The attached documents, which includes the External Auditor's Report, the Consolidated Financial Statements and Consolidated Management Report for the year ended on 31 December 2018, have been originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

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

Consolidated Annual Accounts
31 December 2018

Consolidated Directors' Report
2018

(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 2018, 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 2018 and of its consolidated financial performance and its 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.

Recognition of aeronautical revenues See notes 2.21, 4 and 5 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
Aeronautical revenues, which are mostly regulated by the Airport Regulation Document (abbreviated to DORA in Spanish) approved on 27 January 2017, totalled Euros 2,676,491 thousand in 2018. These revenues are mostly generated from the use of the aeronautical infrastructure by airlines and passengers, and they are net of any rebates and incentives. Due to the significance of the aeronautical revenues, the complexity of the systems and processes that the Group uses for their control, and the large number of transactions of different types and amounts that give rise to the aeronautical revenues in very diverse airports, revenues have been considered a key matter in our audit.	Our audit procedures included the following: - Assessing, with the help of our IT specialists, the design and implementation of the most relevant controls established by Group management for the recognition of aeronautical revenue. We also tested the operating effectiveness of these controls. - Evaluating the criteria, standards and policies used by the Group's directors to recognise the aeronautical revenues. - Recalculating the aeronautical revenues recognised in 2018, considering the services rendered and the tariffs established. - Obtaining confirmation from third parties of a sample of invoices reflecting trade receivables that were outstanding at the reporting date. - Performing tests of detail to validate the criteria and assumptions used in the calculation of the rebates and incentives. Evaluating whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2018 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 non-financial information statement, as well as 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, that the consolidated directors' report makes reference to the separate report on non-financial information, as provided for in legislation, 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 non-financial information mentioned in a) above has been provided in a separate report, the "2018 Corporate Responsibility Report", to which the directors' report makes reference; that the information from the ACGR, mentioned in this section, is included in the consolidated directors' report; that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018; 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 26 February 2019.

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 No. S0702

(Signed on the original in Spanish)

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

26 February 2019

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

Consolidated Financial Statements and Consolidated Management Report for the year ended on 31 December 2018.

(Amounts in thousands of euros unless otherwise stated)

Consolidated statement of financial position at 31 December 2018 and 2017

	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	12,872,781	13,205,946
Intangible assets	7	506,996	491,173
Investment properties	8	138,183	135,108
Equity-accounted investees	9	65,433	63,955
Other receivables	13	3,259	2,831
Deferred tax assets	21	124,944	122,369
Available for sale financial assets	11	-	347
Other financial assets	10	72,854	71,506
Derivative financial instruments	12	1,144	360
		13,785,594	**14,093,595**
Current assets			
Inventories	14	7,258	7,051
Trade and other receivables	13	454,838	351,809
Cash and cash equivalents	15	651,380	854,977
		1,113,476	**1,213,837**
Total assets		**14,899,070**	**15,307,432**
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	3,534,635	3,180,024
Accumulated translation differences	18	(20,301)	(22,523)
Other reserves	18	(80,333)	(75,931)
Non-controlling interests	18	(11,064)	5,426
		6,023,805	**5,687,864**
Liabilities			
Non-current liabilities			
Borrowings	20	6,573,078	7,276,016
Derivative financial instruments	12	56,543	45,645
Deferred tax liabilities	21	70,995	80,153
Provisions for employee benefit obligations	22	46,622	59,126
Provision for other liabilities and charges	23	84,700	70,901
Grants	24	495,594	511,927
Other non-current liabilities	25	49,241	91,409
		7,376,773	**8,135,177**
Current liabilities			
Trade and other payables	19	613,049	585,140
Current tax liabilities	19	24,889	3,279
Borrowings	20	732,428	734,943
Derivative financial instruments	12	32,740	37,010
Grants	24	35,217	40,152
Provision for other liabilities and charges	23	60,169	83,867
		1,498,492	**1,484,391**
Total liabilities		**8,875,265**	**9,619,568**
Total equity and liabilities		**14,899,070**	**15,307,432**

Notes 1 to 36 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 2018 and 31 December 2017

	Note	2018	2017
Continuing operations			
Ordinary revenue	5	4,201,406	3,960,582
Other operating revenue	29	11,107	10,852
Work carried out by the Company for its assets		4,981	4,751
Subcontracted work and other supplies	30.a	(172,936)	(174,176)
Employee benefit expenses	28	(423,725)	(417,155)
Losses, impairment and change in trading provisions	13	1,813	-
Other operating expenses	30.b	(1,008,289)	(910,912)
Depreciation and amortization	6,7,8	(806,383)	(800,035)
Capital grants taken to income	24	95,076	42,504
Provisions surpluses		7,679	8,905
Impairment of fixed assets	4.a, 6 and 7	(46,248)	-
Income from disposal of fixed assets	6,7,8	(16,107)	(10,915)
Other net gains / (losses)	27	1,829	2,969
Operating income		**1,850,203**	**1,717,370**
Financial income	31	2,985	6,891
Financial expenses	31	(135,248)	(142,134)
Other net financial income / (expenses)	31	(742)	(4,347)
Net financial expense	31	**(133,005)**	**(139,590)**
Share of profits in associates	9	20,155	18,927
Profit / (loss) before tax		**1,737,353**	**1,596,707**
Income tax	32	(409,602)	(374,738)
Consolidated profit (/loss) for the period		**1,327,751**	**1,221,969**
Profit / (loss) for the period attributable to non-controlling interest		**(131)**	**(10,036)**
Profit/ (loss) for the period attributable to the equity holders of the Parent Company	33	**1,327,882**	**1,232,005**
Earnings per share (Euros per share)			
Basic earnings per share	33	8.85	8.21
Diluted earnings per share	33	8.85	8.21

Notes 1 to 36 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 2018 and 31 December 2017

