 12)	-	136,546	-	136,546
Total liabilities	**-**	**136,546**	**-**	**136,546**

There were no transfers between Tier 1 and Tier 2 financial instruments during the financial year.

a) Financial instruments in Tier 1:

The fair value of the financial instruments that are negotiated on active markets is based on listed market prices at the reporting period. A market is considered to be active when the listed prices are easily and regularly available through a stock market, financial brokers, industry institution, a pricing service or a regulatory entity and those prices reflect current market transactions that take place on a regular basis between parties that operate under conditions of mutual independence. The listed market price used for the financial assets held by the Group is the current purchasing price. These instruments are included in Tier 1. There are no Tier 1 financial instruments at any date.

b) Financial instruments in Tier 2:

The fair value of the financial instruments that are not listed in a market asset (such as derivates from the unofficial market) is determined using valuation techniques. The measurement techniques maximize the use of observable market information that is available and are based as little as possible on specific estimates made by the companies. If the significant inputs that are required to calculate the fair value of an instrument are observable, the instrument is included in Tier 2. The financial instruments included under Tier 2 are those deriving from interest rates (swaps) to hedge variable-rate loans.

If one or more of the significant inputs are not based on data observable in the market, the financial instrument is included in Tier 3.

The specific measurement techniques applied to financial instruments are:

- Listed market prices or the prices established by financial brokers for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows, based on estimated interest rate curves.

- Other techniques, such as an analysis of discounted cash flows, are used to analyse the fair value of all other financial instruments.

4 Accounting estimates and judgements

The preparation of the consolidated annual accounts under IFRS requires assumptions and estimates to be made which have an impact on the reported amounts of assets, liabilities, income, spending and their related breakdowns. The estimates and hypotheses used are based, among others, on historical experience and other factors, including forecast future events, considered reasonable in view of the facts and circumstances considered on the reporting date. Actual results may differ from the estimates.

Understanding the accounting policies for these elements is important in order to understand the annual consolidated accounts. Below is further information on the estimates and assumptions used for these elements in accordance with the IFRS, which should be considered in conjunction with the notes on the consolidated annual accounts.

The most critical policies, which reflect significant management assumptions and estimates to determine amounts in the consolidated annual accounts, are the following:

(a) Determination of cash-generating units (Note 2.8).
(b) Possible impairment of intangible assets, property, plant and equipment and investment property.
(c) Useful lives of property, plant and equipment.
(d) Evaluation of litigation, provisions, commitments, assets and contingent liabilities at closing date.
(e) Fair value of derivative financial instruments.
(f) Hypotheses used in the determination of liabilities for commitments to pensions and other commitments to the personnel.
(g) Principles for regulated income recognition in the DORA period.
(h) Principles for recognition of income from the minimum guaranteed rents in the contract with World Duty Free Global (WDFG).
(i) Recoverability of tax credits for investment in the Canary Islands.

Some of these accounting policies require the application of a significant degree of judgement by management in selecting the appropriate assumptions to calculate these estimates. These assumptions and estimates are based on the past experience, advice received from expert consultants, projections and other circumstances and expectations at the end of the year. Management's evaluation and agreement is taken into consideration with respect to the overall economic situation of the industry in which the Group operates, taking into account the future development of the business. By nature, these judgements are subject to an inherent degree of uncertainty and, therefore, actual results may materially differ from the estimates and assumptions used. In such cases, the values of assets and liabilities would be adjusted.

At the date these interim consolidated financial statements were prepared no relevant changes in the estimates were expected, and therefore there are no significant perspectives for adjustments to the values of recognised assets and liabilities and 31 December 2017.

Although these estimates were based on the best information available at the end of each year, future events may require these estimates to be modified (increased or decreased) in subsequent years, which would be done in accordance with the provisions of IAS 8 on a prospective basis, recognising the effects of the change in the estimate in the corresponding consolidated income statement. Las políticas contables más significativas del Grupo se describen con mayor detalle en la Nota 2.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) and (b) Determination of cash generating units and impairment of goodwill, intangible assets, property, plant and equipment and investment property

Every year, the Group checks whether the goodwill, intangible assets, tangible fixed assets and real estate investments have undergone any loss due to impairment of value, in accordance with the accounting policy described in Note 2.8, which describes how management identifies the cash-generating units (CGU) and the methodology used to subject the assets assigned to them to impairment tests. Identification and grouping of the CGU is based on income generation and flow of identifiable assets for these groups of cash as well as in certain other assumptions based on how the management manages the assets and the regulatory framework applicable to them. Also, the recoverable amounts of the CGUs have been determined based on value in use calculations. These calculations are based on estimates based on assumptions relating to projections of results, investments and working capital, discount rates and growth rates. Changes and variations in one or more of those assumptions could affect the identification of CGU and the estimated recoverable amount used for the purpose of impairment testing thereof.

On 31 December 2017, the Group's management reviewed the 2017 results to evaluate whether there were significant changes which could lead to signs of impairment of the intangible assets, tangible fixed assets and real estate investments. It concluded that there were no signs of impairment (see Notes 6, 7 and 8).

(c) Useful lives of property, plant and equipment

The recognition of investments in property, plant and equipment implies the application of estimates to determine the useful life of the property, plant and equipment for the purposes of depreciation. The calculation of useful lives is associated with estimates relating to the level of use of the assets and expected technological evolution. The assumptions relating to the level of use, technological framework and future developments imply a significant degree of judgment, taking into account that these aspects are very difficult to predict. Changes in the level of the use of assets or changes in technological development could result in revisions of the useful lives and, consequently, in their depreciation.

(d) Evaluation of litigation, provisions, commitments, assets and contingent liabilities

Provisions are recognised when it is probable that a present obligation, resulting from past events, will require the application of resources and when the amount of the obligation may be reliably estimated. The Group estimates the amounts to be paid in the future with respect to employment, expropriation, litigation, taxes, environmental action and other liability commitments. Those estimates are subject to interpretations of current and future events and circumstances, and the relevant estimates of the financial effects of those events and circumstances.

(e) *Fair value of derivative financial instruments*

The Group uses financial derivatives to mitigate the risks primarily stemming from variations in the interest rates associated with their financing. Derivative financial instruments are recognised at their fair value at the beginning of the contract, and that value is subsequently adjusted at the end of each year.

The data used to calculate the fair value of derivative financial instruments are based on available observable market data, whether based on listed market prices or to the application of valuation techniques (Tier 2). The valuation techniques used to calculate the fair value of derivative financial instruments include the discounting of future cash flows associated with them, using assumptions based on market conditions at the measurement date or the use of prices established for similar instruments, among other methods. These estimates are based on available market information and adequate valuation techniques. The use of different market assumptions and/or estimation techniques could have a significant effect on the calculated fair values.

(f) Provisions for obligations with staff

The calculation of the expense for pensions and other expenses due to post-retirement benefits requires the application of several hypotheses. At the closure of the decade, the Aena Group estimates the provision needed to cover the commitments for pensions and similar obligations in accordance with the advice of independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most important assumptions are inflation, retirement age and the discount rate used. Changes in these hypotheses will have an impact on the future expenses and liabilities for pensions.

(g) *Criteria to report regulated income in the DORA period.*

In accordance with the criteria indicated in Note 2.21, this income is reported at the time of the provision of the airport service for the amount corresponding to the regulated airport fare applicable under DORA.

h) *Reporting of income from minimum annual guaranteed rents from the contract with World Duty Free Global (WDFG)*

During financial year 2013, Aena S.M.E., S.A. awarded World Duty Free Group (WDFG) a multi-year contract to manage the duty free and duty paid speciality shops in the three sets of airports until 2020. The fees are based on the volumes of sales in these speciality shops. The management of the Group evaluated the substantial characteristics of the contract in accordance with the accounting policies described in Notes 2.21 and 2.22 concluded that the revenue from the contract should be recognised on an accrual basis, while considering the charges imposed as contingent, although contractually certain fees are set regardless of the volume of sales made by the speciality shops. The judgement of management when determining the variability of contract fees is based on the substance thereof and future variability factors that influence the determination of such fees, including spaces allocated to stores, duration of availability of such spaces, the variability of airport passenger traffic and the ability of parties to obtain a minimum cost associated with contract, among other factors. Future changes to contract conditions evaluated by the management of the Group could result in a different revenue recognition compared to what Aena has applied to this contract up to now. For new contracts with characteristics similar to this one, the Group has continued to follow the same revenue recognition criteria.

(i) *Recoverability of tax deductions for investments in Canary Islands*

The management of Aena S.M.E, S.A. has decided to apply the tax deductions for investment in the Canary Islands over the whole state rate in accordance with the criterion of the response to the inquiry submitted by Aena to the tax authority. The amount of the deductions applied in financial year 2017 totalled 13,913 thousand euros, which accounted for 85.63% of the total deductions applied in 2017 (in financial year 2016 12,801 euros was applied, which account for 81.76% of the total deductions applied).

The company has no tax deductions activated by investment in the Canary Islands at the close of 2017 (31 December 2016: 0 euros) (See Notes 21 and 32).

5 Operating segment information

The Group carries out its business activities in the following segments: Airports, Real estate services and International.

The Airports segment substantially includes the Group's operations as the airport operator as described in Note 1, which are identified with the so-called Aviation activity. In addition, the Airports segment includes the management of commercial spaces in airport terminals and the car park network, which are identified in Commercial activity in accordance with the criteria explained in Note 2.3 of the Consolidated Financial Statements for 2016.

The Real estate services segment substantially includes the Group's operation of the industrial and real estate assets that are not included in those terminals.

The International segment relates to the Group's international development, which coincides with the operations carried out by the subsidiary Aena Desarrollo Internacional, S.A., and consists in investments in other airport operators, mainly in the United Kingdom, Mexico and Colombia (see Note 2.2). Information relating to the dependent subgroup LLAH III is included in the International segment, since the revenue, profit and assets are less than 10% of the aggregate values of the Group.

The Chairman and CEO is the maximum authority with respect to taking operational decisions. The Group has defined the operating segments based on information reviewed by the Chairman and CEO for the purposes of assigning resources and evaluating performance.

The President and CEO evaluate the performance of the operating segments according to the EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). During year 2017 EBITDA, calculated as explained above, was adjusted for fixed asset impairment and disposals (in 2016 EBITDA calculated as explained above was adjusted for impairment and disposals).

The operating segment information supplied to the maximum authority for the taking of decisions for the financial years 2017 and 2016 was obtained from the Group management's accounting information systems, and has been assessed in accordance with criteria in line with those applied in these consolidated financial statements. Operating segment information is presented as analysed at the present time by the highest decision-making authority.

The group's analytical accounting is based on the ABC (*Activity Based Costing*) methodology for determining the cost of services provided, both for airports as well as commercial services.

This methodology establishes the allocation of expenses based on their nature to the different activities defined in the model which are both operating and support under the premise that services consume activities which, in turn, consume resources.

Given the ABC philosophy, the technical support and administrative activities basically comprise all the indirect or general expenses which are needed for the operational functioning of the airports. The support activities pour their cost into operating activities and they, in turn, divide their costs into services provided via objective, causal assignment criteria.

Costs are assigned via cause-effect relationships throughout the entire model, guaranteeing that the result is a faithful reflection of the operating reality and management of the organisation.

On the other hand, the expenses of the corporate unit are assigned according to the same ABC methodology. The activities defined in the corporate model are the reflection of the group's organisational chart and those activities are therefore defined as resource-consuming units. Each management assigns their own expenses (employment costs, current expenses, depreciation, etc.) depending on their nature to the different activities defined, thus establishing the consumption of resources per activity.

Once the cost per activity has been calculated, the model establishes cause-effect relationships between the activities and the ultimate purpose of the costs using different allocation criteria, thus attributing the consumption of resources to the services provided and ultimately to the business segments.

As indicated in Note 2.3, in the operating segment information as of 31 December 2017 costs have been adjusted in accordance with the DORA Resolution of 27 January 2017. According to this document and for regulatory purposes, costs of airport activity have been reduced annually by 36.1 million euros (including capital cost to 6.98%) with the following breakdown: Staff 1.6 million euros; Amortisation and depreciation 12.0 million euros; Other operating expenses 9.7 million euros and Capital cost 12.8 million euros. Consequently, the annual cost of aeronautical activity has been reduced by 23.3 million euros in operating expenses due the aforementioned cost reallocation, with the costs being transferred to services subject to private prices included in "Commercial" activity.

The operating segment information for the periods 2017 and 2016 is as follows (in thousand euros):

(Amounts in thousands of euros unless otherwise stated)

31 December 2017	Airports						
	Aeronautical	**Commercial**	**Real estate services**	**Subtotal**	**International**	**Adjustments**	**Total consolidated**
Ordinary income-	2,638,505	1,049,251	59,687	3,747,443	215,344	(2,205)	3,960,582
External customers	*2,638,452*	*1,049,251*	*59,687*	*3,747,390*	*213,192*	-	*3,960,582*
Inter-segments	*53*	-	-	*53*	*2,152*	*(2,205)*	-
Other operating income	53,848	11,299	1,382	66,529	163	320	67,012
Total income	**2,692,353**	**1,060,550**	**61,069**	**3,813,972**	**215,507**	**(1,885)**	**4,027,594**
Supplies	(175,921)			(175,921)		1,745	(174,176)
Employment costs	(321,771)	(36,772)	(8,881)	(367,424)	(49,731)	-	(417,155)
Other operating expenses	(638,389)	(150,962)	(21,257)	(810,608)	(100,357)	53	(910,912)
Depreciation and Amortisation	(631,420)	(107,264)	(16,546)	(755,230)	(44,805)	-	(800,035)
Losses on property, plant and equipment	(8,339)	(1,100)	(652)	(10,091)	(824)	-	(10,915)
Other results	1,027	1,671	271	2,969			2,969
Total expenditure	**(1,774,813)**	**(294,427)**	**(47,065)**	**(2,116,305)**	**(195,717)**	**1,798**	**(2,310,224)**
EBITDA	**1,548,960**	**873,387**	**30,550**	**2,452,897**	**64,595**	**(87)**	**2,517,405**
Losses on property, plant and equipment	(8,339)	(1,100)	(652)	(10,091)	(824)	-	(10,915)
Adjusted EBITDA	**1,557,299**	**874,487**	**31,202**	**2,462,988**	**65,419**	(87)	**2,528,320**
Operating income	**917,540**	**766,123**	**14,004**	**1,697,667**	**19,790**	(87)	**1,717,370**
Net finance result	(88,600)	(12,067)	(2,769)	(103,436)	(36,154)	-	(139,590)
Share of profits in associates	-	-	-	-	18,927	-	18,927
Profit / (loss) before tax	**828,940**	**754,056**	**11,235**	**1,594,231**	**2,563**	(87)	**1,596,707**
Total Assets				14,603,633	869,954	(166,155)	15,307,432
Total Liabilities				8,996,540	624,822	(1,794)	9,619,568

31 December 2016	Airports						
	Aeronautical	**Commercial**	**Real estate services**	**Subtotal**	**International**	**Adjustments**	**Total consolidated**
Ordinary income-	2,498,024	943,645	62,403	3,504,072	207,733	(2,224)	3,709,581
External customers	*2,497,955*	*943,645*	*62,403*	*3,504,003*	*205,578*	-	*3,709,581*
Inter-segments	*69*	-	-	*69*	*2,155*	*(2,224)*	-
Other operating income	50,926	8,987	2,429	62,342	272	292	62,906
Total income	**2,548,950**	**952,632**	**64,832**	**3,566,414**	**208,005**	**(1,932)**	**3,772,487**
Supplies	(182,188)	-	-	(182,188)	-	1,822	(180,366)
Employment costs	(308,870)	(32,551)	(8,385)	(349,806)	(40,918)	-	(390,724)
Other operating expenses	(650,636)	(135,294)	(20,113)	(806,043)	(95,801)	69	(901,775)
Depreciation and Amortisation	(666,311)	(95,160)	(16,687)	(778,158)	(47,647)	-	(825,805)
Losses on property, plant and equipment	(4,846)	(1,445)	(147)	(6,438)	36	-	(6,402)
Other results	277	297	(175)	399	-	-	399
Total expenditure	**(1,812,574)**	**(264,153)**	**(45,507)**	**(2,122,234)**	**(184,330)**	**1,891**	**(2,304,673)**
EBITDA	**1,402,687**	**783,639**	**36,012**	**2,222,338**	**71,322**	**(41)**	**2,293,619**
Losses on property, plant and equipment	(4,846)	(1,445)	(147)	(6,438)	36	-	(6,402)
Adjusted EBITDA	**1,407,533**	**785,084**	**36,159**	**2,228,776**	**71,286**	**(41)**	**2,300,021**
Operating income	**736,376**	**688,479**	**19,325**	**1,444,180**	**23,675**	(41)	**1,467,814**
Net finance result	60,680	(1,294)	914	60,300	(28,116)	-	32,184
Share of profits in associates	-	-	-	-	16,121	-	16,121
Profit / (loss) before tax	**797,056**	**687,185**	**20,239**	**1,504,480**	**11,680**	(41)	**1,516,119**
Total Assets	-	-	-	14,847,456	831,911	(165,593)	15,513,774
Total Liabilities	-	-	-	9,920,874	568,071	(920)	10,488,025

The adjustments column primarily includes consolidation adjustments.

The reconciliation of EBITDA and EBITDA adjusted with the Results for the year, for the years ended on 31 December 2017 and 31 December 2016 was as follows:

(Amounts in thousands of euros unless otherwise stated)

Item	31 December 2017	31 December 2016
Total adjusted EBITDA	**2,528,320**	**2,300,021**
Losses on property, plant and equipment	(10,915)	(6,402)
Total segment EBITDA	**2,517,405**	**2,293,619**
Depreciation and amortization	(800,035)	(825,805)
Net financial expense	(139,590)	32,184
Share of profits in associates	18,927	16,121
Income tax	(374,738)	(351,733)
Profit/(loss) for the period	**1,221,969**	**1,164,386**
Results attributable to external partners	(10,036)	237
Profit/(loss) for the period attributable to the parent company shareholder	**1,232,005**	**1,164,149**

Breakdown of ordinary income

The breakdown of ordinary income from the subtotal included in the financial information by segments (excluding the International segment and the Adjustments), by type of service rendered, is as follows:

	2017	2016 (*)
Airport services	**2,638,505**	**2,498,024**
Airport charges	**2,562,051**	**2,426,613**
Landings	697,341	681,395
Parking charges	34,188	32,821
Passengers	1,166,406	1,079,620
Telescopic boarding gates	110,166	109,054
Security	419,869	396,205
Handling charges	90,432	85,960
Fuel	33,535	31,885
Catering	10,114	9,673
Other airport services (1)	**76,454**	**71,411**
Commercial Services	**1,049,251**	**943,645**
Leases	32,129	25,005
Specialty shops	91,703	89,659
Tax and Duty Free Shops	309,017	285,154
Food & Beverage	175,643	154,493
Car Rental	149,373	114,466
Parking	132,013	121,554
Advertising	31,561	30,290
Other commercial income(2)	127,812	123,024
Real estate services	**59,687**	**62,404**
Leases	12,130	10,312
Land	19,247	23,687
Hangars	8,392	10,474
Cargo logistic centres	13,696	12,503
Real Estate Operations	6,222	5,428

1) Includes Check-in desks, Use of 400 Hz, Fire services, Left-luggage offices and Other income.
2) Includes Commercial operations (banking services, plastic-wrapping machines, telecommunications services, vending machines, etc.), Commercial supplies, Use of conference rooms, Filming and recording and Fast-Track.

(Amounts in thousands of euros unless otherwise stated)

(*) In 2017 income from fast-track (4,480 thousand euros) and aircraft housing (132 thousand euros) has been classified from other airport services to other commercial services and hangars respectively. For comparative purposes, the figures from this period relating to fast-track (3,858 thousand euros) and aircraft housing (198 thousand euros) have been homogeneously modified with respect to the information in the 2016 annual report.

Except for the International segment that maintains primary investments in the United Kingdom, Mexico and Colombia, the Group carries out its operations in Spain.

An approximate amount of the ordinary income of 404,503 thousand euros, 362,891 thousand euros and 336,464 thousand euros for financial year 2017 correspond to three customers, respectively (three customers for financial year 2016: 375,165 thousand euros, 348,478 thousand euros and 336,295 thousand euros, respectively). These figures correspond to the Airports segments.

Geographical information:

Ordinary income from external customers is distributed geographically as follows:

	2017	**2016**
Country	Volume	Volume
Spain	3,748,978	3,505,468
United Kingdom	204,852	198,154
Colombia	1,150	1,143
Mexico	5,602	4,787
Cuba	-	29
TOTAL	3,960,582	3,709,581

Non-current assets valued at net carrying value, are located as follows:

Financial year 2017:

Country	Property, plant and equipment	Intangible assets	Investment property	TOTAL
Spain	12,969,868	98,809	135,108	13,203,785
United Kingdom	236,078	392,364	-	628,442
	13,205,946	491,173	135,108	13,832,227

Financial year 2016:

Country	Property, plant and equipment	Intangible assets	Investment property	TOTAL
Spain	13,371,597	86,754	135,690	13,594,041
United Kingdom	192,325	438,893	-	631,218
	13,563,922	525,647	135,690	14,225,259

(Amounts in thousands of euros unless otherwise stated)

Activity in the United Kingdom comes from the subsidiary subgroup LLAH III, from which the following information is presented prior to intercompany eliminations:

Thousand euros	**31 December 2017**	**31 December 2016**
Non-current assets	636,142	638,545
Current assets	52,979	50,325
Non-current liabilities	591,379	518,992
Current liabilities	86,666	103,755

	31 December 2017	**31 December 2016**
Income	204,852	198,154
Operating income	14,700	18,306
EBITDA	58,683	65,394
Net finance result	(36,651)	(23,405)
Profit/(Loss)	(20,481)	483
Comprehensive income for the period	(16,711)	(28,356)
Cash flow from operating activities	52,282	53,636
Cash flow from investing activities	(66,218)	(61,120)
Cash flow from financing activities	18,885	17,163

The decrease in the Operating income and the EBITDA in 2017 compared to 2016 is primarily related to the impact of the closing of LLAOL's defined benefit pension plan on equity and consolidated results on 31 December 2017 (see Notes 22 and 28).

The final result of financial year 2017 was further harmed by a worsening of the Net Finance Result, a consequence of the initial impact of the refinancing undertaken in August 2017 (see Notes 12, 20 and 31).

(Amounts in thousands of euros unless otherwise stated)

6 Property, plant and equipment

	Land and buildings	Plant and machinery	Other facilities, tools and furnishings	Other property, plant and equipment	Property, plant and equipment under construction	Total
As of 1 January 2017						
Cost or valuation	16,772,908	1,342,762	4,554,484	140,976	229,490	23,040,620
Accumulated depreciation	(5,547,496)	(908,065)	(2,883,534)	(137,412)	-	(9,476,507)
Impairment	-	-	-	(191)	-	(191)
Carrying amount at 1 January 2017	**11,225,412**	**434,697**	**1,670,950**	**3,373**	**229,490**	**13,563,922**
Additions	94,332	43,219	62,868	1,874	273,166	475,459
Disposals	(102,316)	(26,531)	(46,528)	(553)	(3,473)	(179,401)
Transfers (Notes 7 and 8)	67,120	14,537	30,028	16	(116,089)	(4,388)
Difference in cost conversion	(4,343)	(909)	-	-	(3,929)	(9,181)
Allocation to depreciation	(393,181)	(74,445)	(278,115)	(1,194)	-	(746,935)
Accumulated depreciation disposals	36,676	24,357	42,016	512	-	103,561
Amortisation transfers (Notes 7 and 8)	5,179	(230)	(3,288)	-	-	1,661
Difference in depreciation conversion	830	227	-	-	-	1,057
Reversal of cumulative impairment	-	-	-	191	-	191
Carrying amount at 31 December 2017	**10,929,709**	**414,922**	**1,477,931**	**4,219**	**379,165**	**13,205,946**
As of 31 December 2016						
Cost or valuation	16,827,701	1,373,078	4,600,852	142,313	379,165	23,323,109
Accumulated depreciation	(5,897,992)	(958,156)	(3,122,921)	(138,094)	-	(10,117,163)
Impairment	-	-	-	-	-	-
Carrying amount at 31 December 2017	**10,929,709**	**414,922**	**1,477,931**	**4,219**	**379,165**	**13,205,946**

	Land and buildings	Plant and machinery	Other facilities, tools and furnishings	Other property, plant and equipment	Property, plant and equipment under construction	Total
As of 1 January 2016						
Cost or valuation	17,490,910	1,329,218	4,500,603	140,454	185,538	23,646,723
Accumulated depreciation	(5,143,374)	(867,127)	(2,628,772)	(136,947)	-	(8,776,220)
Impairment	-	-	-	(581)	-	(581)
Carrying amount at 1 January 2016	**12,347,536**	**462,091**	**1,871,831**	**2,926**	**185,538**	**14,869,922**
Additions	64,241	27,433	43,702	1,088	146,806	283,270
Disposals	(837,795)	(32,010)	(33,932)	(568)	(3,052)	(907,357)
Transfers (Notes 7 and 8)	71,795	21,837	44,111	2	(91,961)	45,784
Difference in cost conversion	(16,243)	(3,716)	-	-	(7,841)	(27,800)
Allocation to depreciation	(408,219)	(71,933)	(287,484)	(1,024)	-	(768,660)
Accumulated depreciation disposals	21,067	30,960	32,261	560	-	84,848
Amortisation transfers (Notes 7 and 8)	(19,089)	(688)	459	-	-	(19,318)
Difference in depreciation conversion	2,119	723	2	(1)	-	2,843
Reversal of cumulative impairment	-	-	-	390	-	390
Carrying amount at 31 December 2016	**11,225,412**	**434,697**	**1,670,950**	**3,373**	**229,490**	**13,563,922**
As of 31 December 2016						
Cost or valuation	16,772,908	1,342,762	4,554,484	140,976	229,490	23,040,620
Accumulated depreciation	(5,547,496)	(908,065)	(2,883,534)	(137,412)	-	(9,476,507)
Impairment	-	-	-	(191)	-	(191)
Carrying amount at 31 December 2016	**11,225,412**	**434,697**	**1,670,950**	**3,373**	**229,490**	**13,563,922**

The income statement includes lease expenses in 2017 amounting to 6,112 thousand euros (2016: 6.026 thousand euros).

The total additions of tangible fixed assets in 2017 was 475,459 thousand euros (2016: 283,270 thousand euros).

(Amounts in thousands of euros unless otherwise stated)

The main additions recognized in 2017 and 2016 are described below:

Land and buildings

In 2017, the additions in land and buildings totalled 94,332 thousand euros. The main additions in the period were "Regeneration of the runway paving" in Barcelona-El Prat, Gran Canaria and Adolfo Suárez-Madrid Barajas airports; "Refurbishment of the runway and airfields" in Son Bonet and La Palma airports; "Screed of runway" at Valladolid airport; "Refurbishment of the access lanes to runway H6, H7 and H8 in Palma de Mallorca airport"; "Execution of operational security requirements" at t Ibiza airport; and remodelling of the entrances to London Luton airport.

The most significant examples of commissioning were the "Refurbishment of screeds on floor P10 of Terminal T1" and "Refurbishment of plots and roads in the Rejas zone" at Adolfo Suárez Madrid-Barajas airport; "Refurbishment of the cargo terminal" at Gran Canaria airport; "Refurbishment of gates H1 and H2" at Palma de Mallorca airport; and "Airfield actions required for certification" at Santiago de Compostela airport.

In 2016, the additions in land and buildings amounted to 64,241 thousand euros. The main additions were the regeneration of the runway and taxi lanes in Palma de Mallorca, Gran Canaria, Ibiza and Lanzarote airports, among others; the work to relocate the air navigation equipment in Adolfo Suárez Madrid-Barajas airport; the waterproofing in the terminals and modules in Palma de Mallorca; the remodelling and upgrading of the VIP lounges in Adolfo Suárez Madrid-Barajas airport; the regeneration of the pavement on lane T in Tenerife Sur airport; and the new footbridge in Vigo airport.

In 2016 the new power plant was brought into service at Asturias airport and there have been actions for the commissioning to II/III category at Zaragoza airport.

The disposals of land and buildings at 31 December 2017 and 2016 corresponded, mostly, to provisions reversed made for expropriations or claims by suppliers, following judgments favourable to Aena (see Note 23).

In 2017, old assets were also disposed of and replaced in the screed projects of the runways in Barcelona El Prat, Adolfo Suárez Madrid-Barajas and Gran Canaria airports and the platform at Palma de Mallorca airport; different facilities in Barcelona and Adolfo Suárez Madrid-Barajas airports when they were refurbished; and because of a favourable judgement, the provisioned part in the lawsuit related to the construction of the terminal T3 building in Alicante airport.

In 2016, further disposals came from the demolition of the former VIP lounges in Adolfo Suárez Madrid-Barajas airport; the departures building in Reus airport and the part of the terminal building in due to refurbishment; as well as the surface screed of the runways in Badajoz, Ibiza and Gran Canaria airports; facilities in Barcelona and Adolfo Suárez Madrid-Barajas airports related to check-in counters, as they were refurbished; and equipment that was replaced.

The Group owns real estate whose separate net values for construction and land, at the close of financial year 2017 and 2016, are the following:

	2017	2016
Land	3,538,908	3,570,172
Buildings	7,390,801	7,655,240
Total	**10,929,709**	**11,225,412**

Technical facilities, machinery, furniture and other fixed assets

In 2017 the additions in this heading of property, plant and equipment have amounted to 107,961 thousand euros. In financial year 2017, the most important additions were:

- The supply and installation of air bridges and the replacement of aircraft assistance equipment in several airports, including Palma de Mallorca and Adolfo Suárez Madrid-Barajas.
- The renewal of several components related to the Passenger Information System (SIP) at Adolfo Suárez Madrid-Barajas, Tenerife Sur, A Coruña and Fuerteventura airports.

- New aeronautical lights and signage at Palma de Mallorca airport.
- Replacement of transformers and markings on runways at Palma de Mallorca and Barcelona-El Prat airports.
- Equipment for the new multi-service telecommunications networks in several airports, such as in the Palma de Mallorca airport.
- The acquisition of two new extinguishing vehicles in several airports, such as in Valladolid airport.
- New equipment for check-in desks and auto check-in stations at various airports in the network.

The most representative additions in 2016 were:

- The supply and installation of airbridges and aircraft assistance equipment at the Málaga airport.
- Broadening the multiservice network at Gran Canaria airport.
- Replacement of various lifts and travelators in the airport terminals at Adolfo Suárez Madrid-Barajas.
- The acquisition of new database servers for SAP.
- The replacement of kiosks and new check-in counters at the Barcelona airport.
- Work related to the low-tension distribution in the Málaga airport.
- Replacement of various self check-in desks at Adolfo Suárez Madrid-Barajas airport.
- Refurbishment of the Wi-Fi network in the Barcelona and Madrid airports.
- New extinguishing vehicles in the Palma de Mallorca, A Coruña, León, Santiago, Sevilla and Vigo airports.
- Remodelling of the airfield medium voltage circuit at Fuerteventura airport.

Most of the disposals recorded in 2017 were motivated by the replacement of facilities and equipment in several airports in the network, especially Barcelona and Adolfo Suárez Madrid-Barajas.

Most of the disposals recorded in the 2016 were motivated by the replacement of facilities at Adolfo Suárez Madrid-Barajas airport (lifts, travelators and escalators, self-check-in posts) and Málaga Costa del Sol airport (replacement of the telescopic boarding gates) facilities at Barcelona and Adolfo Suárez Madrid-Barajas airports related to check-in counters that were refurbished; and IT equipment which was replaced.

<u>Property, plant and equipment under construction</u>

In financial year 2017, the additions in fixed assets totalled 273,166 thousand euros. The main additions to the fixed assets underway refer to the “Regeneration of the pavement of runway 07L-25R” at Barcelona airport, the “Refurbishment of the platform” at Tenerife Sur airport, the “Reconstruction of the platforms” and “Expansion of the air conditioning/heating ring of modules C and D” at Palma de Mallorca airport, and the “Installation of airbridges and aircraft assistance equipment” at Málaga airport. At Luton Airport, investment continues in the Curium Project. This project, whose goal is to increase the current capacity from 12 million passengers per year to 18 million in 2018, is making significant progress on all fronts, which is taking shape in the construction of a parking building, the remodelling and improvement of the entrances to the airport, the expansion and remodelling of the terminal building with an expansion of the retail areas, and the redesign of the taxi lanes to improve the traffic flow and expand the platform.

In addition to those mentioned in the paragraph above, the main actions which are being executed as of 31 December 2017 were the general refurbishment of the platform at Tenerife Sur airport, the increase in the peak capacity of the SATE system at Palma de Mallorca airport, the expansion of the terminal building in Reus airport, and the actions related to the “Curium” project to expand the capacity of the terminal at London Luton airport.

In financial year 2016, the additions to the fixed assets underway totalled 146,806 thousand euros. The most significant investments in 2016 in terms of construction underway were: work on the unfinished areas of the terminal and the car park in Santiago de Compostela airport, construction on the new terminal at Reus airport, the refurbishment of the floors in T1 at Adolfo Suárez Madrid-Barajas airport, and the actions related to the “Curium” project to expand the capacity of the terminal at London Luton airport, which affected the terminal building and its entrances to the car parks.

The main actions being executed as of 31 December 2016 were projects related to the refurbishment of the unfinished zones of Santiago airport, the refurbishment of the floors on the 1st floor of T-1 of Adolfo Suárez Madrid-Barajas airport, actions to upgrade Santiago airport, expansion of the terminal building in Reus, the communication network equipment in Palma de Mallorca and Málaga airports, and the replacement of aircraft assistance equipment in Palma de Mallorca.

(Amounts in thousands of euros unless otherwise stated)

Disposals of non-financial fixed assets

Disposals of property, plant and equipment in 2017 assigned to income have resulted in a total negative profit/(loss) of 11,797 thousand euros (the negative profit/(loss) of 10,915 thousand euros in the accompanying consolidated income statement also includes 16 thousand euros of losses on disposals of property, plant and equipment and 898 of profits from property, plant and equipment). In addition, disposals included the following items whose amount has not been assigned to the income statement:

- Reversals of provisions recorded in previous years for fair value differences arising primarily from land expropriations and estimated environmental investments to comply with current legislation, and for litigation related to works (see Note 23) amounted to a total of 61,367 thousand euros.

- Payments to suppliers of fixed assets in relation to amounts activated in previous years, amounted to 2,685 thousand euros.

In addition, the disposals included the following items, the amount of which was not charged to the profit or loss account: The disposals of fixed assets in financial year 2016 with imputation to results affected mostly the tangible fixed assets and gave rise to a total negative result of 6,321 thousand euros, which matches the net book value of different assets (-7,455 thousand euros) and the positive results obtained in the repurchase of equipment by suppliers (+556 thousand euros), the reversal of impairments (+389 thousand euros) and sales and expansions (+189 thousand euros).

- Reversals of provisions paid in previous financial years due to differences in appraisals stemming primarily from land expropriations, estimated environmental investments to fulfil the current regulations, and lawsuits related to construction. In these cases, the disposals were charged to risk provision and expense accounts totalling 808,309 thousand euros.

- Payments to suppliers of fixed assets in relation to amounts activated in previous years, amounted to 6,743 thousand euros.

Capitalized interest costs

During the year the Group had activated costs for interest for an amount of 492 thousand euros (2016: 596 thousand euros) (Note 31).

Impairment test of property, plant and equipment:

The main assumptions used were: As outlined in Note 4.1, on 31 December 2017 the Group's management reviewed the 2017 results to determine whether there were significant changes that could lead to signs of impairment of intangible assets, tangible fixed assets and real estate investments. They concluded that there were no signs of impairment. However, in accordance with the procedure described in Note 2.8, and for the network of airports that comprise the Airport segment described in that note as well, at the close of financial years 2017 and 2016, the Group performed the impairment test for the network of airports and did not identify significant impacts in the annual accounts on 31 December 2017 and on 31 December 2016, respectively, including after applying sensitivities on the variables used.

	2017	**2016**
Growth rate	1.50 %	1.50 %
Before-tax discount rate	6.98 %	6.98 %
Post-tax discount rate	5.23 %	5.23 %

In 2016 and 2017, the parent Company's management has not reported impairment of assets.

(Amounts in thousands of euros unless otherwise stated)

The Group made the calculations on recoverable amounts based on the financial projections approved by management, taking into account the projections included in DORA (see Note 3.1) for the period of the four financial years (2018-2021) referred to in the aforesaid DORA.

The discount rate applied to cash flow projections is the Weighted Average Cost of Capital before taxes ($WACC_{BT}$) estimated in DORA according to the CAPM (Capital Asset Pricing Model) methodology, and is determined by the weighted average cost of equity and cost of debt capital.

Cash flow projections from the fifth year are calculated using an expected constant growth rate, taking into account the growth estimates for air traffic contained in the DORA (CAGR of 1.8% of passenger traffic for the period 2022-2031).

The Group performed a sensitivity analysis of the impairment calculation, using reasonable variations of the main financial assumptions considered in the calculation, assuming the following increases or decreases in percentage points (p.p.):

- Discount rate (-1 p.p./+1 p.p.)
- Perpetuity growth rates (+1 p.p./-1 p.p.)

As a result of the sensitivity analysis performed at year-end 2017, it appears that there are no significant risks associated with reasonably possible changes to the assumptions, considered on an individual basis. That is, management believes that, within the above ranges, no corrections for impairment will be necessary.

The main assumptions affecting the Group's cash flows are passenger traffic, change in prices, investment levels and efficiencies in operating costs.

Lease agreements

In 2017, property, plant and equipment include a cogeneration plant at Adolfo Suárez Madrid-Barajas Airport and an aircraft parking apron at London Luton Airport which are under finance lease agreements in which the Group is the lessee. As of 31 December 2016, this also included an automated flight inspection system (console). The amounts are shown below:

	31 December	
	2017	**2016**
Cost- capitalized finance leases	23,684	27,473
Accumulated depreciation	(9,138)	(8,050)
Carrying amount	**14,546**	**19,423**

The maturity of the rental contracts are as follows:

	31 December	
	2017	**2016**
Gross finance lease liabilities, minimum lease payments:		
Less than one year	3,045	2,981
Between 1 and 5 years	12,179	12,360
More than 5 years	11,949	15,290
	27,173	30,631
Future financial charge by financed lease	(4,869)	(5,986)
Present value of finance lease liabilities	**22,304**	**24,645**

(Amounts in thousands of euros unless otherwise stated)

The present value of finance lease liabilities is as follows:

	31 December	
	2017	**2016**
Less than one year	2,153	1,995
Between 1 and 5 years	9,431	9,198
More than 5 years	10,720	13,452
TOTAL	**22,304**	**24,645**

As of 31 December 2017, the tangible fixed assets included assets rented to third parties whose value accounted for 10.31 % of the total tangible fixed assets (2016: 8.59 %).

Jointly controlled assets

The Group has an agreement with the Ministry of Defence to establish the key distribution and compensation criteria for the use by civil aircraft of the Air Bases Open to Civil Traffic in Villanubla, León, Albacete, Matacán, Talavera, San Javier and the joint-use aerodrome in Zaragoza. This Agreement is based on the application of Royal Decree 1167/1995 (7 July) on the system for using airports jointly used by an airbase and an airport and the airbases open to civil traffic. The following amounts represent the Group's stake in the assets and liabilities, and the sales and profits of the joint operations, which have been included in the balance sheet and the income statement:

	31 December	
	2017	**2016**
- Non-current assets	245,464	253,417
- Non-current/current liabilities	-	-
Net assets	**245,464**	**253,417**

	2017	**2016**
- Income	27,924	25,145
- Expenses	(43,489)	(43,720)
Profit/ (loss) after taxes	**(15,565)**	**(18,575)**

There are no contingent liabilities relating to the Group's interest in the joint operations or contingent liabilities in the joint operations itself.

Property, plant and equipment subject to guarantees

The assets of London Luton Airport Holdings I Limited ("LLAH I"), of London Luton Airport Group Limited ("LLAGL") and of London Luton Airport Operations Limited ("LLAOL") guarantee the bank borrowings of the London Luton Airport Holdings III Limited Group ("LLAH III") (Note 20.b).

Limitations

Contributed land, buildings and other construction the substance of the non-monetary contribution referred to in Note 1 have lost their status as public domain assets due to the effect of the release established by Article 9 of Royal Decree Law 13/2010 (3 December), which stipulates that all state public domain assets associated with the public business entity "Aeropuertos Españoles y Navegación Aérea" that are not linked to air traffic services, including those used for airport air traffic services, will cease to be public domain assets but this does not mean that the purpose of the expropriation is not altered and therefore the reversal of that process is not appropriate.

There are certain restrictions on the sale of airport assets, agreed in the novation which amends but does not extinguish the financing agreements signed by Aena and ENAIRE with the lending entities, dated 29 July 2014 (see Note 20.a).

(Amounts in thousands of euros unless otherwise stated)

7 Intangible assets

	Service concessions	Development	Software	Goodwill	LLAH III concession	Other fixed intangible assets	Fixed intangible assets in progress	Total
As of 1 January 2017								
Cost	17,410	1,608	236,813	1,872	506,025	136,048	37,003	936,779
Accumulated depreciation and impairment losses	(6,072)	(1,498)	(201,106)	-	(69,004)	(133,452)	-	(411,132)
Carrying amount at 1 January 2017	**11,338**	**110**	**35,707**	**1,872**	**437,021**	**2,596**	**37,003**	**525,647**
Additions	76	-	15,206	-	-	1	15,937	31,220
Disposals	(32)	-	(2,228)	-	-	(43,024)	-	(45,284)
Transfers (Notes 6 and 8)	(55)	-	43	-	-	38	(712)	(686)
Foreign exchange translation differences	-	-	-	-	(19,751)	-	-	(19,751)
Allocation to depreciation	(687)	(110)	(17,250)	-	(29,826)	(916)	-	(48,789)
Accumulated depreciation disposals	14	-	2,224	-	-	43,024	-	45,262
Depreciation/amortisation transfers (Notes 6 and 8)	87	-	419	-	-	-	-	506
Conversion difference amortisation	-	-	-	-	3,048	-	-	3,048
Carrying amount at 31 December 2017	**10,741**	**-**	**34,121**	**1,872**	**390,492**	**1,719**	**52,228**	**491,173**
As of 31 December 2017								
Cost	17,399	1,608	249,834	1,872	486,274	93,063	52,228	902,278
Accumulated depreciation and impairment losses	(6,658)	(1,608)	(215,713)	-	(95,782)	(91,344)	-	(411,105)
Carrying amount at 31 December 2017	**10,741**	**-**	**34,121**	**1,872**	**390,492**	**1,719**	**52,228**	**491,173**

	Service concessions	Development	Software	Goodwill	LLAH III concession	Other fixed intangible assets	Fixed intangible assets in progress	Total
As of 1 January 2016								
Cost	17,718	1,608	220,980	1,872	585,554	136,130	37,736	1,001,598
Accumulated depreciation and impairment losses	(5,521)	(1,233)	(183,110)	-	(44,361)	(132,609)	-	(366,834)
Carrying amount at 1 January 2016	**12,197**	**375**	**37,870**	**1,872**	**541,193**	**3,521**	**37,736**	**634,764**
Additions	60	-	11,203	-	-	2	4,854	16,119
Disposals	(11)	-	(615)	-	-	(30)	(211)	(867)
Transfers (Notes 6 and 8)	(357)	-	5,245	-	-	(54)	(5,376)	(542)
Foreign exchange translation differences	-	-	-	-	(79,529)	-	-	(79,529)
Allocation to depreciation	(690)	(265)	(18,572)	-	(31,919)	(968)	-	(52,414)
Accumulated depreciation disposals	5	-	553	-	-	30	-	588
Depreciation/amortisation transfers (Notes 6 and 8)	134	-	23	-	-	95	-	252
Conversion difference amortisation	-	-	-	-	7,276	-	-	7,276
Carrying amount at 31 December 2016	**11,338**	**110**	**35,707**	**1,872**	**437,021**	**2,596**	**37,003**	**525,647**
As of 31 December 2016								
Cost	17,410	1,608	236,813	1,872	506,025	136,048	37,003	936,779
Accumulated depreciation and impairment losses	(6,072)	(1,498)	(201,106)	-	(69,004)	(133,452)	-	(411,132)
Carrying amount at 31 December 2016	**11,338**	**110**	**35,707**	**1,872**	**437,021**	**2,596**	**37,003**	**525,647**

(Amounts in thousands of euros unless otherwise stated)

At the close of financial years 2017 and 2016, there are no intangible fixed assets subjected to guarantees.

Of the total costs activated on 31 December 2017 in the different kinds of intangible fixed assets include assets underway in accordance with the following breakdown (in thousand euros):

	2017	2016
Software	15,534	3,305
Other fixed intangible assets	36,694	33,698
Total	**52,228**	**37,003**

The main additions in financial year 2017 and 2016 in the headings "IT Applications" and "Intangible Fixed Assets Underway" correspond to acquisitions as well as improvements and developments of new technologies for computer applications related to the corporate central services. Worth noting in 2017 are the investments in free Wi-Fi systems in several airports in the network and the elements related to cybersecurity, and in 2016 the comprehensive car park management system of the airports.

The "Other fixed intangible assets" heading mainly includes the Master Plans for airports.

In financial year 2017, a total of 33 thousand euros in financial expenses were activated associated with intangible fixed assets (2016: 67 thousand euros) (Note 31).

Service concessions:

The Group exploits the London Luton Airport and the heliports in Ceuta and Algeciras under administrative concession contracts whose main conditions are described below:

<u>Ceuta Heliport</u>:

The Company operates the civil Ceuta heliport with all services under a service concession contract made with the Port Authority of Ceuta. This concession has a start date of 28 March 2003 with a maturity of 30 years. The Company pays an annual fee of €39,000 for the occupancy of the public port. Likewise, in accordance with Article 69 of Law 27/92, the Company pays a fee amounting to €0.823386 per passenger to the Port Authority, depending on volume of passengers.

<u>Algeciras Heliport</u>:

The Company has an administrative concession agreement with the Port of Algeciras Bay for the occupation of the facilities that will be used for the installation and operation activities of publicly owned heliport at the Port of Algeciras. This concession has a start date of 3 February 2009 with duration of 25 years. The contract establishes an occupancy rate of public port deprivation of 82 thousand euros per year and a rate of special use of the public domain of 1 euro per passenger loaded or unloaded at the facility.

London Luton administrative concession

On the perimeter of the Group's consolidation, the accounts of the London Luton Airport Holdings III Limited (LLAH III) have been wholly integrated; it was created with the objective, through its 100% subsidiary London Luton Airport Holdings II Limited (LLAH II), which in turn owns 100% of London Luton Airport Holdings I Limited (LLAH I), to carry out the acquisition of London Luton Airport Group Limited on 27 November 2013, the manager and concessionaire of the Luton Airport in the United Kingdom. Luton Airport is managed, as a concession, by LLAOL. The concession contract was signed on 20 August 1998 and ends on 31 March 2031. The concession contract contemplates the existence of the company London Luton Airport Group Limited ("LLAGL") as a guarantee of the operator. The concession of the Luton airport does not meet the requirements of the IFRIC 12 as a service concession (see Note 2.24), but is instead accounted for as an operating lease (see Note 2.22).

(Amounts in thousands of euros unless otherwise stated)

Impairment tests for unamortised intangible assets (under development)

In accordance with the procedure described in Note 2.8 and for the network of airports that constitutes the Airports segment, at the end of 2017 and 2016 the Group performed impairment tests on the non-amortised intangible assets and did not identify any adjustments as of 31 December 2017 and 2016, even after applying sensitivities to the variables used.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on the financial projections included in the DORA (see Note 3.1) for the five year period 2017-2021. Cash flow projections from the fifth year are calculated using an expected constant growth rate, taking into account the growth estimates for air traffic contained in the DORA (CAGR of 1.8% of passenger traffic for the period 2022-2031).