	Note	2018	2017
Profit/(loss) for the period		**1,327,751**	**1,221,969**
Other comprehensive income - Items that are not reclassified to income for the period		**(637)**	**(824)**
- Revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets		-	-
- Actuarial gains and losses and other adjustments	32	(777)	(986)
- Share in other comprehensive income recognised for investments in associates and joint arrangements	9	-	(7)
- Other revenue and expenses that are not reclassified to income for the period		-	-
- Tax effect	32	140	169
Other comprehensive income - Items that may be subsequently reclassified to income for the period		**(775)**	**32,434**
1. Available for sale financial assets		**-**	**-**
- Profits/(Losses) on measurement		-	-
- Amounts transferred to the income statement		-	-
- Other reclassifications		-	-
2. Cash flow hedges	32	**(4,425)**	**52,581**
- Profits/(Losses) on measurement		(41,758)	12,051
- Amounts transferred to the income statement		37,333	40,530
- Amounts transferred to the initial value of the hedged items		-	-
- Other reclassifications		-	-
3. Foreign exchange translation differences		**2,368**	**(7,415)**
- Profits/(Losses) on measurement		2,368	(7,415)
- 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 revenue 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	**1,282**	**(12,732)**
Total comprehensive profit (/loss) for the period		**1,326,339**	**1,253,579**
- Attributed to the parent company		1,325,702	1,262,922
- Attributed to non-controlling interests		637	(9,343)

Notes 1 to 36 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 2018 and 31 December 2017

	Share capital (Note 16)	Share premium (Note 16)	Cumulative 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 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**
Adjustments for adoption of IFRS 9 (net of taxes) (Note 2.1)	**-**	**-**	**(795)**	**-**	**-**	**-**	**-**	**(795)**	**-**	**(795)**
Balance at 01 January 2018	**1,500,000**	**1,100,868**	**3,179,229**	**(64,225)**	**(11,729)**	**(22,523)**	**23**	**5,681,643**	**5,426**	**5,687,069**
Profit (/loss) for the period	-	-	1,327,882	-	-	-	-	1,327,882	(131)	1,327,751
Other comprehensive profit (/loss) for the period	-	-	-	(4,040)	(362)	2,222	-	(2,180)	768	(1,412)
Total comprehensive profit (/loss) for the period	**-**	**-**	**1,327,882**	**(4,040)**	**(362)**	**2,222**	**-**	**1,325,702**	**637**	**1,326,339**
Distribution of dividends	-	-	(975,000)	-	-	-	-	(975,000)	(18,390)	**(993,390)**
Other movements	-	-	2,524	-	-	-	-	2,524	1,263	**3,787**
Total contributions by and distributions to shareholders recognised directly in equity	-	-	(972,476)	-	-	-	-	(972,476)	(17,127)	**(989,603)**
Balance at 31 December 2018	**1,500,000**	**1,100,868**	**3,534,635**	**(68,265)**	**(12,091)**	**(20,301)**	**23**	**6,034,869**	**(11,064)**	**6,023,805**

Notes 1 to 36 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 2018 and 31 December 2017

	Note	2018	2017
Profit / (loss) before tax		**1,737,353**	**1,596,707**
Adjustments for:		**918,553**	**935,380**
- Depreciation and amortisation	6,7,8	806,383	800,035
- Impairment adjustments		(1,813)	(6,072)
- Changes in provisions		30,729	50,222
- Impairment of fixed assets	6, 7	46,248	-
- Grants taken to income	24	(95,076)	(42,504)
- (Profit)/loss on disposal of fixed assets		16,107	10,915
- (Profit)/loss on disposal of financial instruments	31	229	7
- Financial income	31	(2,985)	(6,891)
- Financial expenses	31	97,915	101,604
- Translation differences	31	513	4,340
- Losses/(gains) in the fair value of financial instruments	31	37,333	40,530
- Other revenue and expenses		3,125	2,121
- Share in profit (loss) of equity method companies		(20,155)	(18,927)
Changes in working capital:	**36**	**(180,504)**	**(122,326)**
- Inventories		(211)	552
- Trade and other receivables	36	(115,020)	(4,587)
- Other current assets		(184)	(117)
- Trade and other payables	36	(7,871)	(73,779)
- Other current liabilities		(56,427)	(43,007)
- Other non-current assets and liabilities		(791)	(1,388)
Other cash generated from operating activities		**(527,744)**	**(395,149)**
Interest paid	20	(131,539)	(134,661)
Interest received		1,143	4,311
Taxes paid	32	(396,836)	(263,490)
Other income (received)		(512)	(1,309)
Net cash flows from operating activities		**1,947,658**	**2,014,612**

(Amounts in thousands of euros unless otherwise stated)

Consolidated cash flow statement for the years ended on 31 December 2018 and 31 December 2017

	Note	2018	2017
Cash flow from investing activities			
Acquisitions of property, plant and equipment		(498,865)	(339,189)
Acquisitions of intangible assets		(21,328)	(31,220)
Acquisitions of investment properties		(4,410)	(831)
Payments for acquisitions of other financial assets		(12,905)	(12,933)
Proceeds on disposal of/loans to companies of the Group and associates	2.2	5,044	5,376
Proceeds from property, plant and equipment divestment		34	-
Proceeds from other financial assets		10,071	124
Dividends received	2.2	20,052	17,059
Net cash flows from investing activities		**(502,307)**	**(361,614)**
Cash flow from financing activities			
Proceeds from ERDF grants	24	88,097	9,340
Shareholder contributions		3,392	-
Proceeds from borrowing	20	32,779	991,053
Other proceeds	20	31,730	22,794
Repayment of bank borrowings	20	-	(278,285)
Repayment of Group financing	20	(798,059)	(1,497,288)
Dividends paid	36	(993,390)	(592,232)
Other payments	20, 36	(13,457)	(19,656)
Net cash used in financing activities		**(1,648,908)**	**(1,364,274)**
Effect of exchange rate fluctuations		**(40)**	**1,637**
Net (decrease)/increase in cash and cash equivalents		(203,597)	290,361
Cash and cash equivalents at the beginning of the period		**854,977**	**564,616**
Cash and cash equivalents at the end of the period		**651,380**	**854,977**

Notes 1 to 36 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for 2018

1 General information

AENA S.M.E., S.A. ("the Company", or "AENA") is the Parent Company of a group of companies (the "Group") consisting of 7 subsidiaries and 4 associates at the end of 2018. 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 8/2014 (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 also 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, paragraph two of Royal Decree Law 13/2010, of 3 December, and may sell the rest in accordance with Law 33/2003, of 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 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) Contributing to the Company 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.

However, on 15 January 2019, the International Airport of the Region of Murcia (AIRM) has been inaugurated, having commenced operations, which has meant the closure of the civil branch at Murcia San Javier Airport, which has been exclusively dedicated to military aviation (see Note 2.2 a).

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 office of AENA S.M.E., S.A. is located in Madrid (Spain), calle Peonías, 12, after the change thereof adopted by its Board of Directors on 30 October 2018.

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 Presentation bases

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 2018, 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 2018, 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 2018, the consolidated results of its operations, consolidated changes in equity and consolidated cash flows for the period ended on that date.

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 statements were prepared by the Board of Directors on 26 February 2019, and will be presented for approval by the General Shareholders' Meeting.

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 2018

The accounting policies used in the preparation of the consolidated annual accounts for the year ended 31 December 2018 are the same as those applied in the consolidated annual accounts dated 31 December 2017, except for the application for the first time in year 2018 of IFRS 15 *Revenue from Contracts with Customers* (see section A below) and IFRS 9 *Financial Instruments* of as of 1 January 2018 (see section B below).

In addition, the following interpretations and amendments have been adopted by the European Union, which have not had an impact on the Group's consolidated financial statements on the date of initial application:

Area	Subject/Issue	Effective date
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 exchange differences for such advance compensation should be recognised.	For financial years beginning on or after 1 January 2018.
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.	For financial years beginning on or after 1 January 2018.
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.	For financial years beginning on or after 1 January 2018.
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.	For financial years beginning on or after 1 January 2018.

A. IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes the criteria for the accounting recording of income from contracts with customers.

IFRS 15 provides a new five-step model that applies to the accounting of income from contracts with customers.

Stage 1: Identify the contract (or contracts) with the customer
Stage 2: Identify performance obligations in the contract
Stage 3: Determine the price of the transaction
Stage 4: Assign the price of the transaction between the performance obligations of the contract
Stage 5: Recognise revenue from ordinary activities when (or as) the entity satisfies a performance obligation

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, at the time the customer takes control of the goods or services provided. The determination of the moment in which said control is transferred (at a point in time or over a period of time) requires the making of judgements by the Group. This standard replaces the following standards: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue from Ordinary Activities, as well as related interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Properties*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenues- Swaps of Advertising Services).*

The Group has chosen as the date of initial application 1 January 2018. On the other hand, regarding its transition strategy, Grupo Aena has opted for option C3 b) established in the Standard, which implies applying IFRS 15 retroactively with the cumulative effect of the initial application recognised on the date of initial application, without therefore proceeding to the restatement of the information presented in 2017 under the aforementioned prior regulations.

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, without identifying amendments to the equity position in the 2018 financial year.

(a) Recognition of revenue

i. 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). For this type of revenue, 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.

ii. The new IFRS 15 standard requires the use of a homogeneous income recognition method for contracts and performance obligations with similar characteristics (IFRS 15 p.40). The method chosen by the Group as the preferred method for measuring the value of the goods and services whose control is transferred to the customer over time is the product method ("output method"), provided the contract and its execution allow to measure the progress of the work executed. Product methods recognise revenue from ordinary activities based on direct measurements of the value for the customer of the goods or services transferred to date in relation to the outstanding goods or services committed in the contract. In different highly interrelated contracts for goods and services to produce a combined product, the applicable product method will be the measurement of the work performed ("Surveys of performance" within the "output methods"). On the other hand, in routine services contracts in which the goods and services are substantially the same and are transferred with the same pattern of consumption, in such a way that the customer benefits from them as they are provided by the company, the income recognition method selected by the Group is based on the time elapsed ("time elapsed" within the "output methods"), while the costs are recorded according to the accrual principle. Based on the above, the degree of progress in costs (resource method, "input method") will only be applied in those cases in which the progress of the work cannot be reliably measured.

(Amounts in thousands of euros unless otherwise stated)

Currently, there are only some technical assistance and technology transfer contracts in the Group, of little relevance, in which the recognition of income will be based on the time elapsed ("time elapsed"), in the same way that has been done until 2017, so no impacts have been identified in this type of contracts.

(b) Presentation and disclosure requirements

IFRS 15 includes presentation and disclosure requirements that are more detailed than in the current standards. The filing requirements represent a significant change with respect to current practice and have increased the volume of disclosures required in the Group's financial statements, expanding the breakdowns corresponding to the judgements made regarding the identification of performance obligations and other judgement aspects of the standard.

In summary, the impact of the adoption of IFRS 15 does not have a relevant effect on the consolidated financial statements of the Aena Group.

B. 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.

As for its transition strategy, the Group has decided not to restate previous periods with only one initial application date for all the requirements (1 January 2018). In particular, the 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 on hedging accounting is more advantageous than the IAS 39 one as it enables the application of hedge accounting to more transactions.