The main assumptions used to calculate value-in-use are as follows:

	2017	**2016**
Growth rate	1.50 %	1.50 %
Before-tax discount rate	6.98 %	6.98 %
Post-tax discount rate	5.23 %	5.23 %

<u>Sensitivity to changes to the assumptions</u>

On 31 December 2017, the Group performed a sensitivity analysis of the impairment calculation, using reasonable variations of the main financial assumptions considered in the calculation, assuming the following increases or decreases in percentage points (p.p.):

- Discount rate (-1 p.p./+1 p.p.)
- Perpetuity growth rates (+1 p.p./-1 p.p.)

As a result of the sensitivity analysis performed at year-end 2017, it appears that there are no significant risks associated with reasonably possible changes to the assumptions, considered on an individual basis. That is, management believes that, within the above ranges, no corrections for impairment will be necessary.

<u>Fixed assets stemming from the acquisition of LLAH III (Note 2.2)</u>

As for intangible and tangible fixed assets resulting from the acquisition of LLAH III Company, the Group estimated the recoverable amount of the investment and the present value of future cash flows. These future cash flows were estimated in the currency in which they were going to be generated (pounds sterling). Aena converted the present value by applying the exchange rate on the date on which the use value was calculated (exchange rates at the close of 2017: 0.887230; 2016: 0.8526). The significant hypotheses of this estimate were:

- **Financial projections**

These were made bearing in mind the estimates contained in the Business Plan approved by the Board of Management of this Company, which extend until 2031, the year when the concession contract legally expires, given that the Concession Agreement with Luton City Hall gives the Company the right to operate the airport infrastructure until that year. These projections include a scenario of growth up to full capacity in 2010; beyond 2020 it does not consider the growth in passengers, with the growth in the profit stemming solely from the increase in inflation by 2.5%.

- **Discount rate**

A pre-tax discount of 9.25% was used (2016: 9.53 %). The discount rate applied to cash flow projections is the Weighted Average Cost of Capital before taxes ($WACC_{BT}$) estimated by expert consultants according to the CAPM (Capital Asset Pricing Model) methodology, and is determined by the weighted average cost of equity and cost of debt capital.

- **Sensitivity to changes to the assumptions**

On 31 December 2017 and 2016, a sensitivity analysis of the impairment calculation was performed using reasonable variations of the main financial assumptions considered in the calculation, assuming the following increases or decreases in percentage points (p.p.):

- Discount rate (-0.5 p.p./+0.5 p.p.)
- Reduction in inflation rate (-1 p.p./-2 p.p.)

As a result of the sensitivity analysis performed at year-end 2017, it appears that there are no significant risks associated with reasonably possible changes to the assumptions, considered on an individual basis. That is, management believes that, within the above ranges, no corrections for impairment will be necessary.

As a result of the test, a recoverable amount was obtained which is higher than the book value of these assets. On the basis of the foregoing, the Group management considers that the recoverable amount calculated, at 31 December 2017 and 2016, is greater than the carrying amount of the fixed assets mentioned.

<u>Goodwill stemming from the acquisition of LLAH III (Note 2.2)</u>

In accordance with the impairment calculations carried out, at the end of 2017, it has been considered that there is no need to adjust the goodwill, as the recoverable value (in all cases understood as the value-in-use) is greater than the carrying value.

Likewise, as indicated in the paragraph above, a sensitivity analysis was performed on reasonably possible changes in the main valuation variables, and the recoverable value remains above the net book value.

(Amounts in thousands of euros unless otherwise stated)

8 Investment properties

	Land and buildings	Technical installations and other property, plant and equipment	Total
As of 1 January 2017			
Cost or valuation	223,689	6,058	229,747
Amortisation	(82,011)	(5,803)	(87,814)
Accumulated impairment losses	(6,243)	-	(6,243)
Carrying amount at 1 January 2017	**135,435**	**255**	**135,690**
Additions	831	-	831
Disposals	(244)	-	(244)
Transfers (Notes 6 and 7)	5,074	-	5,074
Allocation to depreciation	(4,272)	(39)	(4,311)
Disposals	235	-	235
Amortisation transfers (Notes 6 and 7)	(2,167)	-	(2,167)
Carrying amount at 31 December 2017	**134,892**	**216**	**135,108**
As of 31 December 2017			
Cost or valuation	229,350	6,058	235,408
Amortisation	(88,215)	(5,842)	(94,057)
Accumulated impairment losses	(6,243)	-	(6,243)
Carrying amount at 31 December 2017	**134,892**	**216**	**135,108**

	Land and buildings	Technical installations and other property, plant and equipment	Total
As of 1 January 2016			
Cost or valuation	267,379	6,315	273,694
Amortisation	(96,323)	(5,862)	(102,185)
Accumulated impairment losses	(6,243)	-	(6,243)
Carrying amount at 01 January 2016	**164,813**	**453**	**165,266**
Additions	1,345	-	1,345
Disposals	(50)	-	(50)
Transfers (Notes 6 and 7)	(44,985)	(257)	(45,242)
Allocation to depreciation	(4,681)	(50)	(4,731)
Disposals	36	-	36
Amortisation transfers (Notes 6 and 7)	18,957	109	19,066
Carrying amount at 31 December 2016	**135,435**	**255**	**135,690**
As of 31 December 2016			
Cost or valuation	223,689	6,058	229,747
Amortisation	(82,011)	(5,803)	(87,814)
Accumulated impairment losses	(6,243)	-	(6,243)
Carrying amount at 31 December 2016	**135,435**	**255**	**135,690**

(Amounts in thousands of euros unless otherwise stated)

This heading mainly includes real estate assets of the parent company used for operations in rental form (land, offices, hangars and warehouses). In the cases in which these properties are composed of one part which obtains rent and another part which is used in the production or supply of goods or services or for administrative purposes, such properties are considered as investment properties when only an insignificant portion of them is used for the production or supply of goods or services or for administrative purposes.

At the end of 2017 and 2016 there were no investment properties subject to guarantees.

The parent company's policy is to obtain insurance policies to cover all risks that could affect its investment properties. At the end of 2017 and 2016 the Company had reasonably covered these risks.

In financial year 2017, the additions in real estate investments totalled 831 thousand euros, 170 thousand of which corresponds to reversals upon the end of contracts of assets built by third parties on leased plots, and the remainder primarily from refurbishment projects of different buildings.

In 2016, the investments totalled 1,346 thousand euros, and they correspond to refurbishment projects and improvements, primarily the waterproofing of the Aena III building located in Palma de Mallorca airport.

During 2017 there have been transfers to investment properties for a net carrying value of 2,907 thousand euros. In 2016 transfers from property, plant and equipment to investment property were made of those properties which were leased to third parties or where there was a plan for them to be leased, having begun their development for marketing, for a net book value of 8,772 thousand euros, and a fair value of 13,552 thousand euros. To the contrary, a tangible fixed asset was transferred from real estate investments, those properties that did not meet the aforementioned criteria, as well as those properties which were being significantly used to produce or supply goods or services or for administrative purposes, for a net book value of 34,948 thousand euros, and a fair value of 120,388 thousand euros. The resulting net book value of both transactions, -26,176 thousand euros, is what appears in the transactions of real estate investments in this note (transfer of cost of -45,242 thousand euros plus transfer for depreciation for 19,066 thousand euros).

The income deriving from rent and direct operating expenses (including repairs and maintenance) of investment properties are as follows:

	2017	2016
Rent income	59,366	60,926
Direct operating expenses	(35,704)	(32,529)

The fair value of the real estate investments bearing in mind the current values on the dates presented are the following:

	Thousand euros	
	2017	**2016**
Land	329,432	325,236
Buildings	499,649	393,842
Total	**829,081**	**719,078**

The parent Company commissioned an independent valuation firm (CBRE Valuation Advisory S.A.) to revise and value the Group's real estate portfolio on 31 December 2017 with the goal of determining the fair value of its real estate investments, as it did for 31 December 2016.

The assets were valued in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards (the Red Book) as well as the provisions of International Accounting Standard 40 (IAS 40 - Investment property) on the basis of market value, where this means the estimated amount that would be obtained for the property in a transaction effected on the date of valuation between a willing and independent seller and buyer after a reasonable marketing period, and in which both parties have acted knowledgeably, prudently and without coercion.

The market value is obtained using the "Cash Flow Discounts Method", whose results are always compared with recent transactions in the market in terms of price per square metre and initial profitability. The key variables of the "Cash Flow Discounts Method" are: determining net income, the period of time during which this net income is discounted, the approximate value at the end of the period and the "objective" internal profitability rate used to discount cash flows.

The valuation hypotheses used were:

- *Income inflation*: The cash flow predictions for properties is based on assumptions on the income and expense structure of the property, its occupancy status and operation. CPI (Consumer Price Index) predictions and growth in Spain's Gross National Product were taken to determine the inflation in income.
- *Growth in income*: Annual income growth has been used, which depends on the market conditions forecasted for the forthcoming years.
- *Non-recoverable expenses*: Non-recoverable expenses related in general with the structural repairs of the property, refurbishments and rehabilitations were considered.
- *Income fees*: This assumes management fees for the new rental contract of 10% of the annual income, always considering the date they book place.
- *Income loss insurance*: 0.25% of gross annual income is applied for this item.
- *Cash flow discount period*: The forecast of the possible future value (initial value) of the property should be considered at best "imprecise", such that the lower the impact it has on the valuation process, the more approximate the valuation will be. This lower impact is easier to achieve when longer discount periods are taken, usually 10 years. The return rate of the investment depends on the risk it entails and the level of profitability that other alternative investments offer.
- *Return rate*: It was considered that the Spanish real estate market should offer a profitability of between 300 and 400 basic points above a risk-free asset in the long term. Currently this means a return rate of between 9 and 10%, approximately. The added basic points margin is due to the lack of liquidity of the real estate market compared to other more liquid markets, such as stocks, and the greater risk entailed by the uncertainty of income.
- *Initial profitability*: At the end of the discount period, it is essential to determine the initial (sale) value of the property, which is based exclusively on future income, not bearing in mind any other kind of reversal value, accordance with common market practice.

As a result of this evaluation, the impairment test was performed on each of the assets contained in the real estate portfolio to compare their fair values with their value in pounds. In this sense, Aena S.M.E., S.A. considers that there are not significant impairments different to those reported on 31 December 2017.

In 2016 the parent Company commissioned an independent valuation company (Jones Lang Lassalle) to undertake a review and valuation of the Group's real estate portfolio as of 31 December 2016, with the aim of determining the fair value of its investment property. The assets were valued in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards (the Red Book) as well as the provisions of International Accounting Standard 40 (IAS 40 - Investment property) on the basis of market value, where this means the estimated amount that would be obtained for the property in a transaction effected on the date of valuation between a willing and independent seller and buyer after a reasonable marketing period, and in which both parties have acted knowledgeably, prudently and without coercion.

The market value was obtained by capitalising the estimated net proceeds of the property based on the lease and reversal period. This involves the capitalisation of current income over the period together with the valuation of each of the likely subsequent rents after restatement of rents or after conclusion of new leases for each of the periods envisaged based on present value. The return or returns applied to the different categories of income reflect all expectations and risks associated with cash flow and investments, and are located in a range around 5.50 % - 9.50 % with the lower part corresponding to prime sites.

The sale price per square metre, determined by analysis of the investments and information about current global prices per square metre in the market, was taken into account by introducing appropriate adjustments at the time the valuation was prepared.

(Amounts in thousands of euros unless otherwise stated)

As a growth rate to be applied to future rents, an average rate of 1.90% (equivalent to an annual growth of 1.60% in the first year, 1.50% in the second year, 1.50% in the third year and 2.0% in the fourth and following years) was used to calculate fair value.

9 Equity-accounted investees

The breakdown and movement of this item in the years 2017 and 2016 is as follows (in thousand euros)

2017

	Balance at 1 January 2017	**Additions/Reductions (Reduction of capital)** (Note 2.2)	**Contribution of year's results**	**Dividends approved**	**Foreign exchange translation differences** (Note 18.b)	**Share in other comprehensive income of associates** (Note 18)	**Others (Wealth tax payment)**	**Balance at 31 December 2017**
SACSA	4,490	-	3,476	(2,568)	(525)	-	-	4,873
AMP	59,364	(4,734)	12,890	(8,921)	(4,499)	(7)	-	54,093
AEROCALI (**)	7,887	-	2,561	(5,068)	(359)	-	(32)	4,989
Total	**71,741**	**(4,734)**	**18,927**	**(16,557)**	**(5,383)**	**(7)**	(32)	**63,955**

2016

	Balance at 1 January 2016	**Additions/Reductions (Reduction of capital)** (Note 2.2)	**Contribution of year's results**	**Dividends approved**	**Foreign exchange translation differences** (Note 18.b)	**Share in other comprehensive income of associates** (Note 18)	**Others (Wealth tax payment)**	**Balance at 31 December 2016**
SACSA	3,219	-	2,991	(2,001)	281	-	-	4,490
AMP (*)	67,456	(1,457)	9,298	(9,366)	(6,597)	30	-	59,364
AEROCALI (**)	6,704	-	3,832	(3,516)	937	-	(70)	7,887
Total	**77,379**	**(1,457)**	**16,121**	**(14,883)**	**(5,379)**	**30**	**(70)**	**71,741**

(*) The impact of the reduction of capital in AMP explained in Note 2.2. on accumulated profits was 839 thousand euros.

(**) Investment with joint control (See Note 2.2), as a result of the acquisition of shares in this company and obtaining a 50 % holding, the Group has evaluated the rights therein and has concluded there is joint control since decisions are taken unanimously by the partners. The articles of association of the company, which set out the rights of partners, are not modified by this acquisition; in addition no agreement was reached between the partners during this period. No contingent liabilities exist in relation to the Group's holding in the joint venture. This company operates the Barranquilla airport.

AMP has a holding of 17.4 % of the Grupo Aeroportuario del Pacífico (GAP), which, on 20 April 2015, acquired Sociedad Desarrollo de Concesiones Aeroportuarias, S.L. ("DCA") from Abertis for 190.8 million USD.

DCA has a holding of 74.5 % in company MBJ Airports Limited (MBJA), which operates at Sangster International Airport (MBJ) in the city of Montego Bay in Jamaica. MBJ Airports Limited has a concession to operate, maintain and exploit the airport for a period of 30 years, counting from 3 April 2003. DCA also has a 14.77 % stake in the company SCL Terminal Aéreo Santiago, S.A. ("SCL"), the operator of the international terminal at Santiago de Chile airport until 30 September 2015.

Sangster International Airport is the main airport in Jamaica, located in the city of Montego Bay, right in the centre of the tourist corridor that runs from Negril to Ocho Rios, where 90 % of the hotel capacity of the island is concentrated.

The audited information expressed under IFRS relating to Associates at 31 December 2017 and 2016, measured in euros at the exchange rate in force at the end of each of the years, is as follows:

(Amounts in thousands of euros unless otherwise stated)

Name	Country of constitution	Assets	Liabilities	Operating income	Profit/ (Loss)	% of ownership
31 December 2017:						
- SACSA	Colombia	35,020	22,158	36,569	9,174	37.89%
- AMP	Mexico	166,797	10,881	16,759	38,673	33.33%
- AEROCALI	Colombia	31,815	21,836	60,291	5,123	50.00%
31 December 2016:						
- SACSA	Colombia	40,474	28,623	31,072	7,894	37.89%
- AMP	Mexico	181,026	9,293	14,603	27,896	33.33%
- AEROCALI	Colombia	46,360	30,586	37,722	7,665	50.00%

Assets, liabilities, income and results expressed in thousand euros of the main partner company (AMP) are detailed below:

	2017	**2016**
Non-current assets	155,299	170,517
Current assets	11,499	10,509
Non-current liabilities	-	-
Current liabilities	10,881	9,293
Ordinary income	16,759	14,603
Results of the year from ongoing operations	38,673	27,896
Total overall profit/(loss)	38,673	27,896

10 (a) Financial instruments by category

	31 December 2017			
	Loans and receivables	**Hedging derivatives**	**Available for sale**	**Total**
Assets on the balance sheet				
Available for sale financial assets (Note 11)	-	-	347	**347**
Derivative financial instruments	-	360	-	**360**
Other financial assets	71,506	-	-	**71,506**
Trade and other receivables (excluding pre- payments and non-financial assets) (Note 13)	329,322	-	-	**329,322**
Cash and cash equivalents (Note 15)	854,977	-	-	**854,977**
Total	**1,255,805**	**360**	**347**	**1,256,512**

	31 December 2017		
	Hedging derivatives	**Other financial liabilities at amortized cost**	**Total**
Liabilities on the balance sheet			
Borrowings (excluding finance lease liabilities) (Note 20)	-	7,988,655	**7,988,655**
Finance leases (Note 20)	-	22,304	**22,304**
Financial derivatives (Note 12)	82,655	-	**82,655**
Trade and other payables (excluding non- financial liabilities) (Note 19)	-	452,828	**452,828**
Total	**82,655**	**8,463,787**	**8,546,442**

	31 December 2016			
	Loans and receivables	**Hedging derivatives**	**Available for sale**	**Total**
Assets on the balance sheet				
Available for sale financial assets (Note 11)	-	-	354	**354**
Other financial assets	58,697	-	-	**58,697**
Trade and other receivables (excluding pre-payments and non-financial assets) (Note 13)	306,660	-	-	**306,660**
Cash and cash equivalents (Note 15)	564,616	-	-	**564,616**
Total	**929,973**	**-**	**354**	**930,327**

	31 December 2016		
	Hedging derivatives	**Other financial liabilities at amortized cost**	**Total**
Liabilities on the balance sheet			
Borrowings (excluding finance lease liabilities) (Note 20)	-	8,767,978	**8,767,978**
Finance leases (Note 20)	-	24,645	**24,645**
Financial derivatives (Note 12)	136,546	-	**136,546**
Trade and other payables (excluding non- financial liabilities) (Note 19)	-	300,908	**300,908**
Total	**136,546**	**9,093,531**	**9,230,077**

10(b) Credit quality of financial assets

The credit quality of the financial assets that have not yet matured and have not experienced losses from impairment can be evaluated based on the credit rating granted by organisations outside the Group or through the historical record of bad credit:

(In millions of euros)	31 December	
CLIENTS	**2017**	**2016**
Clients with external credit rating *(Source Reuters)*		
BBB	36.1	0.3
BB+	2.7	3.3
B	0.7	6.1
Clients without external credit rating		
Group 1	2.9	1.2
Group 2	260.6	277.6
Group 3	-	-

- Group 1 – New clients / related parties (less than 6 months)
- Group 2 – Existing clients / related parties (more than 6 months) without bad credit in the past.
- Group 3 – Existing clients / related parties (more than 6 months) with some bad credit in the past. All defaults were fully recovered.

None of the loans to related parts is matured or has suffered impairment of value.

(Amounts in thousands of euros unless otherwise stated)

11 Available for sale financial assets

	31 December	
	2017	**2016**
At 1 January	354	4,823
Disposals	(7)	
Loss from impairment	-	(4,469)
At 31 December	**347**	**354**

In particular, the Group includes in this category the minority shares it holds in companies, as outlined below:

Name and Address	Activity	Fraction of the Capital 2017	Fraction of the Capital 2016	Owner of the Share
Agencia Barcelona Regional Edificio Centreservei, Zona Franca Carrer 60, 25-27 Barcelona	Performance of analyses and surveys of urban planning, territorial and environmental aspects. Projection, promotion, management, development, direction, consulting, execution and operation of all kinds of construction sites, buildings and infrastructures and urban systems in the metropolitan area.	11.76	11.76	Aena S.M.E., S.A.
Airport Concessions and Development Limited (ACDL) 10, Upper Bank St- London – UK	Management of financial assets of the airport group TBI.	10	10	Aena Desarrollo Internacional S.M.E., S.A.
European Satellite Service Provider, SAS (ESSP SAS) Toulouse – France	Operation of the satellite navigation system.	16.67	16.67	Aena Desarrollo Internacional S.M.E., S.A.

The value of the shares on 31 December 2017 and 2016 is as follows (in thousand euros):

	Amount of share	
Name and address	**2017**	**2016**
Agencia Barcelona Regional.	180	180
Edificio Centreservei, Zona Franca Carrer 60, 25-27 Barcelona		
Airport Concessions and Development Limited (ACDL) 10, Upper Bank St- London – UK	-	7
European Satellite Service Provider, SAS (ESSP SAS) Toulouse – France	167	167
	347	**354**

None of these companies is listed on the stock market.

In financial years 2017 and 2016, Airport Concessions and Development Limited (ACDL) was not active and was in the process of liquidation after completing financial year 2013, and through its subsidiary TBI, it was selling Cardiff, Belfast International and Stockholm Skavsta, London Luton airports, the concessions at the terminal in Orlando Sanford airport and the airport management business of TBI in the United States.

The company ACDL was totally liquidated on 24 December 2017, the date when the period for its request for liquidation at the Business Registry of the United Kingdom was considered, although the Business Registry gave ACDL the status of dissolved company on 9 January 2018. Previously, partial liquidations had been performed by paying out the surplus cash through dividends, which is why it is considered a short-term asset after financial year 2016.

(Amounts in thousands of euros unless otherwise stated)

On 15 February 2016 the shareholders of ACDL decided to reduce the share capital, allocating 25,000 thousand pounds to unrestricted reserves and approving a dividend for that sum. The amount of the dividend recognised by the Group amounts to 3,234 thousand euros. Likewise, on 12 December 2016 the shareholders of ACDL decided to reduce the share capital, allocating 11,375 thousand pounds to unrestricted reserves and approving a dividend for that sum. The amount of the dividend recognised by the Group amounts to 1,356 thousand euros. As a result of the disinvestment carried out in ACDL through TBI, the Group recognised a loss for impairment of that investment amounting to 4,590 thousand euros (Note 31). This impairment is a consequence of the reduction in recoverable value of the investment following the disinvestment mentioned above.

In 2017 the group received a dividend from European Satellite Services Provider SAA (ESSP SAS) amounting to 417 thousand euros (2016: 250 thousand euros).

On 31 December 2017 and 2016, it was impossible to reliably estimate its fair value. For this reason, these shares were valued at cost, after having found the value adjustment applicable as the difference between their value in pounds and their recoverable value.

The financial assets available for sale are denominated in the following currencies for 2017 and 2016:

	31 December	
	2017	**2016**
Pounds	-	7
Euros	347	347
Total	**347**	**354**

The financial assets available for sale include representative shares of debt and equity instruments of other companies in which the Group has no control or significant influence in their decision-making.

12 Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
ENAIRE interest rate swaps transferred to Aena- CF Hedge	-	-	-	176
Interest rate swaps – cash flow hedges Aena	-	82,655	-	129,506
Interest rate swaps - cash flow hedges LLAH III	360	-	-	6,864
Total	**360**	**82,655**	**-**	**136,546**
Current portion	**-**	**37,010**	**-**	**39,651**
Non-current portion	**360**	**45,645**	**-**	**96,895**

The breakdown of the fair value of the derivative financial instruments at 31 December 2017 and 31 December 2016 is shown in the preceding table.

The total fair value of a hedging derivative is classified as non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and as current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months.

During the periods ending 31 December 2017 and 31 December 2016, the hedging derivatives are 100% effective and meet all the requirements needed to apply hedge accounting, such that there is no ineffectiveness recorded in the profit and loss statement.

Interest rate swaps

- ENAIRE derivatives transferred to Aena S.M.E., S.A.

On 31 December 2017 there is no pending notional derivatives with Enaire. The main characteristics of it on 31 December 2016 were the following:

(Amounts in thousands of euros unless otherwise stated)

	Classification	Type	Contracted amount (thousand euros)	Date of agreement:	Start date for the derivative	Maturity	Designation date of the hedge
Interest rate swaps	Cash flow hedge	Fixed interest rate swap at 0.98 % against variable interest rate	66,500	13/12/2012	13/12/2012	13/12/2017	13/12/2012

From the interest rate swap whose contracted amount totals 66,500 thousand euros, Aena had been transferred 66.67% until its maturity on 13 December 2017. The amount of the notional principal on 31 December 2016 was 14,778 thousand euros.

During the year ended on 31 December 2017, 183 thousand euros were assigned to the income statement as financial expenses for settlement of derivatives (year ended at 31 December 2016: 1,547 thousand euros).

The fair value of these derivatives on 31 December 2017 and 31 December 2016 is the following:

Fair value registered in "Non-current liabilities" on 31 December 2017 (in thousand euros)	Fair value registered in "Current liabilities" on 31 December 2017 (in thousand euros)
-	-

Fair value registered in "Non-current liabilities" on 31 December 2016 (in thousand euros)	Fair value registered in "Current liabilities" on 31 December 2016 (in thousand euros)
-	176

- Aena S.M.E., S.A. derivatives

As was explained in Note 3, on 10 June 2015 Aena signed a hedging transaction from variable interest rate to fixed with lending entities with a credit rating equal to or better than BBB (Standard & Poor's), in order to avoid the risk of fluctuation in interest rates on various credits, for an amount of 4,195.9 million euros.

Their main characteristics are as follows:

	Classification	Type	Contracted amount (thousand euros)	Pending capital 31/12/2017	Date of agreement:	Start date	Maturity	Designation date of the hedge
Interest rate swaps	Cash flow hedge	Fixed interest rate swap at 0.144 % against variable interest rate (Eur6M)	290,000 (*)	217,500	19/12/2016	27/12/2016	15/12/2020	19/12/2016
Interest rate swaps	Cash flow hedge	Fixed interest rate swap at 1.1735 % against variable interest rate (Eur6M)	854,100	711,750	10/06/2015	15/06/2015	15/12/2026	10/06/2015
Interest rate swaps	Cash flow hedge	Fixed interest rate swap at 0.9384 % against variable interest rate (Eur3M)	3,041,833	2,135,463	10/06/2015	15/06/2015	15/12/2026	10/06/2015

(*) Initially contracted for 300,000 thousand euros.

The sums of notional principal in those interest rate swap contracts outstanding at 31 December 2017 amounted to 3,064,713 thousand euros (31 December 2016: 3,378,707 thousand euros).

The balance recognised in the reserve for equity cover in interest rate swap contracts at 31 December 2017 will be continuously transferred to the results account until the bank loans are repaid. During 2017, 40,347 thousand euros were assigned to the income statement as losses on hedging instruments (in 2016: 42,925 thousand euros).

As shown in Note 34.f, the 300-million-euro loan from ICO was renewed. The derivative associated with this loan has also been modified to make it match the new calendar of payments, going from a fixed rate of 0.2941% to 0.144%.

The fair value of these derivatives totals 82,655 thousand euros on 31 December 2017 (31 December 2016: 129,506 thousand euros) and its breakdown between current and non-current parts is as follows:

(Amounts in thousands of euros unless otherwise stated)

Fair value registered in "Non-current liabilities" on 31 December 2017 (in thousand euros)	Fair value registered in "Current liabilities" on 31 December 2017 (in thousand euros)
45,645	37,010
Fair value registered in "Non-current liabilities" on 31 December 2016 (in thousand euros)	Fair value registered in "Current liabilities" on 31 December 2016 (in thousand euros)
90,031	39,475

On 31 December 2017, if the interest rate had increased or dropped 20 basic points while the other variables remained constant, the liabilities for these derivatives would have been 32,709 thousand euros less and 33,271 thousand euros more, respectively, and the pre-tax profit for the year would have been 6,900 thousand euros higher or 6,900 thousand euros lower, respectively.

In financial year 2017, 183 thousand euros (2016: 1,547 thousand euros) were assigned to the results statement was for "mirror" derivatives with ENAIRE, and 40,347 thousand euros (2016: 42,925 thousand euros) for Aena, up to a total of 40,530 thousand euros financial expenses for settlement of derivatives (2016: 44,472 thousand euros) (Note 31).

On December 2017 and 2016, hedging derivatives were effective and met the requirements needed to apply hedge accounting, such that there is no ineffectiveness recorded in the results statement.

- LLAH III group derivatives

The previous LLAH I loan agreement with banks (Note 20) required that 70% of the nominal value of the loans (159.6 million pounds) was hedged by fixed rates. Regarding the debt with banks mentioned in the aforementioned Note, the LLAH III group contracted various interest rate swaps. These swaps, which initially matured in 7 years (March 2022) were at a fixed interest rate of 1.685% as opposed to a variable interest rate.

The main initial characteristics of the derivatives of the LLAH III group were the following:

	Classification	Contracted amount (thousand euros)	Date of agreement:	Start date for the derivative	Maturity	Designation date of the hedge
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	34,059	26/03/2015	26/03/2015	28/03/2022	26/03/2015
Interest rate swaps	Cash flow hedge	12,261	26/03/2015	26/03/2015	28/03/2022	26/03/2015
	TOTAL	**216,615**				

On the occasion of the refinancing operation executed in August 2017, described in Note 20, several swaps were cancelled and replaced with new swaps that cover 100% of new loans at variable interest rates (80 million pounds of notional principal). These swaps, which mature in between 7 and 12 years, have an average fixed interest rate of 1.09%, as opposed to a variable interest rate, and their reported value as long-term assets on 31 December 2017 was 360 thousand euros at the exchange rate at the close of 2017 (31 December 2016: long-term liability of 6,864 thousand euros at the exchange rate at the close of 2016).

The cancellation of the existing liability for the derivatives prior to the refinancing executed in August 2017 mentioned above led to a payment of 7,264 thousand euros, which appears in the cash flow report in the section on "Other payments" of financing activities.

(Amounts in thousands of euros unless otherwise stated)

On the other hand, of the 7,904 thousand euros of hedge funds for cash flows associated with these previous derivatives at the time that the refinancing was executed, the net finance result was 5,067 thousand pounds (5,780 thousand euros), and the rest of the balance reported in that hedge fund was estimated to remain in equity, if the relation of hedging for this property of debt continues to exist, in accordance with the hedge documentation existing. Therefore, the remaining balance of this reserve will continually be transferred to the income statements until the bank loans are paid off in 2022.

The characteristics of these new swaps are the following:

	Classification	Contracted amount (thousand euros)	Date of agreement:	Start date for the derivative	Maturity	Designation date of the hedge
Interest rate swaps	Cash flow hedge	40,000	17/08/2017	17/08/2017	17/08/2029	17/08/2017
Interest rate swaps	Cash flow hedge	10,000	17/08/2017	17/08/2017	17/08/2027	17/08/2017
Interest rate swaps	Cash flow hedge	30,000	17/08/2017	17/08/2017	17/08/2024	17/08/2017
	TOTAL	**80,000**				

For the new derivatives, the management has performed the prospective efficacy test based on the match of economic terms of the element hedged and the economic terms of the hedging instrument, and the conclusion reached supports their applicability to hedge accounting.

13 Trade and other receivables

	Thousand euros	
	2017	**2016**
Trade receivables for sales and services rendered	411,920	398,953
Credit right to receive a building	2,958	2,769
Lower: provision for impairment losses on receivables	(114,977)	(123,452)
Trade receivables for sales and services rendered – net	299,901	278,270
Trade receivables from related parties (Note 34)	3,509	3,115
Other receivables from related parties (Note 34)	4,309	3,839
Sundry debtors and other assets	21,232	21,106
Employment costs	371	330
Current tax assets	34	110,456
Other receivables from public administrations	25,284	23,062
Total	**354,640**	**440,178**
Less non-current portion	**2,831**	**2,599**
Current portion	**351,809**	**437,579**

The fair value of Trade and other receivables is similar to their carrying value.

At 31 December 2017 this heading showed 27,538 thousand euros denominated in foreign currency, of which 21,553 thousand euros are denominated in pounds sterling (2016: 31,030 thousand euros denominated in foreign currency, of which 24,344 thousand euros are denominated in pounds sterling).

On 31 December 2017, the receivables of clients pending maturity and not provisioned totalled 285.103 million euros (2016: 266.525).

On 31 December 2017, there were receivables of clients totalling 14.798 thousand euros (2016: 11.745 thousand euros) which were mature but not provisioned, as they corresponded to liquidations and invoices that were being processed on 31 December of each financial year and have now been paid.

(Amounts in thousands of euros unless otherwise stated)

The analysis of the age of these accounts at the close of each financial year is as follows:

	Thousand euros	
	2017	**2016**
Up to 3 months	9,846	5,766
Between 3 and 6 months	1,277	4,327
More than 6 months	3,675	1,652
	14,798	**11,745**

The commercial receivables which have experienced an impairment in value correspond basically to the airlines and companies which are undergoing insolvency proceedings. The total amount is provisioned at the end of each financial year. The analysis of age of these accounts is the following:

	Thousand euros	
	2017	**2016**
Less than 3 months	358	-
Between 3 and 6 months	72	114
More than 6 months	114,547	123,338
	114,977	**123,452**

The amount of the provision for impairment of receivables from clients and other receivables is 114,977 thousand euros (123,452 thousand euros on 31 December 2016).

Movements in the provision for the impairment of the value of the Group's trade and other receivables were as follows:

	Thousand euros	
	2017	**2016**
Beginning balance	123,452	121,742
Provision for impairment of the value of receivables	(8,642)	1,723
Other movements	167	(13)
At 31 December	**114,977**	**123,452**

The allocation and application of the provision for impaired trade receivables has been included under Other operating expenses in the income statement. The amounts charged against the provision account are normally eliminated from the accounts when there is no expectation to receive additional cash.

In addition to the positive change of 8,642 thousand euros (2016: negative variation of 1,723 thousand euros) in the provision of impairment for operations, in financial year 2017, in the section "Losses, impairment and variation in provisions for operations" of the profit and loss statement, losses of 2,571 thousand euros (2016: 6,122 thousand euros) were posted for permanent disposals given by the State Tax Administration Agency from debts sent to debt collection proceedings, up to 6,072 thousand euros positive which appear in that section (2016: - 7,845 thousand euros). (Note 30).

The rest of the accounts included in trade and other receivables contain no assets that have suffered impairment.

The maximum exposure to credit risk at the reporting date is the carrying amount of each of the categories of the aforementioned receivables. The Group does not maintain any guarantee as insurance.

The heading "Credit right to receive a building" includes the Group's right to receive the asset that the tenant company builds on a site assigned to it, at the end of the land assignment contract, to the degree that the building put up on the site constitutes another consideration in the lease agreement. The non-current value of this right amounted to 2,831 thousand euros at 31 December 2017 (2,599 thousand euros at 31 December 2016).

The "Other receivables" heading mainly includes accruals for deferred expenses, as well as taxes and deposits with maturity less than twelve months but greater than three months. It also includes the outstanding balance due to the incident involving an incursion onto the runway at El Prat Airport on 28 July 2006 amounting to 7,422 thousand euros, an amount that the Group has accrued.

(Amounts in thousands of euros unless otherwise stated)

During fiscal 2017, the balance of 110,456 thousand euros has been collected which remained in "Current tax assets" in the consolidated statement of financial position at 31 December 2016 corresponding to the payments on account not used in 2015.

At 31 December 2017, "Other receivables from public administrations" records 15,913 thousand euros relating to ERDF grants receivable awarded to the Company (2016: 13,860). At 31 December 2017 and 2016, the rest of the line item records receivables relating to indirect taxes.

14 Inventories

	Thousand euros	
	2017	**2016**
Raw materials and other supplies	7,051	7,628
Supplier advances	-	1,330
Total inventories	**7,051**	**8,958**

The balance of raw materials and other supplies primarily includes materials and spare parts used in the operational activities. On 31 December 2017 that included 0 thousand euros (2016: 25 thousand euros) of spare parts purchased from the ultimate dominant company ENAIRE.

15 Cash and cash equivalents

	Thousand euros	
	2017	**2016**
Cash and bank deposits	854,977	564,616
Short-term bank deposits	-	-
Cash and cash equivalents	**854,977**	**564,616**

At 31 December 2017 and 2016, there are no cash balances and other equivalent liquid assets that are not available for use. At 31 December 2017 and 2016 the Group does not have any bank overdrafts.

The breakdown of cash and cash equivalents in currencies other than the euro is as follows:

	2017	**2016**
Cash and cash equivalents in US dollars (USD)	2,094	721
Cash and cash equivalents in Great Britain Pound (GBP)	30,834	24,052

16 Share capital and share premium

The number of shares and the amount of share capital and share premium of the parent Company in 2017 and 2016 are as follows:

	Number of shares	**Share capital (thousand euros)**	**Share premium (thousand euros)**	**Total (thousand euros)**
As of 31 December 2017	150,000,000	1,500,000	1,100,868	**2,600,868**
As of 31 December 2016	150,000,000	1,500,000	1,100,868	**2,600,868**

The parent Company was created on 31 May 2011 with an initial share capital of 61 shares each with a par value of €1,000 each, fully subscribed by the public business entity Aeropuertos Españoles y Navegación Aérea.

On 6 June 2011, the Company's single shareholder at the time adopted the following resolutions:

(Amounts in thousands of euros unless otherwise stated)

- Reduce the par value of the Company's €1,000 shares by dividing the 61 outstanding shares into 6,100 shares, consisting of 100 new shares for each old share, without changing the amount of the Company's share capital. As a result, the Company's share capital was represented at that date by 6,100 shares with a par value of 10 euros each.

- Increase share capital to 1,500,000 thousand euros by issuing 149,993,900 new shares with a par value of 10 euros each, all with the same rights and obligations as the previously existing shares. The shares were issued with a share premium of 1,100,868 thousand euros, and therefore the amount payable for share capital and share premium totals 2,600,807 thousand euros. The share capital was fully subscribed and paid by the single shareholder at the time through a non-monetary contribution of the airport line of business described in Note 1 of these consolidated financial statements.

On 23 January 2015 the Council of Ministers approved the sale of 49 % of Aena by an Initial Public Offer, registering the IPO prospectus with the CNMV (National Securities Market Commission) on 23 January 2015. Trading in Aena S.M.E., S.A. shares opened on the Continuous Market, in the four Spanish stock markets, on 11 February 2015.

The listing of the Company on the stock exchange, as explained above, via the IPO of 49 % of Aena S.M.E., S.A.'s capital, meant that the Entity, ENAIRE's holding in Aena S.M.E., S.A. fell to 51 %, compared to its previous 100 %.

On 31 December 2017 and 2016, the share capital of Aena S.M.E., S.A. was represented by 150,000,000 ordinary shares worth 10 euros in nominal value each, which have been totally disbursed. These shares have equal political and economic rights.

On 31 December 2017, there are no capital increases in progress nor authorisations to operate in own shares.

According to the information available, on 31 December 2017 the shares over 10% are the following:

ENAIRE	51.00 %
TCI Fund Management Limited [1]	11.32 %

[1] The Children's Investment Fund Management is the indirect owner of 3.61 % through certain equity swaps (CFDS)

According to the information available, on 31 December 2016 the shares over 10% are the following:

Enaire	51.00%
TCI Fund Management Limited [1]	11.32%

[1] The Children's Investment Fund Management is the indirect owner of 3.61% through certain equity swaps (CFDS)

(Amounts in thousands of euros unless otherwise stated)

17 Retained earnings

	Legal reserve	Capitalisation reserve	Other reserves	Total
As of 1 January 2016	**103,225**	**-**	**1,660,209**	**1,763,434**
Profit from the year	81,168	-	1,082,981	1,164,149
Allocation to capitalisation reserve	-	42,406	(42,406)	-
Dividends paid	-	-	(406,500)	(406,500)
Other movements	-	-	769	769
As of 31 December 2016	**184,393**	**42,406**	**2,295,053**	**2,521,852**
Profit from the year	114,806	-	1,117,199	1,232,005
Allocation to capitalisation reserve	-	28,160	(28,160)	-
Dividends paid	-	-	(574,500)	(574,500)
Other movements	-	-	667	667
As of 31 December 2017	**299,199**	**70,566**	**2,810,259**	**3,180,024**

On 31 December 2017 and 2016, the amount of the legal reserve is a restricted reserve.

On 31 December 2017, the section "Other movements" primarily showed the impact that the reduction of capital of AMP explained in Note 2.2 had on cumulative earnings to the amount of 699 thousand euros (2016: 839 thousand euros), which was counterbalanced by the payment of the wealth tax of (32) thousand euros (2016: (70) thousand euros) made in Aerocali (Note 9).

This section also includes an amount of 70,566 thousand euros in capitalisation reserve coming from the approval of the Company's profit-sharing in the financial years ending 31 December 2016 and 31 December 2015.

Proposed allocation of profits

The allocation of profits from financial year 2017 proposed by the Board of Management of the dominant company Aena SME., S.A. under the General Accounting Plan approved by Royal Decree 1514/2007 in the General Shareholder Board, is the following:

	Thousand euros
	2017
Allocation basis:	
Profit and Losses (Profits)	1,219,751
Application:	
Dividends	975,000
Legal reserve	802
Capitalisation reserve (Law 27/2014)	43,060
Voluntary reserve	200,889

To calculate the Corporate Tax, the company has used the fiscal benefit of the capitalisation reserve stipulated in art. 25 of Law 27/2014 of the Corporate Tax Act, so it has made a reduction in its taxable base and has allocated a capitalisation reserve for the amount of 43,060 thousand euros with the commitment to maintain both the restricted reserve allocated for this item and the increase in equity used as the base of this reduction for the next 5 years.

The legal reserve must be allocated in accordance with article 274 of the Law on Capital Companies. This article requires that, in any event, a figure equal to 10 % of the profits from the period is earmarked for the legal reserve, until its amount attains at least 20 % of the share capital

(Amounts in thousands of euros unless otherwise stated)

The legal reserve, as long as it does not exceed the amount indicated above, can only be used to offset losses if no other reserves are available for this purpose.

With this proposed distribution of the profit from financial year 2017, the amount of the legal reserve would be established at 300,000 thousand euros, thus fulfilling the legally stipulated minimum for Aena S.M.E, S.A. in accordance with article 274 of the aforementioned Law on Capital Companies.

With the proposed application of the profit of 2016, the amount of the legal reserve was established at 299,198 thousand euros, 99.73% of the legally stipulated minimum for Aena S.M.E, S.A. of 300,000 thousand euros in accordance with article 274 of the aforementioned Law on Capital Companies

The application of the profits of the dominant Company from the financial year ending on 31 December 2016, approved by the General Shareholders Board on 25 April 2017, was the following:

	Thousand euros
	2016
Allocation basis:	
Losses and gains (Benefits)	1,148,061
Application:	
Dividends	574,500
Legal reserve	114,806
Capitalisation reserve (Law 27/2014)	28,160
Voluntary reserve	430,595

However, the Company's reserves allocated as free distribution, as well as the profit from the year, are subjected to the limitation that dividends may only be paid out if the value of the equity is not lower than the share capital as a result of the payment.

18 Non-controlling interests and Other reserves

b) Non-controlling interests

The composition of non-controlling interests is as follows:

	Segment	**Country**	**% Aena**	**2017**	**2016**
LLAH III (Note 2.2)	International	United Kingdom	51 %	5,426	32,400
				5,426	**32,400**

(Amounts in thousands of euros unless otherwise stated)

The movement of these minority interests in 2017 and 2016 were as follows:

	LLAH III	Total
As of 1 January 2016	**56,399**	**56,399**
Distribution of dividends	(3,350)	(3,350)
Total contributions by and distributions to shareholders recognised in equity	**(3,350)**	**(3,350)**
Profit for the period	237	237
Other comprehensive income for the year	(20,886)	(20,886)
Total comprehensive income for the period	**(20,649)**	**(20,649)**
As of 31 December 2016	**32,400**	**32,400**
Distribution of dividends	(17,631)	(17,631)
Total contributions by and distributions to shareholders recognised in equity	**(17,631)**	**(17,631)**
Profit for the period	(10,036)	(10,036)
Other comprehensive income for the year	693	693
Total comprehensive income for the period	**(9,343)**	**(9,343)**
As of 31 December 2017	**5,426**	**5,426**

Other reserves

	Note	Hedging derivatives	Actuarial gains and losses	Foreign exchange translation differences	Results of associates	Total
As of 1 January 2016		**(57,082)**	**514**	**(3,852)**	-	**(60,420)**
Cash flow hedges		(103,766)	-	-	-	(103,766)
Actuarial gains and losses		-	(14,110)	-	-	(14,110)
Tax effect		25,664	2,286	-	-	27,950
Transfers to the income statement		44,472	-	-	-	44,472
Tax effect		(11,118)	-	-	-	(11,118)
Share in other comprehensive income of associates	9	-	-	-	30	30
Translation differences - associates	9	-	-	(5,379)	-	(5,379)
Translation differences - group		-	-	(7,030)	-	(7,030)
As of 31 December 2016		**(101,830)**	**(11,310)**	**(16,261)**	**30**	**(129,371)**
Cash flow hedge		9,330	-	-	-	9,330
Actuarial gains and losses		-	(508)	-	-	(508)
Tax effect		(2,122)	89	-	-	(2,033)
Transfers to the income statement		**40,530**	**-**	**-**	**-**	**40,530**
Tax effect		(10,133)	-	-	-	(10,133)
Share in other comprehensive income of associates	9	-	-	-	(7)	(7)
Translation differences - associates	9	-	-	(5,383)	-	(5,383)
Translation differences - group		-	-	(879)	-	(879)
As of 31 December 2017		**(64,225)**	**(11,729)**	**(22,523)**	**23**	**(98,454)**

(Amounts in thousands of euros unless otherwise stated)

c) Other global result, net of taxes

	Other reserves attributable to the dominant Company	Other reserves attributable to minority interests	Total other global result
31 December 2017			
Items which may be reclassified after the results:			
Cash flow hedges (Note 32)	37,605	2,244	39,849
Share in other comprehensive income of associates (Note 32)	(7)	-	(7)
Foreign exchange translation differences	(6,261)	(1,154)	(7,415)
Actuarial gains and losses (Note 32)	(420)	(397)	(817)
Total	**30,917**	**693**	**31,610**
31 December 2016			
Items which may be reclassified after the results:			
Cash flow hedges (Note 32)	(44,748)	(2,800)	(47,548)
Share in other comprehensive income of associates (Note 32)	30	-	30
Foreign exchange translation differences	(12,409)	(6,755)	(19,164)
Actuarial gains and losses (Note 32)	(11,824)	(11,331)	(23,155)
Total	**(68,951)**	**(20,886)**	**(89,837)**

(Amounts in thousands of euros unless otherwise stated)

19 Trade and other payables

	31 December	
	2017	**2016**
Suppliers	229	467
Trade payables	187,563	183,710
Creditors from related parties (Note 34)	29,553	32,953
Asset suppliers	200,073	61,359
Payables to related parties for property, plant and equipment (Note 34)	5,034	2,634
Employment costs	30,376	19,785
Current tax liabilities	3,279	6,025
Social Security and other taxes	20,727	19,848
Advance from World Duty Free Group	50,117	51,283
Other prepayments from customers	61,468	60,981
	588,419	**439,045**

In 2017 this heading included 65,931 thousand euros which were originally expressed in pounds sterling (2016: 62,402 thousand euros).

The carrying value of Trade and other payables approximate their fair value given that the effect of the financial discount is not significant.

The increase in the heading “Asset suppliers” is related to the major increase in the investments in fixed assets made in 2017 compared to financial year 2016 (see Notes 6, 7 and 8).

Likewise, the increase in the balance of the heading “Employment Costs” is due to the agreement reached between the dominant Company and union organisations on 25 September 2017 (see Note 28).

Regarding the heading “Advance from World Duty Free Group”, on 14 February 2013, Aena S.M.E., S.A signed three contracts with World Duty Free Group España, S.A. to rent the commercial spaces of the duty free and duty paid speciality shops in the entire network of airports in Spain. These contracts are valid until 31 October 2020 and included an advance by €332,442 thousand, which is periodically offset by billing. In this sense, at 31 December 2017 short-term advances amounted to 50,117 thousand euros (2016: 51,283 thousand euros), and long-term advances included in the heading “Other non-current liabilities”, amounted to 80,011 thousand euros (2016: 120,508 thousand euros) (Note 25).