As a result, the information presented for 2017 does not reflect the requirements of IFRS 9, but those of IAS 39, and the Group has recognised the differences between the carrying amount as of 31 December 2017 and the carrying amount at the beginning of the annual filing period, which is the one that includes the initial application date, in the initial accumulated earnings. The following table summarises the impacts, net of taxes, of the transition to IFRS 9:

(In thousand euros)	***Note***	**Impact of adopting IFRS 9 in Opening balance in the statement of financial position**
Cumulative earnings		
Recognition of expected credit losses under IFRS 9	*(ii)*	(2,543)
Restructuring of debt under IFRS 9	*(iii)*	1,748
Total		**(795)**

The details of the new significant accounting policies and the nature and effects of the changes to the previous accounting policies are specified below:

(i) Classification and measurement of financial assets and liabilities

The previous standard IAS 39 had 4 categories of financial assets: (i) fair value with changes in profit and loss, (ii) held to maturity, (iii) available for sale and (iv) loans and accounts receivable. Under IFRS 9, these last three categories of IAS 39 are eliminated, and the criteria for classifying financial assets will depend both on the way an entity manages its financial instruments (its business model) and on the existence and characteristics of the contractual cash flows of financial assets. Based on the above, the asset will be measured at amortised cost, at fair value with changes in another comprehensive results, or at fair value through profit or loss, in the following manner:

- If the objective of the business model is to maintain a financial asset in order to collect contractual cash flows and, according to the conditions of the contract, cash flows are received on specific dates that exclusively constitute principal payments plus interest on said principal, the financial asset will be valued at amortised cost.

- If the business model is aimed both at obtaining contractual cash flows and their sale and, according to the terms of the contract, cash flows are received on specific dates that exclusively constitute payments of the principal plus interest on said principal, the financial assets will be valued at fair value with changes in other comprehensive income (equity).

- Outside of these scenarios, the rest of the assets will be valued at fair value with changes in profit and loss. All equity instruments (for example, stocks) are valued by default in this category. This is because their contractual flows do not comply with the characteristic of being only payments of principal and interest. Financial derivatives are also classified as financial assets at fair value with changes in profit or loss, unless they are designated as hedging instruments.

Notwithstanding the foregoing, there are two irrevocable designation options in the initial recognition:

- An equity instrument, provided it is not held for trading purposes, can be designated to be valued at fair value through changes in other comprehensive income (equity). Subsequently, in the sale of the instrument, the reclassification to the income statement of the amounts recognised in equity is not allowed and only the dividends are taken to results.

- A financial asset may also be designated to be valued at fair value with changes in profit or loss if this reduces or eliminates an inconsistency in measurement or recognition (see pp. B4.1.29 to B4.1.32 IFRS 9).

Financial assets and liabilities are initially recognised at fair value, more or less, in the case of a financial asset or a financial liability that is not recorded at fair value with changes in profit or loss, the transaction costs that are directly attributable to the acquisition or issuance of the financial asset or the financial liability. Notwithstanding the foregoing, at the time of initial recognition, an entity shall measure trade receivables that do not have a significant financial component (determined in accordance with IFRS 15) at their transaction price.

For the subsequent recording after the initial recognition of the financial assets, the following accounting policies apply:

Financial assets at amortised cost	These assets are recorded after their initial recognition at their amortised cost in accordance with the effective interest rate method. This amortised cost will be reduced by any impairment loss (see (ii) below). Gains or losses will be recognised in the result of the period when the financial asset is written off or has been impaired, or due to exchange differences. Interest calculated using the effective interest rate method is recognised in the income statement under the heading “financial income”.
Financial assets at fair value through profit or loss	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 are included in the income statement under “other net financial revenue/(expense)” in the period in which they arise. Any dividend or interest is also carried to financial results. See (iv) below for financial derivatives designated as hedging instruments.
Debt instruments at fair value with changes in other comprehensive income	They are subsequently accounted for at fair value, recognising the changes in fair value in “Other comprehensive income”. Interest income, impairment losses and exchange rate differences are recognised in the income statement. When sold or removed, the cumulative fair value adjustments recognised in “Other comprehensive income” are included in the income statement as “other net financial income/(expense)”.
Equity instruments at fair value with changes in other comprehensive income	Its subsequent measurement is at fair value. Dividends are only taken to results, unless said dividends clearly represent a recovery of the cost of the investment. Other losses or gains are carried to “Other comprehensive income” and are never reclassified to results.

(Amounts in thousands of euros unless otherwise stated)

Apart from the changes in the nomenclature, the impact of the adoption of IFRS 9 on the carrying amounts of financial assets as of 1 January 2018 has consisted exclusively of an increase in its provision for impairment, due to the new impairment requirements as described below:

(In thousand euros)	*Note*	*Original classification under IAS 39*	*New classification under IFRS 9*	*Book value under IAS 39*	*New book value under IFRS 9*
Financial assets					
Equity instruments	(a)	Available for sale financial assets	Fair value with changes in profit and loss	347	347
Derivative financial instruments for hedging	(iv)	Fair value hedging instrument	Fair value hedging instrument	360	360
Trade and other receivables	(b)	Loans and receivables	Amortised cost	316,755	315,830
Cash and cash equivalents	(c)	Loans and receivables	Amortised cost	854,977	854,962
Other financial assets	(d)	Loans and receivables	Amortised cost	71,506	69,903
Total financial assets				**1,243,945**	**1,241,402**

The Group did not maintain financial debt instruments among its financial assets as of 1 January 2018.

a) The equity instruments correspond to minority interests in the companies Agencia Barcelona Regional (180 thousand euros) and European Satellite Service Provider, SAS (167 thousand euros), which the Group keeps available for sale. None of these companies is listed on the stock market.

b) The trade and other accounts receivable (excluding prepaid expenses and other non-financial assets), which were classified as “Loans and receivables” under IAS 39, are classified under IFRS 9 as “Financial assets at amortised cost”. An increase of 925 thousand euros in the provision for impairment of commercial loans was recognised in “Cumulative gains” as of 1 January 2018 in the transition to IFRS 9, which has led to a decrease in equity in the same amount.

c) Cash and cash equivalents. This heading, which was classified as “Loans and receivables” under IAS 39, is classified under IFRS 9 as “Financial assets at amortised cost”. At 31 December 2017, there were no cash balances and other equivalent liquid assets that are not available for use. Cash in financial institutions is subject to credit risk even though the term of maturity is very low since the Group can withdraw the cash at any time without penalty. In the impairment calculation, which resulted in a provision of 15 thousand euros as of 1 January 2018, the exposure was at 2 days. As a result, net worth has been reduced by the same amount.

d) Other financial assets. These assets, which were classified as “Loans and receivables” under IAS 39, are classified under IFRS 9 as “Financial assets at amortised cost”. They correspond mainly to bonds constituted by legal mandate in different public institutions of Autonomous Communities. Therefore, they are at risk of non-compliance by public bodies. The maturities can be very long term, although the weighted average maturity was approximately around 3 years as of 1 January 2018. An increase of 1,603 thousand euros in the provision for impairment of financial assets was recognised under “Cumulative gains “ as of 1 January 2018 in the transition to IFRS 9. As a result, net worth has been reduced by the same amount.

On the other hand, the classification of financial 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. Therefore, there are no impacts in this category of financial instruments.

(ii) Impairment of financial assets

The new impairment model in IFRS 9 is based on expected loss unlike the incurred loss model in IAS 39. Therefore, under IFRS 9, impairment losses are recognised before than they were under the IAS 39 model. The new impairment model is applicable to all the elements indicated below:

- Financial assets valued at amortised cost.
- Financial assets for debt at fair value with changes in other comprehensive income.

Financial assets at amortised cost include the heading "Trade and other accounts receivable" (which include accounts receivable and other contractual assets within the scope of IFRS 15 "Revenues derived from contracts with customers" and accounts receivable for leases in the scope of IAS 17), "Cash and cash equivalents" and "Other financial assets" (in the Group, bonds and deposits). As of 1 January 2018, there were no contractual assets within the scope of IFRS 15 in the Aena Group, nor were there financial debt instruments.

Under the new standard, the impairment model revolves around a dual valuation approach, under which there will be a provision for impairment based on the expected losses over the next 12 months or based on the expected losses over the entire life of the asset. The fact that determines that it should be passed from the first provision to the second is that there is a significant worsening in credit quality.

For trade receivables and lease accounts, whether or not they have a significant financial component, the Group has chosen as its accounting policy to measure the value correction for impairment at an amount equal to the expected credit losses throughout the life time of the asset following the simplified approach of p. 5.5.15 of IFRS 9.

To determine whether a financial asset has experienced a significant worsening in its credit risk since its initial recognition, or to estimate the expected credit losses during the entire life of the asset, the Group considers all reasonable and sustainable information that is relevant and that is available without effort or disproportionate cost. This includes both quantitative and qualitative information, based on the experience of the Group or other entities regarding historical credit losses, and observable market information on the credit risk of the specific financial instrument or similar financial instruments.

The Group assumes that the credit risk of a financial asset has increased significantly if the default is greater than 30 days. Likewise, it adopts the presumption of non-payment for a financial asset that is in arrears over 90 days, unless there is reasonable and well-founded information that demonstrates the recoverability of the credit.

The Group considers that a debt instrument has a low risk when its credit rating, from at least one *rating* agency between Moody's, S & P and Fitch, is "investment grade".

The maximum period over which the expected credit losses should be estimated is the maximum contractual period during which the entity is exposed to the credit risk.

Measurement of expected credit losses

IFRS 9 defines the expected loss of credit as the weighted average of credit losses with the respective risks of a default occurring as weights. Credit losses are measured as the difference between all the contractual cash flows to which one is entitled in accordance with the contract and all cash flows that the entity expects to receive (that is, all cash deficits) discounted at the original effective interest rate.

From the definition of the expected loss as an expected average, it follows that the application of judgement and an important exercise in making estimates will be necessary.

Broadly speaking, the expected loss is based on the following formula: EAD (*Exposure at Default*) x PD (*Probability of default*) x LGD (*Loss Given Default*) x DF (*Discount factor*):

- EAD is the exposure to risk. It would be measured by the accounting balances (balances pending receipt of a cash flow or other financial asset) reduced in its case by the advance payments and any guarantee or surety granted by the customer.

- PD is the probability of default. It is usually the most difficult parameter to estimate.

The probabilities of default will be determined historically, based on the historical default of the company itself or historical transition matrices of rating agencies, or based on market parameters.

Obtaining the probability of default based on market parameters will vary depending on the information available on the debtors. Following a hierarchy in accordance with IFRS 13 from the most observable to the least observable variables, the following methods are used:

1. If the debtor has listed swaps for credit default (*credit default swaps* -CDS), the probability of default is usually derived from the CDS, since it is the most objective measure of credit on the market relating to the probability of default of a company at a specific moment in time.
2. If the debtor does not have listed CDS, the *rating* of the company is selected by each of the credit rating agencies that have issued a report, from which the probability of default will be calculated.
3. If the debtor does not have a *rating,* one possibility is to calculate a theoretical *rating* by comparing the debtor's ratios with the ratios of other companies that do have a *rating*.
4. For customers with lower relative exposure, the generic BBB probability of default of the CDS for European companies is used.

- LGD is the loss that would occur in the event of default by the debtor, and would be calculated as (1 - the recovery rate). The recovery rate depends on the specific guarantees of the loan or credit. In general, if there is no further information, 60% is used, considering a 40% recovery rate.

- DF is the time value of money.

Financial assets with credit impairment

At each reporting date, the Group applies IFRS 9 value the impairment requirements for the recognition and measurement of a value adjustment for losses to financial assets that are measured at amortised cost or at fair value with changes in other comprehensive income. A financial asset has impaired credit when one or more events have occurred that have a detrimental impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset has impaired credit includes, among others, observable information relating to the following events:

(a) significant financial difficulties of the issuer or the borrower;
(b) a breach of contract, such as a breach or event of default;
(c) it is becoming probable that the borrower will file for bankruptcy or otherwise undergo financial reorganisation.

Presentation

Provisions for impairment of financial assets measured at amortised cost are deducted from the gross carrying amount of said assets.