<u>Information on postponements of payments made to suppliers</u>

The information on the average payment period of Aena S.M.E., S.A. and Aena Desarrollo Internacional, S.M.E., S.A. is as follows:

	2017	**2016**
	Days	**Days**
Average payment period	51	52
Average collection period	54	54
Ratio of outstanding payments	18	18

These parameters were calculated per Art. 5 of Resolution of 29 January 2015 published by the Accounting and Auditing Institute, on the information to be included in the financial statement report in relation to the average payment period to suppliers in commercial transactions, as follows:

1. Average payment period to suppliers = (Ratio of paid operations * total value of payments made + Ratio of outstanding payment operations * total amount outstanding payments)/(total amount of payments made + total amount of outstanding payments).

(Amounts in thousands of euros unless otherwise stated)

2. Ratio of transactions paid = Σ (Days Payment Outstanding * amount of the transaction paid) / total amount of payments made.
   Days Payment Outstanding is understood to mean the calendar days that have elapsed since the date the calculation begins until the actual payment of the transaction.

3. Ratio of outstanding payments = Σ (Days Payment Outstanding * amount of operations pending payment) / Total amount of outstanding payments.
   Days Payment Outstanding is understood to mean the calendar days that have elapsed since the date the calculation begins until the last day referred to in the financial statements.

4. For the calculation of both the number of days of payment as well as the days' payment outstanding, the company calculates the term as of the date of provision of the services. However, given the lack of reliable information on the time that this has taken place, the date of receipt of the invoice is used.

   This balance refers to suppliers who, given their nature, are suppliers of goods and services, so that it includes data regarding the headings "Trade creditors" in the balance sheet.

	2017	2016
	Amount (thousand euros)	**Amount (thousand euros)**
Total payments made	802,499	770,526
Total payments outstanding	79,496	95,150

In 2017 average payment period has complied with the deadlines set out by Law 15/2010. The cases in which a payment has been made outside of the legally binding period are due mainly to reasons not attributable to the Company: invoices not received on time, AEAT expired certificates, lack of certificates of proof of supplier bank accounts, amongst others.

The APP is calculated on the invoices received and accepted pending payment. The "Trade payables" balance is greater than the "pending payments" balance as it includes the balances from invoices pending reception and/or acceptance in addition to the balances from the LLAH III subgroup.

20 Financial debt

	31 December	
	2017	**2016**
Non-current		
ENAIRE loans (Note 34)	6,104,218	7,487,181
Aena SME, SA bank borrowings	649,888	-
Other bank borrowings	346,585	258,259
Loans with LLAH III shareholders	52,280	54,403
Finance lease liabilities	20,152	22,649
Other financial liabilities	102,893	89,692
	7,276,016	**7,912,184**
Current		
ENAIRE loans (Note 34)	683,540	810,402
Aena credit institutions loans	1,848	-
Bank borrowings	19,346	40,383
Loans with LLAH III shareholders	401	418
Finance lease liabilities	2,152	1,996
Other financial liabilities	27,656	27,240
	734,943	**880,439**

(Amounts in thousands of euros unless otherwise stated)

The reconciliation between the opening and closing balances in the statement of financial position of the components of Borrowings is as follows:

		Cash flow						
	31 December 2016	**Financing activities Collections**	**Financing activities Payments**	**Operating activities Interest payments**	**Short/long-term transfers**	**Accrued interest/ Updates**	**Translation differences**	**31 December 2017**
Non-current								
ENAIRE loan (Note 20.a)	7,487,181	-	-	-	(1,384,391)	1,428	-	6,104,218
Aena bank borrowings	-	650,000	(126)	-	-	14	-	649,888
Other bank borrowings	258,259	341,053	(255,137)	-	-	10,354	(7,944)	346,585
Loans with LLAH III shareholders	54,403	-	-	-	-	-	(2,123)	52,280
Finance lease liabilities	22,649	-		-	(2,744)	585	(338)	20,152
Other financial liabilities	89,692	21,950	(9,193)	-	307	137	-	102,893
Total non-current	**7,912,184**	**1,013,003**	**(264,456)**	**-**	**(1,386,828)**	**12,518**	**(10,405)**	**7,276,016**
Current								
ENAIRE loan (Note 20.a)	810,402	-	(1,497,288)	(76,735)	1,384,391	62,770	-	683,540
Interest accrued on Aena bank loans Aena	-	-	-	(540)	-	2,388	-	1,848
Bank borrowings	40,383	-	(23,148)	(6,590)	-	10,032	(1,331)	19,346
Loans with LLAH III shareholders	418	-	-	(4,212)	-	4,233	(38)	401
Finance lease liabilities	1,996	-	(2,952)	-	2,744	384	(20)	2,152
Other financial liabilities	27,240	844	(121)	-	(307)	-	-	27,656
Total current	**880,439**	**844**	**(1,523,509)**	**(88,077)**	**1,386,828**	**79,807**	**(1,389)**	**734,943**
Total Financial debt	**8,792,623**	**1,013,847**	**(1,787,965)**	**(88,077)**	**-**	**92,325**	**(11,794)**	**8,010,959**

The variations in the balance of the loan from ENAIRE which occurred in financial year 2017 primarily correspond to repayment of the principal for the amount of 1,497,288 thousand euros (see Note 20.a).

The variation in Aena's bank borrowings corresponds to the new financing acquired with credit entities for the amount of 650,000 thousand euros (See Note 20.b).

The variation in other bank borrowings primarily corresponds to the refinancing undertaken in the subsidiary LLAH III (see Note 20.b) and to fluctuations in the euro-pound exchange rate. The variation in the heading "Loans from LLAHIII shareholders" was due exclusively to fluctuations in the euro/pound exchange rate. The heading of other financial liabilities varied as a consequence of collections and payments of guarantees in Aena S.M.E., S.A.

In 2016, variations in the balance of the loan from ENAIRE corresponded to repayment of the principal for the amount of 1,172,339 thousand euros, and inversely, 7,359 thousand euros for the increase in interest to pay and 2,731 thousand euros for the effect of the amortised cost. The variations in the loans from lending entities and financial lease liabilities were due to payments made in the period and fluctuations in the euro/pound exchange rate. The variation in the item "Loans from LLAHIII shareholders" was due exclusively to fluctuations in the euro/pound exchange rate. The item of other financial liabilities varied as a consequence of collections and payments of guarantees in Aena S.M.E., S.A.

(Amounts in thousands of euros unless otherwise stated)

The carrying and fair values of non-current borrowings are as follows:

	Carrying amount		Fair value	
	31 December		31 December	
	2017	2016	2017	2016
Financial debt with the Group	6,104,218	7,487,181	6,105,413	7,372,180
Aena S.M.E., SA bank borrowings	649,888	-	643,051	-
Bank borrowings	346,585	258,259	346,585	258,259
Loans with LLAH III shareholders	52,280	54,403	52,280	54,403
Finance lease liabilities	20,152	22,649	20,152	22,649
Other financial liabilities	102,893	89,692	102,893	89,692
Total	**7,276,016**	**7,912,184**	**7,270,374**	**7,797,183**

The fair value of current borrowings is equal to their carrying value, as the impact of the discount is not significant. The fair values for the debt with a period higher than one year is based on the cash flows discounted to the risk-free interest rates (Euribor 12M swap curve) plus an equal spread in Aena's CDS (62 bps) (2016: 0 coupon curve plus a spread of 0.99%) and are at Level 2 in the fair value hierarchy.

(a) <u>Financial debt from the parent company (Note 34)</u>

	31 December 2017	31 December 2016
Non-current		
Loan to Aena, S.M.E., S.A. from ENAIRE	6,109,084	7,493,942
Adjustment of the loan from ENAIRE using the effective cost criterion.	(4,866)	(6,761)
Subtotal Aena, S.M.E., S.A. long-term debt with ENAIRE	**6,104,218**	**7,487,181**
Current		
Loan from ENAIRE	665,199	777,629
Adjustment of the loan from ENAIRE using the effective cost criterion.	(471)	(1,039)
Interest accrued on loans from ENAIRE	18,812	33,812
Sub-total of loans from related parties	**683,540**	**810,402**
Current hedge derivatives attributed by ENAIRE	-	176
Subtotal Aena, S.M.E., S.A. short-term debt with ENAIRE	**683,540**	**810,578**
Total	**6,787,758**	**8,297,759**

As a result of the non-monetary contribution described in Note 1, the Company and ENAIRE have concluded a financing agreement under which the debts relating to the contributed line of business forming part of the share capital increase described in Note 1 are transferred from ENAIRE to Aena, S.M.E., S.A. In this agreement between both parties, the initial debt and future debt cancellation conditions are recognised, as is the procedure for settling interest and the repayment of the debt. It also specifies that the public business entity "Aeropuertos Españoles y Navegación Aérea" is the formal borrower as regards the financial lending institutions, but it also recognises that S.M.E., S. A. is obliged to pay the percentage of the active balance of the debt of the public entity Aena attributable to the airport line of business at the time of the contribution of any of the payments that the public business entity "Aeropuertos Españoles y Navegación Aérea" is required to pay to the financial institutions, in accordance with the financial conditions and the other terms and stipulations established in the Financing Agreements.

In the Council of Ministers' meeting of 11 July 2014, the public business entity "Aeropuertos Españoles y Navegación Aérea" was authorised to initiate proceedings for the sale of the share capital of Aena, S.M.E., S.A. and to dispose of up to 49 % of its capital.

In the context of offering company shares to private investors, and in order to ensure the process was compatible with the financing agreements (long- and short-term borrowings) and the hedging agreements taken out with all of the financial institutions, on 29 July 2014, the public business entity "ENAIRE", S.M.E., S. A. and the respective financial institutions agreed a novation amending but not extinguishing the corresponding financial agreements.

The re-wording of the new financing agreements superseded entirely, and for all legal effects, the original contracts and their renovations, in order to, amongst other amendments, eliminate any contractual restriction that may affect the privatisation process and to include Aena, S.M.E., S.A. as jointly liable together with the public business entity "ENAIRE" under the various financing contracts and to make all the necessary adjustments to these financing contracts that may be required for this purpose.

These renovations did not alter the financial terms of the loan transactions granted at the time to the public business entity "ENAIRE", nor those outlined in the model loans taken out from Aena, S.M.E., S.A. (such as, among others: repayment of principal, maturity dates, interest rate regime, terms of repayment, etc.). The main clauses that were changed are summarised below:

- The joint nature of the lenders, the public business entity "ENAIRE" and Aena S.M.E., S.A., which are mutually obligated to each other before the bank with regard to the obligation to pay back the amount of the loan that has been used by either of them and to pay interest, commissions, costs, expenses and any other amount payable by either of them directly to the bank by virtue of the contracts. The banks expressly recognise that the payment that they receive for any heading from either of the lenders in accordance with the stipulations of the contract will have full clearing effects for that item and amount.

- The elimination of the clauses that imposed limitations on the transmission of Aena shares and the sale of a percentage of shares higher than 49%.

- The obligation to fulfil certain financial ratios over the base of the consolidated annual accounts of Grupo Aena, which shall be certified by the delivery of a certificate accrediting fulfilment of these ratios on a half-yearly and yearly basis. The definitions of the terms which are included in the calculation of these ratios (Net financial debt, EBITDA and Financial expenses) are established in the renovated contracts as follows:

Financial debt: this means all financial debt with a financial cost as a result of:

a) loans, credits and commercial discounts;

b) any amount due for bonds, obligations, notes, debts and, in general, similar instruments;

c) any amount due for rental or leasing which, according to the accounting rules applicable, should be treated as financial debt;

d) the financial guarantees taken on by Aena which cover part or all of a debt, excluding those in relation to a debt that has already been calculated for consolidation; and

e) any amount received by virtue of any other kind of agreement that has the commercial effect of financing and which, according to the accounting regulations applicable, should be treated as financial debt.

For clarification purposes, it notes that the debt resulting at all times from the recognition of debt contract which was signed on 1 July 2011 (as novated at any given time) between Aena and ENAIRE shall be calculated as financial debt.

Net financial debt: This means the financial debt minus (i) treasury and cash balances, (ii) other current financial assets, meaning temporary liquid financial investments (excluding financial assets available for sale) for their liquidation value, and (iii) freely disposable treasury shares valued in accordance with the closing price on the last trading day referred to in the calculation period, as long as they were not already accounted in section (ii) above.

Subordinate debt: This means debt subordinated to Aena's present and future obligations under the present contract, and which also: (a) establish no repayment obligations (except for capital increases to offset debts) until after the final maturity date; (b) its accreditors are not authorised to request early repayment until the obligations of the borrowers under the present contract have been wholly met; (c) are not guaranteed by any kind of real or personal guarantee, unless this guarantee is also subordinate; and (d) the subordination and other characteristics described in this definition are granted in favour of the lender.

(Amounts in thousands of euros unless otherwise stated)

EBITDA: This means the operating income plus: (i) allocations for the repayment and impairment and gains from fixed assets and allocations to the reversal reserve (as long as they have previously been deducted to calculate the operating income), as well as impairments of goodwill, (ii) the part corresponding to the dividend effectively received from companies that consolidate via the equity method, and (iii) the dividends paid from any company that does not include Aena's consolidated EBITDA. For all purposes, the operating income from those subsidiaries which have obtained financing without recourse to Aena despite consolidating in Aena's consolidated balance sheet will be excluded from the calculation of the EBITDA, as long as this financing has been excluded from the calculation of the financial debt for the purposes of calculating the ratios.

Financial expenses: This means the expenses associated with the financial debt, that is the financial expenses accounted as such, corresponding to the twelve (12) months prior to the corresponding date of calculation, including (i) foreign exchange differences related to interest on the financial debt if it has not already been accounted in that heading, and (ii) variations in fair value in the hedge documents underwritten in relation to this financing, if applicable.

Ratio Net financial debt / EBITDA: This means the ratio resulting from the coefficient of the Net financial debt by the EBITDA for each calculation period as long as the contract is in force.

Ratio EBITDA / Financial expenses: This means the ratio resulting from the coefficient of the EBITDA by the Financial expenses for each calculation period as long as the contract is in force.

Ratio	2016	2017	2018	2019	2020 and after
Net financial debt/EBITDA Less than or equal to:	8.00 x	7.00 x	7.00 x	7.00 x	7.00 x
EBITDA / Financial expenses higher than or equal to:	3.00 x	3.00 x	3.00 x	3.00 x	3.00 x

- With regard to the possibility of granting charges and duties, a more favourable framework is established compared to what had been provided for in the initial financing contracts, as certain real guarantees on international assets may now be granted in international financing operations without recourse to Aena S.M.E., S.A. or the Public Business Entity "ENAIRE", as opposed to the prohibition which existed in many initial contracts and which have often hindered business expansion.

- The unification of the clauses that restrict the disposal of assets: Aena S.M.E., S.A. will retain, either directly or indirectly, ownership of all the airport assets and will not dispose of them in even a single operation or series of operations, related or not, with several exceptions in relation to airport assets located outside Spain.

- Certain clauses were unified in order to clarify the events in which financial contracts may be the object of early maturity as the result of defaults derived from the commercial relationships of Aena S.M.E., S.A.

As a consequence of these novations, and in order to capture the modifications in the contractual relationship for the loan with the public business entity "ENAIRE", on 29 July 2014, the Company signed a modifying non-extinguishing novation of the debt contract with the public business entity "ENAIRE", which changes the contract signed on 1 July 2011, which provided Aena S.M.E., S.A. all the assets, rights, debts and obligations of the public business entity "ENAIRE" for the purposes of developing airport and commercial activities and other state services related to airport management, including those affected by the air transit services at the airfield, for the amount of 11,672,857 thousand euros.

By virtue of this novation, the parties agreed to modify certain aspects of the recognition of debt contract with merely substitutive effects and under no circumstances extinguishing effects, for the purposes of stipulating the following: i) the updated amount of the recognised debt, ii) the regulation of the payment by the public business entity "ENAIRE" and Aena S.M.E., S.A. of the amounts due under the financing agreements, iii) the co-creditors' exercise of authorities based on these financing agreements, iv) Aena S.M.E., S.A.'s obligation to fulfil the same financial ratios, as outlined in the novations of the financial agreements, v) the commitment to the future pledge on credit rights (the amount corresponding to one year of service of the debt which is paid back under the financing agreements) by the Company in favour of the public business entity "ENAIRE" in the event of failure to fulfil its obligations under the recognition of debt contract or loss of the majority share capital of Aena S.M.E., S.A. by the public business entity "ENAIRE".

In the debt novation process, the parties expressly agreed that, notwithstanding their status as co-debtors and their joint responsibility to fulfil the obligations called for in the financing agreements, the payments that must be made under any concept based on these financing agreements shall be made by the public business entity "ENAIRE" through the recognition of debt contract.

Notwithstanding the joint principal responsibility that Aena S.M.E., S.A. and the public business entity "ENAIRE" accept with regard to the financial entities under the financing agreements, the payments made by Aena S.M.E., S.A. will proportionally lower its obligations of payment stemming from the contribution before the public business entity "ENAIRE".

In any event, the failure of Aena S.M.E., S.A. to pay its obligation stemming from the recognition of debt contract will not release the public business entity "ENAIRE" from fulfilling its commitments to pay by virtue of the provisions in the financing agreements.

For all of these reasons, the modifications agreed to in the financing contracts with banks and with the public business entity "ENAIRE" did not change the accounting treatment of the Company's financial debt with the ultimate dominant Company, the public business entity "ENAIRE".

The financing agreements include the following causes of early maturity rated in ordinary market terms:

- **a)** Failure to meet any of the payment obligations stemming from each of the financing agreements.
- **b)** Failure to meet any payment obligation stemming from other financing contracts.
- **c)** Failure to meet any payment obligation stemming from habitual commercial relations in the ordinary traffic of Aena S.M.E., S.A., unless it has judicially or extrajudicially opposed the corresponding claim for payment stemming from this failure to meet the obligation or has filed or is going to file the corresponding legal actions which Aena S.M.E., S.A. has the right to file as long as it has received a guilty verdict on payment against it.
- **d)** General embargoes of the assets of Aena S.M.E., S.A. and/or ENAIRE.
- **e)** The constitution by ENAIRE and/or by the Companies and entities of the ENAIRE group (with the exception of Aena S.M.E., S.A. and the companies in its group, which are governed by the limitation indicated in the following point) of any real right, burden, duty or privilege over any of the assets or rights, present or future.
- **f)** The constitution by Aena S.M.E., S.A. and the companies in its group of any real right, burden, duty or privilege over any of the assets of rights existing in its balance sheet, with the exception of any real right, burden, duty or privilege over assets located outside Spain (including in this exception shares or stock in companies located in Spain as long as all their operating assets are located outside of Spain) exclusively in guarantee of financings or other obligations without recourse to Aena S.M.E., S.A. contracted by subsidiaries and/or other companies in the Aena group.
- **g)** Unless the bank has given its authorisation in writing: Aena shall conserve, directly and indirectly, the ownership of all its airport assets and shall not dispose of them in either a single operation or in a series of operations related or not, with the exception, exclusively in relation to airport assets located outside of Spain which are directly or indirectly owned by Aena, of disposals up to a joint aggregate amount during the entire lifetime of the contract that does not exceed 20% of the consolidated assets of Aena, with the value of both the consolidated assets and the alienated assets being determined at all times by reference of the values accounted in Aena's consolidated balance sheet corresponding to 31 December of the last financial accounting year closed at the time that the asset alienation contract is signed. For the purposes of this clause, "Airport Assets" means any assets that are part of the airport activity included in the consolidated tangible fixed assets of Aena.
- **h)** The change in the risk weight of ENAIRE or of the loans or credits generated by means of the financing agreements.

Solely these causes of early maturity could authorise the banks, in accordance with the specific terms and conditions of their respective agreements, to declare early maturity of their respective financing agreements, notwithstanding the need for good faith and the essential nature of the cause cited.

In the case that Aena fails to fulfil its obligations under the Recognition of debt contract:

- Aena pledges to the future establishment of a first-ranking pledge contract on certain creditors' rights (the amount corresponding to one year servicing the debt which shall be paid back under the financing agreements) in favour of ENAIRE (this obligation also holds if ENAIRE loses control of Aena).
- The amounts owed by Aena are charged penalty interest.
- In the case that ENAIRE has had to pay any amount to the banks in accordance with the Recognition of debt contract that Aena should have paid, ENAIRE shall subrogate in the rights and guarantees of the accreditor before Aena and the debt recognised in the Recognition of debt contract shall automatically increase by the amount paid by ENAIRE.
- Likewise, in the event that as a consequence of Aena's failure to fulfil an obligation under the financing contracts, there is early maturity of one or several financing contracts and a claim for cash payment of any amounts, Aena must pay ENAIRE a penalty equivalent to 3% of the total principal due of the respective unfulfilled financing contract. This provision shall also be applied in the event that the delinquent party was ENAIRE, in which case it must pay the aforementioned penalty to Aena.

The breakdown of the "Financial debt in which the Company appears as a joint creditor with ENAIRE" (henceforth, "Co-accredited Debt") with banks on 31 December 2017 is the following (in thousands of euros):

Financial institutions	**Amount**
BEI	4,020,247
ICO	1,963,350
DEPFA	175,000
FMS	733,333
TOTAL Co-accredited	**6,891,930**

Of the 6,891,930 thousand euros above, Aena S.M.E., S.A. owes the public entity "ENAIRE" the debt derived from the contribution to the airport activity, which on 31 December 2017 totalled 6,774,283 thousand euros, 98% of the total debt owed.

Regarding the causes of declaring early maturity, ENAIRE, as the owner of the financing contracts, does not fail to fulfil any of the conditions of early maturity, so this does not affect the Group's balance sheet on 31 December 2017 and 31 December 2016. Likewise, at those dates the Group has complied with the required ratios.

On 9 February 2016 the Official Gazette published Bank of Spain Circular 2/2016 to credit institutions on supervision and solvency which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No 575/2013. The purpose of this Circular is to complete the adaptation of the Spanish legal framework in terms of banking supervision and solvency to Basel III standards.

In 2016, following a series of consultations with the Bank of Spain in order to clarify the interpretation and consequences of the provisions of the Circular, it was confirmed that it introduced a change in the risk weight that credit institutions had been applying until that moment to the debt of ENAIRE, of which Aena is co-borrower.

In particular, the entry into force of the Circular obliged some lenders to assign to their exposure to ENAIRE a risk weight different from that assigned to their exposures to the Spanish Government, which is 0 %.

Some of the financing agreements in which ENAIRE and AENA are co-credited establish a change in the risk weight of the borrower by the Bank of Spain as a possible cause of early termination, at the request of the lender.

To address this risk, on 25 May 2017 Aena carried out the novation of the ICO loan agreements affected, cancelling the weighting change clause in those operations that included it, and on 15 June 2017, it carried out early repayment of 797.2 million euros of variable rate debt held with Depfa Bank, using the cash generated and borrowing with various entities amounting to 600 million euros, with a maturity of 5 years and interest rate fixed at close to 0.69 % per annum.

As a result of these actions, Aena's debt at 31 December 2017 affected by the change in risk weight has been significantly reduced to an amount of 862.0 million euros, and no significant impact being expected to arise from this situation.

(Amounts in thousands of euros unless otherwise stated)

In relation to the costs incurred as a result of the change in the risk weight, they are expected to be regularized throughout 2018. These costs amounted to 11.8 million euros were provisioned as of 31 December 2016 and paid on 22 March 2017. On 31 December 2017 income of 0.9 million euros was recorded for recovery of part of the expense.

The repayment schedule for the principal of the short and long-term debt with ENAIRE for financing airports (Note 3.2) at the end of 2017 is as follows:

Quotas with Maturity	Thousand euros 2017
2018	665,199
2019	666,959
2020	666,834
2021	579,564
2022	569,051
Following	3,626,676
Total	**6,774,283**

The reconciliation between the opening and closing balances in the statement of financial position of the component of Borrowings from the parent company is as follows: The variations in the balance of the ENAIRE debt produced in financial year 2017 correspond primarily to repayment of the principal for the amount of 1,497,288 thousand euros, 797.2 million euros of which corresponds to the early repayment of the variable interest loan with Depfa Bank, as explained above.

		Cash flow						
	31 December 2016	Financing activities Collections	Financing activities Payments	Operating activities Interest payments	Short/long-term transfers	Accrued interest	Fair value variations	31 December 2017
Non-current								
Loan to Aena S.M.E., S.A. from ENAIRE	7,493,942	-	-	-	(1,384,858)	-	-	6,109,084
Adjustment of the loan from ENAIRE using the effective cost criterion.	(6,761)	-	-	-	467	1,428	-	(4,866)
Subtotal Aena, S.M.E., S.A. long-term debt with ENAIRE	**7,487,181**	**-**	**-**	**-**	**(1,384,391)**	**1,428**	**-**	**6,104,218**
Current								
Loan from ENAIRE	777,629	-	(1,497,288)	-	1,384,858	-	-	665,199
Adjustment of the loan from ENAIRE using the effective cost criterion.	(1,039)	-	-	-	(467)	1,035	-	(471)
Interest accrued on loans from ENAIRE	33,812	-	-	(76,735)	-	61,735	-	18,812
Sub-total of loans from related parties	**810,402**	**-**	**(1,497,288)**	**(76,735)**	**1,384,391**	**62,770**	**-**	**683,540**
Current hedge derivatives attributed by ENAIRE	176	-	-	-	-	-	(176)	-
Subtotal Aena, S.M.E., S.A. short-term debt with ENAIRE	**810,578**	**-**	**(1,497,288)**	**(76,735)**	**1,384,391**	**62,770**	**(176)**	**683,540**
Total	**8,297,759**	**-**	**(1,497,288)**	**(76,735)**	**-**	**64,198**	**(176)**	**6,787,758**

The variations in the balance of the loan from ENAIRE which occurred in financial year 2016 correspond to the repayment of the principal for the amount of 1,172,339 thousand euros, and in the inverse sense, 7,359 thousand euros for the increase in the interest to be paid and 2,730 thousand euros for the effect of the amortised cost.

(Amounts in thousands of euros unless otherwise stated)

Likewise, as a result of the process of reviewing the variable interest loans, in October 2016 loans for the amount of 15,000 thousand euros whose due date was 15 March 2017 were repaid early; for the amount of 28,470 thousand euros whose due date was 30 September 2017; and for the amount of 71,175 thousand euros whose due date was 15 December 2019.

As reported in Note 3, the Company has modified the interest rate scheme for loans with a revisable rate which can be revised in 2017. The revised total amounts to 478,632 thousand euros entirely for EIB loans which have moved to a fixed term rate at an average rate of 0.78 % (previously 1.14 %).

For those loans with a revisable interest rate, in 2016 the total amount revised by the Company was 781,304 thousand euros corresponding to loans from the European Investment Bank which were set at a fixed rate upon maturity, going from an average rate of 1.765% to an average rate of 0.82%. Likewise, 290 million euros corresponding to loans from the Official Credit Institute were revised to variable rates with a spread of 0.98%, achieving a reduction of this spread to 0.75% and also changing the calendar of payments.

The modification of the aforementioned conditions did not entail a substantial modification in the debt, so the commissions paid have meant an adjustment in the effective interest rates.

(b) Loans with credit institutions and loans with LLAH III shareholders

On 31 December 2017, loans with credit institutions of LLAH III totalled 365,931 thousand euros of which 346,585 thousand euros is noncurrent debt and 19,346 thousand euros is current debt. Additionally, Aena S.M.E., SA had a long-term loan on that date with credit entities totalling 649,888 thousand euros and a short-term loan of 1,848 thousand euros.

In 2016, total debts with credit institutions amounted to 298,642 thousand euros (298,308 euros belonging to LLAH III and 334 thousand euros belonging to ADI), of which 258,259 thousand euros was non-current debt, belonging in its entirety to LLAH III, and 40,383 thousand euros was current debt (40,049 thousand euros belonging to LLAH III and 334 thousand euros belonging to ADI).

The carrying amount of Group bank borrowings is denominated in the following currencies:

	31 December	
	2017	**2016**
Thousand euros (ADI)	-	334
Thousand euros (Aena)	651,736	-
Thousands of pounds sterling (LLAH III)	365,931	298,308

Equally, the carrying amount of the loan with LLAH III shareholders is also entirely denominated in pounds sterling for an amount of 46,740 thousand pounds, 52,280 thousand euros at the exchange rate at the end of 2017 (2016: 46,740 thousand pounds, 54,402 thousand euros at the closing exchange rate).

1**. Loans of the dominant company Aena S.M.E., S.A.:**

As explained above, in June 2017 loans have been taken out with various banks amounting to 600,000 thousand euros with a maturity of 5 years. These loans bear fixed interest close to 0.69 % per annum. The breakdown is as follows:

Financial institutions	**Amount**
BBVA	250,000
UNICAJA	150,000
ING	50,000
KUTXABANK	50,000
POPULAR	50,000
BANKINTER	25,000
SABADELL	25,000
TOTAL	**600,000**

(Amounts in thousands of euros unless otherwise stated)

This loan came with an opening commission of 126 thousand euros, 112 thousand euros of which remain unpaid on 31 December 2017.

In October 2017, an additional loan of 50,000 thousand euros was contracted with BNP, also due in five years at a fixed rate of 0.70%. Thus, the balance of long-term debts with credit entities totalled 649,888 thousand euros on 31 December 2017.

The balance of short-term debts with credit entities on 31 December 2017 totalled 1,848 thousand euros, coming from interest pending payment.

As of 31 December 2016, Aena's debt to banks was zero.

On 29 July 2015, credit policies were signed with banks for the amount of 1,000 million euros to deal with potential occasional treasury needs, so 1,575 thousand euros was paid in financial commission to open these loans. At the close of 2017, this amount was totally repaid. In 2016, the amount of this that had not yet been paid off, 459 thousand euros, appeared in the heading "Short-term accruals" in the assets of the balance sheet.

As of 31 December 2016, all amounts were not available. Between March and July 2017, credit policies valued at 850 million euros were renewed, and new ones were signed totally 150 million euros. On 31 December 2017 the total of 1,000 million euros had not been used.

The interest rate is variety, with a spread of 0.50%. The term, conditions and amount contracted by bank is listed below:

BANKING ENTITY	AMOUNT (thousand euros)	EURIBOR	MATURITY
POPULAR	100,000	1M	May 2019
BANKINTER	100,000	1M	March 2019
KUTXA BANK	50,000	1M	March 2019
SABADELL	100,000	1M	March 2019
UNICAJA	100,000	1M	March 2019
IBERCAJA	50,000	1M	March 2019
SOCIETE GENERAL	100,000	1M	July 2019
SANTANDER	100,000	1M	March 2019
CAIXA	200,000	1M	March 2019
BBVA	100,000	1M	July 2018
	1,000,000		

1. LLAH III bank borrowings

On 4 July 2017, the Board of Management of London Luton Airport Holdings approved the execution of the refinancing of the loans and financing lines existing for a total of 318 million pounds (7-year bullet loan for 228 million pounds due on 22 March 2022, credit line of 75 million pounds for investments, and credit policy of 15 million pounds for cash), as well as the replacement of the existing interest rate swap with a nominal 159.6 million pounds (see Note 12), with the purpose of:

- Extending the maturity of financing and of swaps,
- Lowering the financial cost,
- Enhancing financial flexibility.

The new financing, totalling 390 million pounds, consists of:

- 5-year bullet loan (which can be extended 2 additional years) for 30 million pounds
- Loan payable in 12 years of 40 million pounds,
- Loan payable in 10 years of 10 million pounds,
- Private placement of 10-year bullet bonds for the amount of 40 million pounds,
- Private placement of 12-year bullet bonds for the amount of 190 million pounds,

(Amounts in thousands of euros unless otherwise stated)

- Credit line of 80 million pounds in 5 years (which can be extended 2 additional years) for corporate and cash needs.

This new financing was disbursed, with the exception of the credit line, on 17 August 2017. The 6,941 thousand pounds (7,917 thousand euros at the exchange rate used) of transaction costs of the former financing that remained on the balance sheet at that time without yet being repaid are taken to the net finance result as the new financing is considered a substantial modification or cancellation of the initial debt.

The main characteristics of the new financing and its comparison with the existing previous financing are outlined below:

	Existing financing	**New financing**	**Comments**
Credit facilities	£228m Bullet loan £75m Capex policy £15m credit line	£80m bank loans £230m private placement of bonds £80m credit line	The total amount was raised by £72m
Due date	7 years average	10 years average	Increase in average life of 3 years
Differential	Year 1: 165 bps Year 2: 175 bps Year 3: 185 bps Year 4: 195 bps Year 5: 200 bps Year 6: 225 bps Year 7: 250 bps	For the £30 m bullet loan and the credit line: Year 1: 135 bps Year 2: 140 bps Year 3: 150 bps Year 4: 160 bps Year 5: 175 bps Year 6: 190 bps Year 7: 240 bps For the repayable loans of £40 m and £10 m: Year 1 until maturity: 185 bps	The average cost of the debt dropped by 0.13%
"Covenant" Net debt/ EBITDA/ Net financial expenses	2015: 8.25 x 2016: 8.25 x 2017: 7.5 x 2018: 7.0 x 2019: 6.5 x 2020: 6.5 x 2021: 6.0 x	2017: 7.5 x 2018: 7.5 x 2019: 7.0 x 2020: 7.0 x 2021: 6.5 x 2022: 6.0 x 2023: 6.0 x 2024: 5.0 x 2025: 4.5 x 2026: 4.0 x 2027: 3.5 x 2028: 2.5 x 2029: 2.5 x	Improvement in ratios to provide greater financial flexibility
Covenant ICR: Cash Flow/Net financial expenses	From 2015 to 2021: 1.25 x	From 2017 to 2029: 2.00 x	

(Amounts in thousands of euros unless otherwise stated)

On 31 December 2017 there is a drawn balance of 14 million pounds of the credit facility for cash.

On 31 December 2016 there was a drawn balance of 9 million pounds of the credit facility for cash and 25 million pounds to finance investments.

2. Loans with LLAH III shareholders

As indicated in Note 2.2. a), once the required authorisation of the Council of Ministers was obtained, Aena Desarrollo Internacional, S.M.E., S.A. exercised its right of purchase of what it had over the 11% of capital of LLAH III on 16 October 2014. The total amount that the Group disbursed for the operation was 62 million pounds (77.8 million euros) which is broken down as follows:

- For the option of 11%: 13.7 million pounds (17.2 million euros).
- For the 51% of the shareholder loan previously held wholly by Aerofi: 48.3 million pounds (61.3 million euros). This amount is eliminated in the consolidation, so the amount shown in this heading "Loans with LLAH III shareholders" solely corresponds to the LLAH III debt with Aerofi.

This section has only varied 2,123 thousand euros, caused by the fluctuation in the interest rate during 2017 (Note 31).

(c) *Finance lease liabilities*

At the close of financial year 2017, the Group had signed finance lease agreements with an electrical cogeneration plant at Adolfo Suárez Madrid-Barajas airport and an airplane parking hangar in London Luton airport – on 31 December 2016 this also included an automated flight inspection system – which are registered as "tangible fixed assets" in the consolidated balance sheet on 31 December 2017 and 31 December 2016.

The carrying amount of debt entered into the accounts denominated in currencies other than the euro was as follows:

	31 December	
	2017	**2016**
Pounds sterling	8,482	9,279

Lease liabilities are effectively secured given that the rights to the leased asset revert to the lessor in the event of default.

The present value of finance lease liabilities is as follows:

	31 December	
	2017	**2016**
Less than one year	2,153	1,995
Between 1 and 5 years	9,431	9,198
More than 5 years	10,720	13,452
Total	**22,304**	**24,645**

(d) *Other financial liabilities*

The amounts included under other financial liabilities include the guarantees received from debtors for the lease of premises and facilities as well as from creditors in guarantee of compliance with their obligations.

(Amounts in thousands of euros unless otherwise stated)

21 Deferred tax

The analysis of deferred tax assets and liabilities is as follows:

	31 December	
	2017	**2016**
Deferred tax assets:		
Deferred tax assets to be recovered in more than 12 months	90,263	111,120
Deferred tax assets to be recovered within 12 months	32,106	32,851
	122,369	**143,971**
Deferred tax liabilities:		
Deferred tax liabilities to be recovered in more than 12 months	74,218	83,078
Deferred tax liabilities to be recovered within 12 months	5,935	6,912
	80,153	**89,990**
Net deferred tax assets	**42,216**	**53,981**

Gross movement in the Deferred taxes heading was as follows:

	2017	**2016**
At 1 January	53,981	9,115
Tax charged against/credited to the income statement (Note 32)	368	7,679
Tax charged/paid relating to components of other comprehensive income (Note 32)	(12,563)	19,594
Use of credits	(2,335)	(2,335)
Adjustment of ACDL portfolio against result (Note 32)	(478)	-
A Adjustment by variation in tax rates in England against result (Note 32)	(264)	3,762
Reclassifications	651	2,344
Translation differences	3,056	14,697
Others	(200)	(875)
At 31 December	**42,216**	**53,981**

(Amounts in thousands of euros unless otherwise stated)

Movements during the year in deferred tax assets and liabilities, not taking into account the offset of balances relating to the same tax authorities are as follows:

Deferred tax liabilities	Amortisation	Others	Total
As of 1 January 2016	**117,881**	**880**	**118,761**
Reclassifications	(2,344)	-	(2,344)
Charged/(credited) to the income statement	(7,194)	-	(7,194)
Charged/(credited) to the income statement from changes in interest rates in England	(3,681)	-	(3,681)
Translation differences	(15,552)	-	(15,552)
As of 31 December 2016	**89,110**	**880**	**89,990**
As of 1 January 2017	89,110	880	89,990
Reclassifications	(652)		(652)
Charged/(credited) to the income statement	(6,007)		(6,007)
Charged/(credited) to the income statement from changes in interest rates in England	110		110
Charged/(credited) to the income statement from adjustments the previous year	130		130
Translation differences	(3,418)		(3,418)
As of 31 December 2017	**79,273**	**880**	**80,153**

(Amounts in thousands of euros unless otherwise stated)

Deferred tax assets	Amortisation (*)	Impairment losses	Derivatives	Others	Total
As of 1 January 2016	**86,986**	**1,782**	**20,011**	**19,097**	**127,876**
Charged/(credited) to the income statement	(1,946)	1,691	-	740	485
Charged/(credited) to other comprehensive income	-	-	15,361	5,528	20,889
Use of credits	(2,335)	-	-	-	(2,335)
Charged to the income statement from changes in rates in England	-	-	-	81	81
Charged to net assets from changes in rates in England	-	-	(242)	(1,053)	(1,295)
Other (**)	(20)	(726)	-	(129)	(875)
Translation differences	-	-	(88)	(767)	(855)
As of 31 December 2016	**82,685**	**2,747**	**35,042**	**23,497**	**143,971**
Charged/(credited) to the income statement	(4,042)	(2,916)	-	1,319	(5,639)
Charged/(credited) to other comprehensive income	-	-	(12,858)	191	(12,667)
Adjustment of ACDL portfolio	-	-	-	(478)	(478)
Use of credits	(2,335)	-	-	-	(2,335)
Charged to the income statement from changes in rates in England (Note 32)	-	-	-	(154)	(154)
Charged to net assets from changes in rates in England (Note 32)	-	-	125	(21)	104
Other (**)	(55)	(43)	-	28	(70)
Translation differences	-	-	(51)	(312)	(363)
As of 31 December 2017	**76,253**	**(212)**	**22,258**	**24,070**	**122,369**

** The heading "Amortisation" includes 16,341 thousand euros (2016: 18,676 thousand euros) of the pending balance of the loan initially report for the amount of 21,944 thousand euros once the 2,335 thousand euros used during 2017 was considered (2016: 2,335 thousand euros) see deductions table below).*

(**) Primarily shows the effect of the definitive payment of the Corporate Tax in 2016 and 2015 submitted in 2017 and 2016.

(Amounts in thousands of euros unless otherwise stated)

In financial year 2017, the following deductions were applied in the payment of the Corporate Tax, without any deductions remaining pending upon closure of the year:

	Year generated (1)	Year due (2)	Amount pending at 31/12/2016	Amount recognised in 2017	Amount applied	Amount pending at 31/12/2017
Deductions in the Canary Islands for	**2016**	**2031**	-	-		-
investments in fixed assets	**2017**	**2032**	-	13,913	(13,913)	-
Deduction of double international tax	**2017**	**2028**		634	(634)	-
Recovery of 30% not deductible (3)	**2017**	-	-	2,335	(2,335)	-
Total			**-**	**16,882**	**(16,882)**	**-**

In financial year 2016, the following deductions were applied in the payment of the Corporate Tax, without any deductions remaining pending upon closure of the year:

	Year generated (1)	Year due (2)	Amount pending at 31/12/2015	Amount recognised in 2016	Amount applied	Amount pending at 31/12/2016
Deductions in the Canary Islands for investments	**2015**	**2030**	-	-	-	-
in fixed assets	**2016**	**2031**	-	10,466	(10,466)	-
Deduction of double international tax	**2016**	**2027**		270	(270)	-
Recovery of 30 % not deductible (3)	**2016**		-	2,335	(2,335)	-
Total			**-**	**13,071**	**(13,071)**	-

(1) The year of generation responds to the period in which the assets or personnel who qualified for the generation thereof were associated with the branch of airport activity.

(2) Deduction in the Canaries for investment in fixed assets, Royal Decree Law 15/2014, Fourth Transitional Provision, establishes a period of use of 15 years; Deduction recoverable at 30 % adjusted for depreciation on Corporation Tax, Thirty-seventh Transitional Provision and Deduction to avoid International Double Taxation, art. 31.6 of the Corporation Tax Law, does not set any limit on its use.

(3) The 2,335 thousand euros of this deduction, recognised and applied to taxation in 2017 and 2016, does not reduce the expense for tax in that period since it were recognised in the accounting in 2015 (see Note 32).

(Amounts in thousands of euros unless otherwise stated)

22 Provisions for employee benefit obligations

The following table shows where the amounts for post-employment benefits have been included in the Group's consolidated financial statements:

	31 December	
	2017	**2016**
Commitments in the balance sheet in respect of:		
- Length of service awards	8,106	8,097
- Length of service awards	540	498
- Pension plans of defined loan from LLAOL	50,480	44,470
Liabilities for provisions for employee benefit obligations	**59,126**	**53,065**
- Defined contribution pension plans (Other payables)	-	-
- Defined benefit pension plans	-	-
Total liabilities on the balance sheet	**59,126**	**53,065**
Charges in the income statement included in the operating profit account (Note 28):		
- Length of service awards	455	762
- Length of service awards	23	22
- Defined contribution pension plans	2,247	18
- LLAOL defined benefit pension plans	8,905	3,875
	11,630	**4,677**
Revaluations for:		
- Length of service awards (22.a)	(121)	236
- LLAOL defined benefit pension plans (22.d)	976	27,590
- Early retirement awards (22.b)	11	39
	866	**27,865**

a) *Length of service awards*

The collective bargaining agreement of the Aena group of companies (public business entity "ENAIRE" and Aena S.M.E., S.A.) stipulates length of service awards for services effectively provided during a period of 25, 30 or more years. The Company provides the current value of the best estimate possible of the obligations pledged in the future based on an actuarial calculation.

The amounts reported in the income statement were determined as follows:

	2017	**2016**
Present value of the financed obligations	-	-
Fair value of the assets affected in the plan	-	-
Financing deficit of plans	-	-
Present value of the non-financed obligations	8,106	8,097
Total deficit of pension plans with defined benefits	8,106	8,097
Impact of the requirement of minimum financing/ asset limit		-
Lability reported on the income statement	**8,106**	**8,097**

Length of service awards are non-financed plans of defined benefits, so no assets affected in the plan are recorded.

(Amounts in thousands of euros unless otherwise stated)

	Present value of the obligation	Total
As of 1 January 2016	**7,579**	**7,579**
Expense / (Income) Interest	165	165
Past service cost and gains and losses on settlements	526	526
	691	**691**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	236	236
	236	**236**
- Plan payments:	-	-
- Benefit payments	(409)	(409)
As of 31 December 2016	**8,097**	**8,097**
Expense / (Income) Interest	111	111
Past service cost and gains and losses on settlements	576	576
	687	**687**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	(121)	(121)
	(121)	**(121)**
- Plan payments:	-	-
- Benefit payments	(557)	(557)
As of 31 December 2017	**8,106**	**8,106**

The book expense for length of service awards for the financial year ending on 31 December 2017 totalled 566 thousand euros. (2016: 927 thousand euros). The amount of the book expense expected corresponding to these awards throughout 2018 is 689 thousand euros.

The weighted average length of the obligations for defined benefits is 15.68 years.

b) *Early retirement awards*

The collective bargaining agreement states that any worker between the ages of 60 and 54 who, in line with the current provisions, has the right to voluntarily retire early may receive an indemnification which, added to the consolidated rights in the pension plan at the time the contract terminates, is equivalent to four monthly salary payments from the base of calculation and the seniority complement for each year which remains before this person turns 64, or the corresponding proportional part.

In financial year 2004, the early retirement awards were externalised through the procurement on 24 March 2004 of a life insurance policy with a single payment with Mapfre Vida. The value of the assets in the plan was determined as the value of the mathematical provision of the insurance policies affected.

(Amounts in thousands of euros unless otherwise stated)

The movement of the obligation for benefits defined during the year was the following:

	Present value of the obligation	Total
As of 31 December 2016	**498**	**498**
Expense / (Income) Interest	8	8
Expected return of the funds affected	-	-
Past service cost and gains and losses on settlements	23	23
	31	**31**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	11	11
	11	**11**
Returns (Premiums)		
• Returns	-	-
Plan payments:		
- Benefit payments	-	-
As of 31 December 2017	**540**	**540**

The movement of the obligation for benefits defined during 2016 was the following:

	Present value of the obligation	Total
As of 31 December 2015	**405**	**405**
Expense / (Income) Interest	10	10
Expected return of the funds affected	(1)	(1)
Past service cost and gains and losses on settlements	22	22
	31	**31**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	39	39
	39	**39**
Returns (Premiums)		
• Returns	**23**	**23**
Plan payments:		
- Benefit payments	-	-
As of 31 December 2016	**498**	**498**

c) Defined contribution pension plans

The collective bargaining agreement stipulates that any worker who can prove a minimum of 360 natural days of recognised service in any of the entities and/or companies headquartered in Spain within the Aena Group may become a participant in the Joint Promotion Pension Plan of the entities of Aena Group. The pension plan covers the contingencies of retirement, incapacity (in its degrees of permanent total, absolute and major disability) and death, in accordance with the criteria contained in the minutes of the Negotiating Committee of the 3rd Aena Collective Bargaining Agreement dated 16 December 2002 on the characteristics of the new prevision system of workers in the

(Amounts in thousands of euros unless otherwise stated)

Aena Group, through which the aforementioned pension plan was established, and notwithstanding the provisions in the minutes of the Pension Plan Monitoring Committee of Aena Group dated 15 February 2005 and, if applicable, other subsequent ones on the specifications that regulate it, which develop and complement the previous one.

However, for financial years 2017, 2016, 2015, 2014 and 2013, the Company has not made these contributions due to the abolition established in Law 3/2017 dated 27 June 2017, Law 48/2015 dated 29 October 2015, Law 36/2014 dated 26 December 2014, Law 22/2013 dated 23 December 2013 and Royal Decree Law 17/2012 dated 27 December 2012, respectively, which stipulated that public enterprises cannot make contributions to pension plans for employees or collective insurance contracts that include coverage of the contingency of retirement.

d) LLAOL defined benefit and defined contribution pension plans

On 31 January 2017 London Luton Airport Operations Limited (LLAOL), with the agreement of the Company's employees and the trustees of the plan, closed the accrual of future benefits of its defined benefit pension plan (London Luton Airport Pension Scheme or LLAPS), which has been replaced from 1 February 2017 by a defined contribution pension plan.

As of the closing date of LLAPS, active members of the plan become deferred members of the plan and cease to accrue benefits for services rendered to the employer (LLAOL). Likewise, as from that date contributions for services rendered by both LLAOL and the members of the plan cease, and LLAOL only retains the obligation to make those contributions which according to regular valuations of the plan are deemed necessary to guarantee the payment of benefits for services rendered accrued prior to 31 January 2017, restated annually in accordance with the terms set out in the LLAPS rules.

The initial impact of this closure of the plan, which took place on 31 January 2017, on equity and consolidated results at 31 December 2017 was 6.935 million pounds (7,911 thousand euros).

This defined contribution pension plan is managed by a third party selected for this purpose. The Plan's assets are held in individual savings funds separate from the assets of the group. Employees make contributions to these individual funds up to a maximum of 6% of their basic salary. Employees can decide the amount of their contribution and how to invest it. The group makes contributions in a 2:1 ratio up to a maximum of 12% of the basic salary. The cost of the contributions by the group to the defined contribution plan defined as of 1 February 2017 was 2,247 thousand euros.

The defined benefit commitments from the LLAH III group recognised in the consolidated balance sheet, as well as changes to the present value of the obligations and the fair value of the plan's assets, are as follows:

	Present value of the obligations	Total
As of 31 December 2016	**168,805**	**168,805**
Expense / (Income) Interest	4,345	4,345
Past service cost and gains and losses on settlements	8,905	8,905
	13,250	**13,250**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	6,014	6,014
	6,014	**6,014**
Foreign exchange translation differences	(6,775)	(6,775)
Returns (Premiums)	-	-
Contributions from Plan members	86	86
Plan payments:		
- Benefit payments	(3,921)	(3,921)
As of 31 December 2017	**177,459**	**177,459**

(Amounts in thousands of euros unless otherwise stated)

	Fair value of plan assets	Total
As of 31 December 2016	**(124,335)**	**(124,335)**
Expense / (Income) Interest	(3,091)	(3,091)
Expected return of the funds affected	(5,038)	(5,038)
	(8,129)	**(8,129)**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	-	-
Foreign exchange translation differences	4,944	4,944
Returns (Premiums)	-	-
Employer contributions	(3,287)	(3,287)
Plan participant´s contributions	(86)	(86)
Plan payments:		
- Benefit payments	3,914	3,914
As of 31 December 2017	**(126,979)**	**(126,979)**
Provisions for pensions and similar obligations	**50,480**	**50,480**

The defined benefit commitments recognised in the 2016 consolidated balance sheet, as well as changes to the present value of the obligations and the fair value of the plan's assets, were as follows:

	Present value of the obligations	Total
As of 31 December 2015	**137,226**	**137,226**
Expense / (Income) Interest	4,589	4,589
Past service cost and gains and losses on settlements	3,875	3,875
	8,464	**8,464**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	46,376	46,376
	46,376	**46,376**
Foreign exchange translation differences	(20,688)	(20,688)
Returns (Premiums)	-	-
Contributions from Plan members	1,082	1,082
Plan payments:		
- Benefit payments	(3,655)	(3,655)
As of 31 December 2016	**168,805**	**168,805**

(Amounts in thousands of euros unless otherwise stated)

	Fair value of plan assets	Total
As of 31 December 2015	**(114,072)**	**(114,072)**
Expense / (Income) Interest	(3,942)	(3,942)
Expected return of the funds affected	(18,786)	(18,786)
	(22,728)	**(22,728)**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	-	-
Foreign exchange translation differences	16,545	16,545
Returns (Premiums)	-	-
Employer contributions	(6,644)	(6,644)
Plan participant´s contributions	(1,082)	(1,082)
Plan payments:		
- Benefit payments	3,646	3,646
As of 31 December 2016	**(124,335)**	**(124,335)**
Provisions for pensions and similar obligations	**44,470**	**44,470**

The amounts reported in the profit and loss statement are the following:

Posted to results	**2017**	**2016**
Expense / (Income) Interest	1,254	647
Past service cost and gains and losses on settlements	8,905	3,875
Total charge in profit and loss statement	**10,159**	**4,522**

The assets of the plan, expressed in a percentage over the total fair value of the assets, are the following:

Assets del plan	**2017**	**2016**
United Kingdom shares	16 %	15 %
Rest of world shares	16 %	15 %
Fixed income in qualified investment bonds	4 %	4 %
Investment funds	62 %	58 %
Cash	2 %	8 %

- (Gains)/losses due to changes in actuarial assumptions

The reported variation in the assets corresponds to the actuarial losses and earnings which are due to changes in:

	2017	**2016**
Profitability of assets affected above the expected profitability	(5,038)	(18,786)
Financial hypotheses	4,233	43,796
Changes in demographic hypotheses	-	2,795
Demographic experience	1,781	(215)
At 31 December	**976**	**27,590**

(Amounts in thousands of euros unless otherwise stated)

In 2017, a small drop in the profitability of the corporate bonds was offset by a small drop in the inflation expectations, resulting in a loss of 4,233 thousand euros. Additionally, there was a loss of 1,781 thousand euros stemming from the fact that real inflation was 1% above what was assumed on 31 December 2016. This loss has been partially offset by profitability of assets 5,038 thousand euros higher than expected.

In 2016, there was a major actuarial loss of 43,796 thousand euros stemming from a drop in the profitability of the corporate bonds from 3.75% to 2.55%. This loss was partially offset by profitability of assets, which was much higher than expected (18,786 thousand euros).

The Group has performed sensitivity analysis on the main actuarial assumptions in thousand euros:

	Impact on the present value of defined benefit obligations		
	Change in hypotheses	**Increase**	**Reduction**
Discount rate	0.5 %	(19,392)	22,910
Pension growth rate	0.5 %	15,223	(13,571)
		One-year increase	**One-year reduction**
Life expectancy	1 año	3,581	(3,375)

Moreover, to eliminate the Plan's deficit LLAOL has agreed to make contributions to the Plan until 31 March 2023. The next contribution to the Plan, amounting to 2,252 thousand pounds, will be made before 31 December 2018 with an additional 1,748 thousand pounds being paid into a deposit account or directly to the Plan at the Company's discretion.

The three-yearly assessment of the Pension Plan referring to 31 December 2017 is being completed, and once concluded will determine the Contribution Plan for offsetting the deficit.

(Amounts in thousands of euros unless otherwise stated)

23 Provisions and contingencies

a) Provisions and contingencies

a) Provisions

The movement in this heading for financial years 2017 and 2016 is shown below:

	Environmental action	Liabilities	Taxes	Expropriations and late-payment	Other operating provisions	Total
Balance at 01 January 2017	**81,012**	**36,553**	**14,624**	**57,713**	**72,205**	**262,107**
Charge for the period	8,454	7,308	2,917	4,563	49,073	72,315
Reversals/Excesses	(19,896)	(15,974)	(5,341)	(40,010)	(3,940)	(85,161)
Amounts Used	(12,923)	(5,716)	(402)	(7,185)	(68,267)	(94,493)
As of 31 December 2017	**56,647**	**22,171**	**11,798**	**15,081**	**49,071**	**154,768**

	Environmental action	Liabilities	Taxes	Expropriations and late-payment	Other operating provisions	Total
Balance at 1 January 2016	**128,459**	**34,483**	**17,367**	**1,033,922**	**50,601**	**1,264,832**
Charge for the period	1,254	10,057	5,632	15,997	71,853	**104,793**
Increase due to discounts	284	-	-	-	-	**284**
Reversals/Excesses	(31,527)	(6,910)	(7,569)	(987,145)	(4,505)	**(1,037,656)**
Amounts Used	(17,458)	(1,077)	(806)	(5,061)	(45,744)	**(70,146)**
As of 31 December 2016	**81,012**	**36,553**	**14,624**	**57,713**	**72,205**	**262,107**

Analysis of total provisions:

	31 December 2017	31 December 2016
Non-current	70,901	133,639
Current	83,867	128,468
Total	**154,768**	**262,107**

<u>Provision for environmental action</u>

This heading recognises provisions amounting to 54,793 thousand euros (31 December 2016: 76,916 thousand euros), relating to the expected obligations in regard to noise abatement and sound-proofing residential areas, in order to comply with current legislation on noise generated by airport infrastructures.

Additionally, up to a total of 56,647 thousand euros (2016: 81,012 thousand euros) is reported, an environmental provision of 1,855 thousand euros (2016: 4,096 thousand euros) in relation to the additional measures referred to in the Resolution of the Secretary of State for the Environment of 9 April 2015, which amended condition nine of the Environmental Impact Assessment of Adolfo Suárez Madrid-Barajas airport of 30 November 2001, and envisaged actions on Gravera de Arganda, biological corridors and the River Jarama.

A reversal which took place in 2017 for the amount of 19,896 thousand euros is essentially related to downward revisions of the estimate of houses to insulate, as well as a drop in the mean estimated cost of the insulation per home for the amount of 9,111 euros (except for the Adolfo Suárez Madrid-Barajas airport, for which a cost of 16,795 euros is estimated due to the typology of the homes and buildings yet to be insulated in this airport) compared to the

9,451 euros used in the consolidated annual accounts from financial year 2016. Such reversal has been made against the value of the property, plant and equipment against which the provision was originally made.

The reversal amounting to 31,527 thousand euros in 2016 was mainly related to a decrease in the average amount of the estimated cost of insulation per dwelling to an amount of 9,451 euros compared to the 12,407 euros used in the financial statements for 2015. This reversal was made against the value of the property, plant and equipment against which the provision was originally made.

Environmental evaluation legislation (currently Law 21/2013), requires that certain Aena projects are submitted to an environmental impact assessment (particularly runway extensions exceeding 2,100 m), finalised by the formulation of the corresponding Environmental Impact Statements (DIA) by the Ministry of Agriculture, Food and Environment, which confer environmental feasibility on the execution of projects, and contain the obligation to develop and execute Soundproofing Plans. The provisions include the soundproofing actions set out in the Declarations of Environmental Impact published up till now.

In terms of noise, Law 5/2010 of 17 March, amending Law 48/1960, of July 21, on Air Navigation, stipulates the adoption of action plans, including any corrective measures, when acoustic easements are established to achieve acoustic quality objectives in relation to building exteriors, flight paths, number of flights and associated environmental impacts in airports with more than 50,000 flights/year.

At the date of preparing these financial statements, the acoustic easements and the relevant action plans had been approved by Royal Decree for the airports of Adolfo Suárez Madrid-Barajas (RD 1003/2011 of 8 July, Official Bulletin no. 174 of 21 July 2011), Barcelona-El Prat (RD 1002/2011 of 8 July, Official Bulletin no. 174 of 21 July 2011) and Palma de Mallorca (RD 769/2012 of 27 April, Official Bulletin no. 119 of 18 May 2012).

At the airports where acoustic easements have been approved (Adolfo Suárez Madrid-Barajas, Barcelona-El Prat and Palma de Mallorca), the number of homes where soundproofing work is required is estimated to be 321 (all relating to the scenario of the current situation at Palma de Mallorca Airport). These actions are already included in the accounting provisions established. In the case of the airports of Adolfo Suárez Madrid-Barajas and Barcelona El Prat, no additional dwellings have been added, since the area delimited by the current easement scenario is smaller than the isophonic area determined by the Soundproofing Plans already in force.

In addition, at the date of preparation of these consolidated financial statements, the public information stage had closed for sound easements and action plans for the airports of Alicante, Bilbao, Gran Canaria, Ibiza, Málaga-Costa del Sol, Seville and Valencia, the processing of the Royal Decrees of approval being pending with the Ministry of Public Works. The estimated increase in additional dwellings to be included in the scope of the respective Soundproofing Plans amounts to 2,742 for all of the aforementioned airports. These properties are not covered by the provisions as the corresponding acoustic easements have not yet been approved.

The Group will post the corresponding provisions at the time when the obligation arises to insulate homes, that is, either when a new acoustic footprint is approved with importance in terms of acoustic insulation, an easement and its action plan (via Royal Decree), or through the approval of a new Environmental Impact Statement as the result of the environmental evaluation of projects that require it.

<u>Provisions for liabilities</u>

This heading mainly records provisions made based on the best estimates available to Group directors to cover risks relating to litigation, claims and commitments in progress that are known at the end of the year and for which the expectation is that an outflow of resources in the medium or long-term is likely. On 31 December 2017 and 2016, the balances of the provision essentially corresponded to claims made by contractors, claims from airlines and labour claims.

During 2017, the provisions made by the Group for a total of 7,308 thousand euros corresponded mainly to employment claims (2,184 thousand euros), various claims by tenants of premises and land (872 thousand euros) and claims by works contractors (956 thousand euros).

During the same period of 2017, the reversals totalling 15,974 thousand euros (2016: 6,910 thousand euros) primarily correspond to judgements favourable to the group from contentious suits with construction companies for the amount of 10,603 thousand euros (2016: 5,092 thousand euros) for which there are estimated to be no unfavourable economic consequences, so this amount was reversed with payment to the value of the fixed assets against which the provisions were originally allocated. The rest of the reversals, with an amount of 5,371 thousand euros (2016: 1,818 thousand euros), has been credited to the consolidated income statement, primarily by decreasing employment costs due to various favourable employment judgments obtained (2,647 thousand euros) or under “Provision surpluses”.

During financial year 2016, provisions were paid totalling 4,111 thousand euros, which were posted in the heading “Other current operating expenses” in the attached Profit and Loss Statement in relation to other unfavourable judgements which came from claims filed by airlines, against the applicable operating cash flow from 1 July 2012, whose repercussion was not possible to realise in final passenger fees (see Note 28 on contingent liabilities for claims from airlines). Also included for the amount of 3,017 thousand euros is a provision to cover a payment order from Labour Inspection and Social Security received during the financial years due to differing criteria in valuing work accidents and professional illnesses in certain occupations in the period August 2011 – July 2015 (see Security Social section in Note 28 on expenses for employee benefits). From this provision, a payment of 2,966 thousand euros was made in financial year 2017.

On the other hand, other proceedings with construction companies are pending judgement, for which the Group has allocated a provision on 2.966 thousand euros totalling 7.9 million euros (31 December 2016: 18 million euros).

The Group’s executives do not estimate that from all the liability proceedings underway, additional liabilities can emerge that could significantly affect these annual accounts.

Provisions for taxes

This heading mainly records provisions allocated with respect to appeals filed by the Company due to its disagreement with the proposed settlements received from the Tax Authorities regarding certain local taxes associated with airport assets and for which final decisions have yet to be made, of which the expectation is that an outflow of cash is likely, the definitive amounts and the definitive settlement of which are uncertain on the date that the consolidated financial statements were prepared.

The amount of the reversals, credited in their entirety to the consolidated income statement under “Provision surpluses”, is mainly related to the requirements of these tax settlements in favour of the parent company.

Provisions for expropriations and late-payment interest

The provision for expropriations and late-payment interest records the best estimate of the amount relating to the difference between the prices paid for the expropriation of land required for the expansion of airports and the estimates of the prices that the Group would have to pay, considering that it is likely that certain legal claims in progress regarding some of the prices paid will be successful for the claimants. When estimating the amount of the differences affecting these prices, the Group has taken into account late-payment interest using the current legal interest rate in force for each year as a basis of calculation.

At 31 December 2017 there were provisions allocated, principally, for legal proceedings related with the expropriation of land for the Adolfo Suárez Madrid-Barajas airport. Such proceedings include, in particular, several rulings concerning the revaluation of expropriation procedures conducted in connection with the expansion of the Adolfo Suárez Madrid-Barajas Airport, as well as the risk involved in the cancellation of the delimitation of the Public Water Domain in force, which allows the former owners of the lands included within the delimited area to claim payment for surface areas previously acquired at zero cost. As a whole, these rulings and risks have given place to a provision for an amount of 6,390 thousand euros at 31 December 2017, of which 4,276 thousand euros corresponded to differences in assessment, balanced against the higher land value, and 2,113 thousand euros for interest on delay due at 31 December 2017, balanced against the expense for interest for delay on expropriations (31 December 2016: 21,570 thousand euros, of which 15,543 thousand euros were for differences in assessment, balanced against higher land value, and 6,027 thousand euros in interest for delay due at 31 December 2016, balanced against the expense for interest for delay on expropriations).

There are additional provisions for an amount of 8.7 million euros (31 December 2016: 36.1 million euros), corresponding to other less significant cases regarding the Adolfo Suárez Madrid-Barajas airport and for other airports in the network.

Reversals identified in the movement of the provision during 2017 are the consequence of the result in favour of Aena mainly owing to a number of rulings in several disputes considered at that time, due to the experience in similar cases, which would be resolved contrary to the interests of Aena.

Of the 7,185 thousand euros paid against this provision throughout financial year 2017, 4,848 thousand euros correspond to penalty interest (2016: 1,452 thousand euros).

In relation to the movement of this provision, in 2016 mention should be made in particular of the ruling notified to Aena on 29 October 2014 and delivered by the High Court of Justice in Madrid (TSJ) on 1 October, in Ordinary Procedure 1/2011, recognising the right to the revaluation of a number of properties acquired for the extension of the Adolfo-Suárez Madrid-Barajas Airport. The rulings were based on the occurrence of what is called "positive administrative silence" and, in consequence, cancelled the Ministry of Public Works Order which dismissed the appeals to a higher court filed by the appellants against the dismissals (by administrative silence) of their applications for revaluation of the expropriated plots. This ruling gave rise, as of 30 June 2016, to an accumulated value of the provision for expropriations and interest for delay on expropriations of 963,491 thousand euros, of which 758,605 thousand euros were for differences in assessment (396,400 thousand euros for Proceedings 1/2011 referred to, the rest of the amount being for two other cases relating to the first: Proceedings 66/2011 with an amount provided for of 351,403 thousand euros, and Proceedings 427/2011 with an amount of 10,802 thousand euros), which were balanced against the higher land value, and 204,886 thousand euros for due interest for delay, balanced against the expense for interest for delay on expropriations.

In relation with the 3 proceedings mentioned, Aena received the respective notifications of Rulings favourable to its interests from the Supreme Court, dated 20 and 27 June 2016 in relation with the Ministry of Works Resolutions of 12 November 2010 and that notified on 15 February 2011, mentioned above, dismissing the appeal to a higher court lodged by various expropriated owners against the presumed dismissal of their application for revaluation of various expropriated properties in relation with the Madrid-Barajas Airport expansion project. In consequence, it was estimated that the risk of these proceedings was nonexistent and the aforesaid provisions were reversed for the total amount of 963,491 thousand euros, of which 758,605 thousand euros are credited to the value of the land for which they were made at the time, and the rest, 204,886 thousand euros, were shown as financial income in the Profit & Loss Account.

The rest of reversals identified in the movement of the provision are the consequence, in favour of Aena, of the result of several procedures considered at that time, by the experience in similar cases, which would be resolved contrary to the interests of Aena. In these procedures, the TSJ of Madrid has extended the consideration of out-of-time repricing claim for all cases where the owner did not make the reservation of shares at the time of payment, restricting and significantly delimiting the cases in which the right to reprice occurs depending on the attitude of the owner at that time of payment.

To sum up, of the total reversals indicated in this provision at 31 December 2016 in the amount of 987,145 thousand euros, 771,690 thousand euros were credited to the fixed asset values against which the provisions were charged at the time, and the rest - 215,455 thousand euros - was credited to the consolidated income statement in "Expense for interest on expropriations".

The expense of interest for expropriations at 31 December 2017, having taken into account the reversals mentioned has a positive effect in the income statement amounting to 4,593 thousand euros (31 December 2016: positive effect of -201,406 thousand euros) (see Note 31).

Other operating provisions

This heading records the provision for credits applicable to public service benefits for landing services and passenger departures, accrued by airlines operating during certain days of the week at airports located in the Canary Islands. Also the General State Budgets Law for the year 2016 established incentives in the public service benefits for passenger traffic, for growth in passenger numbers on the routes operated in the Aena network.

Furthermore, in accordance with section 3.9.2. of the Airport Regulation Document (DORA) 2017-2021, which states that Aena may establish a scheme of incentives compatible with Act 18/2014 which has a positive effect on demand and fosters the establishment of new routes or strengthens existing ones, on 22 February 2017 Aena approved a new commercial incentive scheme for the DORA period:

- Incentive for opening a route to a new destination from all the airports in the Aena network consisting of a discount on the public charges for passenger departures and an additional discount in the following equivalent season if the carrier maintains at least the number of passenger departures operated on that route.
- Incentive for growth in the number of passengers on short and medium-haul routes operated from network airports with fewer than two million passengers per year and on long-haul routes operated from all network airports. Aena may also decide to apply this incentive to airports which are above this threshold but are performing worse than airports with similar traffic structures. The incentive will consist of a discount on the average amount of the public charges for passenger departures of the air carrier on the route and shall apply exclusively to the number of additional passenger departures on the route in question with respect to the equivalent previous season. The incentive will be proportional to the contribution of each airline to the growth generated on each route by all the airlines operating on it. An additional discount will be given in the following equivalent season if the carrier maintains at least the number of passenger departures operated on such route.
- Incentive for growth in the seasonal airports included in Law 21/2003 (Canary Islands, Balearic Islands, Ceuta and Melilla) during their low season consisting of a discount on the average amount of the public charges for passenger departures of the carrier on the route and which shall apply to the number of additional passengers on the route with respect to the previous low season of the airport. The incentive to which each airline operating on the route in question will be entitled shall be proportional to its contribution to the growth generated on such route by all the airlines operating on it. An additional discount will be given in the following equivalent season if the carrier maintains at least the number of passenger departures operated on such route.

In implementation of this incentive scheme, the Board of Directors of Aena agreed that for the summer 2017 season (the first season when the new incentive scheme would be applicable), which for these purposes begins on 1 April 2017 and ends on 31 October 2017, as well as for the winter 2017 season, which also for these purposes starts on 1 November 2017 and ends on 31 March 2018, the discount applicable for the first two incentives (for new routes and growth in number of passengers on existing routes) will be 75 % of the public charges for passenger departures in the first season and 25 % in the following equivalent season.

In these first two seasons the growth incentive for the number of passengers on existing short and medium-haul routes will be applied to airports with annual traffic coming to fewer than 3 million passengers. In the case of the incentive for growth at seasonal airports, the discount will be 5% in the first two successive low seasons in which it will apply.

At 31 December 2017 the sum estimated for all these items amounted to a balance of 49,071 thousand euros (31 December 2016: 72,205 thousand euros).

b) Contingent liabilities

At the end of 2017 and 2016 the Company was involved in claims and legal disputes against it which arose during the normal course of its business, and for which management considers it unlikely that there will be an outflow of resources.

<u>*Environmental action*</u>

As was described in the "Provisions for environmental actions" heading, as a result of the necessary actions to comply with environmental regulations regarding the airport network's various expansion and improvement works, the Company is obliged to make a series of investments to minimise the impact of noise on homes affected by such works. At the close of the 2017 and 2016 financial years, the Company was involved with several claims which, if resolved in an unfavourable manner, could give rise to liabilities that cannot yet be quantified at the end of the above financial years.

As a result of aircraft overflying the town of Ciudad Santo Domingo (Algete, Madrid), some inhabitants of this area considered that their fundamental rights were violated due to excessive noise levels in their homes. These residents lodged an appeal for judicial review against Aena, ENAIRE and the Ministry of Public Works, in which they asked for a cessation of the alleged violation of their rights, which for them would mean stopping the use of runway 18R (one of the four at Adolfo Suárez Madrid-Barajas Airport). No Court has agreed to this measure. On 31 January 2006, the High Court of Justice in Madrid (TSJ) issued a judgement rejecting the aforementioned judicial appeal. The ruling was appealed by five of the initial appellants, and the Supreme Court partially upheld the appeal in a ruling of 13 October 2008 on the grounds of violation of the right to privacy at home. Subsequently, there were various pronouncements and incidents of enforcement which were appealed by all the parties involved in the proceedings.

Under a third motion for enforcement, the High Court of Justice in Madrid (TSJ) issued an Order of 2 December 2014 (the “Order of 2 December 2014”), communicated to ENAIRE and Aena S.M.E., S.A. on 5 December 2014, in which (i) it declared that the judgement of the Supreme Court of 13 October 2008 had not been executed, as it concluded that the breach of fundamental rights as a result of the distress caused by flyovers remained; and (ii) it ordered, via an enforcement writ, a 30% reduction in the number of flights flying over the area of Ciudad Santo Domingo, a percentage calculated on the basis of the number of flyovers in 2004, which amounted to 20,730 approaches to runway 18R.

With respect to this latter measure, the High Court of Justice clarifies the following:

- The 30 % reduction in the number of overflights must begin within a period not exceeding two months following the notification of the Order of 2 December 2014 and the court must be informed of the start date. The deadline expired on 5 February 2015.

- Six months after the start of the reduction, ENAIRE, Aena S.M.E., S.A. and the Ministry of Public Works are required to inform the court within a period of one month of the impact of the measure on noise levels in the residential development. In this same one-month period the appellants can furnish their own corresponding arguments and measurements in this respect.

An appeal for reversal was filed against the Order of 2 December 2014 with the same division of the High Court of Justice of Madrid requesting suspension of its enforcement without having to begin the reduction in the number of flights over Ciudad Santo Domingo until they are down to 30 % less than those existing in 2004.

On 9 April 2015 the High Court of Justice of Madrid dismissed all appeals for reversal against the order of 2 December 2014; Aena and ENAIRE filed an appeal before the Supreme Court on 27 July 2015. All the appeals to the Supreme Court against the Order of 2 December 2014, both by Aena and by the rest of the parties involved (the residents), were admitted by a Resolution of the Supreme Court of 9 May 2016.

Once the appeals had been processed, on 3 April 2017 the Supreme Court gave its ruling on them in which it partially accepted the ones filed by ENAIRE and Aena.

The Supreme Court ruling of 3 April 2017 revokes the Order of 18 December 2014, under which it was agreed to suspend the 30 % reduction although it does not declare the Ruling of 13 October 2008 to be enforced because it lacks sufficient evidence to assess actual or non-compliance with this Ruling.

The Supreme Court ruling of 3 April 2017 has no material consequences for Aena since the current situation is maintained. Thus, the Supreme Court ruling:

(i) does not entail any obligations for the administration or for Aena (e.g. modification of routes, reduction of overflights, etc.); and
(ii) maintains the airport’s current operating capacity.

In addition, the Conclusions of the Supreme Court ruling preclude court decisions that may restrict the operational capacity of the airport. This reduction may only be adopted by the competent administrations, in accordance with the provisions of Regulation (EU) 598/2014 of 16 April[1] ("Regulation 598/2014").

Following the announcement of the aforementioned ruling, the High Court of Justice of Madrid must continue with the enforcement. Thus, this court requested information on the body responsible for the execution and actions to be taken to fulfil the judicial mandate, which has already been communicated by the Technical Secretariat General of the Ministry of Public Works as follows:

(i) That the bodies responsible for compliance with the judgment are Aena, ENAIRE and the General Directorate of Civil Aviation as a specific body of the Ministry of Public Works.

(ii) Dated 31 July 2017, the State Attorney provided the Court with the technical report prepared jointly by Aena, ENAIRE and the DGAC, which outlines how the judicial mandate will be enforced. In addition, the State Attorney's Office requested the extension of the period of enforcement provided for in Article 104.2 LJCA in order to bring it into line with the deadlines set forth in the report.

This report indicates that the Ruling passed on 3 April 2017 by the Supreme Court requires a verification of the noise level in the exterior and interior of the dwellings according to the methodology referred to in Regulation (EU) 598/2014. Consequently, the actions to be carried out will be as follows:

(i) Checking the exterior noise level in the years 2016 and 2004 so that the variations produced can be compared.

(ii) Checking the noise level inside the dwellings using the formula defined in the technical standard UNE EN 12354-3: 2001 Acoustic Performance of Buildings. Estimation of the acoustic characteristics of buildings based on the features of their elements. Part 3: Sound insulation block out aerial noise against external noise.

On 4 September, the High Court of Madrid received a ruling issued on 1 September, in which, in response to the request of the State Attorney's Office, a one-month extension of the enforcement period was granted in respect of the one contemplated in article 104.2 LJCA, pointing out that the decision on the specific content of the report submitted must be made by the rapporteur of the procedure.

This extension expired on 4 October, and the State Attorney has proceeded to request a new extension of the period by informing the High Court of the state of enforcement and of the proceedings already carried out. In response to that request, the Supreme Court handed down a new ruling on 17 October in which it once again extended the deadline of execution for the term of 1 month. This extension ended on 23 November, when the actions to be performed in the residents' homes had not yet been completed, so the State Attorney's Office once again requested another deadline extension. After this request, the Supreme Court handed down a ruling on 22 December 2017 granting the new two-month extension to complete the execution, so the deadline to finish the actions is 22 February 2018.

Meantime, Aena, ENAIRE and the Ministry of Public Works have been executing the actions needed to check the noise levels.

Ministry of Defence

The Ministry of Defence has requested compliance with the sixth section of the Framework Agreement between the Ministry of Defence and the Ministry of Public Works on the transfer of airport premises to be affiliated with Aena dated 28 June 1998, and in consequence to obtain payment of the budgetary compensation agreed to by the Council of State in its ruling dated 8 October 1998. Regarding the effective risk which this claim may entail, it is difficult to evaluate, although the aforementioned report of the Council of State, in its SECOND conclusion, states that the economic compensation for the change in affiliation will only take place in the event that the installation had had a

[1] *Regulation (EU) No 598/2014 of the European Parliament and of the Council of 16 April 2014 on the establishment of rules and procedures with regard to the introduction of noise-related operating restrictions at Union airports within a balanced approach and repealing Directive 2002/30/EC.*

military use. In consequence, if this installation was meant for civil aviation, even if it was located within a military installation, Defence would not have to be indemnified.

At the date of preparation of these statements, there is only one claim related to Son Bonet airport, although it might be extended to other facilities. It appears from the investigation conducted that Son Bonet aerodrome never had any military use. We are awaiting the report from the Government Attorney's Office report in this regard to oppose the claim of the Ministry.

With regard to the amount that may be due if ultimately this payment has to be made, it would be determined by a joint committee made up of representatives of the Ministry of Defence and Aena. This committee would be set up at the time that it is conclusively determined that there is an obligation on the part of Aena to compensate the Ministry of Defence.

Expropriations

The Company is also involved in proceedings relating to claims involving expropriations that have taken place and which at the end of 2017 and 2016 could not be quantified as final since a court decision is yet to be reached and which could give rise to additional cash outflows for expropriations, although the directors do not anticipate that a decision that is contrary to the interests of the Company is likely.

Commercial activities

At 31 December 2017 and 31 December 2016 the parent Company is involved in legal disputes with leases at airports in the Aena network which are either pending final decisions or are going through the courts. The total of these claims amounts to 2 million of euros, but the Group's Management does not anticipate that such claims will give rise to financial penalties against it.

Construction company claims

In addition to the above, at the end of 2017 and 2016 there are claims that have been filed against the Company by several construction companies deriving from the execution of various construction contracts relating to the airport network. The total of these claims amounts to 3,5 million of euros. The Group's Management does not anticipate that such claims will give rise to financial penalties against it.

Airline claim relating to fees

After the increase in the fee implemented by the General State Budget Law for 2012, the airlines have appealed against the amounts charged before the Central Administrative-Economic Court.

The airlines operating in Spain broadened their claim against the Spanish State, filed with the European Commission, complaining of irregularities in the system established by Spanish Law for updating the benefits to be received by Aena, in 2012. The aviation sector asked for the Community body's intervention on the price rise 2012 and after the rise in 2013, also calling for the setting up of an independent supervisory body for air transport. In the year 2013 the National Commission on Financial Markets and Competition (CNMC), which is an independent body was created. Until its operation in October 2013, the supervision of the proposed 2014 rates was attributed to temporary Committee and Airport Railway Regulation (CRFA) acting in the exercise of their work impartially and transparently. The process of consultation on the fee proposal for 2014 ended long-term agreement on fees for the period 2014-2018. After the agreement reached with the airlines the latter suggested to their associates withdrawing from the claims filed. Currently, almost all companies have presented withdrawals. Additionally:

The Central Administrative-Economic Court ruled on the judicial review claims filed by various companies by dismissing them and confirming the settlements issued by Aena.

In 2015, various airlines filed administrative appeals in the National High Court against the withdrawing decisions of the administrative appeals filed by these companies before the Central Administrative-Economic Court.

The National High Court resolved most of the administrative appeals by rulings which considered that the rise in rates applied under Law 2/2012, in not having been through a period of consultation or been published two months in advance, contravened article 6 of Directive 2009/12/EC, of 11 March. On this basis, considering that article 6 recognises rights for users clearly and directly, and in virtue of the principle of primacy of Union Law, it concluded that the rise in rates under Law 2/2012 should not be applied and in consequence cancelled the settlements made in application of that rule. These rulings by the National High Court specified that this could not involve any application for repayment of the difference in payments due in relation with those indicated as paid without first turning to the procedure for the return of payments unduly made. In the procedure, the claimant must evidence payment of the settlement made and the determination of what would be correct, having recorded that in the period under study the amounts of the benefits due were not passed on to the passengers, as is envisaged in article 77 paragraph 2 of Law 21/03 on Air Safety. These unfavourable rulings gave rise to the allocation of a provision for liabilities of 4,111 thousand euros (see the section on Provision for liabilities in this Note 23).

The Company's management does not consider that any further financial consequences can arise against it.

Claims by airlines

The Company is involved in claims and disputes over specific incidents that have generated damage to aircraft at airports within the network. As at 31 December 2017, the management of Aena S.M.E., S.A. considers that these would not be significant.

Contingent assets – Fee shortfall

In September 2012 the General Directorate of Civil Aviation (DGAC) carried out the supervision of the proposal of updating and fee amendment submitted by Aena, for 2013.

The supervision of the fees proposed by Aena, for 2013 applied, for the first time, the new regulatory framework deriving from Directive 2009/12/EC of the European Parliament and of the Council, of 11 March 2009, on airport charges (Directive 2009/12/EC). In Spain, this framework is primarily comprised of Law 21/2003 dated 7 July 2003, on Air Security (Law 21/2003) –in the wording given by (i) Law 1/2011, dated 4 March 2011, which establishes the State Operational Security Programme for Civil Aviation and amends Law 21/2003, dated 7 July 2003 on Air Security and (ii) Royal Decree-Law 20/2012, dated 13 July 2012 on measures to ensure budgetary stability and promotion of competitiveness, whose purpose is to incorporate Directive 2009/12/EC into the Spanish legal system. In the institutional realm, the incorporation of Directive 2009/12/EC required the creation of a regulatory body with supervisory functions in the sphere of setting and updating airport fares. Thus, the Airport Economic Regulation Commission was established via Royal Decree-Law 11/2011, dated 26 August 2011, which created the Airport Economic Regulation Commission and the National Markets and Competition Commission (CNMC) in conformance with Law 3/2013, dated 4 June 2013, which created the National Markets and Competition Commission. On the other hand, Law 18/2014, dated 15 October 2014, on approval of urgent measures for growth, competitiveness and efficiency (Law 14/2018) introduces important reforms in the airport fare system of basic airport services. Law 14/2018 states that starting in 2018, airport fares shall be contained in the Airport Regulation Document (DORA), which shall be approved every five years by the Council of Ministers. However, with regard to the airport fares in 2016, the transitory regime which governed prior to the approval of the first DORA was applied in conformance with the Fourth, Fifth, Sixth and Seventh Transitory Provisions of Law 18/2014.

In accordance with this regulatory framework, Aena income derived from the provision of basic airport services is considered public airport charges. In consequence, it must be established, updated and modified through a regulation with the rank of law. Additionally, the updating and modification of the greater part of these benefits is submitted, first, to a procedure of transparency and consultation with the associations and organizations of user airlines and, second, to a procedure of supervision by the supervising authority. In conformance with Law 1/2011, the update of public charges for the provision of basic airport services is subjected to a dual till model which imposes a distribution model of associated costs for each of the activities that Aena performs, distinguishing between the regulated activities (basic airport services) and the remaining activities of the airport manager.

According to the Supervision Report on the Proposal of fee changes by Aena for 2014, issued by the Committee Regulating Railways and Airports (CRFA) (currently included in the CNMC) on 12 September 2013, the fee deficit for 2013 was set at 298 million euros (which corresponds with that approved by the DGAC adjusted to the real consumer price index) which, capitalised at 7.04 % to obtain the value at 31 December 2014, took the value of 318.98 million euros. The fees shortfall declared by the CNMC for 2013 in the Resolution approving Aena's fee modification proposal for 2015 and setting out the measures that should be adopted in future consultation processes, amounts to €179.33 million.

Furthermore, in the above-mentioned Oversight Report on Aena's fee modification proposal for 2014, the CRFA verified that the modified fees for 2014 sets out a shortfall adjustment for 2014 of €286,790 million. This Report also established that in the event that, once the CPI had been published in October 2013, it was decided that the increase to be applied to the amounts of the benefits should be less than 2.5%, the value of the shortfall for 2014 must be restated, finally reaching an amount of 312,000 thousand euros.

The CNMC agreement dated 23 April 2015 (Agreement of 23 April) on airport fares in 2016 states that the accounting that should be used as the base to update the airport fares for 2016 should reflect in a different way how the "costs derived from commercial income generated by a higher volume of traffic" had been done in the previous financial year. Pursuant to the Agreement of 23 April, that consequence would establish that part of the costs arising in airport terminals, and which were recorded as regulated airport activity, would be part of business activities and be considered as costs thereof. Following the gradual application of the criterion of the dual till system, reallocation of regulated business activities costs supported by the contested Agreement corresponds to 40 % of the amount of 69.8 million euros, that is, a variation of 27.9 million euros. On 13 May 2015, Aena filed a contentious-administrative appeal against the Agreement of 23 April, which gave rise to Ordinary Proceeding 318/2015 (Appeal 318/2015). This appeal was declared inadmissible by the National Court in its ruling dated 29 July (confirmed by the ruling of the National Court dated 10 November 2015) as it deemed that it was targeted against an administrative action which could not be contested. Against these rulings, Aena filed for a judicial review before the Supreme Court (Judicial Review 4009/2015). The Supreme Court, in ruling no. 1082/2017 dated 19 June 2017, allowed the Judicial Review Appeal 4009/2015, declaring that Appeal 318/2015 is admissible.

Section Two of the above Ruling of the Supreme Court expressly states that: "It is agreed to admit administrative appeal no. 318/2015 filed by Aena Aeropuertos, S.A.U. against the decision of the National Markets and Competition Commission, Regulatory Supervision Division, of 23 April 2015, which adopts criteria on the separation of costs from airport and commercial activities at Aena airports, and the Eighth Panel of Judges of the Administrative Division of the National High Court shall continue the processing of said appeal."

In consequence, Aena requested a resumption of the processing of the proceeding, that a copy of the administrative case be delivered and that Aena be summoned to formulate its lawsuit.

On 23 July 2015, the CNMC issued the "Resolution adopting the Proposal for modification of fees of Aena for 2016, and establishing the measures to be adopted in future consultation procedures". This Resolution incorporates the criteria established in the Agreement of 23 April, for the purpose of the proposed fee review which has been submitted for approval by the General State Budgets Law for 2016. The Company filed an administrative appeal before the National High Court against this Resolution (Appeal 355/2018). The processing of Appeal 355/2018 was suspended until the resolution of the aforementioned Judicial Review Appeal 4009/2015. Finally, through the ruling dated 12 December 2017, the National Court agreed to summon Aena to present the corresponding lawsuit.

On the date of these Consolidated annual accounts, Appeals 318/2015 and 355/2018 were in the initial stage of the proceeding.

The Group considers that these types of assets do not comply with all of the requirements to be recognised in the balance sheet since they involve an asset that depends on future events.

24 Grants

The breakdown and movement of this heading on 31 December 2017 and 2016 was as follows (in thousand euros):

Capital grants from official European bodies	**2017**	**2016**
1 January	**582,648**	**610,250**
Additions	11,935	13,988
Postings to results	(42,504)	(41,590)
31 December	**552,079**	**582,648**

The breakdown of this balance between the current and non-current part is as follows:

	31 December 2017	**31 December 2016**
Non-current	511,927	544,382
Current	40,152	38,266
Total	**552,079**	**582,648**

The grants primarily come from resources granted by the European Regional Development Fund (ERDF) for the development of airport infrastructures (see Note 13).

The breakdown of the gross grants by operative programmes which were earned in financial years 2017 and 2016 is as follows in thousands of euros:

	Thousand euros	
	2017	**2016**
Andalusia Operative Programme	2,451	-
Valencian Operative Programme	1,319	-
Region of Murcia Operative Programme	5,570	-
Canary Islands Operative Programme	-	9,013
A.T. Governance	-	38
Knowledge Economy Operative Programme	-	1,614
Total ERDF Funds earned	**9,340**	**10,665**

At the close of financial year 2017, the Company believes that all the conditions needed to receive and enjoy the grants listed above have been met.

25 Other non-current liabilities

As stated in Note 19, on 14 February 2013, Aena S.M.E., S.A. signed three contracts with World Duty Free Group Spain, S.A. for the commercial rental of the duty free and duty paid shops across the entire network of airports in Spain. These contracts are valid until 31 October 2020 and include an advance by 332,442 thousand euros, which is periodically offset by billing. On 31 December 2017 the long-term advance which was pending compensation totalled 80,011 thousand euros (2016: 120,508 thousand euros).

	Long-term liabilities	
	2017	**2016**
Securities and others	11,398	11,493
Accruals (Note 19)	80,011	120,508
Total	**91,409**	**132,001**

(Amounts in thousands of euros unless otherwise stated)

26 Commitments

a) <u>Environmental commitments</u>

The Group's management, faithful to its commitment to preserve the environment and to the quality of life around it, has been making investments in this area which allow it to minimise the environmental impact of its actions and protect and improve the environment.

On 31 December 2017 tangible fixed assets included environmental investments totalling 508.2 million euros, whose accrued depreciation totals 229 million euros (2016: investments of 509.2 million euros and depreciation of 212.91 million euros).

The environmental investments made in financial year 2017, which encompass the elements included in the Group's assets with the goal of their being used in a lasting way in its activity, and whose main purpose is to minimise the environmental impact and to protect and improve the environment, including control, prevention, reduction or elimination of future pollution caused by operations, totalled 14,474 thousand euros (2016: 6,324 thousand euros), broken down as follows:

	Thousand euros	
	2017	**2016**
Madrid/Barajas	4,930	2,840
Málaga	767	1,409
Palma Mallorca	1,374	113
Bilbao	705	389
Alicante	1,212	311
Barcelona	1,358	191
Santiago	418	116
Menorca	155	113
Gran Canaria	417	52
Tenerife Norte	1,642	84
Valencia	358	76
Other airports	1,138	630
Total	**14,474**	**6,324**

The profit and loss statements of financial years 2017 and 2016 include the following environmental expenses, broken down by category:

	Thousand euros	
	2017	**2016**
Repairs and maintenance	7,049	7,994
Independent professional services	1,255	1,374
Other environmental services	2,859	3,543
Total	**11,163**	**12,911**

The environmental provisions and contingencies are outlined in Note 23. Environmental evaluation legislation (currently Law 21/2013), requires that certain Aena S.M.E., S.A. projects are submitted to an environmental impact assessment (particularly runway extensions exceeding 2,100 m), finalised by the formulation of the corresponding environmental impact statements (EIS) by the Ministry of Agriculture, Food and Environment, which contain the obligation to develop and execute Soundproofing Plans. These environmental impact statements published are the ones that must be considered when making provisions, regardless of whether the insulating actions on the affected buildings later are executed, which leads to a time difference between the provision and the execution of the works. The Group's administrators do not expect there to be any significant liabilities or additional contingencies for this reason.

In 2017, in application of the Soundproofing Plans, a total of 23,096 homes (2016: 21,271 homes) were soundproofed, most notably the 12,861 homes near Adolfo Suárez Madrid-Barajas airport (2016: 12,841 homes), 2,882 in Alicante-Elche (2016: 2,602 homes), 1,647 homes in Valencia-Manises (2016: 600 homes), 1,432 in Bilbao (2016: 1,325), 836 in Palma de Mallorca (2016: 803) and 811 in Málaga-Costa del Sol (2016: 811 homes). Works valued at 11,280 thousand euros were include in this financial year, along with 1,643 thousand euros for actions related to the compensatory measures for the basins of the Jarama and Henares Rivers.

Furthermore, since financial year 2007 soundproofing proceedings have been underway in homes located near the airports of Sabadell, Girona and Melilla, which are still underway at the close of financial year 2017.

Likewise, in accordance with the resolutions of the Ministry of the Environment for which environmental impact statements are formulated for the Company's airports, the preventative, corrective and compensatory measures cited in the preventative environmental impact studies and in the aforementioned Environmental Impact Statements are being carried out, thus fulfilling a series of conditions primarily with the protection of the hydrological and hydrogeological system; soil protection and conservation; air quality protection; acoustic protection; protection of the flora, fauna and natural habitats; protection of the cultural heritage, service restoration and livestock trails, location of cliffs, loan zones, landfills and auxiliary facilities.

b) *Commitments to acquire fixed assets*

The commitments at 31 December 2017, outstanding investments amount to approximately 563.0 million euros (2016: 379.5 million euros), which include allocated investments pending formalisation by contract and confirmed investments awaiting execution.

c) *Commitments to operating leases*

The dominant company uses a variety of assets in the system of operating leases to third parties, including those outlined below along with the main characteristics of the corresponding contracts (in thousands of euros):

Asset	**Location**	**Date of maturity**	**Annual income without VAT**	**Notes**
Piovera building	Madrid	31/01/2024	3,750	Rent revisable annually according to contract conditions

Asset	**Location**	**Date of maturity**	**Annual income without VAT**	**Notes**
Arturo Soria building	Madrid	31/01/2018	942	Unrevised rent

(*)This contract, which initially expired in 2018, has been renewed during 2017, extending the lease period until 2024.

The total minimum future payments of operating leases that cannot be cancelled (until the contract expires) are the following:

	2017	**2016**
Less than 1 year	4,949	4,391
Between 1 and 5 years	18,767	4,834
More than 5 years	330	-
Total	**24,046**	**9,225**

On the other hand, the concession agreement of London Luton airport with the Luton Town Hall (see Note 2.6.d) stipulates a concession fee according to passenger traffic, but with a minimum guaranteed of 3 million pounds per year. The concession ends in 2031.

(Amounts in thousands of euros unless otherwise stated)

d) *Minimum future payments to be received for operating leases*

The company Aena S.M.E., S.A, rents out several speciality shops and stores under non-cancellable operating lease contracts. These contracts last between five and ten years, and most of them can be renovated upon expiration in market conditions.

The total minimum fees for the next 5 years, for non-cancellable operating leases, are the following:

	2017	2016
Less than 1 year	616,687	588,063
Between 1 and 5 years	1,405,955	1,727,573
More than 5 years	14,884	114,283
Total	**2,037,526**	**2,429,919**

27 Others (losses) / earnings - nets

	2017	2016
Other losses	1	(1,058)
Other earnings	2,968	1,457
Total Other net (losses)/ earnings	**2,969**	**399**

The amount of Other earnings in financial years 2017 and 2016 primarily includes seizures of warranties and guarantees, as well as payments of surcharges for seizures or arrears; the losses primarily include indemnifications and allocations to provisions for risks.

28 Expenses for provisions for employee benefit obligations

	2017	2016
Salaries and wages, including other indemnifications for dismissal	298,138	279,698
Security Social costs	91,774	89,194
Costs for pensions (Note 22)	11,152	3,893
Cost of premiums for retirement and tenure (Note 22)	478	784
Other social costs	15,613	17,155
	417,155	**390,724**

The payment gap in Employment Costs primarily stems from the agreement reached between the dominant Company and the union organisations on 25 September 2017.

Both parties agreed to a salary raise of 1% for financial year 2017 and they agreed to raise the total payroll for the concept of productivity by an additional 8.5 million euros. This increase is associated with fulfilment of the objectives set for 2017.

Social Security increased for the same reasons. In 2016, the Social Security heading included the effects of the payment order from Labour Inspection and Social Security received during the financial year to differing criteria in valuing work accidents and professional illnesses in certain occupations in the period August 2011 – July 2015 (see Note 23 Liability Provision).