For debt instruments at fair value with changes in other comprehensive income, the correction of value for losses must be recognised in other comprehensive income and will not reduce the carrying amount of the financial asset in the statement of financial position.

Impairment losses related to commercial loans and other accounts receivable, including, where appropriate, the contractual assets under IFRS 15, are presented separately in the income statement.

Losses for impairment of other financial assets are presented under the heading “Other financial income - (expenses) - net”, similar to the presentation under IAS 39, and are not presented separately in the income statement due to their immateriality.

(Amounts in thousands of euros unless otherwise stated)

Impact of the new model for calculating impairment

For financial assets within the scope of IFRS 9, the new impairment calculation model will lead to an increase in losses and volatility. The Group has determined that the application of the impairment requirements of IFRS 9 to the financial assets existing as of 1 January 2018 has produced the following increase in the provision for impairment:

(In thousand euros)

Balance of the provision for impairment as of 31 December 2017 under IAS 39	**114,977**
Increase in the provision on1 January 2018 in:	
Provision for value impairment of trade and other receivables	925
Impairment of other financial assets	1,603
Cash and cash equivalents	15
Balance of the provision for impairment as of 1 January 2018 under IFRS 9	**117,520**

The following analysis provides additional information on the calculation of expected credit losses in the transition to IFRS 9 by financial asset category. The Group considers this calculation model and future variables and assumptions used as key sources of uncertainty in the estimation.

Trade and other commercial and lease receivables

This heading is the quantitatively most important of the financial assets subject to the scope of application of the impairment calculation model. The most important categories of clients are those of the aeronautical sector (which produce revenues in the scope of application of IFRS 15), and those of the commercial sector (which produce income from leases in accordance with IAS 17).
For not-due receivables, the probability of default is calculated based on market parameters, according to the methodology explained above.

For overdue receivables, historical data was used for each tranche of the expired period. Based on a historical transition matrix of S&P (in which the *ratings* of the debt issuers at the beginning of a period of time are compared with the *ratings* at the end of said period of time), the probability of a company with a certain *rating* defaulting after a certain time was estimated. For periods of arrears less than one year, this would be one year; for periods of arrears over 365 days, this would be two years.

The assigned *rating* categories would have a higher risk as the arrears period of the due invoice increases:

Period	***S&P rating***	***Meaning***
Not expired	BBB	Satisfactory credit quality
Up to 3 months	BB+	Questionable credit quality. Future uncertain but with current capacity.
From 3 to 6 months	B	Poor/doubtful credit quality. The long-term capacity is low.
From 6 to 12 months	CCC / C 1 year	Very poor credit quality (CCC) up to situation of imminent default (C).
More than 1 year	CCC / C 2 years	Very poor credit quality (CCC) up to situation of imminent default (C).

Such a historical probability would be the object, if any, of an adjustment for a *forward looking* component (forecasts of future economic conditions).

On the other hand, all loans derived from clients in a situation of bankruptcy or litigious situations were considered impaired, as well as debts in default for more than 90 days for which the recoverability of the credit could not be proven.

The following table provides information on exposure to credit risk and expected credit losses for customers and other commercial and lease receivables at 1 January 2018:

(Amounts in thousands of euros unless otherwise stated)

S&P rating		*Maturity dates (days)*	*Exposure to risk of accounts receivable at 31/12/2017 (*)*	*Expected loss rate*	*Expected loss estimate*
BBB	Not expired	<1	200,945	0.09 %	180
BB+	Up to 3 months	1-90	111,386	0.46 %	512
B	From 3 to 6 months	91-180	1,485	2.60 %	39
CCC / C 1 year	From 6 to 12 months	181-365	3,213	28.02 %	900
CCC / C 2 years	More than 1 year	> 365	1,594	37.51 %	598
D	Deteriorated		113,673	100 %	113,673
	Total				**115,902**

(*) *Account balances reduced by prepayments.*

Other financial assets (guarantees and sureties constituted)

This heading contains mainly deposits consigned by legal mandate in different public institutions of Autonomous Communities, corresponding to bonds previously received from lessees of the commercial spaces of AENA SME, S.A., in compliance with Law 29/1994, of 24 November, on Urban Leases. The maturities can be very long term.

To the extent that it is a low risk in the aforementioned Autonomous Communities, the probability of default for one year is applied. Considering as a low risk the investment grade of at least one *rating* agency between Moody's, S&P and Fitch. In the case of low risk, in the Autonomous Community the default data or the differential on the German bond of Spain's one-year debt are applied, independently of the maturity dates of the guarantees.

It is considered a high risk when the counterparty has a *rating* and the risk is not evaluated as low. In this case, the probability of default with a duration equivalent to the average maturity of the bonds is applied. It is determined by default that bonds without maturity will have a maximum duration of 30 years.

The main impact is due to the high risk situation for some bonds that has led to calculate the expected loss for its entire average life (3 years). The estimated total of the expected loss for this heading has amounted to 1,603 thousand euros.

Cash and cash equivalents

Cash in financial institutions is subject to credit risk although the term of maturity is very low, since the Group can withdraw the cash at any time without penalty. The exposure has been considered for 2 days. The probability of default assigned is the average of the main Spanish banks and the standard loss in case of non-payment (LGD) is 60%.

The estimated total loss expected for this heading has amounted to 15 thousand euros.

The methodology described for calculating the impairment of financial assets has been applied in the same way for the year ended 31 December 2018 (see Note 10.b).

(iii) Debt restructuring

The IASB issued an amendment to IFRS 9 on 9 October 2017: "Characteristics of advance payments with negative compensation". In this modification, in addition to clarifying the manner of classification and accounting of this type of financial instruments with prepayment clauses, two paragraphs are incorporated into the Basis for Conclusions of IFRS 9. In them, the IASB clarifies that the requirements of IFRS 9 in relation to the adjustment to the amortised cost of a financial liability when the modification (or exchange) does not result in its derecognition, are consistent with the requirements applied to the financial assets that are not written off either. Therefore, the loss or gain arising from the modification of a financial liability that is not derecognised (calculated by discounting the change in contractual flows at the original effective interest rate), must be recognised immediately in the income statement.