Additionally, in financial year 2017, the LLAH III Group saw an increase in this heading of 8.8 million euros (47,852 thousand euros in 2017 compared to 39,057 thousand euros in 2016), primarily due to the impact of the closure of the LLAOL pension plan with indefinite benefits reflected in the line “Cost for pensions” (see, too, Notes 5 and 22).

(Amounts in thousands of euros unless otherwise stated)

The number of employees at the end of the year by category and gender at the fully consolidated companies forming part of the Group was as follows:

Professional Category	31/12/2017(*) Male	Female	Total	31/12/2016(*) Male	Female	Total
Senior management	7	2	9	8	2	10
Executives and graduates	940	704	1,644	901	675	1,576
Coordinators	809	301	1,110	785	267	1,052
Technicians	3,004	1,431	4,435	2,978	1,440	4,418
Support personnel	551	485	1,036	534	473	1007
Total	**5,311**	**2,923**	**8,234**	**5,206**	**2,857**	**8,063**

(*) The figures above include temporary employees, which at the close of financial year 2017 totalled 1,026 (2016: 951).

The average staff of the financial year by category was the following:

Professional Category	2017(*)	2016(*)
Senior management	10	10
Executives and graduates	1,603	1,462
Coordinators	1,078	1,077
Technicians	4,451	4,396
Support personnel	1,032	1,019
Total	**8,174**	**7,964**

(*) The figures above include temporary employees, which at the close of financial year 2017 totalled 983 (2016: 829).

The Board of Directors of the parent Company consisted of 15 members (11 men and 4 women) as of 31 December 2017 (2016: 12 men and 3 women).

At 31 December 2017, an average of 115 employees were disabled (2016: 115).

29 Other operating income

The breakdown of Other Income for financial years 2017 and 2016 is as follows:

	2017	2016
Miscellaneous income and other current management income	9,777	7,107
Operating grants incorporated into the profit (loss) of the financial year	1,075	654
Other operating income	**10,852**	**7,761**

(Amounts in thousands of euros unless otherwise stated)

30 Supplies and Other operating expenses

a) Supplies

The breakdown of the "Supplies" heading for financial years 2017 and 2016 is as follows (in thousand euros):

	2017	2016
Purchases of other supplies	(1,054)	(613)
Work performed by other companies	(173,122)	(179,753)
Total	**(174,176)**	**(180,366)**

The jobs performed by other companies primarily include services provided by the Ministry of Defence deriving from the agreement reached with it, which totalled 2,906 thousand euros (2016: 3,039 thousand euros), in addition to the Communication, Navigation and Surveillance (CNS) Services, Air Transit Services (ATM) and Aeronautical Information Services (AIS) provided by ENAIRE (Note 34), which totalled 138,930 thousand euros (2016: 145,441 thousand euros). This heading also includes expenses stemming from the agreement signed in March 2014 with the Spanish Meteorological Agency (AEMET) to provide meteorological services to the network of airports managed by Aena (Note 34) for the amount of 10,000 thousand euros (2016: 10,000 thousand euros).

b) *Other operating expenses*

The breakdown of Other operating expenses for financial years 2017 and 2016 is as follows:

	2017	2016
Rent and royalties	6,112	6,025
Repairs and maintenance	256,839	260,314
Independent professional services	49,785	39,196
Bank services	653	870
Public relations	6,255	6,831
Utilities	91,666	96,933
Other services	153,106	141,451
Surveillance and security services	145,276	135,331
Taxes	154,153	151,928
Losses, impairment and changes in provisions for commercial transactions (Note 13)	(6,072)	7,845
Other ordinary expenses	53,139	55,051
Other operating expenses	**910,912**	**901,775**

The heading of "Repairs and maintenance" includes, principally, repair costs of the airport infrastructures, maintenance of the SATE system (automatic baggage handling system) and cleaning for the buildings and passenger terminals. "Utilities" relates mainly to lighting, water and telephone costs. "Other services" relate mainly to car park management services, the cost of services to assist passengers with limited mobility, insurance premiums and public information services. The balance in Taxes primarily corresponds to the amounts paid in local taxes, primarily the property tax (IBI) and the Economic Activity Tax (IAE), by the parent Company. The "Other ordinary expenses" item shows, mainly, the administrative concession fee for LLAH III (see Notes 7 and 26) for an amount of 50,691 thousand euros (2016: 47,929 thousand euros).

In the analysis of variation of this group, the following points should be noted:

- Increase in the spending in the heading "Surveillance and security services" by 10 million euros to deal with the higher demand stemming from the increase in traffic while maintaining the quality of service.
- Increase in the heading "Other services" due as well to the expenses which arose to meet the needs stemming from this increase in traffic.
- Decrease in the heading "Supplies" because of a decrease in electrical energy costs.

(Amounts in thousands of euros unless otherwise stated)

31 Financial income and expenses

The details of Net financial expenses for 2017 and 2016 were as follows:

	2017	2016
Financial expense:		
Financial expense on amounts owed to third parties	(37,813)	(22,430)
Financial expenses on loans from ENAIRE	(64,197)	(95,325)
Financial expenses for settlement of derivatives (Note 12)	(40,530)	(44,472)
Update of provisions	(119)	(460)
Lower: financial expenses capitalised for qualifying assets (Notes 6 and 7)	525	663
Total financial expense	**(142,134)**	**(162,024)**

	2017	2016
Financial income:		
Financial income from shares in equity instruments (Note 34)	429	4,840
Financial income of interest from expropriations (Note 23)	4,593	201,406
Other financial income	1,869	2,238
Total finance income	**6,891**	**208,484**

	2017	2016
Other net financial income/(expense)		
Net translation differences	(4,340)	(9,807)
Disposal / impairment of financial assets available for sale (Note 11)	(7)	(4,469)
Total other net financial income/(expense)	**(4,347)**	**(14,276)**
Net financial expenses	**(139,590)**	**32,184**

In this chapter, the main variations in financial year 2017 compared to 2016 are the following:

- The heading of Financial income from interest from expropriations includes 4,593 thousand euros from the reversal of penalty interest in contentious expropriation proceedings, compared with profits of 201,406 thousand euros in 2016 (See Note 23 Provision of expropriations and penalty interest).

- The decrease of -31.1 million euros in the heading “Financial expenses on loans from ENAIRE” primarily as a result of the drop in the average debt and average interest rate. The decrease in the average debt is a result of the early maturity of the period for the amount of 797.2 million euros in the loan with Depfa with variable interest rates (see Note 20). The decrease in the average interest rate is due to the decrease in the reference Euribor 3m and 6m interest rates and the revisions to the interest rates on the EIB loans.

- The increase in the heading “Financial expense on amounts owed to third parties” by 15.4 million euros is related primarily to the financial expenses which arose from the execution of the refinancing in the LLAH III subgroup (see Notes 12 and 20.b), in addition to the interest stemming from the dominant Company’s new financing with credit entities of 2.4 million euros in 2017 (2016: 0 million euros) (Note 20.b).

- The variation in the heading “Foreign exchange differences” was primarily caused by the evolution in the GBP/EUR exchange rate in the valuation of the shareholder loan of the LLAHL III group (Note 20). In 2017, the unfavourable impact was 2.1 million euros (Notes 3.2 and 20), while in 2016 the negative impact was 8.9 million euros.

(Amounts in thousands of euros unless otherwise stated)

32 Income tax

	2017	2016
Current tax:		
Current tax on income for the period	(388,735)	(376,294)
Adjustment of the ACDL portfolio against profit / (loss) (Note 21)	(478)	-
Change in UK rates (Note 21)	(264)	3,762
Adjustments from previous financial years and others	(176)	2,384
Total current taxes	**(389,653)**	**(370,148)**
Deferred tax (Note 21)	368	7,679
Deductions generated	14,547	10,736
Income tax	**(374,738)**	**(351,733)**

The heading "Adjustments from previous financial years and others" primarily corresponds to the regularisation between the estimate made at the close of the financial year and the submission of the corporate tax.

The main permanent differences in the financial year primarily correspond to the reduction of the Taxable Base stemming from the adjustment in capitalisation reserve established in article 25 of Law 27/2014 on the Corporate tax and non-deductible expenses. The main temporary differences relate to the difference between tax depreciation and book depreciation, provision for insolvency and contingencies and staffing costs.

The general tax rate of the Corporate Tax for financial years 2017 and 2016 was 25% for companies in the group located in Spain. For the LLAH III subgroup, whose tax residency is in the United Kingdom, it was 19.25% in 2017 (2016: 20%).

On the other hand, as a consequence of a future variation in tax rates in England, in 2017 the assets and deferred tax liabilities were revaluated according to their estimated reversal period in invested company LLAH III, which had the following impacts:

- Higher spending in the heading "Expenses on the profit tax" from the income statement for the amount of 264 thousand euros, liabilities charged to temporary differences (heading "Deferred tax liabilities" from the Non-current liabilities on the income statement), with an increase of 110 thousand euros, while on the other hand, assets charged to temporary differences (heading "Deferred tax assets" on the Non-current assets on the income statement), with a decrease of 154 thousand euros (see Note 21).

- An increase in the "Deferred tax assets" heading for the amount of 104 thousand euros with a balancing entry in Equity (Note 21).

In 2016, the assets and deferred tax liabilities were also revaluated according to their estimated reversal period in the invested company LLAH III, which had the following impacts

- Lower spending in the "Expenses on the profit tax" from the income statement for the amount of 3,762 thousand euros, charged to liabilities for temporary differences (heading "Deferred tax liabilities" from the Non-current liabilities on the income statement), lowering them by 3,681 thousand euros while assets charged to temporary differences (heading "Deferred tax assets" on the Non-current assets on the income statement), with a decrease of 81 thousand euros (see Note 21).

- A decrease in the "Deferred tax assets" heading for the amount of 1,295 thousand euros with a balancing entry in Equity (Note 21).

(Amounts in thousands of euros unless otherwise stated)

The Group's income tax differs from the theoretical amount that would have been obtained had the average weighted tax rate applicable to the consolidated companies' profits been used as follows:

	2017	2016
Profit / (loss) before tax	**1,596,707**	**1,516,119**
Tax calculated at standard national applicable rate	(399,177)	(379,030)
- Tax effects of:		
- Profits from associates, net of taxes	4,732	4,030
- Effect of smaller rate applicable to LLAH III	(1,032)	(41)
- Non-deductible expenses for tax purposes	(3,078)	(37)
- Capitalisation reserve	11,099	7,770
- Use of tax deductions not previously recognised	14,547	10,736
- Tax adjustments in England (Note 21)	(264)	3,762
- Adjustment of ACDL portfolio	(478)	-
- Adjustment of previous periods	(153)	1,409
- Negative tax adjustment	(705)	975
- Other	(229)	(1,307)
Tax expense	**(374,738)**	**(351,733)**

The applicable tax rate before tax credits and deductions and activation tax losses stood at 25 % (2016: 25 %), except for the results relating to the investee LLAH III, upon which tax is paid at the rate of 19.25 % (2016: 20 %).

The charge/credit for taxes relating to the components of Other comprehensive income is as follows:

	2017			2016		
	Before taxes	**Tax (charge)/ credit**	**After taxes**	**Before taxes**	**Tax (charge)/ credit**	**After taxes**
Cash flow hedges (Note 18)	52,581	(12,732)	39,849	(62,668)	15,120	(47,548)
Actuarial losses and gains (Note 18)	(986)	169	(817)	(27,629)	4,474	(23,155)
Share in other comprehensive income of associates (Note 18)	-	-	(7)	-	-	30
Other overall profit/(loss):	**51,595**	**(12,563)**	**39,025**	**(90,297)**	**19,594**	**(70,673)**
Current income tax						
Deferred tax (Note 21)	-	(12,563)	-	-	19,594	-
	-	**(12,563)**	**-**	**(90,297)**	**19,594**	**(70,673)**

<u>Other issues</u>

As established by current legislation, taxes cannot be considered to be definitive until the relevant returns have been inspected by the tax authorities or until four years have elapsed since filing. On 31 December 2017, the last four financial years were open to inspection for all taxes.

For the public business entity "ENAIRE", the head of the previous Tax Group (see Note 4), the prescription period of the Corporate Tax for financial years 2012, 2013 and 2014 is open, in which the Company filed consolidated tax returns with ENAIRE.

(Amounts in thousands of euros unless otherwise stated)

As established by current legislation, taxes cannot be considered to be definitive until the relevant returns have been inspected by the tax authorities or until four years have elapsed since filing. On 31 December 2017, the prescription period falling between 1 January 2014 and 31 December 2017 is open for all taxes.

The directors of Aena consider that the tax settlements have been properly prepared and made so that, even in the event that discrepancies should arise in the interpretation of the current standards for the tax treatment granted to the transactions, any possible resulting liabilities would not significantly affect the accompanying consolidated financial statements.

The taxes for the last six years of the United Kingdom companies making up the LLAH III group are open to inspection by their taxation authority.

33 Earnings per share

Basic earnings per share are calculated by dividing the profit/loss for the period attributable to the Company's shareholders by the weighted average number of outstanding shares during the year.

	31 December 2017	31 December 2016
Result of the financial year (thousand euros)	1,232,005	1,164,149
Weighted average number of ordinary shares	150,000,000	150,000,000
Basic earnings per share (euro per share)	8.21	7.76

Diluted earnings per share are calculated by dividing the results for the period by the average weighted number of outstanding ordinary shares during the year, taking into account the diluting effects inherent in ordinary shares potentially outstanding during the year. At 31 December 2017 and 2016 there were no diluting factors that modify the amount of the basic earnings per share and therefore the figures are the same as those for diluted earnings per share.

34 Related party transactions and balances

The Grupo is controlled by the public business entity "ENAIRE", which holds 51% of the shares in the Share Capital of Aena S.M.E., S.A.

All Related-party transactions are conducted at market values. In addition, transfer prices are appropriately supported, and therefore the directors of the Group do not consider that any significant risks that could give rise to material liabilities in the future exist in this connection. Within the section on Related parties, those in which the government of Spain has a controlling position are not broken down, with which there is no significant balance or transaction.

The transactions carried out with related parties are set out below:

(a) *Sales of goods and services*

Rendering of services:	2017	2016
- Last company	**1,726**	**1,433**
ENAIRE	1,726	1,433
- Associates	**6,752**	**5,930**
Sacsa	761	684
AMP	5,602	4,787
AEROCALI	389	459
- Related parties	**98**	**62**
INECO	93	57
ISDEFE	5	5
Total	**8,576**	**7,425**

(Amounts in thousands of euros unless otherwise stated)

(b) Purchases of goods and services

	2017	2016
Services received:		
– Last company	**140,003**	**146,534**
ENAIRE	140,003	146,534
–Related parties	**26,088**	**24,849**
INECO	12,897	12,387
AEMET	10,000	10,000
ISDEFE	3,191	2,462
Total	**166,091**	**171,383**
Acquisition of assets		
-Group companies	**320**	**292**
ADI	320	292
–Related parties	**8,665**	**8,346**
INECO	5,729	6,068
ISDEFE	2,936	2,278
Total	**8,985**	**8,638**

The amount for the service provided to ENAIRE belongs mainly to services received from airport traffic control. In this respect, the appropriate service agreement was concluded between the airport manager and the supplier of the air traffic services in order to determine the compensation to be paid for the services (ATM and CNS services). The cost of these services is recognised under the heading “Raw materials and consumables” in the attached consolidated income statement. (Note 30).

Main contracts:

Below is a list of the contracts that exist between Aena S.M.E., S.A. and other related companies for the financial years 2017 and 2016:

Financial year 2017:

- ATM (Air Traffic Management) and CNS (Communication, Navigation, Surveillance) agreement.

Financial year 2016:

- ATM (Air Traffic Management) and CNS (Communication, Navigation, Surveillance) agreement.

On 20 December 2016, the Board of Management of Aena S.M.E, S.A approved the “Agreement to provide air navigation services between ENAIRE and Aena”, which was also approved by the Board of Management of ENAIRE on 23 December 2016. This agreement extends the period 2017-2021 for a total amount of 662,367 thousand euros. On

On 31 October 2017, Aena and ENAIRE signed a service provision contract for the car parks of the Aena network for the free use of the car park 15 days a year for ENAIRE employees. Stemming from this contract, the economic benefits among the parties in 2017 totalled 7,1 thousand euros posted at market value, although the amount paid by ENAIRE totalled 1,8 thousand euros.

On 1 October 2014, with effects since 1 April 2012, a contract was signed with the dependent company Aena Desarrollo Internacional, S.M.E., S.A. in which it provides Aena with flight verification services. The length of the contract is 3 years with annual extensions unless either party expressly wishes not to extend it.

On 1 December 2017, with the purpose of efficiently and appropriately implementing the Group's policies for more efficient corporate management, Aena Desarrollo Internacional, S.M.E., S.A. contracted with Aena S.M.E., S.A. for the provision of certain consulting and management support services which are outlined in the agreement signed for this purpose. The period in which the contract is in force is three years with up to a maximum of four annual extensions, as long as there is agreement between the parties. The price of the services provided is set annually, with the price of the first annual payment set at 104,124 euros. In subsequent years the price will be reviewed depending on the volume of services provided.

Additionally, there is a cooperation agreement with Ingeniería y Economía del Transporte, S.A. (INECO) to draw up and revise projects, supervise construction and provide technical monitoring assistance, engineering for certification, maintenance and operation of facilities and airport processes, planning, airport and environmental development, commercial airport development and logistics designs in terminal buildings to improve operating efficiency and lower costs even further. Its appendix of actions is renewed every year.

The related company ISDEFE has been providing Aena with a series of services which are framed in some of the activities within its mission, including the following activities in conformance with the contract signed in 2016 December and which replaced the previous one dated 8 November 2013:

- General coordination of Information and Communication Technologies, henceforth ICT.
- Definition of ICT systems and infrastructures.
- Lifecycle management of IT applications.
- Office management of ICT projects.
- Quality and tests of IT applications and infrastructures.
- Integration of systems and support for operations.

The State Meteorology Agency (AEMET), in its capacity as the meteorological authority of the state and as the supplier of certificate services, is the sole officially designated organisation in Spain to provide meteorological services for aeronautical activities. In order for more suppliers of this service to be designated, regulations must previously be developed. AEMET also provides the meteorological services to the rest of Spanish airports that are not managed by Aena S.M.E., S.A.

Additionally, AEMET is the owner of facilities and basic equipment to manage the meteorological services for air navigation.

Motivated by the need for these services, Aena and AEMET signed an agreement which regulated this provision of services that covered the period from 30 December 2014 to 29 December 2016, and a new contract was signed with entered into force on 30 December 2016 and will last one year starting this date, which can be extended by mutual agreement by the parties from year to year up to a maximum of two additional years.

Since 2014, Aena has paid for the services provided by AEMET with an initial payment of €7,500,000 for the period March-November of 2014, and monthly payments of €833,333 since then, which is equivalent to payment totalling 10 million euros per year.

Given that the provision of this service is indispensable for the performance of operations, it is considered essential to continue with this agreement to ensure compliance with the current quality, safety and efficiency requirements while also maintaining the same financial conditions (10,000 thousand euros per year), so the extension of the contract for 2018 is already in process at the date of preparation of these financial statements.

(Amounts in thousands of euros unless otherwise stated)

(c) *Income from shareholdings in Related parties*

	2017	2016
-**Related parties**	**429**	**4,840**
ACDL	12	4,590
ESSP SAS	417	250
Total (Note 31)	**429**	**4,840**

As indicated in Note 11, in financial years 2017 and 2016, Airport Concessions and Development Limited (ACDL) was inactive and in the process of liquidation. The total liquidation of the company ACDL was performed on 24 December 2017, the date when the period for its request for liquidation at the Business Registry of the United Kingdom was considered, although the Business Registry gave ACDL the status of dissolved company on 9 January 2018. Previously, partial liquidations had been performed by paying out the surplus cash through dividends, the reason why it is considered a short-term asset after financial year 2016.

In fiscal year 2017, the dividends received by the Company were decided by the Board of Directors of ACDL on 17 July 2017 amounting to 11 thousand pounds sterling (12 thousand euros).

In addition, in 2017 the group received a dividend from European Satellite Services Provider SAS (ESSP SAS) amounting to 417 thousand euros (31 December 2016: 250 thousand euros).

See financial income from approved dividends from associates in Note 9.

During the year 2017, the subsidiary LLAH III distributed to its shareholders dividends amounting to GBP 31,900 thousand (35,930 thousand euros at the exchange rate transaction), of which Aena Desarrollo Internacional S.M.E., S.A. has received 18,299 thousand euros, and the remaining 17,631 thousand euros were received by external partners.

During the year 2016, LLAH III distributed to its shareholders dividends amounting to GBP 5,200 thousand (6,836 thousand euros at the exchange rate transaction), of which Aena Desarrollo Internacional S.M.E., S.A. received 3,486 thousand euros, and the remaining 3,350 thousand euros were received by external partners.

(d) Key management personnel compensation

See Note 35. Other information.

(e) Year-end balances arising from sales/purchases of goods/services

	2017	2016
Receivables from related parties:		
- Associates	**3,376**	**2,847**
SACSA	96	155
AMP	3,248	2,660
AEROCALI	32	32
- Related parties	**33**	**25**
INECO	33	25
Last dominant entity	**100**	**243**
ENAIRE	100	243
Total receivables from related parties (Note 13)	**3,509**	**3,115**

(Amounts in thousands of euros unless otherwise stated)

	2017	2016
Payables to related parties:		
- Related parties	**9,089**	**8,988**
INECO	6,625	6,036
AEMET	833	1,842
ISDEFE	1,631	1,110
Last dominant entity	**25,498**	**26,599**
ENAIRE	25,498	26,599
Total payables to related parties (Note 19)	**34,587**	**35,587**

The receivables with related parties primarily emerge from the sale and purchase of services transactions. The receivables are not secured due to their nature and do not accrue interest. There is no provision for receivables from related parties.

“Other receivables with related parties" includes 4,309 thousand euros (Note 13) broken down into 1,700 thousand euros of current loans with the parent Company and approved dividends from associates pending collection at 31.12.17 which amount to 2,609 thousand euros, corresponding in full to AEROCALI (2016: total 3,839 thousand euros, 3,480 thousand euros in dividends approved pending collection from AEROCALI and 359 thousand euros from SACSA).

Payables to related parties derive mainly from the acquisition of fixed assets and receipt of the ATM and CNS services referred to in section a). The above balances are included under the heading “Payables to related parties” and “Payables to related parties for property, plant and equipment” (see Note 19). The receivables do not pay interest.

(f) *Loans and derivatives with related parties (Note 20)*

	31 December	
	2017	2016
Non-current		
Loan to Aena, S.M.E., S.A. from ENAIRE	6,109,084	7,493,942
Adjustment of the loan from Company using the effective cost criterion	(4,866)	(6,761)
Subtotal Aena, S.M.E., S.A. long-term debt with ENAIRE	**6,104,218**	**7,487,181**
Current		
Loan from ENAIRE	665,199	777,629
Other	(471)	(1,039)
Interest accrued on loans from Company	18,812	33,812
Sub-total of loans from related parties	**683,540**	**810,402**
Current hedge derivatives attributed by ENAIRE	-	176
Subtotal Aena, S.M.E., S.A. short-term debt with ENAIRE	**683,540**	**810,578**
	6,787,758	**8,297,759**

The fair values of the loans with the Company (public business entity “ENAIRE”) are broken down in Note 20.

(Amounts in thousands of euros unless otherwise stated)

The outline of the loans with the Company in interest rate valuations on the contractual dates when their prices are revised to the dates on which the income statement is closed is as follows:

	31 December	
	2017	**2016**
Date to revise rates in loan with ENAIRE at variable interest rate:		
Less than 6 months	901,008	1,810,244
Date to revise rates in loan with ENAIRE at fixed revisable interest rate:		
1-5 years	27,400	543,400
	928,408	**2,353,648**
Loan with ENAIRE at fixed interest rate	6,495,875	5,917,923
	7,424,283	**8,271,571**
Loan with ENAIRE Interest paid	18,812	33,812
Loan with ENAIRE Commissions	(5,338)	(7,800)
TOTAL	**7,437,757**	**8,297,583**

As indicated in Note 20, because of the lack of monetary contribution described in Note 1, the Company and ENAIRE signed a financing contract in which the loans corresponding to the activity branch provided in the expansion of capital described in Note 1 were transferred from ENAIRE to Aena S.M.E., S.A. On 29 July 2015, the public business entity "ENAIRE", Aena S.M.E., S.A. and the respective banks agreed to the modifying, non-extinctive novation of the corresponding financing agreements.

The re-wording of the new financing agreements supersedes entirely, and for all legal effects, the original contracts and their novations, in order to, amongst other amendments, eliminate any contractual restriction that may affect the privatisation process and to include Aena, S.M.E., S.A. as jointly liable together with the public business entity "ENAIRE" under the various Financing Contracts and to make all the necessary adjustments to these financing contracts that may be required for this purpose (see Note 20).

Regarding the causes for the declaration of early maturity, Aena does not fail to fulfil any of the conditions of early maturity, so this will not affect the Company's income statement on 31 December 2017 and 31 December 2016.

35 Other information

Audit fees

KPMG Auditores, S.L., which has audited the Group's financial statements during the year ended 31 December 2017, and PricewaterhouseCoopers Auditores, S.L. (PWC) or other companies in the PwC network, which audited them during the year ended 31 December 2016, have charged professional fees and expenses broken down as follows:

Item	**2017**	**2016**
Audit services	183	65
Other verification services	18	67
Other services	78	-
Total	**279**	**132**

(Amounts in thousands of euros unless otherwise stated)

Other verification services correspond to services for limited review of intermediate financial statements, assurance services on regulatory compliance and services for agreed procedures about financial information provided by KPMG Auditores, S.L. to Aena and its subsidiaries during the year ended on 31 December 2017.

The amounts included in the table above include all the fees for services rendered during financial years 2017 and 2016 regardless of when they were invoiced.

In addition, other entities affiliated to KPMG International have invoiced the Group during the year ended 31 December 2017 for fees and expenses for professional services broken down as follows:

Item	**2017**
Audit services	87
Other verification services	3
Other services	72
Total	**162**

In addition, other auditors have invoiced the Group during the years ended 31 December 2017 and 2016 for fees and expenses for professional services broken down as follows:

Item	**2017**	**2016**
Audit services	-	243
Other verification services	-	-
Other services	-	236
Total	**-**	**479**

Compensation for senior management and directors

Compensation received during 2017 and 2016 by the senior management and directors of the parent Company, classified by item, was as follows (thousand euros):

	2017			**2016**		
Item	Senior management	Board of Directors	Total	Senior management	Board of Directors	Total
Salaries	1,192	-	**1,192**	1,259	-	**1,259**
Per Diems	24	125	**149**	26	118	**144**
Insurance premiums	6	-	**6**	7	-	**7**
Total	**1,222**	**125**	**1,347**	**1,292**	**118**	**1,410**

The compensation received during financial year 2017 corresponds to the compensation received by Aena S.M.E., S.A. for 9 senior management positions and by the Chairman-Managing Director.

The compensation received during financial year 2016 corresponds to the compensation received by Aena S.M.E., S.A. for 9 senior management positions and by the Chairman-Managing Director.

There are no advances or loans granted at the close of financial years 2017 or 2016. Likewise, there are no pension obligations owed to former or current directors.

Directors' conflicts of interest

As part of the duty to avoid any conflicts with the interests of the Company, throughout the year Directors holding positions on the Board of directors have complied with the obligations set out in article 228 of the re-drafted Text of the Corporate Enterprises Act. Similarly, they and those related to them, have refrained from engaging in any conflict of interest situations mentioned in article 229 of that Act, except where the relevant authorisation has been granted.

Shareholdings and positions held, and activities carried out, by members of the Board of Directors in other similar companies.

In 2017 and 2016 the members of the Board of Directors did not have any interest in the share capital of companies that directly carry out activities that are the same, similar or supplementary to those forming part of the Company's corporate purpose. In addition, no activities that are the same, similar or complementary to the Company's corporate purpose have been carried out or are currently being carried out by Members on their own behalf or on behalf of third parties.

At 31 December 2017 and 2016 there are no members of the Board of Directors that hold directorship or executive positions at other Group companies.

None of the persons associated with the members of the Board of Directors hold any shareholding whatsoever in the share capital of Companies, and hold no position and fulfil no duties within any Company with the same, similar or supplementary corporate purpose as the Company.

Sureties and guarantees

The bank guarantees submitted to various bodies at 31 December 2017 amounted to 588 thousand euros (31 December 2016: 491 thousand euros).

On 27 March 2013 the TBI Group sold its stake in Cardiff International Airport Limited to WGC Holdco Limited, leaving TBI subject to certain guarantees as vendor (the Guarantee). On 29 December 2015 Abertis replaced TBI in the Guarantee. Given Aena Internacional's stake in ACDL, on 15 February 2016 Abertis and Aena Internacional signed an agreement by which Aena Internacional undertook, in the event that Abertis were to be obliged to pay any sums under the Guarantee, to pay Abertis 10% of that sum up to a maximum of 2,941 thousand pounds, which is 10% of the total guaranteed. The validity of this undertaking is until 31 January 2018, on which date the Guarantee expires.

36 Analysis of the Consolidated statement of cash flows

In 2017 the Group covered its financing needs and the payment of the dividend charged to income for fiscal 2016 by cash flows from operations (2,014,612 thousand euros) and new non-current borrowings taken out (991,053 thousand euros, of which 650,000 thousand euros correspond to the parent and the rest to the refinancing of the LLAH III group) (Note 20). This financed the non-financial fixed asset investment programme (371,240 thousand euros), repayment of the ENAIRE loan in an amount of 1,497,288 thousand euros (including the early repayment of the Depfa Bank loan in an amount of 797.2 million euros, Note 20) and the previous borrowings of the LLAH III group in an amount of 250,839 thousand euros.

Net cash flows from operating activities

Net cash generated by operating activities during 2017 has grown to 2,014,612 thousand euros from 1,834,725 thousand euros in 2016, and its components are as follows:

(Amounts in thousands of euros unless otherwise stated)

1. Adjusted profit/(loss) before tax

Profit/(loss) before tax for 2017, positive at 1,596,707 thousand euros (see consolidated income statement), is corrected for items recognised in operating income that did not involve an inflow or outflow of cash during the year. Basically these adjustments refer to:

- The depreciation and amortisation of non-financial fixed assets, amounting to 800,035 thousand euros (2016: 825,805 thousand euros).

- Changes in the provisions accounts that arise from allocations and reversals affecting operating income and amounting to 50,222 thousand euros (2016: 78,349 thousand euros):

	2017	2016
Allocations against Operating income:		
Allocations to Other operating provisions (Nota 23)	49,073	71,853
Allocations to Provisions for employee benefits	9,383	4,699
Allocations to Provisions for taxes (Note 23)	2,917	5,632
Allocations to Provisions for liabilities and risks	3,501	10,057
Total allocations	**64,874**	**92,241**
Reversals to operating profit		
Reversals of Other operating provisions (Nota 23)	(3,940)	(4,505)
Reversals of provisions for liabilities and risks (Nota 23)	(5,371)	(1,818)
Reversals provisions for taxes (Nota 23)	(5,341)	(7,569)
Total reversals	**(14,652)**	**(13,892)**
Change in provisions	**50,222**	**78,349**

- Grants transferred to income for the year amounting to - 42,504 thousand euros (2016: - 41,590 thousand euros) (Note 24).

- (Profit)/loss due to disposals of fixed assets (Note 6), and Impairment adjustments (Note 13).

In addition, Profit/(loss) before tax is also corrected in Financial income and expenses (Note 31) as well as in the Share in gains and losses of associates (Note 9).

This results in adjusted Profit/(loss) before tax of 2,532,087 thousand euros in 2017, which would represent cash generated by operating activities before changes in working capital and other cash generated by operations (interest and income tax paid and received). This is a significant increase (+7.9%) compared to 2,345,710 thousand euros in 2016, mainly as a result of the improvement in the Group's operations which is reflected in the EBITDA (Earnings before interest, taxes, depreciation and amortisation) figure of 2,517,405 thousand euros at the end of 2017, compared to 2,293,619 thousand euros in 2016.

(Amounts in thousands of euros unless otherwise stated)

2. Change in Working Capital:

The change in Working capital originates from the difference between the accounting accrual of income and expenses and the time such income and expenses are translated into cash, mainly due to changes in the balance of customers and suppliers or other balance sheet items. Thus a reduction in the customer balance will entail an improvement in the revolving fund while a reduction in the supplier balance will worsen the revolving fund.

The variation of this item does not match the change in working capital (Current assets minus Current liabilities) that is derived from the Consolidated statement of financial position due to the fact that some changes are reflected in other lines of the cash flow statement, such as variation of provisions, impairment, receipts/(payments) of taxes and interests, investment activities and reception of EFDR grants.

In 2017 this section has come to -122,326 thousand euros (2016: -55,319 thousand euros). The main variations in 2017 in this item with respect to the previous year are the following:

- Increase in “Trade and other payables”: - 73,779 thousand euros in 2017 compared to -42,359 thousand euros in 2016. This is mainly due to the increase in payments in the "Current provisions” accounts:

Payments in “Current provisions”	**2017**	**2016**
Other operating provisions (Note 23)	68,267	45,744
Laboral risks provisions (Note 23)	3,121	109
Provisions for liabilities and risks	2,169	946
Total payments	**73,557**	**46,799**

- The adverse variation in “Trade and other receivables” in the comparison between 2017 and 2016 is the result of a considerable improvement in the average payment period in 2016, due among other reasons to the fact that one airline changed its conditions of payment from 60 days after the date of the invoice to prepayment. Additionally, the receivables balance increased in 2017 due to higher billing and the impact derived from the billing at year-end of the minimum annual guaranteed rents in commercial leasing operations that are growing each year.

3. **Other cash generated by operations:**

This mainly refers to income tax and interest paid and received. In 2017 the amount of this item was -395,149 thousand euros, compared to -455,666 thousand euros in the previous year.

- Interest paid:

Interest payments	**2017**	**2016**
Interest payments on borrowings (Note 20)	(88,077)	(99,403)
Derivatives interest payments (Note 12)	(40,530)	(44,472)
Late payment interest on expropriations (Note 23)	(4,848)	(1,452)
Other interest payments	(1,206)	(1,498)
Total interest paid	**(134,661)**	**(146,825)**

(Amounts in thousands of euros unless otherwise stated)

- Taxes paid

This item reflects the net effect of income tax paid and received:

Taxes paid	2017	2016
Parent company split payments	(364,883)	(352,977)
Payments for previous year's final return	(3,005)	-
Receipts from previous years' tax refund (Note 13)	110,456	50,217
LLAH III Group tax payments	(6,088)	(8,444)
Other	30	2,185
Total tax received/ (paid)	**(263,490)**	**(309,019)**

Net cash flow from investment activities

Net cash used in investment activities during 2017 amounts to 361,614 thousand euros compared to 291,638 thousand euros in the previous year and mainly includes payments related to acquisitions and replacements of non-financial fixed assets related to airport infrastructure, which have come to 371,240 thousand euros in 2017 (2016: 305,385 thousand euros).

Additionally, investment activities also includes dividend payments from investees amounting to 17,059 thousand euros:

Dividends received	2017	2016
AMP	8,647	8,964
AEROCALI	5,186	-
SACSA	2,797	1,805
Subtotal associates (Note 2.2)	**16,630**	**10,769**
ACDL	12	4,590
ESSP SAS	417	250
Subtotal investees (Note 34)	**429**	**4,840**
Total dividends received	**17,059**	**15,609**

Finally, this section also includes proceeds from divestments in group companies and associates amounting to 5,376 thousand euros (Note 2.2).

(Amounts in thousands of euros unless otherwise stated)

Net cash flow from financing activities

The breakdown of these flows is given below:

Cash flow from financing activities	**2017**	**2016**
Proceeds from borrowings (Note 20)	1,013,847	51,131
Borrowings payments (Note 20)	(1,787,965)	(1,185,162)
Subtotal borrowings	**(774,118)**	**(1,134,031)**
Proceeds from ERDF grants (Note 24)	9,340	10,665
Swap breakage costs paid (Note 12)	(7,264)	-
Dividends paid (Notes 2.2 and 17) (*)	(592,232)	(409,716)
Subtotal other financing activities	**(590,156)**	**(399,051)**
Total financing activities flows	**(1,364,274)**	**(1,533,082)**

(*) The breakdown of these dividends is as follows:

Dividends paid	**2017**	**2016**
Dividends paid by the parent Company (Note 17)	(574,500)	(406,366)
Dividends paid by the LLAH III group (Note 2.2)	(17,631)	(3,350)
Other dividends paid by Aena	(101)	-
Total dividends paid	**(592,232)**	**(409,716)**

37 Events after the reporting period

From 31 December 2017 until the date that these annual accounts were formulated, the following events occurred in Aena S.M.E, S.A.:

- On 25 January 2018, Aena has established the concessionary company which holds the contract to manage, operate, maintain and conserve the Aeropuerto Internacional de la Región de Murcia (AIRM) as a concession of that airport and its zone of complementary activities for a period of 25 years.

  Aena thus fulfils the requirements in the List of Particular Administrative Conditions of the contract that was awarded to Aena by the Autonomous Community of the Region of Murcia on 20 December 2017.

  The new company, which is set up as private limited company, is called “Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia”, and its sole shareholder is Aena, S.M.E., S.A.

The concessionary company has formalised the awarding of the contract on 24 February 2018, and has been designated as the airport manager of AIRM.

Once the Aeropuerto Internacional Región de Murcia begins operating, and after all the legal and administrative proceedings needed have been completed, Aena SME S.A. is planning to stop civil air traffic operations in Murcia San Javier airport, whereupon that airport will solely operate military flights. The permanent closure of the civil air operations on this air base must be carried out by a joint Ministerial Order between the Ministry of Public Works and the Ministry of Defence.

Because of that interruption, at that time, Aena will have a loss on the property, plant and equipment used in the civil operations at that airport, totalling around 35 million euros.

Consolidated management report

for the financial year ended on 31 December 2017

Aena S.M.E., S.A. and subsidiaries

Webcast / Conference-call:
Wednesday, 28 February 2018
13:00 (Madrid time)
https://edge.media-server.com/m6/p/chojsi87

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Access code: 5290266

1. Executive summary

2017 reflects Aena's[1] outstanding performance in terms of both operations and results.

The following aspects can be highlighted in this period:

- On 27 January 2017, the Council of Ministers approved the Airport Regulation Document (DORA) for the period 2017-2021, in which the minimum service conditions that will be in force in airports in the AENA network are set for the next five years, providing a foreseeable regulatory framework in the medium-term that will enable improved levels of efficiency and competitiveness in terms of operational activity. In this respect, and in relation to airport charges, the aforesaid document provided for an annual reduction of 2.22% in the Annual Maximum Income per Passenger (IMAP - MAIP) for that period which came into force on 1 March 2017.

- On 22 February 2017, Aena published the new scheme of commercial incentives for the DORA period 2017-2021, which seeks to encourage the opening of new routes, increase long-haul passengers, provide incentives for traffic in the airports with the least traffic, and reduce the seasonality of airports which are highly seasonal. The scheme has been applied since 1 April 2017.

- On the operational side, there has been strong and widespread growth of traffic in most of the airports managed by Aena driven in the Spanish network by the excellent figures for the tourism industry.

  Passenger traffic (including Luton Airport) grew to 265.0 million (+8.3%), and at the Spanish network's airports it grew by 8.2%, reaching a new historical record of 249.2 million passengers.

- The positive evolution of traffic in Aena's airports during 2017 has contributed to the increase in total income up to 4,027.6 million euros (+6.8% compared to 2016),[2] partially offset by the lower airport charges in Spain compared to the previous year which affects January and February (-1.9%) and from March (-2.22%).

  To date, these figures for the increase in traffic in Spain have not been negatively affected by the Brexit process, by the terrorist attacks that took place in Barcelona and Cambrils on 18 August, by the political situation in Catalonia, or by the decrease and demise of the Alitalia, Air Berlin, Monarch and Niki airlines.

  As regards Brexit, the increase in passengers with origin/destination in the United Kingdom was once again positive in 2017, at 9.0% (3.7 million additional passengers). However, during the fourth quarter it experienced a gradual deceleration, due to both the slowdown in the British economy, and to the recovery of alternative tourist destinations to Spain.
  In the commercial field concession operator sales at airports did reflect a downward trend in British passenger spending, although this reduction has moderated in line with the devaluation of the pound.

- Turning to commercial operations, there has been the positive impact of the new car rental contracts in the airport network which came into force in November 2016. The new contract based on a higher variable rent has increased income from this activity by 30.5% with respect to the previous year.

  Furthermore, the tendering process to operate the concessions for the food & beverage services at Barcelona-El Prat Airport has concluded in February 2018. The new range increases the area by 19%, providing a genuine gastronomic experience for passengers and airport users, and combines the latest trends in restaurants with local tradition and flavour. As a result of this process, income from this line in Barcelona, considered in terms of a full year, will increase by almost 30%.

- It should also be noted that cost efficiency levels were maintained (the EBITDA margin was 62.5% in 2017), although the total expenses for the period (not including amortizations) increased by 2.1% compared to 2016. It was slightly affected by the increased activity and the upward trend in the cost of most of the services awarded since late 2016. This will continue to be a factor in operating expenses throughout 2018.

  Here it should be noted that during the second half of the year the cost pressure affecting Aena's service providers has become apparent through the strikes called by workers in

[1] Aena S.M.E., S.A. and Subsidiaries ("Aena" or "the Company").

[2] In this executive summary, the variation percentages for financial figures have been calculated by taking the figures in thousands of euros as the base.

several companies that provide services in the Spanish network.

- On the employment area and following negotiations, on 25 September Aena reached a pre-agreement with the trade unions on remuneration, employment, work-life balance measures and an extension of the collective agreement up to 31 December 2021. The impact in the period amounts to 8.5 million euros. This agreement was ratified on 31 January 2018.

- EBITDA for the year has increased to 2,517.4 million euros, which is growth of 9.8% compared to 2016.

- The profit before tax was 1,596.7 million euros, compared to 1,516.1 million euros in the previous year and the net profit for the period was 1,232.0 million euros, 5.8% more than the profit recorded for the previous year (1,164.1 million euros).

  This increase is especially significant given that in 2016, profit before tax and net income reflected the extraordinary impact of the reversal of provisions for legal proceedings related to expropriation of land at Adolfo Suárez Madrid-Barajas Airport (204.9 and 153.7 million euros respectively). Excluding this effect, Aena's profit before tax would have increased by 21.8% and net profit by 21.9% in 2017.

- Cash flow from operating activities has risen to 2,014.6 million euros compared to 1,834.7 million euros in 2016 (up 9.8%), thus reducing the ratio of net financial debt to EBITDA (excluding Luton) as established in debt renewal agreements for the calculation of covenants, from 3.6x at 31 December 2016 to 2.8x at the close of 2017.

- As for investments, in 2017 investment paid amounted to 371.2 million euros, including 66.2 million euros invested at Luton Airport which is undergoing a significant transformation to reach a capacity of 18 million passengers in the second half of 2018. The main investments in the network of airports in Spain have been focused on security and improvements in maintenance.

- This operating and financial performance continues to be reflected in the evolution of Aena's share price in 2017 in which it has risen by 30.4% to 169.0 euros per share compared to the evolution of the IBEX35, which grew by 7.4%. During this period Aena's stock peaked at 183.7 euros and registered a minimum of 129.7 euros.

- On 16 October 2017 Aena's Board of Directors appointed Mr. Jaime García-Legaz Ponce as Chairman of the Board of Directors and Chief Executive Officer of the Company following the resignation of Mr. José Manuel Vargas Gómez. The first commitment adopted by the new Chairman was to work on a strategic plan covering the period 2018-2021.

- The Board of Directors of Aena has agreed to propose to the General Shareholders' Meeting the distribution of a gross dividend of 6.50 euros per share charged to the results of 2017. This dividend, which implies distributing 80% of net profit, represents an increase of 69.7% on last year.

2. Macroeconomic environment and activity figures

2.1. Macroeconomic situation and sector details

The Spanish economy continues its positive trend. According to figures published by the Spanish National Institute of Statistics, the variation in Spain's Gross Domestic Product (GDP) in the fourth quarter of 2017 compared to the same quarter of the previous year stood at 3.1%, making the estimate for growth in the year 3.1% compared to 2016.

This economic growth fosters air transport, which is a strategic sector for Spain due to its economic and social impact and also its connection with tourism. Furthermore, it contributes in terms of connectivity, accessibility, cohesion and territorial connection.

The indicators related to tourism in Spain continued their positive trend of the last three years, during which record numbers of foreign tourists visited. This factor is very important, given that the contribution of tourism to GDP amounted to 11.2 % in 2016, according to the data published by the Spanish National Institute of Statistics. 81.8 million international tourists visited Spain in 2017, 8.6% more than in 2016, ranking it as the second most visited country in the world.

The main source countries are the United Kingdom (18.8 million tourists, an annual increase of 6.2% over 2016), Germany (11.9 million tourists and an increase of 6.1%) and France (11.2 million tourists and a slight decrease of 0.1%).

With regard to the arrival of tourists from the United Kingdom in the current business environment after the United Kingdom voted to leave the European Union (Brexit), it is worth noting that in the Aena airport network in Spain passengers with origin and destination in the United Kingdom account for 18.2% of total passenger traffic. However, the figures for tourism for December showed a decline of 7.6% in the number of visitors from the United Kingdom during that month, although it is too early to determine whether this is an isolated event or a trend.

By autonomous regions, in 2017 Catalonia continues to be the leading tourist destination (over 19.0 million, +5.0% more than in 2016), followed by the Canary Islands (14.2 million, +7.2%) and the Balearic Islands (13.8 million, +6.1%).
The number of international tourists who visited Catalonia in December fell by 13.9%, and the figure for visitors to the Balearic Islands by 2.0%.

By type of access, out of the total foreign tourists that visited Spain during the last year, 66.6 million (81.5% of the total figure) travelled by air, 15.7% came by road and 2.8% used other means of transport (rail and sea). That said, Spain has an important position as the gateway to and from Latin America by air, with a share of European traffic with destinations in the region of 27.0%.

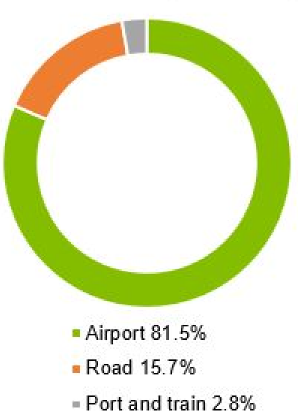


Figure 1. Distribution of tourists by access means in 2017

2.2. Traffic in the Aena airport network in Spain

In 2017, the airports in the Aena network ended the year with more than 249.2 million passengers, which is 8.2% more than the previous year, breaking a historical record. This growth continues to be driven by excellent figures from the tourism industry which has reached record levels again, helped by different factors such as the increase in the number of people using travel and recreational options, the stability of macroeconomic conditions in the Eurozone and in the main countries of origin of the foreign tourists who visit Spain, the geopolitical instability that persists in tourist destinations in the Mediterranean and the price of fuel that contribute to the growing activity of European airlines.

[1] Estimate published on 30 January 2018.
[2] Provisional data published by the Spanish National Institute of Statistics on 1 February 2018.

The contribution of international and domestic traffic remained stable in 2017, at 70.5% and 29.5% respectively. Growth in international passengers reached 8.4% and domestic traffic reached 8.1%.

As regards the number of aircraft, 2,174,263 flights were registered, representing an increase of 6.3% over last year.

Meanwhile the volume of freight has grown by 15.0% in 2017 to reach 918,306 tonnes.

Figure 2. Traffic in the Aena airport network in Spain

2.3. Analysis of air passenger traffic by airports and airlines

The percentage distribution of passengers remains largely concentrated in the seven major airports within the network, although virtually all the airports have experienced significant growth:

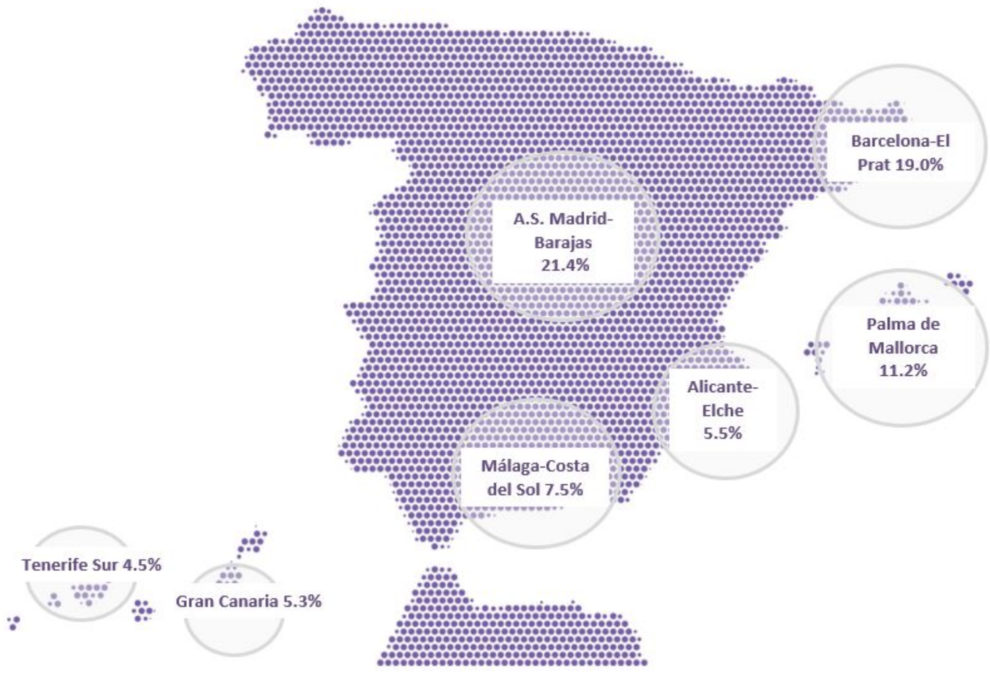


Figure 3. Share of passenger traffic at major airports in Spain

Airports and airport groups	Passengers			Aircraft			Freight		
	Barcelona-El Prat	Variation 2017 / 2016	Share of total	Thousands	Variation 2017 / 2016	Share of total	Tonnes	Variation 2017 / 2016	Share of total
Adolfo Suárez Madrid-Barajas	53.4	5.9%	21.4%	387.6	2.5%	17.8%	470.796	13.1%	51.3%
Barcelona-El Prat	47.3	7.1%	19.0%	323.5	5.1%	14.9%	156.105	14.9%	17.0%
Palma de Mallorca	28.0	6.5%	11.2%	208.8	5.6%	9.6%	10.191	-2.5%	1.1%
Total Canary Islands Group	44.0	8.8%	17.7%	381.0	6.9%	17.5%	37.344	0.3%	4.1%
Total Group I	62.5	11.0%	25.1%	521.3	7.0%	24.0%	37.370	12.4%	4.1%
Total Group II	12.8	11.3%	5.1%	180.1	4.3%	8.3%	145.844	28.8%	15.9%
Total Group III	1.3	10.6%	0.5%	172.0	18.4%	7.9%	60.655	15.9%	6.6%
TOTAL	**249.2**	**8.2%**	**100.0%**	**2.174.3**	**6.3%**	**100.0%**	**918.306**	**15.0%**	**100.0%**

Table 1. Analysis of air passenger traffic by airports and airport groups

Adolfo Suárez Madrid-Barajas Airport is the main airport in the network for passenger traffic, flights and freight, representing 21.4% of total passengers (53.4 million). In 2017, its number of passengers has increased by 5.9% over last year (+6.7% in international traffic and +4.1% in domestic traffic).

A total of 387,566 aircraft have operated out of this airport in the last year, 2.5% more than in 2016. In addition, freight, which accounts for more than half of the total volume passing through the network, registered an increase of 13.1% to 470,796 tonnes transported.

Picture 1. Terminal T4 – Adolfo Suarez Madrid-Barajas Airport

At **Barcelona-El Prat** Airport, passengers have increased by 7.1% compared to 2016 (+6.8% in international traffic and +7.7% in domestic traffic) to reach 47.3 million.

This growth was not affected particularly negatively by the terrorist attacks that took place in Barcelona and Cambrils on 18 August, or by the political situation in Catalonia.

There have been 323,539 flights, a year-on-year increase of 5.1%, while freight has consolidated its growth with a significant 14.9% increase in the volume of freight to 156,105 tonnes.

Picture 2. Apron – Barcelona-El Prat Airport

Traffic in **Palma de Mallorca** airport amounted to 28.0 million passengers - an increase of 6.5% compared to 2016 (+9.7% in domestic traffic and +5.6% in international traffic).

Aircraft operations increased by 5.6% to 208,787.

Picture 3. Inside the terminal - Palma de Mallorca Airport

In the **Canary Islands Group,** the number of passengers who passed through the airports in the Canary Islands came to 44.0 million (up 8.8% compared to 2016), of which 28.8 million were passengers on international flights (up 7.6%) and 14.7 million were passengers on domestic flights (up 11.7% compared to the previous year).

Picture 4. Aerial view - La Palma Airport

The eight airports in **Group I** grew by 11.0% during 2017 to reach 62.5

million passengers, with especially high growth in Valencia (16.3%), Málaga-Costa del Sol (11.7%) and Alicante-Elche (11.1%). Both international traffic (+11.5%) and domestic traffic (+9.6%) have contributed to the growth of this group of airports.

Picture 5. Inside the terminal - Málaga-Costa del Sol Airport

All 11 airports of **Group II** registered a global increase in passenger traffic of 11.3%, which dropped to a total of 12.8 million passengers. This growth was due to the positive evolution in international traffic (+19.6%) and to a lesser extent in domestic traffic (+6.1%).

Of particular interest in this group was the increase in the volume of freight handled at Zaragoza Airport, which increased by 29.1% compared to the previous year.

The **Group III** airports (those with lowest traffic) recorded 1.3 million passengers, an increase of 10.6% over the previous year.

This increase in freight volume included a growth of 16.0% at Vitoria Airport.

Airport marketing has had a very positive impact in 2017 resulting in the opening of 449 new routes[1] from the airports in Aena's network: 427 for short/medium-haul destinations (57 with domestic destinations and 370 in Europe) and 22 on long-haul routes[2].

The airports with the most new routes were Palma de Mallorca (80), Barcelona-El Prat (38), Adolfo Suárez Madrid-Barajas (31) and Valencia (25).

The companies with the largest number of new routes are Ryanair

[1] Routes with more than 5,000 passengers in 2017 and less than 1,000 in 2016.
[2] Routes longer than 4,000 km and with a non-EEA destination.

(86), Niki (56), Jet2 (33), Norwegian (23) and Eurowings (22).

Barcelona-El Prat Airport significantly expanded its long-haul routes during the year, as 15 new routes from the airport (8 to North America, 4 to Asia and 3 to Latin America) were opened by the following airlines: Level (4) to Buenos Aires, Los Angeles, Havana and Oakland; Norwegian (4) to New York, Los Angeles, Fort Lauderdale and Oakland; Cathay Pacific to Hong Kong; Korean Air to Seoul; Air China to Shanghai; Mahan Air to Tehran; American Airlines to Chicago; Sata to Boston (via Punta Delgada); and Plus Ultra to Havana.

From Adolfo Suárez Madrid-Barajas Airport, the following long-haul routes started: Air Europa to San Pedro de Sula, Recife and Boston (in the summer season only); Plus Ultra to Santiago de Chile; Evelop to Jamaica; Estelar Latinoamerica to Caracas; and Wamos to Varadero.

Furthermore, in 2017 four bases for easyJet, Jet2, Germania and Eurowings have been opened at Palma de Mallorca Airport.

The distribution of traffic by **geographic area** remained practically stable. The increase of passengers with "Asia Pacific" was particularly noteworthy at 76.2%, and although this market continues to account for a small volume in absolute terms, it shows the positive impact the airport marketing measures implemented by the Company are having, as well as the measures carried out by various institutions to promote Spain as a destination in the region. These have led to the increase in the routes in this market, which now has 15 destinations (compared to 9 in 2016).

Region	Passengers 2017	Variation %
Europe[1]	156,553,587	8.0%
Spain	73,438,358	8.0%
Latin America	7,135,432	6.2%
North America	5,124,059	13.1%
Africa	3,097,647	8.2%
Middle East	2,992,394	9.4%
Asia Pacific	881,567	76.2%
TOTAL	**249,223,044**	**8.2%**

Table 2. Breakdown of traffic by geographical area

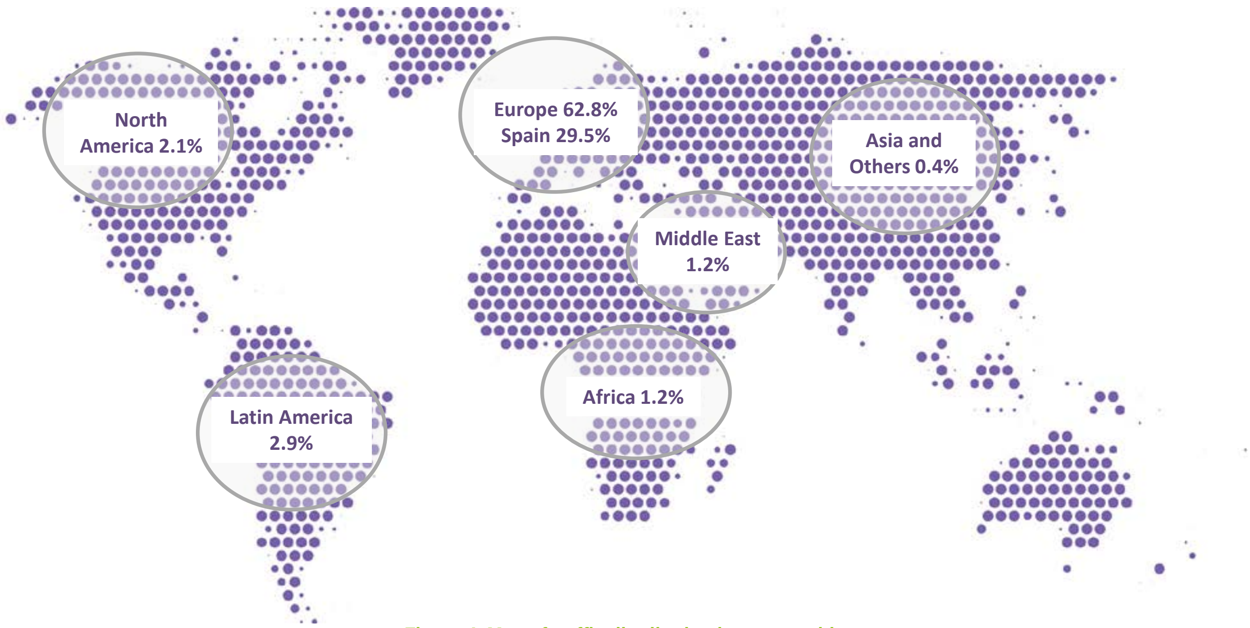


Figure 4. Map of traffic distribution by geographic area

By **countries** the ranking remains stable, with Spain, the United Kingdom, Germany, Italy and France (five countries) accounting for 70% of total traffic.

In particular, passenger traffic with an origin/destination in the United Kingdom continued to perform positively, and increased by 9.0% (more than 3,700,000 passengers) compared to 2016. However, during the last quarter of 2017 there was a gradual deceleration of growth due to the weakness of the pound and the situation of the British economy, as well as the recovery of some competing destinations such as Turkey, which had an effect on demand. This slowdown led to a decline of 2.8% in passengers with the United Kingdom in December, as a result of flights not yet operated in the slots occupied by the airline Monarch.

Country	Passengers		Variation		Share (%)	
	2017	2016	%	Passengers	2017	2016
Spain	73,438,358	67,978,770	8.0%	5,459,588	29.5%	29.5%
United Kingdom	45,461,099	41,701,009	9.0%	3,760,090	18.2%	18.1%
Germany	28,676,238	27,729,971	3.4%	946,267	11.5%	12.0%
Italy	14,026,867	13,031,946	7.6%	994,921	5.6%	5.7%
France	12,355,015	11,801,750	4.7%	553,265	5.0%	5.1%
Holland	8,604,443	7,588,189	13.4%	1,016,254	3.5%	3.3%
Switzerland	6,391,061	6,127,187	4.3%	263,874	2.6%	2.7%
Belgium	5,989,852	5,672,109	5.6%	317,743	2.4%	2.5%
Portugal	4,296,233	3,612,387	18.9%	683,846	1.7%	1.6%
Ireland	4,166,935	3,948,529	5.5%	218,406	1.7%	1.7%
Sweden	4,048,155	3,452,789	17.2%	595,366	1.6%	1.5%
United States	3,719,985	3,296,614	12.8%	423,371	1.5%	1.4%
Denmark	3,442,213	3,114,183	10.5%	328,030	1.4%	1.4%
Norway	3,190,934	3,012,432	5.9%	178,502	1.3%	1.3%
Poland	2,472,076	2,124,677	16.4%	347,399	1.0%	0.9%
Total Top 15	**220,279,464**	**204,192,542**	**7.9%**	**16,086,922**	**88.4%**	**88.7%**
Rest of the world	**28,943,580**	**26,038,798**	**11.2%**	**2,904,782**	**11.6%**	**11.3%**
Total Passengers	**249,223,044**	**230,231,340**	**8.2%**	**18,991,704**	**100.0%**	**100.0%**

Table 3. Air traffic distribution by country

With regard to distribution of passenger traffic by type of **airline company**, low-cost carriers are continuing to increase their share and account for 53.9% of the total (51.6% in 2016) while the remaining 46.1% are legacy carriers (48.4% in 2016). However, the degree of concentration is still moderate.

Aena's main client airlines continue to be the IAG Group and Ryanair. The former, which includes Iberia, Iberia Express, Vueling, British Airways, Aer Lingus and Level, had a share of 26.0% of total passenger traffic in 2017 (26.2% in 2016) and Ryanair had a share of 17.7% (17.3% in 2016). The activity of the airline Jet2.Com also increased, with a 52.1% growth in passengers, travelling mainly from the United Kingdom to tourist destinations in Spain.

Long-haul operations by low-cost carriers are still just beginning in Spain. After Norwegian and Level established new routes from Barcelona in June, the total traffic on these routes amounted to 307,000 passengers until December 2017.

It is also important to underscore the consolidation process taking place in the European aviation industry, which will probably lead to operations becoming concentrated in a smaller number of airlines and which implies reabsorbing passengers. In this sense, although Alitalia, Air Belín, Monarch and Niki have reduced/discontinued their activity, the impact on Aena has not been material since other airlines have taken over most of the routes previously covered by these carriers.

Airline	Passengers		Variation		Share (%)	
	2017	**2016**	**%**	**Pasajeros**	**2017**	**2016**
Ryanair	44,026,617	39,857,790	10.5%	4,168,827	17.7%	17.3%
Vueling	34,802,563	32,235,760	8.0%	2,566,803	14.0%	14.0%
Iberia	17,306,385	16,591,665	4.3%	714,720	6.9%	7.2%
Air Europa	15,652,871	16,185,061	-3.3%	-532,190	6.3%	7.0%
Easyjet (1)	15,434,439	13,861,134	11.4%	1,573,305	6.2%	6.0%
Norwegian Air (2)	9,772,231	7,750,724	26.1%	2,021,507	3.9%	3.4%
Iberia Express	8,577,187	7,641,353	12.2%	935,834	3.4%	3.3%
Air Nostrum	7,748,709	7,540,063	2.8%	208,646	3.1%	3.3%
Grupo Binter (3)	6,148,079	5,324,997	15.5%	823,082	2.5%	2.3%
Jet2.Com	6,057,937	3,982,830	52.1%	2,075,107	2.4%	1.7%
Total Passengers	**165,527,018**	**150,971,377**	**9.6%**	**14,555,641**	**66.4%**	**65.6%**
Total Low Cost Passengers(4)	**134,283,235**	**118,793,085**	**13.0%**	**15,490,150**	**53.9%**	**51.6%**

(1) Includes Easyjet Switzerland, S.A. and Easyjet Airline Co. Ltd.

(2) Includes Norwegian Air International and Norwegian Air Shuttle A.S.

(3) Includes Binter Canarias, Naysa and Canarias Airlines

(4) Includes low-cost carriers' passenger traffic in scheduled flights.

Table 4. Distribution of air traffic by airlines

International activity

Aena has a direct interest in fifteen airports outside Spain (twelve in Mexico, two in Colombia and one in the United Kingdom), and indirectly through GAP in the Montego Bay Airport in Jamaica. The evolution of traffic at these airports has been as follows:

Millions of passengers	2017	2016	Variation¹ %	% Aena share %
London Luton United Kingdom)	15.8	14.6	8.6%	51.0%
Grupo Aeroportuario del Pacífico (GAP)[2] (Mexico)	40.7	36.5	11.4%	5.8%
Aerocali (Cali, Colombia)	5.2	5.7	-9.8%	50.0%
SACSA (Cartagena de Indias, Colombia)	4.8	4.4	7.2%	37.9%
TOTAL	**66.5**	**61.2**	**8.4%**	**-**

[1] Variation percentages calculated in passengers

[2] GAP includes the traffic at the Montego Bay Airport, MBJ (Jamaica)

Table 5. Passenger traffic in investee airports

London Luton Airport posted a record in 2017 after a significant increase in traffic of 8.6%, reaching 15.8 million passengers and 135,518 aircraft operations (3.0%). This was despite the impact of the loss of Ryanair passengers after the airline moved the operation of two aircraft to Stansted, and the bankruptcy of Monarch.

Picture 6. London Luton Airport

Total passenger traffic in **GAP (”Grupo Aeroportuario del Pacífico”)** increased by 11.4% in 2017 in line with the annual forecast published by the Company on 19 July 2017. This was despite being affected in August and September by the passage of the tropical storm “Lidia” as well as hurricanes “Harvey” and “Irma” which interrupted the connections of some airports with Texas and Florida respectively.

The excellent performance of GAP traffic (40.7 million passengers) includes a strong performance by the group's major Mexican airports: Guadalajara, Tijuana, Los Cabos and Puerto Vallarta, and Montego Bay in Jamaica.

In the case of **Cali**, the airport is suffering in particular from the impact of the slowdown in the Colombian economy. Its traffic has been affected by the loss of both domestic and international routes, by the hurricanes that affected the operation of flights with the United States, and by the significant effect of the strike by Avianca pilots during the months of September, October and November.

Cartagena de Indias Airport experienced significant growth of 23% in international traffic. This is mainly due to the positive effect of the new routes operated from the airport, including the KLM route to Amsterdam and the LATAM route to Lima, as well as the increased frequency of international flights to Panama (Air Panama, Wingo and COPA).

2.4. Commercial activity

Commercial activity is a fundamental part of the experience of the passengers that pass through our airports. Accordingly, Aena focuses its efforts on meeting the needs and demands of various user profiles, adapting the commercial range and making it increasingly attractive to clients. This improvement also contributes to the increase in commercial income.

In 2017, ordinary income from commercial activity came to 1,049.3 million euros, which represent 26.5% of total ordinary income. This is a 11.2% increase over 2016. The contribution of the seven main airports in the network was significant, accounting for 79.6% of the total. This growth comes mainly from the positive evolution of passenger traffic, as well as the boost to commercial activity from new tenders with improved contractual conditions, providing access to airports for new operators with recognised experience and reputation.

The contractual conditions in most of Aena's commercial contracts stipulate a variable income based on sales made (these percentages can vary according to the category of the product and/or service) and an minimum annual guaranteed rents (MAGR) that ensures that the lessee pays a minimum amount regardless of the level of sales made. The following graph shows the evolution for the next 5 years of the minimum annual guaranteed rents for each business line for the contracts in force on 31 December 2017:

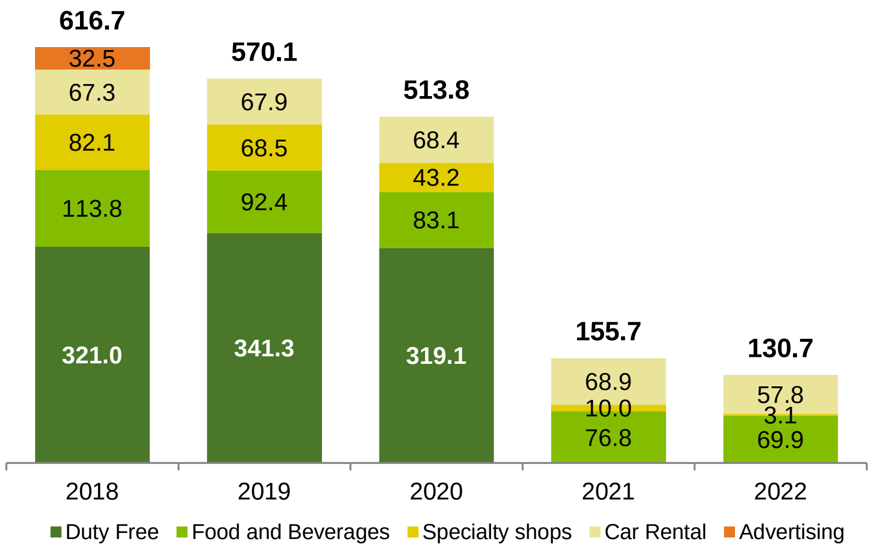


Figure 5. Minimum annual guaranteed rents (MAGR) by business line

Amounts in million euros. The MAGR has been prorated to the actual days at the beginning and end of the contracts. Commercial services contracts include contracts from other commercial operations: financial and regulated services (exchange, pharmacy, tobacco shops, etc.).

The rate of commercial income per passenger was €4.2 in 2017, an improvement compared to the same period of 2016 (€4.1). This rate includes income from commercial activities inside the terminal and income from car parks, and does not take into account income from real estate services, which are a different business segment.

Additionally, in the marketing area, the development of the strategy for the implementation of Aena's Digital Transformation began in the third quarter, aimed at improving the passenger's experience, increasing commercial income and establish a change in culture and work within the Company. In this strategy, we will identify and implement projects in five lines of action: improving the passenger experience, developing e-commerce, business with third parties, digitising own business and boosting our loyalty programme entitled *Aena Customer Club*.

3. Business lines

The main results figures for Aena at 31 December 2017 are shown below itemised by segments: The airports segment accounts for 96.2% of total EBITDA (aeronautical activity represents 61.5% and commercial activity contributes 34.7%), the real estate services segment contributes 1.2%, while international activity accounts for 2.6%.

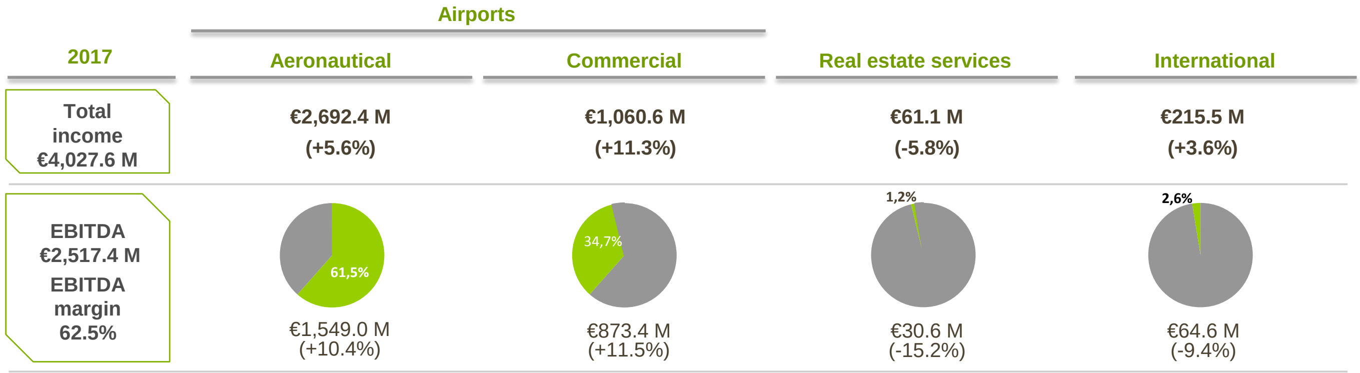


Figure 6. Aena main results by business area

3.1. Aeronautical segment

3.1.1 Aeronautical Activity

Through the application of Law 48/2015, of 29 October, on the State General Budget for 2016, airport charges decreased by 1.9% from 1 March 2016 onwards, thus affecting January and February in 2017.

On 27 January 2017, the Council of Ministers approved the Airport Regulation Document (DORA) for the 2017-2021 period, which is the basic instrument that defines the minimum conditions necessary to ensure accessibility, adequacy and appropriateness of airport infrastructures and the adequate provision of basic airport services in Aena's Spanish airports network.

The DORA has been prepared by the Dirección General de Aviación Civil (DGAC - Spanish Civil Aviation Authority), as an amendment to the proposal submitted by Aena and approved by its Board of Directors on 8 March 2016, duly adjusted to the conditions and principles set out in Law 18/2014, of 15 October.

- The charges path, with the establishment of a maximum annual income per passenger ("IMAP") that allows Aena to recover costs associated with the provision of basic airport services, costs that also respond to efficiency criteria set forth by the regulator. Aena "IMAP" will undergo an annual decrease of 2.22% over the period 2017-2021, starting from 1 March 2017.

- CAPEX investments that Aena must carry out and that have to meet the standards of capacity and service levels, whilst also remaining in line with traffic forecasts. Regulated CAPEX related to airport services amounts to 2,185 million euros for the five years (437.1 million euros on average per year). Additionally, a series of strategic investment projects have been specified and any delay in their implementation will entail a penalisation in the "IMAP".

- The levels of service quality, as well as a system of incentives and penalties to ensure compliance with them. The penalty / maximum annual bonus applicable for this item would be a ±2% of "IMAP".

Aena considers that it met the required quality standards in 2017, as well as executing the planned strategic investments, and as such it does not anticipate the maximum annual income per passenger to be penalised for these reasons.
As for the quality levels required, in general terms there has been an overcompliance with the objectives established by the DORA, although in some isolated cases the assessment obtained was lower than the reference index. During the 2018 financial year, measures will be taken to improve the results for these indicators, although the system for calculating bonuses established in the DORA allows non-compliance to be compensated in excess by the results obtained in airports above the indicator. In the execution of strategic investments

planned in the DORA for 2017, as of 31 December the deadline established for the strategic investment in the period had been met.

The DORA also sets a dual till mechanism meaning that the costs of basic airport services subject to public charges can be covered solely with the income generated by these services starting from 2018.

Likewise, it establishes that the "IMAP" will be adjusted by the increase or decrease in prices (the "P factor") to recognise the impact on the base of operating costs that variations in the price of inputs outside the control of the operator will have. This index is awaiting regulatory definition.

Meanwhile, the difference between the "IMAP" approved in the DORA and the real "IMAP" for 2017 amounted to a difference in income of 57.8 million euros, to be incorporated in the review of the 2019 rates by means of the "K[1] factor", capitalised at the capital cost for the regulatory period (6.98%).

New commercial incentive scheme

Furthermore, in accordance with the contents of section 3.9.2. of the Airport Regulation Document (DORA) 2017-2021, which states that Aena may establish a scheme of incentives compatible with Law 18/2014 which has a positive effect on demand and fosters the establishment of new routes or strengthens existing ones, on 22 February 2017 Aena approved a new commercial incentive scheme for the DORA period:

- Incentive for opening a route to a new destination from all the airports in the network consisting of a discount on the public charges for passenger departures and an additional discount in the following equivalent season if the carrier maintains at least the number of passenger departures operated on that route.
- Incentive for growth in the number of passengers on short and medium-haul routes operated from network airports with fewer than two million passengers per year and on long-haul routes operated from all network airports. Aena may also decide to apply this incentive to airports which are above this threshold but are performing worse than airports with similar traffic structures. The incentive will consist of a discount on the average amount of the public charges for passenger departures of the air carrier on the route and shall apply exclusively to the number of additional passenger departures on the route in question with respect to the equivalent previous season. The incentive will be proportional to the contribution of each airline to the growth generated on each route by all the airlines operating on it. An additional discount will be given in the following equivalent season if the carrier maintains at least the number of passenger departures operated on such route.
- Incentive for growth in the seasonal airports included in Law 21/2003 (Canary Islands, Balearic Islands, Ceuta and Melilla) during their low season consisting of a discount on the average amount of the public charges for passenger departures of the carrier on the route and which shall apply to the number of additional passengers on the route with respect to the previous low season of the airport. The incentive to which each airline operating on the route in question will be entitled shall be proportional to its contribution to the growth generated on such route by all the airlines operating on it. An additional discount will be given in the following equivalent season if the carrier maintains at least the number of passenger departures operated on such route.

In implementation of this incentive scheme, Aena's Board of Directors agreed that for the 2017 summer season (the first season when the new incentive scheme is applicable), which for these purposes began on 1 April 2017 and ended on 31 October 2017, and for the 2017 winter season, which also for these purposes runs from 1 November 2017 to 31 March 2018, the discount applicable in the case of the first two incentives (for new routes and growth in the number of passengers on existing routes) will be 75% of the public charges for passenger departures in the first season and 25% in the following equivalent season.

In these first two seasons the growth incentive for the number of passengers on existing short and medium-haul routes will be applied to airports with annual traffic coming to fewer than 3 million passengers.

In the case of the incentive for growth at seasonal airports, the discount will be 5% in the first two successive low seasons in which it will apply.

[1] The K factor includes the difference between Maximum Annual Income per Passenger ("IMAP") approved in the DORA and the actual "IMAP" for 2017. The calculation methodology is determined in paragraph 2 of Appendix IX of Law 18/2014.

The most significant figures for aeronautical activity during 2017 are summarised below:

Thousand euros	**2017**	**2016**	**Variation**	**% Variation**
Ordinary income	2,638,505	2,498,024	140,481	5.6%
Airport charges[(1)]	2,562,051	2,426,613	135,438	5.6%
Passengers	1,166,406	1,079,620	86,786	8.0%
Landings	697,341	681,395	15,946	2.3%
Security	419,869	396,205	23,664	6.0%
Telescopic boarding bridges	110,166	109,054	1,112	1.0%
Handling	90,432	85,960	4,472	5.2%
Fuel	33,535	31,885	1,650	5.2%
Parking facilities	34,188	32,821	1,367	4.2%
Catering	10,114	9,673	441	4.6%
Other Airport Services[(2)]	76,454	71,411	5,043	7.1%
Other income	53,848	50,926	2,922	5.7%
Total income	**2,692,353**	**2,548,950**	**143,403**	**5.6%**
Total expenses (depreciation included)[(3)]	**-1,774,813**	**-1,812,574**	**-37,761**	**-2.1%**
EBITDA [(4)]	**1,548,960**	**1,402,687**	**146,273**	**10.4%**

Table 6. The most significant figures in aeronautical activity

[(1)] The amounts for Passenger, Landing and Security lines are shown net of commercial incentives: 36.4 million euros in 2017 (67.7 million euros in 2016).

[(2)] Includes Airport Products, Use of 400 Hz, Fire Service, Counters, and Other Income.

[(3)] According to the DORA approved on 27 January 2017 and for regulatory purposes, the costs of airport activity must be reduced annually by 39.4 million euros, including the cost of capital to 6.98%, broken down as follows: Employment costs €1.5 M, Other Operating Expenses €11.6 M, Amortization €12.2 M and Capital Cost €14.1 M. The cost of airport activity has therefore been reduced as operating expenses due to the aforementioned reallocation of costs, and that expenses has been transferred to commercial activity.

[(4)] Earnings before interest, taxes, depreciation and amortization.

Total income from aeronautical activity increased to 2,692.3 million euros (+5.6% compared to 2016) due to the positive evolution in traffic (8.2% increase in passenger traffic and 6.3% increase in the number of aircraft) and the lower impact of traffic incentives (36.4 million euros in 2017, compared to 67.7 million euros in 2016), which correspond to the second year of the incentives approved in 2016 and to the new incentives applied since 1 April 2017.

These increases were partly offset by the 1.9% reduction in airport charges as of 1 March 2016 and 2.22% as of 1 March 2017 (56.9 million euros fall in income).

The connection passenger bonus, which rose from 35% to 40% in March 2016, has come to 69.9 million euros, in line with the amount in 2016 (70.4 million euros).

As regards expenses in aeronautical activity, they amounted to 1,774.8 million euros, 2.1% lower than those recorded in 2016. This drop is mainly due to the reallocation of aeronautical activity expenses as stipulated in the DORA (-25.3 million euros) excluding capital cost. These reductions were partially offset by the increase in employment costs. For a discussion of operating expenses, see section 4. Income Statement.

The above effects have made it possible to improve EBITDA by 10.4%, up to 1,549.0 million euros.

From the operational point of view, in addition to the increase in traffic, all the airports owned by Aena were certified at the end of 2017 according to EU Regulation 139/2014.

The European Regulation 2017/458 on the reinforcement of checks on passports against relevant databases at external borders was approved on 7 April. Its implementation has led to longer waiting times at the border control for arrivals and departures in several airports in the network, affecting the management of passenger traffic and negatively impacting the commercial activity of the airports most heavily affected.

In order to improve effective traffic management, the Ministry of Internal Affairs (which is responsible for compliance with this regulation) and Aena have taken measures to deal with the increased border control activity, and are working on medium and long-term plans to adapt the facilities and the functional designs of the infrastructures, and to equip them with ABC (*Automated Border Control*) equipment in order to comply with the requirements of the ER 2017/458 more efficiently, given the volume of passengers in Aena's network of airports, and extra-Schengen international traffic in particular.

The most significant measures carried out at airports in 2017 related to Aena's primary objective of maintaining the quality of service provided to passengers and companies include the following:

Passenger services

With the aim of improving the passenger experience in airports, Aena has undertaken ongoing actions both in terminal buildings and at entrances.

Information systems

Improved guidance within the terminal with measures in static signage and the public information service, mainly as follows:

- Improvement of emergency signage, information at security controls and boarding gates at Madrid, Barcelona, Gran Canaria and Palma de Mallorca airports.

- The installation of new counters, information points in the boarding modules and new location plans in the airports of Palma de Mallorca and Malaga.

Picture 7. New information point in Palma de Mallorca Airport

Picture 8. New location plan in Malaga Airport

- Installation of new passenger information screens (SIPA) at Madrid, Barcelona, Alicante and A Coruña airports, featuring a new design providing greater visibility and easier flight searches.

Cleanliness

Actions taken to improve the passenger experience have involved refurbishing toilets, floor surface treatments, wall cleaning and installing devices to measure perception of quality at the exit from the toilets, among other actions.

- The toilets at the airports of Barcelona, Palma de Mallorca, Malaga, Alicante, Valencia, Girona, Tenerife Sur, Tenerife Norte, Fuerteventura, Lanzarote, Granada, Asturias, Santiago and Almeria were refurbished and modernised.

Picture 9. Refurbishing of toilets. Alicante Airport

- To measure quality as perceived by passengers, “Happy or not” devices have been installed at the exit from the toilets in 33 airports in the network.

Picture 10. "Happy or not" device at the exit to the toilets in Adolfo Suárez Madrid-Barajas Airport

Comfort

In order to guarantee passengers' comfort during their time at its airports, Aena pays special attention to waiting areas, focusing on improving lighting, air conditioning, electromechanical facilities, seating, children's play areas and work stations. In this period these measures have included:

- Improvements to air conditioning and thermal insulation carried out in several airports: Adolfo Suárez Madrid-Barajas, Málaga-Costa del Sol, Gran Canaria, Alicante, Lanzarote and Palma de Mallorca.

Picture 11. New cooler in boarding module A in Palma de Mallorca

- Waterproofing of roofs and outer walls at a number of airports including Tenerife Norte Airport and Fuerteventura Airport.

- New flooring in Adolfo Suárez Madrid-Barajas Airport, Barcelona-El Prat and Malaga, Seville, Tenerife Norte, Lanzarote and Reus.

Picture 12. New flooring in the hall of T2B of Barcelona Airport

- Reorganisation of the passenger waiting area in check-in queues at Alicante-Elche Airport.

- Extension of the Schengen arrivals hall at Gran Canaria Airport to 200 m^2 of floor area.

- Improvement of lighting at Palma de Mallorca and Seville airports.

- Improvement of the Premium retail plaza in terminal T4 at Adolfo Suárez Madrid-Barajas Airport.

Picture 13. Improved retail plaza. AS Madrid-Barajas Airport

- New workstations with power outlets for charging devices installed in the two terminals at Barcelona Airport, in departure lounges 10 and 11 in terminal T4 at Adolfo Suárez Madrid-Barajas Airport, and in the departure areas in the terminals at Palma de Mallorca, Gran Canaria, Menorca, Girona and Zaragoza airports.

- Electrical charging facilities were installed at various points in the terminal building of Malaga and Gran Canaria airports.

- Replacing and increasing the number of benches in several airports. Most prominently at Palma de Mallorca with a total of 2,553 new benches, which means 11,105 seats, an 11% increase. At Madrid, Málaga, Valencia, Bilbao, Menorca and La Gomera airports as well. Seating for long waits and emergencies were added in Malaga Airport.

Picture 14. Seats in the Multipurpose Hall of Malaga Airport

PRM service

In order to meet the needs of passengers with reduced mobility (PRM), in 2017:

- Accesses were installed at the control points of terminals T1 and T4 in Madrid Airport.

Picture 15. Installation of PRM accesses in the controls of T1 and T4 of Madrid Airport

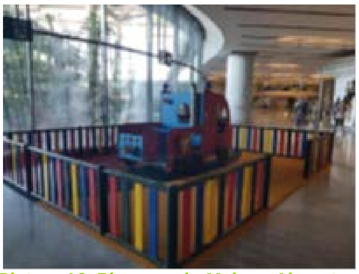
- Two new lifts were installed in module A of Palma de Mallorca Airport, for the exclusive use of PRM.

- And at Fuerteventura Airport: creating a new PRM service desk inside the boarding area.

- In addition, in December Aena awarded the contract for the provision of this service in 20 airports in the network, for a period of four years (extendable for up to two additional years) and a total sum in the tender process of 272.5 million euros. The contracts will be formalised in 2018.

Other passenger services

- For passengers travelling with children or babies, new waiting areas have been built that include play areas, an area for parents from which they can keep an eye on their children, a library, an overhead projection area, a breastfeeding room with a microwave and nappy changing facilities at Palma de Mallorca, Tenerife Norte, Tenerife Sur, Santiago de Compostela, Menorca and Málaga airports. In the latter airport, 7 new play areas were installed in different areas of the terminal building (check-in, arrivals and gates B, C and D).



Picture 16. Play area in Malaga Airport.

- Free high speed wi-fi without advertising in the main airports in the Aena network.

Access

- The organisation of passenger flows due to the closure of Metro line 8 at Adolfo Suárez Madrid-Baraja Airport has been coordinated with Madrid Metro.

- At Barcelona El-Prat Airport, ADIF has replaced the old RENFE footbridge which connected terminal T2 with the train station and has also refurbished the area connecting with the terminal.

Picture 17. Refurbishment of the RENFE footbridge. Barcelona Airport

- Improvements were made in the airports of Gran Canaria (urban development, roads and creation of a rank for taxis), Tenerife Sur (lighting system on the access road) and Zaragoza (new roundabout for access to the airport).

Operations

In the operational sphere, all the airports owned by Aena have obtained the aerodrome certification in accordance with European regulations, as part of a demanding process involving adapting the infrastructures to European and Spanish regulations.

Furthermore, in order to provide the best service to companies working at the airports, several measures are regularly carried out, and in 2017 these included the following:

Airfield and platform

- The paving on main runway 07L/25R at the Barcelona Airport was refurbished, in addition to the updating of the beacon and the improvement of the paving of the rapid departure taxiways. Refurbishing the pavement on taxiway T0 at Reus Airport and on the runway at Son Bonet Airport.

Picture 18. Runway refurbishment. Son Bonet Airport

- At Palma de Mallorca Airport, executing two new entrance taxiways leading to head 24R on the north runway and three new entrance taxiways to head 06R on the south runway to improve management of large aircraft operations.

Picture 19. New entrance taxiways. Palma de Mallorca Airport

- Installation of blast fences, which reduce stopover times and taxiing times on the platform, by simplifying starting and reverse manoeuvres for aircraft. An example is the one in Gran Canaria Airport.

Picture 20. Blast fence. Gran Canaria Airport

- Installation of acoustic barriers, such as the one located in header 06R of Palma de Mallorca Airport.

- Completion of improvements to pavements to repair various kinds of damage in airfield areas, backing up points and taxiing areas at Málaga-Costa del Sol Airport.

- Actions arising from the change in designation of the runway at Tenerife Sur Airport (signage and runway markings and a change in the command system and presentation of beacons).

- Actions on the coastline of head 03 at Lanzarote Airport to give it a RESA (Runway End Security Area) and on the airfield at La Palma Airport.

- Integrating Gran Canaria and Malaga-Costa del Sol airports into the ATM network as an Advanced Tower to improve air traffic management and punctuality.

Safety

In addition to the certification of airports according to the European Union Regulation 139/2014, other measures in this area included:

- Replacing the old fences in critical areas at Palma de Mallorca Airport, specifically locator 24R, locator 06L, locator 24L and path 24L.
- New coordination centre at Santiago Airport.
- Optimisation and reduction of runway closure times due to works and maintenance of the visual aids facility with a new system for monitoring regulators' cut-outs at Palma de Mallorca Airport.
- The operating hours of Vitoria Airport have been extended by 55%.

Handling

The measures taken in handling included:

- Installing 30 new kiosks for Vueling in terminal T1 at Barcelona Airport to make check-in faster and more efficient, especially during peak operating times.

Picture 21. Check-in kiosks. Barcelona Airport

- Construction of a new area for trolleys in international arrivals at Gran Canaria Airport, with three baggage carousels to improve baggage reclaim times.
- At Palma de Mallorca Airport, replacement of the servers installed in the Automatic Baggage Handling System (SATE) with new servers featuring state-of-the-art technology which will provide the system with 100% redundancy. Likewise, the classifier control IT systems in the SATE have been replaced to enable data to be managed in real time.
- New text and mail messaging to handling agents for advance notice of baggage delivery times at Alicante Airport.
- Automatic re-inspection of unaccompanied baggage for airlines at Madrid Airport.

Parking facilities

The measures taken include:

- Redesigning parking stands on the general aviation apron at Almeria Airport, increasing the number of stands from 13 to 19.
- At Tenerife Sur Airport: apron slabs and the hydrant network have been refurbished, as well as layout of aircraft parking stands and moving the taxiway to the south to eliminate the spam restriction from the apron's internal inner.

Fuel

- Measures include starting up the process for renewing licences for fuel handlers with Stage I which covers the 21 airports in the network with low traffic levels over a period of seven years. The increase in competition, improved service quality and price caps are key points of the new tender.
- At Zaragoza Airport there has been an agreement with CLH to improve the response times for beginning the service.

Security

In addition to the measures taken immediately to improve traffic management during the application of the new border control regulations, other measures in the security field were carried out throughout the year, in order to improve the passenger experience in the airports in the Aena network.

- In particular, Aena has increased its support service to improve passenger assistance at passport control and promote the use of ABC systems at Madrid, Barcelona, Palma de Mallorca, Malaga and Alicante airports.

Picture 22. ABC systems. Barcelona Airport

- Passport booths were added in Madrid and Bilbao airports. At Adolfo Suárez Madrid-Barajas, to the T4S arrivals and departures controls and in T1 to increase infrastructure capacity and minimise waiting times. At Bilbao, a second booth has been added to arrivals passport control. And at Valencia Airport the passport control booths have been relocated in order to allow a greater number of simultaneous controls and reduce waiting time for passengers.

Picture 23. New arrivals passport control booth. Bilbao Airport

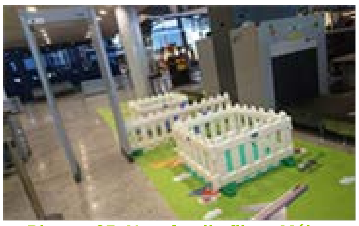
- At Adolfo Suárez Madrid-Barajas Airport, improvement actions in managing waiting times through alarms in security filters and passport controls and single file management in the main security controls.

- A virtual assistant has been installed which welcomes passengers in exit security filter P30 in terminal T1 and terminal T2B in Barcelona. This is a hologram that provides information to passengers in five languages (Spanish, Catalan, English, Chinese and Russian) to facilitate their journey through the security filters.

- Refurbishing and enlarging the security filters to improve flows at Madrid, Málaga, Alicante, Granada, A Coruña, Jerez, Murcia San Javier, San Sebastián and Valladolid airports.

Picture 24. Expansion of security equipment. Adolfo Suárez Madrid-Barajas Airport

- Installation of new security filters for families with babies and improvements for exclusive access by employees, buggies and PRMs.



Picture 25. New family filter. Málaga Airport

Facilities

Baggage claim

Measures taken in the baggage claim areas include:

- Installing “Happy or not” devices to measure perceived quality at 33 airports in the network.

- Opening of a new baggage claim area in terminal T2 at Barcelona Airport for easyJet passenger arrivals, thus bringing all the airline’s operations together in the same area of the airport.

Picture 26. New baggage claim area at Barcelona Airport

- New baggage carousel at La Gomera Airport and a plan to refurbish the baggage carousels in terminal T1 at Lanzarote Airport.

Airbridges and boarding gates

The actions carried out during this period related to the airbridge service include:

- Replacing airbridges T20, T22 and T23 in terminal T2 at Adolfo Suárez Madrid-Barajas Airport.

Picture 27. New airbridge. Adolfo Suárez Madrid-Barajas Airport

- The opening of the new airbdridges 21 and 27 at Malaga airport.

Picture 28. New airbridges at Malaga Airport

- Installing automatic doors in disembarkation for each of the airbridges at Tenerife Norte Airport.

- Reopening of the boarding gates area at Barcelona and Fuerteventura airports (boarding gates 1 and 2 with double airbridge, stand 15), increasing the number of gate parking positions and the number of remote gates.

Picture 29. Improved boarding gates at Barcelona Airport

3.1.2 Commercial Activity

The following table shows the most significant figures for commercial activity.

Thousand euros	2017	2016	Variation	% Variation
Ordinary income	1,049,251	943,645	105,606	11.2%
Other income	11,299	8,987	2,312	25.7%
Total Income	1,060,550	952,632	107,918	11.3%
Total expenses (depreciation included)	-294,427	-264,153	30,274	11.5%
EBITDA [(1)]	873,387	783,639	89,748	11.5%

Table 7. Most significant figures with regard to commercial activity

[(1)]Earnings before interest, taxes, depreciation and amortization.

In 2017, the total income from commercial activity increased by 11.3% compared to 2016, to 1,060.6 million euros. Ordinary income amounted to 1,049.3 million euros (26.5% of the Group's total ordinary income), an increase of 11.2% compared to 2016 (943.6 million euros).

In addition to the favourable trend in passenger traffic, this growth is due to the improvement in the contractual conditions through the bidding for the various different tenders, including the minimum annual guaranteed rents (MAGR), and new operators with recognised experience and reputation entering the airports.

In the businesses Aena operates itself, i.e. car parks and VIP lounges, the marketing initiatives carried out and the pricing strategies implemented have had a very positive impact on their income.

The detail and analysis of the commercial business lines are set out below:

Commercial services Thousand euros	Income		Variation		Minimum Guaranteed Rent	
	2017	2016	Thousand euros	%	2017	2016
Duty-Free Shops[(1)]	309,017	285,154	23,863	8.4%		
Specialty shops[(1)]	91,703	89,659	2,044	2.3%		
Food & Beverage	175,643	154,493	21,150	13.7%		
Car rental	149,373	114,466	34,907	30.5%		
Car parks	132,013	121,554	10,459	8.6%		
VIP services	41,053	32,597	8,456	25.9%		
Advertising	31,561	30,290	1,271	4.2%		
Leases[(2)]	32,129	25,005	7,124	28.5%		
Other commercial income [(2)(3)]	**86,759**	**90,427**	**-3,668**	**-4.1%**		
Ordinary income	**1,049,251**	**943,645**	**105,606**	**11.2%**	**79,234**	**67,275**

Table 8. Analysis of commercial business lines

[(1)] In 2017 the income of the Multi-Store at Fuerteventura Airport, which until August 2016 had been recognised in the Specialty Shops line, became part of the Duty-Free Shops line as it was added to the Duty-Free Shops General Contract at that time. On a like-for-like basis, the increase in the income of Duty-Free Shops amounted to +7.1% and the growth of Specialty Shops income to +6.4%.