This modification has been applied retrospectively in the transition. 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 of the Consolidated annual statements for 2017) entailed a substantial modification of existing loans. As a result the impacts derived from this due to the application of IFRS 9, originating from certain minor restructuring, are limited to an amount of 1,748 thousand euros of lower borrowings, increasing reserves at 1 January 2018 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. The impact on the accounts for the year ended 31 December 2018 has amounted to 871 thousand euros.

(Amounts in thousands of euros unless otherwise stated)

(iv) General hedge accounting

In the transition, the 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 as it enables the application of hedge accounting to more transactions.

The Group manages interest rate risk on cash flows by variable to fixed interest rate swaps. The Group considers that all existing hedging relationships, which were designated as effective hedges under IAS 39, continue to meet the requirements of hedge accounting in accordance with IFRS 9.
Thus, for the interest rate swaps of the AENA parent company, the amounts of the notional and principal value, the term, the reconsideration dates of the interest, the payment dates of the principal and interest, and the measurement bases of the interest rates, are the same for the hedging instrument and for the heading that is being covered, so the coverage is fully effective, and, in addition, the credit risk is low, thus meeting the requirements indicated in p.6.4.1 of IFRS 9. The interest rate swaps used by the LLAH III subgroup also meet these requirements. Therefore, in all cases there is a continuity of the coverage relationships and there have been no first application adjustments.

Since IFRS 9 does not change the general principles of how effective hedges should be recorded, the Group has not experienced impacts as a result of the application of this standard to hedge accounting.

2.1.2.2 Standards, interpretations and modifications to existing standards that have not been adopted by the EU or while adopted by the EU are not applicable until later financial periods

At the date of formulation of these consolidated financial statements, the Group had not prematurely adopted 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 y the IFRIC had published a series of standards, amendments and interpretations which have not been adopted by the European Union or, while adopted by the European Union, are not applicable until later financial periods.

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

Area	Subject/Issue	Effective date
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).	1 January 2019.
Amendments to IFRS 9: Characteristics of advance payments with negative compensation	Clarification on the way of classifying and accounting for financial assets that include particular contractual prepayment options.	01 January 2019
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).	01 January 2019
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.	01 January 2019

(Amounts in thousands of euros unless otherwise stated)

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	Subject/Issue	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 IAS 19: modification, reduction or liquidation of a plan	Modifications to the guidance contained in IAS 19 "Employee Benefits", in relation to the accounting for modifications, reductions and liquidation of a defined benefit plan.	Issued on 7 February 2018, this standard has not yet been adopted by the EU.
Modifications to the references to the conceptual framework in IFRS	Some references to the conceptual framework in the IFRS standards are updated, in order to facilitate the users of the standards the use of the new concepts of the conceptual framework.	Issued on 29 March 2018, this standard has not yet been adopted by the EU.
Amendments to IFRS 3 "Business Combinations"	Clarifies the definition of "business", with the objective of helping entities determine if a transaction should be accounted for as a "business combination".	Issued on 22 October 2018, this standard has not yet been adopted by the EU.
Amendments to IAS 1 and IAS 8: Definition of material or of material importance	Minor amendments to IAS 1 and IAS 8 to clarify the definition of "material or material importance".	Issued on 31 October 2018, this standard has not yet been adopted by the EU.

Based on the analyses to date, the Group believes that the application 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 standard (IFRS 16) the Group has carried out the following analyses to date with the following conclusions.

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 is effective for all annual periods commencing as of 1 January 2019 and 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.

A liability is initially recognised at the present value of the future lease payments (discounted at the implicit interest rate of the lease or, if this can not be obtained, at the interest rate at which the lessee would obtain finance on the market for an operation of similar maturity and risk).

It should be noted that within the future payments of the lease (for purposes of calculating the initial value of the liability) payments that are variable and that do not depend on an index (such as the CPI or an applicable lease price index) or of a rate (such as the Euribor) are not included. Basically, they include: fixed payments, price of exercising purchase options (if it is reasonably true that they will be exercised), guaranteed residual values, penalties in cancellation options (if it is reasonably true that they will be exercised) and variable payments referenced to an index or to a rate (to the IPC, to the Euribor or that are updated to reflect the new market price of the leases).

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

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

The 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 the corresponding liabilities related to the rental of the land and the construction of the business at Luton airport in the United Kingdom (see note 2.24 Consolidated annual accounts for year 2017), where there is a fixed minimum fee payable of around 3 million pounds until the end of the concession, those corresponding to leases of transport vehicles in the facilities of said airport, and business buildings in Spain (Edificio Piovera in Madrid). In the latter case, the total future minimum payments for non-cancellable operating leases (until the expiration date of the contract) amount to 19.1 million euros from the year 2019, before proceeding to the financial discount.

The impact to be recorded will consist in the recognition in the statement of financial position of the assets for right of use and the corresponding obligations in relation to most of the contracts that, under current regulations, 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.

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

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

— 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

— 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 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.

Based on the information currently available, the Group estimates that it will recognise assets for rights of use and lease liabilities for an approximate amount of 45 million euros at 1 January 2019, of which 7 million euros will be short-term. Likewise, the Group expects that the decrease in its net profit as a result of the adoption of IFRS 16 will not exceed one million euros in 2019. The EBITDA (calculated as the sum of the operating revenue and the amortisation of property, plant and equipment) used to measure the results of the segments is expected to be increased by some 7 million euros, given that the operating lease expenses will decrease this magnitude, but the expenses for the amortisation of the assets for rights of use and the financial expenses on the liabilities for leases are excluded in its calculation.

Cash flows generated from operating activities will increase and cash flows from financing activities will decrease by approximately 7 million euros, since the payments of the lease liabilities will be considered as financing activities.