[(2)] Income from leases of areas for mobile telephony stations have been reclassified to Leases (formerly in Other commercial income). For the purposes of comparison, the Leases income amount to 1.5% and Other commercial income increased by 9.7%.

[(3)] Includes Commercial income (banking services, Luggage plastic-wrapping machines, telecommunications services, vending machines, etc.), Commercial supplies, and Filming and recording.

In 2017 the minimum annual guaranteed rents account for 10.8% of the income for lines with contracts that include these clauses (9.9% in 2016).

Total expenses (depreciation included) increased by 11.5%. This increase is affected by the application of the DORA, which reallocates operating costs amounting to 25.3 million euros between aeronautical activity and commercial activity, including 12.2 million euros for amortisation. Excluding the reallocation effect, the total expenses for the period would have grown by 1.9% (5.0 million euros) and the EBITDA would have increased by 13.1% (to 886.5 million euros)

EBITDA stood at 873.4 million euros, 11.5% higher than in the previous year.

These figures have been possible thanks to the continuation of different commercial actions. The highlights by business line are:

Tax and Duty Free Shops

Income from this activity increased by 8.4% in 2017 compared to 2016 and accounts for 29.5% of the income of Aena's commercial activity, generated through 86 points of sale (76 premises and 10 Buy-Byes), with a total area of approximately 45,000 m².

Aena has signed three contracts, distributed in three lots, with the company Dufry that manages generic duty and tax-free shops under the trade name of WorldDuty Free in 26 airports in the network: A Coruña, Adolfo Suárez Madrid-Barajas, Alicante-Elche, Almería, Asturias, Barcelona-El Prat, Bilbao, FGL Granada-Jaén, Fuerteventura, Girona- Costa Brava, Gran Canaria, Ibiza, Jerez, La Palma, Lanzarote, Málaga-Costa del Sol, Menorca, Murcia- San Javier, Palma de Mallorca, Reus, Seve Ballesteros-Santander, Santiago, Sevilla, Tenerife Norte, Tenerife Sur and Valencia.

This activity generates a stream of guaranteed income via the minimum annual guaranteed rents. Lots I (Madrid and other airports) and II (Barcelona and other airports) maintain the growth derived from the interannual improvements in their minimum annual guaranteed rent. In Lot III (Canary Islands airports), in which the evolution has been positive, the minimum annual guaranteed rent has not been applied since 2013.

The following projects took place in 2017:

- Promotions were carried out to enhance purchases of products in categories with the greatest appeal to passengers, especially British passengers, in order to offset the effect of the devaluation of the british pound, which continues to affect purchases by those passengers, which fell 8.3% during the period. The most heavily affected product categories were perfumery, cosmetics and alcoholic beverages, mainly in tourist airports, such as Malaga-Costa del Sol, Alicante-Elche, Tenerife Sur and Gran Canaria, where there is a significant level of dependence on British passengers.
- The new routes to emerging countries, have been a positive reinforcement to Duty Free sales.
- A project for the modernisation and digitisation of the Duty-Free Shop located in Satellite Terminal T4 of the Adolfo Suarez Madrid-Barajas Airport has been carried out. Under the *Next Generation Store* concept, digital elements have been incorporated that allow passengers to interact and thus enjoy a better shopping experience.

Picture 30. Dufry Shop Robot in T4S.

- A new specialty shop has been opened in the longitudinal dam of T1 at Barcelona-El Prat Airport.

Picture 31. Barcelona-El Prat Airport

- Plans are being developed to redesign the commercial layout of the airports of Madrid, Palma de Mallorca and Seville, in order to optimise the spaces in the tax and duty free shops.

Specialty shops

More than 350 specialty shops were operational in 2017. Twenty-two of these were for luxury brands, which offer a varied range suitable for all passengers.

The leading brands present with specialty shops in Aena's terminals are the Inditex Group, Mango, Desigual and GAP among other well-known brands, as well as Loewe, Carolina Herrera, Bulgari, Coach, Weekend by Max Mara, Longchamp, Burberry, Ferragamo, Omega and MontBlanc among luxury brands.

Noteworthy events in 2017 include:

- The commercial income from the Canary Islands airports increased after the renewal of the commercial range carried out in 2016 and the first full year of its business. A 19% increase in commercial income was achieved in Gran Canaria, 22% in Lanzarote and 10% in Tenerife Sur Airport. Four premises at Tenerife Sur Airport were tendered in 2017.

- It has been the first full year of business of the new commercial range at Alicante - Elche Airport. The minimum annual guaranteed rents for these tenders were 73% higher than the income of the previous range of specialty shops. In 2017, the remaining 3 premises were tendered for the full renewal of the range of retail facilities at the airport.

- The awarding of the second phase of the renovation of terminals T123 specialty shops at Adolfo Suárez Madrid-Barajas Airport (10 premises), which, together with the first phase awarded at the end of 2016 (23 premises), will entail the total renewal of the commercial offer in these terminals.

  Eight specialty shops were opened to the public in 2017, and the openings are anticipated to be completed in early 2018. These dates have led to a postponement in the schedule due to the delay in the processing of the licenses, which has temporarily halted the contracts awarded, and consequently had an impact on the income and the image of the commercial range in these terminals.

- The tender for 4 new spaces in Terminal T4 of the Adolfo Suárez Madrid-Barajas Airport will be allocated to commercial premises for the Carolina Herrera brand, the Fedon brand and two "Pop up" specialty shops awarded to Scalpers and DODO.

- The opening of the new commercial range in Module C (11 specialty shops) in Palma de Mallorca Airport, with the incorporation of a wider range of brands (Natura, Parfois, Sibarium, Swarovski, and Sunglass, among others), wihich has led to an increase of more than 9% in commercial income.
  An additional 11 premises have been tendered and awarded at this airport.

- The renewal of the commercial range at Barcelona-El Prat Airport, through the tender of various premises in terminals T1 and T2, has taken place.

- The start of the Personal Shopper service in terminals T4, T4S and T1 (non-Schengen) of Adolfo Suárez Madrid-Barajas Airport in January, and in the two terminals of Barcelona-El Prat Airport in September, in order to improve the customer experience following the trends implemented in international airports, providing specialised assistance for passengers. This service has been tendered in Malaga-Costa del Sol Airport, and is scheduled to start in March 2018.

Picture 32. Personal Shopper. Adolfo Suárez Madrid-Barajas Airport

Food & Beverage

The process of renewing the Food & Beverage range in the airports continued in 2017 to meet the varied demands from passengers, involving a wide range of products and services ranging from the standard range of products and fast services for those with little time, to "signature cuisine" for passengers who have more time and want to enjoy new gastronomic experiences.

The leading Spanish and international Food & Beverage brands are present in the airports in the Aena network. They include a wide variety of fast food alternatives: McDonald's, Burger King, Más que Menos, Costa Coffee, Starbucks, Coffee Republic, Lavazza, Paul or Rodilla. And for "signature cuisine", we have 5 restaurants by Michelin-starred chefs at our airports in Madrid ("Kirei by Kabuki" by Ricardo Sanz in terminals T1 and T4 and "Gastrohub" by Paco Roncero in T4), in Barcelona ("Porta Gaig" and "Gastrobar" by Carles Gaig), in Málaga ("Delibar" by Dani García) and in Bilbao ("Yandiola" by Ricardo Pérez).

In 2017, the more than 320 Food & Beverage outlets performed very well and generated income amounting to 175.6 million euros, an increase of 13.7% compared to 2016.

Income growth in this activity is due primarily to improved sales figures of our Food & Beverage operators, owing to the good traffic figures, the growth of spending per passenger in tourist airports and the consolidation of the full range of Food & Beverage services, adapted to the different passenger profiles, through the diverse brands offered.

Worthy of special mention in this period are the following actions:

- The publication of the tender for almost all of the Food & Beverage services on offer at Barcelona-El Prat Airport. It includes the tendering of 50 sales points in 23 files and it is designed to improve quality and expand the range while also increasing the presence of international, domestic and local brands which will help to drive the rise in income.

  The tendering process concluded in February 2018 with the award of the 23 processes tendered. The new food & beverage range will occupy an area of about 16,000 m^2, an increase of about

19% compared to the existing area, spread over 50 locations in terminals T1 and T2, which will provide the airport with a wide range of food & beverage facilities.

Aena aims to provide a genuine gastronomic experience for passengers and airport users, combining the latest trends in restaurants with local tradition and flavour. Aena has incorporated a variety of food & beverage operators and the presence of Spanish and international brands of recognised prestige.

Income from this line in Barcelona, considered in terms of a full year, will consequently increase by almost 30%.

Picture 33. Food & Beverage at Barcelona-El Prat Airport

- The tender for the renewal of the range of Food & Beverage in Malaga-Costa del Sol Airport was also published in November. The new spaces will occupy a total area of more than 6,500 m², divided into 25 premises tendered in 12 procedures, which will open in late 2018.

- The award of the tender for the range of Food & Beverage in Gran Canaria Airport (19 points of sale in 5 files), to improve the quality and variety of the range, which will lead to an increase in income.

- The opening of practically all of the new Food & Beverage services offered at the airports of Bilbao (5 premises), Ibiza (6 premises, leaving 3 for the summer season in 2018), Fuerteventura (6 premises), as well as 1 new point at Madrid-Barajas Airport and 2 new points in module C at Palma de Mallorca Airport.

- An action plan has been implemented to improve the quality of the sales points at Adolfo Suárez Madrid-Barajas Airport, and the competitiveness of prices.

- A campaign of discounts and gastronomic promotions was carried out at Bilbao Airport.

- The renewal of the vending machines in the airports of Ibiza, Tenerife Sur and Gran Canaria, coupled with a significant improvement in the quality of the products and image offered, as well as income received. The tender for the machines at Fuerteventura Airport and another 10 at Malaga Airport, which is due to be renewed at the beginning of 2018, was also published in 2017.

Car rental

The business of vehicle rentals without a driver is managed within a concession system in the airports in the Aena network, and is operated by the leading companies in the sector in Europe and worldwide, including AVIS, Europcar, Hertz, Enterprise, Sixt and Goldcar. Important Spanish companies such as CICAR, TOP CAR, Autorreisen and RecordGo are also present in the main tourist airports, in addition to the presence of local companies at various airports. With this variety, Aena is able to offer passengers a wide range of products and services.

In order to provide this service, the airport network provides the vehicle rental companies with 19,000 parking spaces, 256 customer service counters (checking counters) and 500,000 m² of parking areas for vehicles, as well as other facilities.

An income of 149.4 million euros was achieved in 2017 (+30.5% compared to 2016), which is a record high in the series for this line of business.

In 2017, the contract for business awarded to 16 companies in the sector in November 2016 to operate the service in 36 airports and which extended licenses and facilities, led to:

- A volume of more than 5 million vehicle rental agreements signed in airports.

- Improvements in the facilities, in terms of both quantity and quality. Service counters, parking spaces for collecting and dropping off vehicles, and maintenance and cleaning areas for the operators' fleets were enlarged and improved.

- The companies' operations were made more flexible, with additional facilities at the times required by demand, to increase parking spaces, counters or areas as needed.

Car parks

The Aena network of car parks has more than 80 car parks and more than 130,000 parking spaces, distributed across 32 airports.

Aena manages this area of business, which guarantees that all operational processes are monitored, as well as the active management of marketing initiatives, the pricing policy and the structuring of the various parking services, in order to meet the needs of the wide range of passengers (Low Cost/Long Stay, General, Preferential, Express, VIP Service with pickup and drop-off with driver, and additional services).

Reservations can be made online using a web platform from the Aena app, as well as through various distribution channels. This platform allows customers to book in advance at discounted prices.

Parking income in 2017 amounted to 132.0 million euros, an increase of 8.6% compared to 2016. This figure is a record high for income, surpassing the record for 2007.

The main actions of this period are as follows:

- As well as the increase in income, the market share increased in a highly competitive environment.
- The bookings channel continued to grow, reaching a new high in 2017, with more than 1.2 million users and a share of more than 30% of total income.
- Technological improvements, with the expansion of the mobile payment service and the introduction of the registration number payment service in Madrid and Barcelona.
- New products and services were developed, such as the express parking at departures and the service for businesses.
- Online sales with prepaid reservations was one of the biggest enhancements in service.
- Marketing campaigns, a strong online positioning and the personalisation of messages for each airport and car park maintained and improved the brand's positioning in the online channel.
- Knowledge of the clients and personalised communication through the loyalty club ("Aena Customer Club") retained clients and improved the service to them, compared to other means of access and competitors.

Picture 34. Aena Customer Club

VIP services

This business line includes income from the VIP lounges and income from the *Fast Lane*[1] and *Fast Track*[2].

Aena has 22 VIP lounges in 14 airports in the network, operated by Aena itself, except for the 4 lounges at Barcelona El-Prat Airport, which were incorporated into the overall management model in January 2018.

The income from the Fast Lane and Fast Track have also been incorporated into this business line since 2017.

The total for the VIP services line performed well last year, amounting to 41.0 million euros in income, a 26% increase compared to 2016, and the Aena lounges hosted 2,662,000 users in 2017.

Noteworthy events in 2017 included:

- The openings of the VIP lounges in A Coruña (in January) and at Valencia Airport, *the Sala Joan Oliver* (in August).
- The incorporation into the overall management model of the VIP lounges at the airports of Tenerife Sur, Lanzarote, Bilbao and Seville, as well as the 5 lounges at Madrid-Barajas Airport from March 2017.
- The refurbishing of the lounges of the Palma de Mallorca Airport, with the inclusion of an additional lounge, the *Sala Mediterraneo*, which opened on 9 November.
- The tender for the 4 VIP lounges at Barcelona Airport. The project for the expansion and renovation of the 4 VIP lounges was drafted in 2017. This work that will be carried out in phases in order not to interrupt the service in 2018.
- The tender process has begun for Santiago Airport, which has not had a VIP lounge, and the tender process for Menorca, Fuerteventura and Vigo airports is due to begin in 2018.

Picture 35. VIP lounges. Tenerife Sur Airport

- The commercialisation of the preferential access service ("Fast Lane") in the security filters was consolidated at the airports of Barcelona, Palma de Mallorca, Gran Canaria, Tenerife Sur and Alicante. It started at Alicante Airport in July and in Malaga in November, with a good reception.

Advertising

Advertising in the airports in the network involves outdoor advertising, and competes with media in urban fixtures, the metro and billboards.

At Aena, it is managed using a concession model, and the companies that operate the advertising spaces in the network are those responsible for their commercialisation: JFT in the Canary Islands airports, and JCDecaux in the airports on the Spanish mainland and the Balearic Islands.

The investment in updating and renewal of media by the two operators was completed in 2017, in order to compete with the media with the greatest international market value.

[1] *Fast Lane*: this is a priority track passing through the security filters that is not segregated from the other filters.
[2] *Fast Track:* this is a filter for exclusive use, and is physically segregated from the other security filters.

This business line generates assured annual income through the application of contractually minimum annual guaranteed rents.

The improvement in sales, the number of advertisers and the volume of investment was the general trend in the business unit. However, the recovery of this sector, which has been heavily affected by the last recession and by the cuts in foreign advertising investment, is still under way.

Picture 36. Advertising media..A.S. Adolfo Suárez Madrid-Barajas Airport

Other commercial income

It includes various commercial activities carried out at airports such as banking services, baggage wrapping machines, other vending machines and regulated services (pharmacies, tobacco shops, lotteries, etc.).

The main actions carried out in 2017 included:

- The tender and award of the currency exchange business for terminals T123 of the Madrid airport and for the three Balearic Islands airports.
  The joint venture Maccorp Exact Change won the tender for the business in Madrid, and the company Bestand Fast Change Spain won the tender for the airports in the Balearic Islands.
- The award of the new Wi-Fi service in the airports, with connection speeds of between 5 Mbps and 15 Mbps.

3.2. Real estate services segment

The real estate services segment consists of the provision of leasing or transfer of use of land, office buildings, warehouses, hangars and cargo units to third parties.

Aena has variety of real estate assets for the support of airport activity (operating airlines, operating air cargo, handling agents and other airport operators) and the development of complementary services.

Thus, to support the real estate activity, airports have office buildings and warehouses, hangars, cargo units, surfaces (paved and unpaved) and land (developed and undeveloped) where various types of buildings and facilities may be built.

Amongst the additional services are 24 stations (15 in the Land Side and 9 in the Air Side) in 12 airports and FBOs (*Fixed Base Operations*) terminals in 5 of the most relevant airports in the network, where business aviation is handled in a unique way.

Regarding to the study of marketable land at Adolfo Suárez Madrid-Barajas and Barcelona-El Prat airports, the process continued and the potential lines of development were defined.

Accordingly, in Madrid the plan is to commercialise a total of 2.7 million m^2 over 40 years, for a mixture of uses that would entail a significant diversification of the business at the airport, and would bring it closer to the modern concept of the *Airport City*. The estimated maximum potential development amounts to 3.6 million m^2, including future reserves.

Meanwhile, at Barcelona Airport, the commercialisation would last 20 years and cover 1.8 million m^2, with a proposal for varied uses which in addition to the development of the cargo and logistics areas, would also include an *Airport City* project.

Key financial data for the real estate services segment is set out below:

Thousand euros	2017	2016	Variation	% Variation
Ordinary income	59,687	62,403	-2,716	-4.4%
Real estate services[1]	59,687	62,403	-2,716	-4.4%
Other income	1,382	2,429	-1,047	-43.1%
Total Income	**61,069**	**64,832**	**-3,763**	**-5.8%**
Total expenses (depreciation included)	**-47,065**	**-45,507**	**1,558**	**3.4%**
EBITDA [2]	**30,550**	**36,012**	**-5,462**	**-15.2%**

Table 9. Key financial data for the real estate services segment

[1] Includes Warehouses, Hangars, Real Estate Operations, Off-Terminal Supplies and Others.

[2] Earnings before interest, taxes, depreciation and amortization.

In 2017, ordinary income derived from these activities amounted to 59.7 million euros, 4.4% below those obtained in 2016, mainly due to the impact in 2016 of the accounting recognition of credit rights on buildings built on land subject to assignment contracts. Excluding this effect, ordinary income remains stable.

The expenses on real estate services increased by 3.4% due to the costs related to the study of the commercial land at Adolfo Suárez Madrid-Barajas and Barcelona-El Prat airports (1.4 million euros).

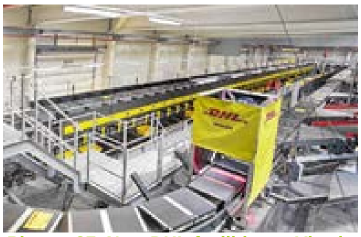
Regarding the main actions of the period, it is worthwhile emphasising:

- Implementation of the FBOs (Fixed Base Operations) at Ibiza Airport, which joins those already in existence at Adolfo Suárez Madrid-Barajas, Barcelona-El Prat, Palma de Mallorca and Malaga-Costa del Sol airports.
- In the leasing of hangars, at Adolfo Suárez Madrid-Barajas Airport H2 was leased and H1 was tendered; two hangars at Sabadell airport were awarded, in addition to another one at Girona-Costa Brava.
- The awarding of two service stations at Gran Canaria and La Palma airports.
- Other spaces have also been allocated as: a clean point for waste collection and management of the waste plant at Seville Airport; two plots for Ground Equipment Maintenance (GEM) at Barcelona-El Prat Airport, and the 110-hectare agricultural operation at Jerez Airport.

In relation to freight transport, during this period the 15.0% annual growth ratios have been exceeded, which exceeds the accumulated growth to 11.6% in 2016.

Marketing activities for freight facilities include the following, carried out in 2017:

- In Zaragoza, the new facility managed by ACL has come into service which will increase the airport's cargo capacity.
- At Adolfo Suárez Madrid-Barajas Airport, DHL has begun construction of a new facility.
- In Vitoria, the company DHL has put in service a new facility that will allow for the automatic processing of 21,500 packages an hour.



Picture 37. New DHL facilities at Vitoria Airport

- In Valencia, new leases of cargo ships have been signed in favour of UPS and EAT / DHL that will allow these companies to maintain their operations at the airport.
- In addition, three leases for cargo warehouses were awarded at the airports of Vitoria (one to DHL) and Barcelona (two, to OSA Handling and Swissport).
- The leasing of the two modules in the new Airport Cargo Terminal at Tenerife Norte was tendered, and this will significantly improve the airport's operations.

3.3. International activity

Economic data for the international business segment include the consolidation of Luton Airport in London (5th airport in the United Kingdom by number of passengers), as well as advisory services to international airports. Total international business income improved by 7.6 million euros, negatively impacted by the devaluation of the GBP, offsetting the strong growth in traffic seen at Luton Airport.

Thousand euros	2017	2016	Variation	% Variation
Ordinary income	215,344	207,733	7,611	3.7%
Other income	163	272	-109	-40.1%
Total Income	**215,507**	**208,005**	**7,502**	**3.6%**
Total expenses (depreciation included)	**-195,717**	**-184,330**	**11,387**	**6.2%**
EBITDA (1)	**64,595**	**71,322**	**-6,727**	**-9.4%**

Table 10. Key data for the international activity segment

(1) Earnings before interest, taxes, depreciation and amortization.

In the forthcoming section, a more detailed appraisal of **London Luton Airport** is given, whose consolidation has meant an EBITDA contribution of 58.7 million euros, 10.3% lower than 2016 (65.4 million euros), due to the devaluation of the sterling (-7.0%) and the extraordinary recognition (31 January 2017) of 8.0 million euros for the accounting of expenses associated with one of the agreements with Luton Airport employees to close the defined benefit pensions plan. Excluding the impact of the foreign exchange rate and the extraordinary effect indicated, the EBITDA variation would have been +8.9%.

Thousand euros)(1)	2017	2016	Variation	% Variation
Airport charges	95,420	94,944	476	0.5%
Commercial income	109,432	103,210	6,222	6.0%
Total Income	**204,852**	**198,154**	**6,698**	**3.4%**
Employment costs	47,852	39,057	8,795	22.5%
Other operating expenses	97,301	93,349	3,952	4.2%
Depreciation and impairments	44,999	47,442	-2,443	-5.1%
Total expenses	**190,152**	**179,848**	**10,304**	**5.7%**
EBITDA(2)	**58,683**	**65,394**	**-6,711**	**-10.3%**
Operating profit/loss	**14,700**	**18,306**	**-3,606**	**-19.7%**
Net finance result	-36,651	-23,405	-13,246	-56.6%
Profit/loss before tax	**-21,951**	**-5,099**	**16,852**	**330.5%**

(1) Euro/Pound exchange rate: 2017 0.8767 and 2016 0.8192

(2) Earnings before interest, taxes, depreciation and amortization.

Table 11. Detailed financial information on the evolution of Luton Airport

On an operational level, traffic data from Luton Airport show a passenger increase of 8.6%, to 15.8 million passengers and 3.1% in the number of operations, to 135,518 aircraft movements.

These traffic figures, combined with the effect of the foreign exchange rate, put income for the period at 204.9 million euros, 3.4% higher than the same period in 2016 (198.2 million euros).

In GBP, income from Luton increased by 10.6% (GBP 17.3 million) in 2017 compared to 2016, thanks to the performance of commercial income and despite the impact of the loss of passengers on Ryanair, which moved the operation of two aircraft to Stansted, and the bankruptcy of Monarch.

- Aeronautical income in GBP has risen by 7.6% and commercial income by 13.4%.

  Amongst income from commercial activity, the remarkable performance of the car parks (+13.8%) reflecting traffic growth, the opening of the new car park and the management and prices strategies implemented. The Food & Beverage and Specialty Shop lines have also grown, 13.0% as a whole, boosted by increased passenger traffic, the opening of the walk-through shop in June 2016 and the improved conditions for commercial contracts, although there has been a slight delay in the entry into operation of some premises due to works in the terminal.

- EBITDA in GBP declined by 2.1 million in comparison with 2016.

  This effect arises mainly from the accounting of the extraordinary effect mentioned above relating to one of the agreements with Luton Airport employees to close the defined benefit pensions plan (31 January 2017). Excluding the impact of this extraordinary expenses, which has no cash impact, EBITDA in GBP would have increased by 4.8 million and would have meant growth amounting to 8.9%.

  This agreement entails a change in the commutation ratio (pension commutation factor) which will apply to the right of pension plan members to exchange a portion of their future pension for a tax-free amount received in cash at the time of retirement. The previous Pension Commutation Factor meant that for every 9 pounds received in cash the future pension was reduced by 1 pound per year, while under the new agreement this factor features a ratio of 15 to 1. According to IAS 19, the effect of this change measured as the present value of its impact on future pension liabilities amounting to 6.9 million GBP (8.0 million euros) has been accounted for in the account of employment costs as a higher cost of past services, without this accounting adjustment having an impact on cash.

  As of the closing date of the London Luton Airport Pension Scheme (LLAPS), active members of the plan have become deferred members of the plan and have ceased to accrue benefits for services rendered to the employer (LLAOL). Likewise, as from that date contributions for services rendered by both LLAOL and the members of the plan have ceased, and LLAOL only retains the obligation to make those contributions which according to regular valuations of the plan are deemed necessary to guarantee the payment of benefits for services rendered accrued prior to 31 January 2017, restated annually in accordance with the terms set out in the LLAPS rules.

It is also noteworthy that in August 2017, the refinancing of the Luton Airport debt (GBP 390 million) was completed in order to extend maturities, to set the rate for a higher percentage of the debt, and to secure financing of the entire expansion plan.

As regards the results of the non-accounting consolidated holdings, the evolution of **equity application is as** follows:

	Equity method profit/loss				Foreign exchange rates			
Thousand euros	**2017**	**2016**	**Variation**	**% Variation**	**Foreign exchange rate**	**2017**	**2016**	**Variation**
SACSA (Colombia)	3,476	2,991	485	16.2%	€ - COP	3,336.16	3,378.32	**1.2%**
AMP (Mexico)	12,890	9,298	3,592	38.6%	€ - MXN	21.33	20.67	**-3.2%**
AEROCALI (Colombia)	2,561	3,833	-1,272	-33.2%	€ - COP	3,336.16	3,378.32	**1.2%**
Total Income from associates	**18,927**	**16,121**	**2,805**	**17.4%**				

Table 12. Equity method for investee companies

4. Income statement

Thousand euros	2017	2016	Variation	% Variation
Ordinary income	3,960,582	3,709,581	251,001	6.8%
Other income	67,012	62,906	4,106	6.5%
Total Income	**4,027,594**	**3,772,487**	**255,107**	**6.8%**
Supplies	-174,176	-180,366	-6,190	-3.4%
Staff costs	-417,155	-390,724	26,431	6.8%
Other operating expenses	-910,912	-901,775	9,137	1.0%
Fixed asset depreciation	-800,035	-825,805	-25,770	-3.1%
Impairment and profit/loss on fixed asset disposals	-10,915	-6,402	4,513	70.5%
Other results	2,969	399	2,570	644.1%
Total operating expenses	**-2,310,224**	**-2,304,673**	**5,551**	**0.2%**
EBITDA [(1)]	**2,517,405**	**2,293,619**	**223,786**	**9.8%**
OPERATING PROFIT/LOSS	**1,717,370**	**1,467,814**	**249,556**	**17.0%**
Finance expenses	-144,183	-169,222	-25,039	-14.8%
Interest expenses on expropriations	4,593	201,406	-196,813	-97.7%
NET FINANCE EXPENSES	**-139,590**	**32,184**	**-171,774**	**-533.7%**
Income from associates	18,927	16,121	2,806	17.4%
PROFIT/LOSS BEFORE TAX	**1,596,707**	**1,516,119**	**80,588**	**5.3%**
Income tax	-374,738	-351,733	23,005	6.5%
CONSOLIDATED PROFIT/LOSS FOR PERIOD	**1,221,969**	**1,164,386**	**57,583**	**4.9%**
Profit/loss for period attributable to non-controlling interest	-10,036	237	10,273	4334.6%
PROFIT/LOSS FOR THE PERIOD ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	**1,232,005**	**1,164,149**	**67,856**	**5.8%**

Table 13. Income statement

[(1)] *Earnings before interest, taxes, depreciation and amortization.*

As a result of the positive business performance in all its lines, Aena's **total income** increased to 4,027.6 million euros in 2017, up 6.8% over last year. Income from the commercial activity accounts for 26.3% of the total, which is above its share for 2016 (25.3%).

Ordinary income increased to 3,960.6 million euros, 6.8% compared to 2016. The increase of 251.0 million euros has been explained above in the analysis of the different business lines.

The total for **operating expenses** is in line with regard to the previous year. Eliminating depreciation, expenses increased by 31.3 million euros (+2.1%). Next, the most important variations broken down into cost concepts are analysed:

- Supplies were reduced by 3.4%, which represents 6.2 million euros lower compared to 2016, mainly due to the new conditions of the air navigation services agreement (ATM/CNS) signed with ENAIRE.
- Staff costs show the most significant increase as expenses items, at 6.8% (26.4 million euros). This rise is mainly due to the increase in basic salaries, the salary review of 1% for Aena S.M.E., S.A. personnel, and the recruitment of interns in the third quarter of 2016. It is also affected by the accounting in Luton of one of the agreements reached with employees regarding pensions.

In addition, the amount approved for productivity associated with the pre-agreement reached on 25 September between Aena and trade union representatives (ratified on 31 January 2018), with expensed of 8.5 million euros accrued as of 31 December 2017 has contributed to the increase in this item.

- Other operating expenses increased by 1.0% (9.1 million euros) to 911.0 million euros, mainly due to the effect of higher expenses, including technical assistance (10.3 million euros), security (9.4 million euros), services for passengers with reduced mobility (4.6 million euros), cleaning (3.1 million euros), local taxes (2.7 million euros), VIP lounges (2.3 million euros), and higher operating costs at Luton Airport (4.2 million euros). These increases were partially offset by the reduction in electricity costs (6.6 million euros), lower maintenance costs in 2017 (6.5 million euros), and by variations in customer insolvencies (13.9 million euros).

  The increase in costs has been affected by the increased activity and upward trend in spending for most of the services awarded since the end of 2016, which will continue to be a factor in operating expenses progressively throughout 2018.

- Depreciation and amortization amounted to 800.0 million euros and is down compared to 2016 by 25.8 million euros (3.1%), mainly due to the effect of full amortisation of assets, partially offset by the technical review of the useful life of assets such as runways and taxiways.

EBITDA (earnings before interest, taxes, depreciation and amortization) increased to 2,517.4 million euros, an increase of 9.8% over 2016, bringing the EBITDA margin to 62.5%. As of 31 December 2017, the amount of 58.7 million euros is included for the consolidation of Luton (65.4 million euros in the same period of 2016).

For its part, **Net finance expenses** shows a year-on-year increase of 171.8 million euros, affected by the exceptional reversal in 2016 of provisions for legal proceedings related to expropriation of land at Adolfo Suárez Madrid-Barajas Airport (204.9 million euros). "Finance expenses" fell by 25.0 million euros (14.8%) mainly as a result of the reduction in the interest rate (9.9 million euros), the reduction of the principal of the debt (9.8 million euros) and the positive variation in the losses associated with foreign exchange differences in 2016 arising from the GBP loan with Luton (6.7 million euros). Furthermore, expenses of 11.8 million euros were recorded in 2016 to cover the eventual increase in costs caused by the change in the Bank of Spain's risk weighting coefficient for Aena. On the other contrary, in September 2017, 8.0 million euros (6.9 million pounds) were recorded for the amortisation of the activated costs associated with the financing of Luton in 2015, as a result of the refinancing of the debt.
The change in the heading " Interest expenses on expropriations" is due to the reversal in 2016 of provisions for late payment interest due to the elimination of risks in this period (204.9 million euros).

The profit from the equity method of **associated companies** has increased by 2.8 million euros due to the increase in traffic and the effect of the foreign exchange rate.

With regard to **Income tax**, the resulting expenses amounted to 374.7 million euros, an increase in expenses of 23.0 million euros over the previous year as a result of the higher result for the period and the reduction of deductions for investments in the Canary Islands. The effective rate for the period stood at 23.5% (23.2% in 2016).

The **Consolidated profit/loss for the period** reached 1,222.0 million euros. The profit / loss for the period attributable to non-controlling interest amounted to -10.0 million euros (49% of Luton's net profit), which places the **profit / loss for the period attributable to the equity holders of the parent company** at 1,232.0 million euros, 67.9 million euros higher than the figure reached at the close of 2016. This variation is especially significant given that in 2016 the extraordinary impact of the reversal of provisions for legal proceedings related to expropriation of land at Adolfo Suárez Madrid-Barajas Airport was recognised. Excluding this effect, Aena's net profit would have increased by 21.9%.

5. Investments

The investment paid in 2017 amounted to 371.2 million euros (non-financial assests), including 66.2 million euros from Luton, an increase of 65.8 million euros (+21.5%) compared to the previous year.

Total investment in the **Spanish airport network** based on payments came to 305.0 million euros, representing a 60.7 million euros (+24.9%) increase on the 244.3 million euros in 2016. This rise is mainly due to investments in security and maintenance improvements.

The activated investment for additions of tangible fixed assets (property, plant and equipment) in 2017 amounted to 475.5 million euros (283.3 million euros in 2016).

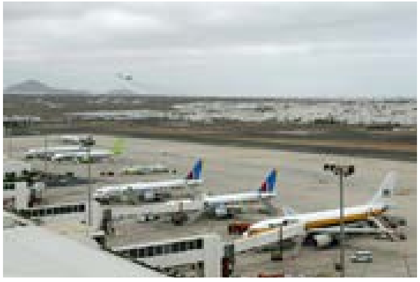
The main actions put into service in the period include at Gran Canaria Airport: "Reinforcement of the surface of runway 03R-21L and the associated taxiways" and "Renewal of the Cargo Terminal"; at Adolfo Suárez Madrid-Barajas Airport: "Refurbishment and elimination of obstacles on runway 18L-36R" and "Renewal of floors on floor P10 of Terminal T1; at Palma de Mallorca Airport: "Refurbishment of the paving of the southern runway" and the "Adaptation of gates H6, H7 and H8"; "Airfield adaptation" at La Palma Airport; "Adaptation of platform taxiways to regulations" at Barcelona-El Prat Airport; and "Runway screeding" at Villanubla Air Base.

The major projects currently under way are: "General adaptation of the platform" of Tenerife Sur Airport; "Reconstruction of platform B", "Reconstruction of platform C" and "Increase in peak capacity of the ABHS and new check-in features" at Palma de Mallorca Airport; "Beacon measures for compliance with technical standards" and the "Installation of airbridges and aircraft assistance equipment for terminal 2, Phase II" at Malaga-Costa del Sol Airport; "Refurbishing of the shopping mall and boarding hall for compliance with fire regulations" at Gran Canaria Airport.


Picture 38. Airfield. Tenerife Norte.

The coming months will see the completion of the "Refurbishment of paving on runway 07L-25R"; "Supply with installation of constant intensity regulators" and the "New CELT cabins" at Barcelona-El Prat Airport; "Expansion of the air conditioning ring in modules C and D" at Palma de Mallorca Airport; "Adaptation of the General Aviation Platform" at Ibiza Airport and "Runway screeding" at Tenerife Norte Airport.

The following works have recently begun or are scheduled in the coming months: "Screeding of the paving of runway 12-30 at Bilbao Airport"; "Adaptation of the T2 building to boarding processes" and the "Repaving of the runway" at Tenerife Sur Airport and the "Adaptation of strips and taxiways" at Ibiza Airport.


Picture 39. Apron. Lanzarote Airport

At **Luton airport**, investments continue in maintenance and renovation of equipment, and in the Curium Project. This project, which aims to increase the current capacity to 18 million passengers in the second quarter of 2018, is making significant progress in all of its areas, and involves the construction of a car park building, the refurbishing and improvement of accesses to the airport, the expansion and refurbishing of the terminal building and the expansion of the commercial areas.

The access and road expansion works were completed in 2017, and substantial progress was made on the terminal expansion works. In specific terms, 36 new commercial premises were handed over, which will increase the airport's commercial area by 2,500 m². The airfield has also been expanded with the extension of the taxiway to head 08, which has improved operations and increased the rush hour capacity by two additional operations per hour.


Picture 40. Luton Airport

With respect to investments of the associates that are not fully consolidated, it is noteworthy that on 8 March 2017 the new international terminal of the **Airport of Cali** was inaugurated. This project is part of the modernisation and expansion plan that began in 2015. It is an International Terminal adjacent to the current one, with an area of 19,600 m², with 6 jet bridges and an international platform of almost 55,000 m².

The aerodrome's operational security certificate was obtained in 2017, and Cali is the first Colombian airport to receive this certification.

In addition, the pre-feasibility study for a Public Private Partnership (PPP) to obtain a new concession at Cali Airport and others in the region (Armenia, Neiva, Ibagué and Buenaventura) has been presented to the Colombian National Infrastructure Agency (ANI) this year. It is currently in the feasibility study phase.

Meanwhile, improvement projects were carried out at **Cartagena Airport** in 2017 for the allocation of operational means (installation of CUTE), operational security (RESAS in headers) and other measures that have improved the terminal's capacity and the passenger experience.

Negotiations are currently under way with the National Infrastructure Agency (ANI) for a Public Private Partnership (PPP) aimed at a new concession contract after the current concession ends in 2020.

Investments at the **GAP airports** include the 15,000 m² extension of the terminal building of Guadalajara Airport, which amounts to an increase of 35% in the terminal area and 40% in the boarding gates. There is also the refurbishment and extension of the terminal building of Hermosillo Airport by 2,200 m², with 2 new boarding gates with airbridges. At Tijuana Airport, the expansion and refurbishing of the terminal building involved an increased area of new 25,000 m² and refurbishing of 15,000 m². It will enter into service in 2018, and at Guanajuato Airport, the refurbishing and expansion works will increase the existing facilities by more than 200%. It will enter into service in 2018.

5.1. Analysis of investments broken down by areas of action

Information on the breakdown of investment across the Spanish airport network in 2017 can be found below, along with a comparison with 2016:

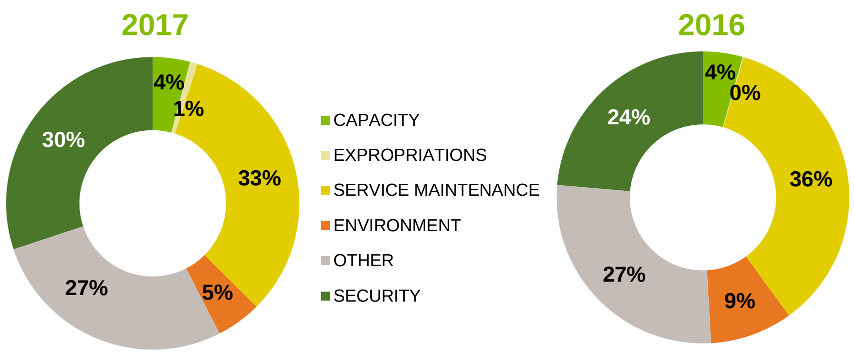


Figure 7. Analysis of investments by areas of application

- Investments made in the field of **security** account for 30% of the total investment in the network of Spanish airports (compared to 24% in 2016). In 2017, they increased by 34.0 million euros (from 57.7 million euros of investment paid in 2016 to 91.8 million euros). They include: "Refurbishment of paving on runway 07L-25R" of Barcelona-El Prat Airport", "Reinforcement of the surface of runway 03R-21L and associated roads" at the Gran Canaria Airport and "Refurbishment and elimination of obstacles on runway 18L-

36R" at Adolfo Suárez Madrid-Barajas Airport.

- The investment devoted to the improvement of facilities to ensure **service maintenance** decreased in percentage terms in 2017 compared to 2016, from 36% to 33%. It has increased quantitatively from 86.7 million euros in 2016 to 99.3 million euros in 2017, implying a rise of 14.4%. Worthy of special mention as the main action is the “Supply and installation of airbridges and aircraft service equipment in several airports" for a total amount of 11.6 million euros.

- Investments in **capacity** rose to 12.5 million euros in 2017, compared to 10.7 million euros in 2016.

The following significant investment projects took place: "Adaptation of gates H6, H7 and H8", "Adaptation of gates H1 and H2 on the northern runway" and the "Increase in peak capacity of the ABHS and new check-in features” at Palma de Mallorca Airport, and the “Refurbishing of Hall 2 for non-Schengen connections" at Adolfo Suárez Madrid-Barajas Airport.

- A total of 15.2 million euros was invested in the field of **environment** in 2017 (7.1 million euros less than 2016). This amount is mainly in the “Actions derived from Environmental Impact Statements. Acoustic Insulation” in several airports and in the “Agreements of compensatory measures" at Adolfo Suárez Madrid-Barajas Airport.

- Payments for **expropriations** were made amounting to 2.6 million euros, compared to 0.3 million euros paid in 2016. These are mainly for the land for the "Expansion of the North-South platform and new accesses in the southern zone" at Gran Canaria airport, for an amount of 1.0 million euros.

- The **other investments**, amounting to 83.7 million euros, 25.8% more than in 2016 (66.6 million euros), include those made in computer systems and those aimed at improving commercial and real estate income, including the "Demolition of the old catering building and the adaptation of the car rental car park" at Tenerife Sur Airport.

6. Balance Sheet

6.1. Net assets and capital structure

Thousand euros	2017	2016	Variation	% Variation
ASSETS				
Non-current assets	14,093,595	14,502,621	-409,026	-2.8%
Current assets	1,213,837	1,011,153	202,684	20.0%
TOTAL ASSETS	**15,307,432**	**15,513,774**	**-206,342**	**-1.3%**
EQUITY AND LIABILITIES				
Equity	5,687,864	5,025,749	662,115	13.2%
Non-current liabilities	8,135,177	8,962,156	-826,979	-9.2%
Current liabilities	1,484,391	1,525,869	-41,478	-2.7%
Total equity and liabilities	**15,307,432**	**15,513,774**	**-206,342**	**-1.3%**

Table 14. Summary of the consolidated balance sheets

As for **non-current assets**, the reduction of 409.0 million euros during the period is mainly accounted for by the reduction of 392.5 million euros in non-financial fixed assets. Due to the limitation on regulated investment applicable to the Spanish airport network, the amount for additions to fixed assets for the period was much lower than the amortisations deducted.

In turn, the increase in **Current assets** of 202.7 million euros is mainly due to the increase of 290.4 million euros in the balance of "Cash and cash equivalents" and the reduction of 85.8 million euros in the balance of "Trade and other receivables", explained by 110.5 million euros received in 2017 for the payments made in 2015 on account the corporate tax not used (recognised on 31 December 2016 under the heading "Assets for short-term current tax"), and offset mainly by the increase of 21.6 million euros in the net balance of "Clients from sales and provision of services" due to the higher turnover linked to the increase in business activity and turnover at the end of the financial year for the minimum annual guaranteed rents accrued, which increase every year.

Equity increased by 662.1 million euros, mainly as a result of the difference between the result of the consolidated period (+1,232.0 million euros) and dividends distributed in the period including Luton (-592.1 million euros).

The heading “Other reserves” has decreased by 37.2 million euros, due to the effect on Coverage Reserves caused by the payment during the period of 40.5 million euros of financial derivatives liabilities subscribed by the group and by the evolution of the interest rate curve and its impact on the valuation of such derivative financial instruments. Since the main maturity date of derivatives will take place in 2026 and that interest rates are at historic lows, the expectation is that these reserves will be reversed before maturity of the underlying obligations. The fair value of financial derivatives at 31 December 2017 is 82.3 million euros (136.5 million euros at 31 December 2016).

The decrease in **Non-current liabilities** in 827.0 million euros is mainly due to the drop in “Financial Debt” in 1,383.0 million euros by amortisation of the principal of Aena’s debt with ENAIRE as a co-borrower with various financial institutions, in accordance with the repayment schedule established, as well as to the early repayment of the debt held with Depfa Bank and, in the opposite direction, to the new debt underwritten (650.0 million euros).

The "Financial derivatives" item decreased by 51.3 million euros due to the reasons stated in the paragraph related to "Equity". The balance of "Provisions for other liabilities and expenses” also fell by 62.7 million euros, owing to the favourable evolution of certain expropriation disputes, legal proceedings with contractors and downward revisions of the estimate of liabilities.

The reduction of 41.5 million euros in the **Current liabilities** is due to the reduction in the "Financial debt" of 145.5 million euros due to the reduction of the volume of maturities in 2018 compared to 2017, the "Provisions for other liabilities and expenses", which fell by 44.6 million euros, mainly due to the application of 68.3 million euros for commercial incentives, offset by the increase in "Trade and other payables " of 149.5

million euros, mainly as a result of the increase in the balance of suppliers of fixed assets linked to the increased volume of investment.

Working capital, calculated as the difference between current assets and liabilities, normally negative in the Company for its operations and financial structure, decreased from -514.7 million euros in 2016 to -270.6 million euros at the close of 31 December 2017, due to the changes in Current assets and liabilities commented in the preceding paragraphs.

6.2. Evolution of net financial debt

The Aena Group's consolidated net financial debt, which is calculated as Current Financial Debt plus Non-Current Financial Debt minus Cash and Cash Equivalents, stood at 7,156.0 million euros as of 31 December 2017 (including 396.3 million euros from the Luton Airport debt consolidation), compared to 8,228.0 million euros as of 31 December 2016.

Meanwhile, Aena's individual net financial debt, for the purpose of "covenants" included in financing contracts dated 29 July 2014, amounted to 6,920.0 million euros at 31 December 2017 against 8,041.0 million euros at the end of 2016. There is a substantial improvement in the associated ratios due to both the decrease in net financial debt as well as the evolution of EBITDA:

Thousand euros	2017	2016
Gross financial debt covenants	7,638,455	8,523,750
Cash and cash equivalents	718,115	482,758
Net financial debt according to covenants	**6,920,339**	**8,040,992**
Net financial debt covenants / EBITDA[(1)]	**2.8x**	**3.6x**

Table 15. Net financial debt of the Company

[(1)] Earnings before interest, taxes, depreciation and amortization. Includes adjustment for updated WDF advance.

The difference between Aena Group's net financial debt at 31 December 2017 (7,156.0 million euros) and the net financial debt according to covenants (6,920.0 million euros) is mainly due to the fact that the latter does not include the debt (without recourse) associated with the subsidiaries of Aena (mainly Luton), nor short-term bonds and, on the contrary, it does include the fair value (liabilities) of financial derivatives.

During 2017, debt amounting to 1,497.3 million euros was repaid, including 797.2 million euros corresponding to the early repayment of Depfa Bank's debt at a variable interest rate. This amortisation has been partially financed by the cash generated in the year and with 650 million euros of new bank debt at fixed interest rates (0.69% annual average) and with a five-year maturity.

In this period a total of 478.6 million euros were coverted from the revisable rate to fixed rate to maturity, with these operations shifting from an average rate of 1.14% to an average rate of 0.78%.

As a result of these actions, the percentage of debt at fixed rates stands at 88%, compared to 71% at the end of 2016.

Likewise, Aena renewed or contracted new credit policies amounting to 1,000 million euros in 2017, with terms of 1 and 2 years and extensions for the same period. Aena also signed a loan of 400 million euros with a maturity of up to 20 years with the European Investment Bank (EIB) to finance up to 50% of the investments in security related to the renewal of baggage inspection equipment stipulated in the DORA 2017-2021. All these credit facilities are currently fully available.

On 9 February 2016 the Official Gazette published Bank of Spain Circular 2/2016 to credit institutions on supervision and solvency which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No 575/2013. The purpose of this Circular is to complete the adaptation of the Spanish legal framework in terms of banking supervision and solvency to Basel III standards.

In 2016, following a series of consultations with the Bank of Spain in order to clarify the interpretation and consequences of the provisions of the Circular, it was confirmed that it introduced a change in the risk weight that credit institutions had been applying until that moment to the debt of ENAIRE, of which Aena is co-borrower.

In particular, the entry into force of the Circular obliged some lenders to assign to their exposure to ENAIRE a risk weight different from that assigned to their exposures to the Spanish Government, which is 0%.

Some of the financing agreements in which ENAIRE and AENA are co-credited establish a change in the risk weight of the borrower by the Bank of Spain as a possible cause of early termination, at the request of the lender.

To address this risk, on 25 May 2017 Aena carried out the novation of the ICO loan agreements affected, canceling the weighting change clause in those operations that included it, and on 15 June 2017, it cared out early repayment of 797.2 million euros of variable rate debt held with Depfa Bank, using part of the cash generated and borrowing with various entities amounting to 600 million euros, with a maturity of 5 years and interest rate fixed at close to 0.69% per annum.

As a result of these actions, Aena's debt at 31 December 2017 affected by the change in risk weighting has been significantly reduced to an amount of 862.0 million euros, and no significant impact being expected to arise from this situation.

In relation to the costs incurred as a result of the change in the risk weight, they are expected to be regularized throughout 2018. These costs amounted to 11.8 million euros were provisioned as of 31 December 2016 and paid on 22 March 2017. Income from the partial recovery of this item amounting to 0.9 million euros was recorded in 2017.

Furthermore, credit rating agencies have supported the financial soundness of Aena. On 18 May 2017, rating agency Fitch Ratings has upgraded Aena's rating from "BBB +" to "A" by reviewing the positive to stable outlook. This improvement in Fitch Ratings is based on lower debt levels, improved operating income and lower regulatory uncertainty following the approval of the Airport Regulation Document (DORA) 2017-2021. On 18 July 2017, the rating agency Moody's Investors Service maintained the rating granted to Aena in 2016 ("Baa1" with stable outlook), so Aena remains a step above the rating assigned by this agency to the Kingdom of Spain, although in its report it emphasizes that this qualification is affected by the one of the Kingdom of Spain, so it can be superior if it were revised upwards.

It should also be noted that Luton Airport has refinanced its debt, the process of which was completed in August. The subscribed debt amounted to GBP 390 million, of which 230 have been subscribed by institutional investors, the largest private placement of an airport in the UK.

The new debt structure diversifies the sources of financing (79.5% at fixed rate and 20.5% at variable rate), extends the terms (average life of more than 10 years) and covers the entire expansion plan of Luton, in this way meeting the London Luton Airport's capacity expansion aims and those of its shareholders.

Information on the average payment period of Aena S.M.E., S.A. y Aena Desarrollo Internacional S.M.E., S.A.U. is as follows:

Days	2017
Average payment period	51
Ratio of transactions paid	54
Ratio of transactions outstanding payment	18

Table 16. Average payment period

These parameters were calculated per Art. 5 of *Resolution of 29 January 2016 published by the Accounting and Auditing Institute, on the information to be included in the financial statement report in relation to the average payment period to suppliers in commercial transactions*, as follows:

- Average payment period to suppliers = (Ratio of paid operations * total value of payments made + Ratio of outstanding payment operations * total amount outstanding payments)/(total amount of payments made + total amount of outstanding payments).
- Ratio of transactions paid = Σ (Days Payment Outstanding * amount of the transaction paid) / total amount of payments made. Days Payment Outstanding is understood to mean the calendar days that have elapsed since the date the calculation begins until the actual payment of the transaction.
- Ratio of outstanding payments = Σ (Days Payment Outstanding * amount of operations pending payment) / Total amount of outstanding payments. Days Payment Outstanding is understood to mean the calendar days that have elapsed since the date the calculation begins until the last day referred to in the financial statements.
- For the calculation of both the number of days of payment as well as the days' payment outstanding, the Company calculates the term as of the date of provision of the services.

However, given the lack of precise information on the time that this has taken place, the date of receipt of the invoice is used.

This balance refers to suppliers who, given their nature, are suppliers of goods and services, so that it includes data regarding the items “Trade creditors and other accounts payable” in the balance sheet. Payments made and payments outstanding as of 31 December 2017 are as follows:

Thousand euros	2017
Total payments made	802,499
Total payments outstanding	79,496

Table 17. Balance concerning suppliers

The average payment period in 2017 complies with the provisions of Law 15/2010. The cases in which a payment has been made outside of the legally binding period are due mainly to reasons not attributable to the Group: invoices not received on time, AEAT expired certificates, lack of certificates of proof of supplier bank accounts, etc.

The weighted average price is calculated based on invoices received and endorsed pending payment. The accounting balance of "Trade accounts payable" is greater than that of "Payments pending", since it includes the balances from invoices pending receipt and/or endorsement, in addition to the balances from the LLAH III subgroup.

7. Cash flow

Thousand euros	2017	2016	Variation	% Variation
Net cash flows from operating activities	2,014,612	1,834,725	179,887	9.8%
Net cash used in investment activities	-361,614	-291,638	-69,976	-24.0%
Net cash generated from/(used in) financing activities	-1,364,274	-1,533,082	168,808	11.0%
Cash and cash equivalents at the start of the fiscal year	564,616	556,741	7,875	1.4%
Effect of changes in foreign exchange	1,637	-2,130	3,767	176.9%
Cash and cash equivalents at the end of the period	**854,977**	**564,616**	**290,361**	**51.4%**

Table 18. Summary of consolidated cash flow statement

In 2017, the Group's financing requirements and the payment of the dividend charged to profit) for the year 2016 have been covered by cash flows from operating activities (2,014.6 million euros) and with new long-term debt (991.1 million euros, of which 650 million euros correspond to the parent Company, and the remainder to the refinancing of Luton), which allowed the financing of the investment program of non-financial assets (371.2 million euros), repayment of the debt according to the established schedule (700.1 million euros) and additionally making early repayment of the debt held with Depfa Bank (797.2 million euros) and the former debt of Luton (250.8 million euros).

Net cash flows from operating activities

The main cash inflows from operating activities relate to payments from customers, both the airlines and concessionaires of commercial space, while the main outflows involve payments for sundry services received, staff costs and local and state taxes. The cash generated by operating activities before changes in working capital and other cash generated by operations (interest and income tax paid and collected), has increased significantly in the period (+7.9%), to 2,532.1 million euros, from 2,345.7 million euros in 2016, mainly as a result of the improvement in the Group's operations, which is reflected in the EBITDA figure (Earnings Before Interest, Taxes, Depreciation and Amortization) of 2,517.4 million euros at the end of 2017, compared to 2,293.7 million euros in 2016.

As a result of the aforementioned aspects, net cash amount generated by operating activities has grown to 2,014.6 million euros, from 1,834.7 million euros in the previous year.

Net cash flow from investment activities

The net cash amounts used in investing activities during this period amounted to 361.6 million euros compared to 291.6 million euros in the previous year and mainly includes payments related to acquisitions and restatements of non-financial assets relating to airport infrastructures for an amount of 371.2 million euros.

These investments in non-financial assets have mainly focused on improvements to facilities and security, since no significant capacity building investments have been required and the expansion project for London Luton Airport in the UK (please refer to section 5. Investments").

In addition, investment activities also include dividend collections from the associated affiliates for 17.1 million euros.

Cash flow from financing activities

The main cash flows correspond to the new debt subscribed by the parent company for 650 million euros and the refinancing of Luton (355 million euros disposed).

On the other hand, the main outflows of financing flows correspond to the repayment of the principal of the debt corresponding to the mirror debt with Enaire as a co-accredited institutions (700.1 million euros in compliance with the schedule of payments established under the contract), the early repayment of the debt with Depfa Bank (797.2 million euros), and to the repayment of Luton's former debt (261.1 million euros). In addition, dividends have been paid for a total of 592.2 million euros, of which 574.6 million euros have been paid to the shareholders of Aena and the remainder to the minority shareholders of LLAH III.

8. Operational and financial risks

The main risks to which Aena is exposed in its operations and financial activity are outlined in section 3 of the Consolidated Financial Statements for 2017 ("Management of operational and financial risks").

In the operational sphere, this section on one hand covers the regulatory risks associated with the regulated sector in which Aena works, and which governs the determination of airport charges for the first Airport Regulation Document ("DORA"), as well as future changes and developments in the applicable regulations, both in Spain and internationally, regarding security, people and goods and environmental issues, which could limit the activities or growth of Aena airports, and/or require significant expenses. The operational risks arising from various factors that may affect the Group's activity due to being directly related to the levels of passenger traffic and air operations at its airports are also listed.

As regards the financial risks to which the operations of the Aena Group are exposed, the contents of the section 3 outline several risks: market risk (including foreign exchange risk, interest rate risk on cash flows and fair value and price risk), credit risk and liquidity risk.

This section is supplemented with the information in this regard in chapter 3 concerning the non-financial information in the 2017 Corporate Responsibility Report.

9. Main legal proceedings

As a result of aircraft overflying the town of Ciudad Santo Domingo (Algete, Madrid), some inhabitants of this area considered that their fundamental rights were violated due to excessive noise levels in their homes. These residents lodged an appeal for judicial review against Aena, ENAIRE and the Ministry of Public Works, in which they asked for a cessation of the alleged violation of their rights, which for them would mean stopping the use of runway 18R (one of the four at Adolfo Suárez Madrid-Barajas Airport). No Court has agreed to this measure. On 31 January 2006, the High Court of Justice in Madrid (TSJ) issued a judgement rejecting the aforementioned judicial appeal. The ruling was appealed by five of the initial appellants, and the Supreme Court partially upheld the appeal in a ruling of 13 October 2008 on the grounds of violation of the right to privacy at home. Subsequently, there were various pronouncements and incidents of enforcement which were appealed by all the parties involved in the proceedings.

Under a third motion for enforcement, the High Court of Justice in Madrid (TSJ) issued an Order of 2 December 2014, communicated to ENAIRE and Aena on 5 December 2014, in which (i) it declared that the judgement of the Supreme Court of 13 October 2008 had not been executed, as it concluded that the breach of fundamental rights as a result of the distress caused by flyovers remained; and (ii) it ordered, via an enforcement writ, a 30% reduction in the number of flights flying over the area of Ciudad Santo Domingo, a percentage calculated on the basis of the number of flyovers in 2004, which amounted to 20,730 approaches to runway 18R.

The Court Order dated 2 December 2014 was resubmitted before the same Chamber of the High Court of Justice of Madrid and later in appeal before the Supreme Court, requesting the suspension of its enforcement, without it being necessary to initiate the reduction of the number of flyovers that were produced on Ciudad Santo Domingo until they were 30% inferior to the levels recorded in 2004.

Finally, the Supreme Court issued a judgment on 3 April 2017, revoking the Order of 18 December 2014, by which it was agreed to suspend the 30% reduction, although it does not state hat the Ruling passed on 13 October 2008 has been enforced as it lacks sufficient elements to assess the actual or non-compliance with said Ruling.

The Supreme Court ruling of 3 April 2017 has no material consequences for Aena since the current situation is maintained. Thus the Supreme Court ruling:

(i) does not entail any obligation for the Administration nor for AENA (for example, modification of routes, reduction of overflights, etc.); and

(ii) maintains the airport's current operating capacity.

In addition, the Conclusions of the Supreme Court ruling preclude court decisions that may restrict the operational capacity of the airport. This reduction may only be adopted by the competent administrations, in accordance with the provisions of Regulation (EU) 598/2014 of 16 April[1] ("Regulation 598/2014").

Following the pronouncement of the aforementioned ruling, the High Court of Justice of Madrid must continue enforcement. Thus, this Tribunal has requested information that has been communicated by the Technical General Secretariat of the Ministry of Public Works:

(i) That the bodies responsible for compliance with the judgment are Aena, Enaire and the Dirección General de Aviación Civil (Spanish Civil Aviation Authority) as a specific body of the Ministry of Public Works.

(ii) Dated 31 July 2017, the State Attorney has provided the Court with the technical report prepared jointly by Aena, Enaire and the DGAC, which outlines how the judicial mandate will be enforced. In addition, the State Attorney's Office has requested the extension of the period of enforcement provided for in Article 104.2 LJCA in order to bring it into line with the deadlines set forth in the report.

[1] Regulation (EU) No 598/2014 of the European Parliament and of the Council of 16 April 2014 on the establishment of rules and procedures with regard to the introduction of noise-related operating restrictions at European Union airports within a balanced approach and repealing Directive 2002/30/EC.

This report indicates that the Ruling passed on 3 April 2017 by the Supreme Court requires a verification of the noise level in the exterior and interior of the dwellings according to the methodology referred to in Regulation (EU) 598/2014. Consequently, the actions to be carried out will be as follows:

(i) Checking the exterior noise level in the years 2016 and 2004 so that the variations produced can be compared.

(ii) Checking the noise level inside the dwellings using the formula defined in the technical standard UNE EN 12354-3: 2001 Acoustic Performance of Buildings. Estimation of the acoustic characteristics of buildings based on the features of their elements. Part 3: Sound insulation block out aerial noise against external noise.

The estimated period of completion of these checks and presentation of results to the TSJ is the end of November, whenever it is possible to access the homes whose noise level must be checked on the dates to that effect estimated.

On 4 September, the High Court of Madrid received a ruling issued on 1 September, in which, in response to the request of the State Attorney's Office, a one-month extension of the enforcement period was granted in respect of the one contemplated in article 104.2 LJCA, pointing out that the decision on the specific content of the report submitted must be made by the rapporteur of the procedure.

This extension expired on 4 October, and the State Attorney proceeded to request a new extension of the period by informing the Supreme Court of the state of enforcement and of the proceedings already carried out. In response to this request, the TSJ issued a new ruling on 17 October, extending the term of execution for a period of 1 month. This extension period ended on 23 November, at which point the work to be done on the residents' homes had not been completed, and the State Attorney accordingly applied for a further extension of the deadline. After this application, the TSJ issued a ruling on 22 December 2017, granting a further extension of two months to complete the execution, extended the deadline to complete the work until 22 February 2018.

Meanwhile, Aena, ENAIRE and the Ministry of Public Works have been taking the necessary measures to confirm the noise levels.

10. Human resources

The most important information in this area during 2017 is listed below, and is complemented with the information contained in chapter 7 of the non-financial information of the 2017 Corporate Responsibility Report:

Organisational structure

Aena has had a new organisational structure since 23 May 2017, approved by the Board of Directors to ensure compliance with the obligations and commitments acquired with the new regulatory framework and to promote the profitable growth of non-regulated activities. The new structure contains two main functional areas, a Regulated Business unit focused on the aeronautical activity of the airport network, and an Unregulated Business Unit encompassing the three unregulated business lines: commercial services, the real estate services segment and the international activity.

Workforce

The total average workforce as of 31 December 2017 is 8,174 employees (including 753 employees at Luton Airport) compared to 7,964 (723 in Luton) as of 31 December 2016.

The average temporary workforce stands at 983 employees in December 2017 (no temporary employee in Luton Airport) compared to 829 in the previous year (2 in Luton).

Other aspects

At the level of Aena S.M.E., S.A. the most relevant aspects were as follows:

Stability

The pre-agreements reached on 25 September 2017 by the Company with the trade union organisations, and ratified on 31 January 2018, include the extension of the term of the collective agreement until 31 December 2021, which gives Aena a framework of employment stability during that period.

Recruiting processes

During 2017 several processes have been carried out:

- Call for internship contracts for university graduates.

  As part of the Spanish Government's Youth 2020 Strategy initiative to provide university graduates with work experience complementing their academic training and facilitating their inclusion in the labour market by offering internship contracts, a recruiting process for 60 internship contracts (aimed at engineering and computer positions) was convened in March 2017, with contracts with a duration of one year, renewable to two. Nearly 900 applications were received.

  50 candidates were recruited for these internship contracts in September 2017.

- Call for internship contracts for university graduates.

  Two external recruiting processes took place in 2017. The first took place in March, to cover 7 places for university graduates (most of which were positions arising from the replacement rate, and authorised in 2016). The second was in November, to cover 16 places. In both cases, the call was used to create a list of candidates in reserve, for future recruitment to permanent or temporary positions (except for internship contracts).

- Internal Provisions for qualified staff

  This process ended with the award of 15 positions for graduates in September of the same year.

- Completion of the In-house Provision of 18 July 2016 for non-university graduates

  In this process, 124 vacancies were awarded based on the external lists established after the call in October 2015.

- Start of the In-house Provision of 18 December 2017 for non-university graduates

  This process began with the recruitment for 211 new places and the creation of new lists.

- Scholarships

  To provide continuity for the Young Emancipation Plan, approximately 80 university students received scholarships to do academic internships in 2017, and to have the opportunity to acquire practical knowledge of the specialised business environment, contributing to their overall training, through their participation in the world of employment.

Training, Professional Development and Talent Management

Several actions have been supported that seek to contribute to the transformation of the organisational culture and the modernisation of the management of human resources, increasing motivation, commitment and involvement, the improvement of working conditions, development of professional capabilities, diversity and equality, while also maintaining high security levels both in the prevention of occupational hazards and in operational activities.

Digital Transformation

In 2017, the main routes in the Digital Transformation roadmap were established in order to address the modernisation of Human Resources management systems in the coming years with a twofold purpose: harness the support of the human resources department in the shape of specific training and information schemes and at the same time continue with process automation and developing its own applications which result in greater work efficiency and the modernisation of the department.

11. Corporate responsibility

Non-financial information required by Royal Decree-Law 18/2017 of 24 November

This section includes non-financial information or information related to corporate social responsibility of a consolidated nature required under Royal Decree-Law 18/2017 of 24 November, includes the information necessary to understand the evolution, results, situation and impact of the activities in relation to, among others, environmental, social, personnel, respect for human rights or the fight against corruption and bribery issues.

Business Model

Aena S.M.E., SA is a state-run trading company that manages 46 airports and 2 heliports in Spain and, through its subsidiary Aena Internacional, also participates in the management of 16 airports in different countries in Europe and America, including the London-Luton Airpot, of which it owns 51% of the capital.

Aena airports have modern infrastructures with ample capacity available to absorb future traffic growth. In terms of passenger numbers, Aena is the world's leading airport operator with more than 265 million passengers in 2017 (249.2 million in Spanish airports and 15.8 million in Luton).

The Board of Directors is the supervisory and control body for the company's activities, with exclusive powers over matters such as corporate governance, corporate social responsibility, dividend policy, management aims and annual budgets, or investment and financing policy, amongst other functions.

The Appointments and Remuneration Committee is the internal body in charge of evaluation and control of the corporate governance of the company, with powers for the appointments of directors, remuneration policy or incentive plans, and the deployment of the policy of corporate social responsibility, amongst others.

The main tool to guide the actions aimed towards, but not limited to, environmental, social, personnel, respect for human rights or the fight against corruption and bribery issues, etc. is the Corporate Responsibility (CR) Framework Policy, which is complemented by other policies and guidelines related to responsible communication, the disability, protection of the environment, ethical conduct, the prevention of occupational hazards or the investor relations, among others.

The CR policy is deployed through the CR Strategy, which is structured around 3 pillars:

- protection of the environment,
- social contribution
- transparency.

The CR Action Plan sets in motion the tools for cutting edge best practices in this field, and contributes to fulfill the social interest, as a fundamental part of the strategy of excellence and improvement of the competitiveness of the company.

Environmental issues

For Aena, it is essential to make the management of its airports compatible with respect for the environment wherever these are placed. For this, the company applies an action model based on its Integrated Quality, Environment and Energy Efficiency Management Policy, with which it aims to guarantee a sustainable coexistence, both with local communities and with the natural environment.

With the aim of mitigating the effects of noise and, at the same time, responding to the concerns of stakeholders (noise accounted for more than 94% of total environmental claims in Spain and Luton received more than 15,000), Aena devotes much of its efforts to the continuous improvement of the measurement, control and minimisation programmes of the acoustic impact in the airport environment.

With the Energy Saving and Efficiency Plan, it coordinates all the programmes and actions related to environmental sustainability and energy efficiency integrated into the airport network. It aims to optimise energy consumption, as well as the use of renewable energy, in a coordinated and global manner for all its airports. A large part of the actions are included in the Aena CR Plan within the programme of environmental actions.

Social issues

The social contribution is one of the strategic axes of the CR Action Plan of Aena, and has as its aims:

- Coherence between the activity of the company and the interests of the community.
- Creation of shared value.
- Relationship with the environment.
- Adaptability to needs.
- Permanent dialogue and transparency.
- Contribution to the welfare of the community.

Along these lines, Aena aligns its business model with the United Nations Sustainable Development Agenda, contributing to the achievement of the SDGs through concrete initiatives included in its CR Action Plan.

It also highlights the adhesion of Aena to the Global Compact in 2017 supporting its 10 Principles.

Employment

During 2017 actions were taken to contribute to the transformation of organisational culture and the modernisation of human resources management, increasing motivation, commitment and involvement and the development of professional skills.

Human rights

The human rights internationally recognised in the Universal Declaration of Human Rights and in the fundamental Conventions of the International Labour Organisation are included in the CR Action Plan, the Company's Code of Conduct, the Collective Agreement and the Internal Regulation on Recruitment.

To ensure compliance, Aena has implemented a General Regulatory Compliance System that includes its Code of Conduct, the Regulatory Compliance Policy, the constitution of the Supervision and Compliance Control Body and the creation of the Reporting Channel, having proceeded to carry out the necessary training on the system to the entire company.

It is worth highlighting that in June 2017, Aena reinforced its commitment by joining the more than 13,000 signatory companies of the United Nations Global Compact, assuming the commitment to defend its 10 principles regarding Human Rights, Employment Rights, the Environment and the fight against corruption.

Convinced of the importance that the private sector has in achieving the aims of the United Nations Sustainable Development Agenda, Aena contributes through multiple actions that underscore the company's role in key social areas such as:

- the reduction of inequalities and development in harmony with the territory, social inclusion and universal accessibility, promoting the exchange of cultural values, and fostering participation in the community and the contribution to social welfare,
- equal opportunities and non-discrimination fostering diversity in talent management, and the reconciliation of professional and personal life,
- the health and protection of users and employees, offering services with the highest safety standards and providing a safe and healthy working environment,
- the awareness and mobilisation to handle the most pressing social dilemmas, establishing alliances, launching social action initiatives and awareness tools.

Supply chain

Aena ensures the regulatory compliance of all its suppliers and includes in its recruitment rules elements that promote a better environmental and social behaviour of its supply chain.

Amongst these elements are:

- Guidelines and mandatory measures regarding environmental protection.
- Requirement of respect for human and labour rights.
- Promotion of diversity.
- Safety and hygiene data.
- R&D+i demands and incentives.
- Evaluation measures and control of environmental and social matters.

Corruption and bribery

Integrity and honesty are unquestionable convictions for Aena and all people subject to the code of conduct must be trustworthy in all work activities and negotiations that take place, making sure at all times not to be influenced by motivations, considerations or interests, personal or third-party, susceptible to cause an eventual conflict of interest or illegal or inappropriate behaviour.

The monitoring and supervisory functions of the principles included in the code of conduct fall to the Supervision and Compliance Control Body, which reports to the Board of Directors. In order to prevent or detect any irregular behavior, from the Aena intranet any person in the organisation has a reporting channel to make queries or report possible risks or breaches.

During 2017, 25 complaints were received, of which 21 related to employment issues. In relation to the complaints processed as of 31 December 2017, in none of the cases have sanctions been taken. A total of 7 complaints of harassment were received in 2017 at the consolidated level:

- 4 have been filed, after analysing the data with objectivity, as is foreseen in the harassment procedure.
- 3 have been processed after the initial inquiry and assessment phase. In the absence of sufficient evidence of presumption of harassment, complaints were filed.

Equality and diversity

Aena acknowledges and defends the identity, uniqueness and dignity of all people in the organisation, extending its commitment to the supply chain and the services offered at its airports.

Regarding the people of the organisation, the collective agreement applicable to Spain guarantees equity in access to jobs, professional promotion, training and retribution between men and women. It also has an Equality Plan whose execution is monitored by a Joint Commission formed in equal parts by Aena and the majority unions. This plan pays special attention to the prevention of sexual harassment by having a specific protocol to manage complaints.

It is worth bearing in mind that 35.28% of the workforce are females. Likewise, the percentage of women on the Board of Directors is 26.67%, higher than the average of Spanish listed companies, and on the path of fulfilling their commitment to achieve a ratio of at least 30% in 2020.

In terms of supplier management, Aena includes in its procurement rules elements that promote better environmental and social behaviour of its supply chain, including the promotion of diversity. Aena also favours the inclusion of persons with reduced mobility by contracting with special employment services amounting to €552,558.

Aena's efforts to guarantee equality are also aimed at people with reduced mobility (PRM) through investments in the conditioning of the airports of the Spanish network and the offer of a specific service that, in 2017, under the name "Aena Without Barriers" has handled 1,520,140 PRM assistance services in Spain (11,158 in London-Luton).

Risks related to these issues and main measures adopted

Major risk factors	Risk events (opportunities)	Examples of control mechanisms	Issues addressed (related to non-financial aspects)
Strategy risk	• Regulatory framework • Model of government, human and employment rights. • Efficient infrastructures	• Corporate Governance Policy. • Contingency plan of the concessionaires. • Commercial development plan. • Actions of the airport marketing plan. • Investment planning and monitoring procedure. • Master Plans. Integrated Quality, Environment and Energy Efficiency Management Policy at Aena	Environmental issues Social issues People Human Rights Corruption and bribery Equality and diversity
Compliance risk	• Industrial legislation • Environmental regulations • Contract frameworks • Taxation • Litigation and claims • Fraud • Others	• Code of conduct • Crime prevention model. • Occupational Risk Prevention System. • Action procedures to ensure the correct management of plans and projects with an environmental impact. • Integrated Quality and Environment Management System, certified by an accredited external entity in accordance with the UNE-EN ISO 9001 and UNE EN-ISO 14.001 standards. • Management of the acoustic impact on the surrounding populations: preparation of strategic noise maps, noise monitoring systems and flight paths, sound insulation plans. • Rules and systems on recruitment control. • Regulatory Compliance Policy	Environmental issues People Human Rights Supply chain corruption and bribery Equality and diversity
Operational risks	• Recruitment processes • Environmental conflicts • Industrial relations	• Rules and systems on recruitment control. • Management of the acoustic impact on the surrounding populations to ensure the proper management of environmental plans and programmes. • Occupational Risk Prevention Systems	Environmental issues Social issues People Supply chain
Reputational Risk	• Communication and reputation	• CR Action Plan, Framework of relations with stakeholders and communication policy • Fiscal Strategy of Aena S.M.E., SA	Transparency and relations with stakeholders Corruption and bribery

Main indicators of non-financial results (2017)

Actions undertaken	Results
- Acoustic impact management: insulation plans, monitoring systems and noise maps. - Acoustic improvement actions aimed at particularly sensitive areas or groups (health, teaching, childhood, etc.). - Energy efficiency and protection of the environment through innovative proposals (concrete action plans in airports, emission reduction, installation of photovoltaic plants...) - Increase in Airport Carbon Accreditation levels and "carbon neutrality" goal setting at Adolfo Suárez-Madrid Barajas and Barcelona-El Prat airports. - Alignment with policies and CR compormises at international level. - Agreements with social bodies, sponsorships and patronages related to diversity, disability, accessibility, environment, culture, etc. - Assignments of spaces, guided visits, etc. - Agreements and collaborative agreements with relevant entities and institutions of the business sector. - Services related to accessibility, PRM, health improvement, information services and/or children's areas. - Aena's commitment to equality and diversity has associated social inclusion initiatives in the supply of services, their recruitment or incorporation into the workplace. - Benefits to employees (employee services, training and talent, young employment), conciliation programmes and internal communication actions. - Fostering of corporate volunteering and programmes that promote healthy living habits. - Perception Analysis. - Promoting the value of transparency, externally and internally.	✓ 316.9 million euros allocated for acoustic insulation actions (2000-2017). ✓ 23,145 homes and sensitive uses acoustically isolated since 2000 (49 corespond to London-Luton in 2017) ✓ Renewal of the ISO 9001 and ISO 14001 certification, adapting the system to the new requirements of these international standards. ✓ 4.8% reduction in energy consumption / ATU compared to 2016. ✓ Reduction by 5.4% of kg of CO_2 / ATU (*) ** ATU is a parameter that reflects the activity of an airport, taking into account its operations, passengers and the volume of annual cargo.* *ATU = Passengers + (100 * Operations) + (10 * Tons of cargo)* ✓ Adhesion to the United Nations Global Compact ✓ Direct contribution to 8 Sustainable Development Goals (SDGs) through the measures included in the CSR Action Plan ✓ 334 current collaboration agreements in force (13 in 2017). ✓ 240 professionals participate in the international cooperation programme ✓ Reinforcement and internal and external impulse of the "Solidarity Spaces" programme. ✓ 1,531,298 PRM assistance services ✓ €552,558. Contracts with special employment services ✓ 336,415 hours of professional training. ✓ 2.51 million euros allocated for training. ✓ 1.4 million euros allocated for social assistance ✓ Corporate volunteering programme ✓ New Employee Service Programme (PAE). ✓ Improvement in Merco rankings positions. ✓ Inclusion in certain sustainability indexes (FTSE4Good; Standard Ethics). ✓ Update of the CSR portal on the Web. ✓ Dissemination of the Strategy and CSR Plan in the media.

12. Procurement

In the procurement sphere, as a complement to the information contained in chapter 4 on non-financial information in the 2017 Corporate Responsibility Report (the "Social cash flow" section) on the volumes of procurement awarded by Aena in 2017, the Company is carrying out a digital transformation in its procurement processes.

The programme for *Definition and Implementation of Electronic Procurement in Aena* is a long-term programme consisting of more than 10 different interrelated projects. The phases covering analysis of the scope and specification of the functional, technical and security requirements of virtually all projects were carried out in 2017. These include the following projects and electronic systems: registration, notifications, communications, tendering, electronic invoices and the certified document digitalisation system. These measures will enable the automation and improvement of procurement processes, as well as the shortening of deadlines and administrative and procedures.

Aena has also taken the measures necessary to incorporate its profile as a contractor in the Public Sector Contracting Platform (PLACSP). This project was designed in 4 phases and as of December 2017, Aena was publishing the announcements of the calls for tenders in its files on the platform, as well as its results: awards and contracts.

Meanwhile, in the field of electronic procurement and the electronic auction system, in accordance with the provisions of Law 31/2007 of 30 October, on procurement procedures for the water, energy, and transport sectors and postal services, and Royal Legislative Decree 3/2011 of 14 November, approving the revised text of the Public Sector Contracts Law, which is still in force, a total of 474 electronic auctions have been carried out (368 centralised and 106 decentralised) in the procurement processes since its implementation in March 2015.

Moreover, it is important to note that during 2017 use of the new subscription system for economic operators on the Procurement Portal on Aena's website has become extended. This system improves the publicity of the tenders of Aena contracts and promotes participation in procurement processes, by cataloguing the subject of the contract according to the Common Vocabulary for Public Contracts (CPV). This system has been extended to smaller contracts this year.

As regards commercial procurement, the Food & Beverage at Gran Canaria Airport was awarded by applying the electronic auction system. As with Gran Canaria and Barcelona-El Prat, the tender for the Food & Beverage at Malaga-Costa del Sol Airport was published including electronic auctions in the award process.

13. Stock performance

The price performance of Aena's share during 2017 has been very positive, with a rise of 30.4% to 169.0 euros per share compared to the evolution of the IBEX35, which rose by 7.4%. During this period Aena's stock peaked at 183.70 euros and registered a minimum of 129.70 euros.

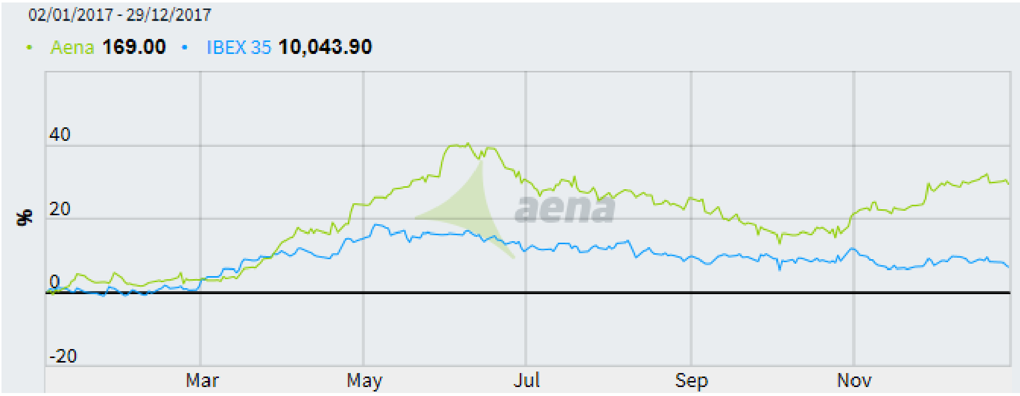


Figure 8. Stock performance of the company

The following table tracks the price performance of Aena stock in a summarised fashion:

29/12/2017	AENA.MC
Total volume traded (no. shares)	80,925,971
Daily average volume traded in the period (no. shares)	317,357
Market capitalisation in €	25,350,000,000
Closing price in €	169,00
Number of shares	150,000,000
Free Float (%)	49%
Free Float (shares)	73,500,000
Turnover	110.1%

Table 20. Main data on Aena's evolution

In connection with the acquisition and disposal of treasury shares at 31 December 2017, Aena does not own shares. For the foregoing, there has been no impact for this reason on the yield obtained by the shareholders or on the value of the shares.

14. Other events

Subsequent to 31 December 2017 and until the date of publication of this report, the following facts have been deemed relevant:

- On January 8, 2018, the Board of Directors of Aena was notified by the director Mr José María Araúzo González informing of his resignation as a member of the Board of Directors and of the Appointments and Remuneration Committee of Aena, as a consequence of his retirement on 28 December 2017.

- On 25 January 2018, the Board of Directors of the Company agreed to appoint Mr Angel Luis Arias Serrano as a nominee director of the Company by co-option, in order to fill the vacancy arising on as a result of the resignation by the nominee director Mr José Maria Araúzo González, following a report from the Appointments and Remuneration Committee for the term established in the Company Bylaws, subject to approval and ratification by the first meeting of the General Shareholders' Meeting of the Company.

  Likewise, as a result of the vacancy arising in the Company's Appointments and Remunerations Committee due to the resignation of Mr José Maria Araúzo González, Mr Angel Luis Arias Serrano was appointed as a new member of the Company's Appointments and Remuneration Committee.

- On 25 January 2018, Aena constituted the concessionary company holding the contract for the management, operation, maintenance and conservation contract of the *Aeropuerto Internacional de la Región de Murcia* (AIRM) as a concession from that airport and its area of complementary activities for a period of 25 years.

  Aena thereby complies with the requirements of the Specific Administrative Terms and Conditions of the contract that was awarded to Aena by the Autonomous Community of the Murcia Region on 20 December 2017.

  The new company, which takes the form of a limited company, is called *Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia* and its sole shareholder is Aena, S.M.E., S.A.

  The concessionary company has formalised the contract on 24 February 2018, being designated as the airport manager of the *Aeropuerto Internacional de la Región de Murcia*.

  Once the Aeropuerto Internacional de la Región de Murcia enters into operation, Aena S.M.E., S.A. plans to end civil air traffic operations at Murcia San Javier airport, subject to the completion of all the legal and administrative procedures necessary to do so, and this airport will only handle military flights. The final closure of civil air operations in the mentioned Air Base must be carried out by a joint Ministerial Order of the Public Works and Defence ministries.

  At that point, there would be a reduction in the value of Aena's fixed assets involved in the civil operations at the airport, estimated at around 35 million euros, although according to the offer presented by Aena S.M.E., S.A., the company would be compensated by the new Concessionaire Corporation in a similar amount.

- Aena's total passenger traffic increased by 8.4% in January 2018, to 16.5 million passengers. It grew by 8.7% to 15.5 million passengers in the airports of the network in Spain, and by 3.6% at Luton airport, exceeding 1 million passengers.

APPENDICES:

I. Consolidated financial statements for the financial year ended on 31 December 2017
II. Summary of Price Sensitive Information issued in 2017
III. Corporate Governance Report

APPENDIX I: Consolidated financial statements for the financial year ended on 31 December 2017

Consolidated Balance Sheets at 31 December 2017 and 31 December 2016

Thousand euros	31 December 2017	31 December 2016
ASSETS		
Non-current assets		
Fixed assets	13,205,946	13,563,922
Intangible assets	491,173	525,647
Investment properties	135,108	135,690
Investments in associates	63,955	71,741
Other receivables	2,831	2,599
Deferred tax assets	122,369	143,971
Financial assets available for sale	347	354
Other financial assets	71,506	58,697
Financial derivatives	360	-
	14,093,595	**14,502,621**
Current assets		
Inventories	7,051	8,958
Trade and other receivables	351,809	437,579
Cash and cash equivalents	854,977	564,616
	1,213,837	**1,011,153**
Total assets	**15,307,432**	**15,513,774**
EQUITY AND LIABILITIES		
Equity		
Share capital	1,500,000	1,500,000
Share premium	1,100,868	1,100,868
Retained profits/(losses)	3,180,024	2,521,852
Accumulated exchange differences	-22,523	-16,261
Other reserves	-75,931	-113,110
Non-controlling interest	5,426	32,400
	5,687,864	**5,025,749**
Liabilities		
Non-current liabilities		
Financial debt	7,276,016	7,912,184
Financial derivatives	45,645	96,895
Deferred tax liabilities	80,153	89,990
Employee benefits	59,126	53,065
Provisions for other liabilities and expenses	70,901	133,639
Grants	511,927	544,382
Other long-term liabilities	91,409	132,001
	8,135,177	**8,962,156**
Current liabilities		
Providers and other payables	588,419	439,045
Financial debt	734,943	880,439
Financial derivatives	37,010	39,651
Grants	40,152	38,266
Provisions for other liabilities and expenses	83,867	128,468
	1,484,391	**1,525,869**
Total liabilities	**9,619,568**	**10,488,025**
Total equity and liabilities	**15,307,432**	**15,513,774**

APPENDIX I: Consolidated financial statements for the financial year ended on 31 December 2017

Consolidated Income Statement for the years ended on 31 December 2017 and 31 December 2016

Thousand euros	**31 December 2017**	**31 December 2016 (*)**
Continuing operations		
Ordinary income	3,960,582	3,709,581
Other income	10,852	7,761
Own work capitalised	4,751	4,615
Supplies	-174,176	-180,366
Employment costs	-417,155	-390,724
Other operating expenses	-910,912	-901,775
Fixed asset depreciation	-800,035	-825,805
Release of non-financial fixed asset grants and other	42,504	41,590
Excess provisions	8,905	8,940
Impairment and loss on disposal of fixed assets	-10,915	-6,402
Other net profits / (losses)	2,969	399
Operating profit/loss	**1,717,370**	**1,467,814**
Financial income	6,891	208,484
Finance expenses	-142,134	-162,024
Other net financial income/(expenses)	-4,347	-14,276
Net financial income / (expenses)	**-139,590**	**32,184**
Income from associates	18,927	16,121
Profit/loss before tax	**1,596,707**	**1,516,119**
Income tax	-374,738	-351,733
Consolidated profit/loss for period	**1,221,969**	**1,164,386**
Profit/loss for period attributable to non-controlling interest	**-10,036**	**237**
Profit/loss for the period attributable to the equity holders of the parent company	**1,232,005**	**1,164,149**
Earnings per share (Euro per share)		
Basic earnings per share based on profit for year (euros)	8.21	7.76
Diluted earnings per share based on profit for year (euros)	8.21	7.76

(*) Restated figures (see Note 2.3 to the Consolidated Financial Statements)

APPENDIX I: Consolidated financial statements for the financial year ended on 31 December 2017

Consolidated statement of cash flow account for the financial years ended on 31 December 2017 and 31 December 2016

Thousand euros	31 December 2017	31 December 2016
Profit / (loss) for the period before tax	**1,596,707**	**1,516,119**
Adjustments for:	**935,380**	**829,591**
- Depreciation and amortization	800,035	825,805
- Impairment valuation adjustments	-6,072	7,845
- Changes in provisions	50,222	78,349
- Grants taken to income	-42,504	-41,590
- (Profit)/loss on disposal of fixed assets	10,915	6,402
- (Profit)/loss on disposal of financial instruments	7	4,469
- financial income	-6,891	-208,484
- Finance expenses	101,604	117,552
- Exchange differences	4,340	9,807
- Losses/(gains) in the fair value of financial instruments	40,530	44,472
- Other income and expenses	2,121	1,085
- Stake in profits (losses) of companies accounted for by the equity method	-18,927	-16,121
Changes in working capital:	**-122,326**	**-55,319**
- Inventories	552	-951
- Debtors and other receivables	-4,587	26,155
- Other current assets	-117	-42
- Creditors and other payables	-73,779	-42,359
- Other current liabilities	-43,007	-36,909
- Other non-current assets and liabilities	-1,388	-1,213
Cash generated from operations	**-395,149**	**-455,666**
Interest paid	-134,661	-146,825
Interest receivable	4,311	1,533
Taxes paid	-263,490	-309,019
Other amounts paid (received)	-1,309	-1,355
Net cash generated from operating activities	**2,014,612**	**1,834,725**
Cash flows from investment activities		
Acquisitions of property, plant and equipment	-339,189	-287,919
Acquisitions of intangible assets	-31,220	-16,120
Acquisitions of investment properties	-831	-1,346
Payments for acquisitions of other financial assets	-12,933	-3,901
Payments received from divestment/loans to Companies in the group and associates	5,376	2,027
Payments received from property, plant and equipment divestment	-	1
Payments received for other financial assets	124	11
Dividends received	17,059	15,609
Net cash flows from investing activities	**-361,614**	**-291,638**
Cash flow from financing activities		
Grants received (ERDF)	9,340	10,665
Net debt from financing	991,053	31,739
Other income	22,794	19,392
Repayment of bank borrowings	-278,285	-333
Repayment of Group financing	-1,497,288	-1,172,339
Dividends paid	-592,232	-409,716
Other payments	-19,656	-12,490
Net cash used in financing activities	**-1,364,274**	**-1,533,082**
Effect of changes in foreign exchange	**1,637**	**-2,130**
Net (decrease)/increase in cash and cash equivalents	290,361	7,875
Cash and cash equivalents at start of the year	**564,616**	**556,741**
Cash and cash equivalents at end of the year	**854,977**	**564,616**

APPENDIX II: Summary of Price Sensitive Information issued in 2017

Register	Date	Tipe of information	Description
247552	27/01/2017	Other on business and financial situation	Approval of the Airport Regulation Document (DORA) 2017-2021
247614	27/01/2017	Other on business and financial situation	Approval of the Airport Regulation Document (DORA) 2017-2021
248151	15/02/2017	Calls for meetings or informative events	Aena, S.A. announces the holding of the presentation of earnings corresponding to the FY 2016.
248341	21/02/2017	Interim financial information	The company sends information on results for the second half of 2016.
248343	21/02/2017	Additional information on audited annual acounts	Presentation of results and consolidated management report for 2016.
248344	21/02/2017	Information on dividends	Proposed distribution of dividends charged to income for 2016.
248345	21/02/2017	Other on business and financial situation	New commercial incentives scheme for the DORA period 2017-2021
248354	22/02/2017	Corporate Governance Annual Report	The Company submits the Corporate Governance Annual Report for FY2016.
248356	22/02/2017	Annual report on Board member compensation	The Company submits the Annual Report on Board member compensation for FY 2016.
249848	21/03/2017	Calls and resolutions of Board and General Shareholders' Meetings	The Company announces the approval of the calling of the General Shareholders' Meeting.
249849	21/03/2017	Composition of the Board of Directors	The Company notifies of changes to the Board of Directors.
249896	23/03/2017	Calls and resolutions of Board and General Shareholders' Meetings	The Company announces the calling of the General Shareholders' Meeting.
250765	18/04/2017	Calls for meetings or informative events	The Company announces the presentation of earnings for the first quarter of 2017.
251084	25/04/2017	Calls and resolutions of Board and General Shareholders' Meetings	The Company announces the approval of resolutions of the General Shareholders' Meeting.
251087	25/04/2017	Composition of the Board of Directors	The Company announces changes in the Board of Directors, approved by the General Shareholder's Meeting.
251094	25/04/2017	Information on dividends	Approval of dividend payment.
251120	26/04/2017	Interim financial information	The Company sends information on results for the first quarter of 2017.
252198	18/05/2017	Credit ratings	Fitch Ratings changes the credit rating of AENA from “BBB+” to “A” and revises its outlook from positive to stable.
252377	23/05/2017	Other on business and financial situation	The Board of Directors of Aena, with the favourable report of the Appointments and Remuneration Committee, has approved the new organizational structure of Aena.
254683	18/07/2017	Calls for meetings or informative events	Aena, S.A. announces the holding of the presentation of earnings corresponding to the first quarter of 2017.
254700	19/07/2017	Suspensions and resumptions of trading	The CNMV has decided to suspend trading of AENA, S.A.
254706	19/07/2017	Other on corporate operations	Aena announces the decision of its majority shareholder to reject the potential takeover bid for Abertis
254707	19/07/2017	Suspensions and resumptions of trading	The CNMV has decided to resume trading of AENA, S.A. with effect from 11 am as of this date.
255044	26/07/2017	Interim financial information	The Company sends information on results for the first half of 2017.
255047	26/07/2017	Information on results	Presentation of results for the first half of 2017.
256736	26/09/2017	Composition of the Board of Directors	The Company announces changes in the composition of its Board of Directors, Appointments and Remuneration Committee and Ececutive Committee.
257333	13/10/2017	Composition of the Board of Directors	The Company announces changes in the composition of its Board of Directors, Appointments and Remuneration Committee and Ececutive Committee.
257483	17/10/2017	Calls for meetings or informative events	Aena, S.M.E, S.A. announces the holding of the presentation of earnings corresponding to nine-month period ended on 30 September 2017.
257725	24/10/2017	Interim financial information	The Company sends information on results for the third quarter of 2017.
259731	19/12/2017	Composition of the Board of Directors	The Company announces the resignation and appointment of the Secretary of the Board of Directors and the appointment of the Deputy Chairman of the Board.

APPENDIX III: Corporate Governance Report

Aena's Corporate Governance Annual Report for the year 2017 is part of the Management Report, and has been available since the date of publication of the annual accounts on the website of the National Securities Market Commission and on the Aena website (www.aena.es).

FORMULATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED MANAGEMENT REPORT OF FINANCIAL YEAR 2017

On 27 February 2018, in fulfilment of the requirements established in article 253 of the Capital Company Act and article 37 of the Trade Code, the Board of Management of the Company Aena S.M.E., S.A. proceeded to formulate the Consolidated annual accounts for the financial year ending on 31 December 2017, which are comprised of the attached documents which precede this text.

Position	Name	Signature
Chairman and Chief Executive Officer:	Mr. Jaime García-Legaz Ponce	
Director:	Mrs. Pilar Arranz Notario	
Director:	Mr. Rodrigo Madrazo García de Lomana	
Director:	Mrs. Tatiana Martínez Ramos e Iruela	
Director:	Mr. Angel Luis Arias Serrano	
Director:	Mr. Francisco Javier Martín Ramiro	
Director:	Ms. Mª Jesús Romero de Ávila Torrijos	
Director:	Ms. Alicia Segovia Marco	
Director:	TCI Advisory Services, LLP, represented by Mr. Christopher Anthony Hohn	
Director:	Mr. Juan Ignacio Acha-Orbea Echeverría	
Director:	Mr. Eduardo Fernández-Cuesta Luca de Tena	
Director:	Mr. Josep Piqué Camps	
Director:	Mr. Jaime Terceiro Lomba	
Director:	Mr. Amancio López Seijas	
Director:	Mr. Jose Luis Bonet Ferrer	