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 IFRS 9. 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.

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.

There have been no transactions carried out by the Group in the year 2018 that have led to changes in the perimeter compared to the one existing at 31 December 2017, with the exception of the inclusion of the company Aena, Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A.

In this sense, on 25 January 2018, AENA has established said 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 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 has formalised the award contract on 24 February 2018, being designated as airport manager of the AIRM, will have AENA S.M.E., S.A. as sole shareholder.

Also, on 15 January 2019, the International Airport of the Region of Murcia (AIRM) was inaugurated, having started operating. With this entry into operation of AIRM, as foreseen in the "Protocol to establish the bases for the development of civil aviation in the Autonomous Community of the Region of Murcia" and in the offer presented by AENA in the public tender for the management and operation of the AIRM, the Murcia San Javier Airport remains exclusively for military aviation (see Note 36).

(Amounts in thousands of euros unless otherwise stated)

The concession agreement mentioned has been classified as belonging to the Intangible Assets model of IFRIC 12. As a result, the Group has recorded an intangible asset during the period (see Note 7), which will be amortised on a straight-line basis over the 25-year life of the concession, resulting in a debt with the granting Public Entity for the same amount (see Note 20). Other significant accounting criteria applied by the Group in relation to this service concession agreement, in compliance with IFRIC 12, are described in Note 2.24 of these Consolidated Annual Statements for the 2018 period.

The breakdown of the Group's subsidiaries at 31 December 2018 and 2017, all consolidated using the full consolidation method, is as follows:

2018

Subsidiaries	Address	Activity	% Direct	% Indirect	Holder of the % Aena
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.
Aena, Concessionary Company of the Aeropuerto Internacional de la Región de Murcia, S.M.E., S.A. (1)	Valladolises y Lo Jurado (Murcia)	Exercise of the rights and compliance with the obligations derived from the Administrative Concession for the Management, Operation and Maintenance of the Aeropuerto de la Región de Murcia.	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

2017

Subsidiaries (1)	Address	Activity	% Direct	% Indirect	Holder of the % Aena
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

At 31 December 2018 and 2017, 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 2018 and 2017 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 2018 and 2017 are as follows (expressed in thousands of pounds):

31 December 2018

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	(236)	(20,952)	(20,202)
London Luton Airport Holdings II Limited (*) (1)	51.0 %	986	2,994	(57,782)	(53,802)
London Luton Airport Holdings I Limited (*) (1)	51.0 %	1,930	10,566	28,950	41,446
London Luton Airport Group Limited (*) (1)	51.0 %	5,274	39,302	33,564	78,140
London Luton Airport Operations Limited (**) (1)	51.0 %	5,274	39,302	33,564	78,140

(*) Data obtained from the consolidated annual statements at 31 December 2018.
(**) Data obtained from the individual annual statements at 31 December 2018.
(1) Companies audited by the KPMG network.

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 annual statements at 31 December 2017
(**) Data obtained from the individual annual statements at 31 December 2017
(1) Companies audited by the KPMG 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. (Aerofi) 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).

(Amounts in thousands of euros unless otherwise stated)

During 2018, the subsidiary LLAH III distributed to its shareholders dividends amounting to GBP 33,200 thousand (37,531 thousand euros at the transaction exchange rate), of which Aena Desarrollo Internacional S.M.E., S.A. has received 19,141 thousand euros and the remaining 18,390 thousands euros was received by external partners.

During 2017, the subsidiary LLAH III 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. received 18,299 thousand euros and the remaining 17,631 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.

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 2018 is as follows:

Associates: Company and registered office	**Activity**	**%**		**Value of investments in associates (Note 9)**	**Holder of the % Aena**	**Consolidation method**
		Direct	**Indirect**	**31/12/2018**		
Aeropuertos Mexicanos del Pacífico, S.A. de CV (AMP) México DF (1)	Stake in the operator of Grupo Aeroportuario del Pacífico (GAP).	-	33.33	56,809	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	3,339	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 Airport Cali - Colombia (2)	Operation of Cali Airport.	-	50	5,285	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 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)**	**Holder of the % Aena**	**Consolidation method**
		Direct	**Indirect**	**31/12/2017**		
Aeropuertos Mexicanos del Pacífico, S.A. de CV (AMP) México 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 Airport Cali - 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.

At 31 December 2018 and 2017, none of the associates were listed on a stock market.

On 14 May 2018, the General Shareholders’ Meeting 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 235,000 thousand Mexican pesos (amount that has been paid to the shareholders according to their stake in the company). Therefore, 33.33% of said reduction, that is, 78,333 thousand Mexican pesos, corresponded to Aena Desarrollo Internacional. As a result of this transaction, the Group recognised a cash receipt of 3,344 thousand euros, reduced the shareholding in the associate by 3,518 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).

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 29 May 2014, the subsidiary Aena Desarrollo Internacional, S.M.E., S.A. purchased 63 thousan 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 2017 and 2018 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 the month of May 2008, 640,000 shares were acquired in the stock market for an amount of 26,229,376 Mexican pesos (MXN), 0.11396%, reaching 17.40996% of Grupo Aeroportuario del Pacífico, S.A. The average acquisition price of the shares that Aeropuertos Mexicanos del Pacífico owns of Grupo Aeroportuario del Pacífico amounts to 23.12 Mexican pesos (MXN), while the value of the quotation at 31 December 2018 was 159.84 Mexican pesos (MXN) (2017: 202.00 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 2018 and

2017, 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 2018 and 2017, 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 2018, the subsidiary Aena Desarrollo Internacional S.M.E., S.A. has collected dividends from associates and with joint control amounting to 19,552 thousand euros (2017: 16,630 thousand euros).

2.3 Comparison of information

During the year ended 31 December 2018 there have been no changes in significant accounting policies with respect to the criteria applied in 2017, except for that which has been explained in note 2.1.2.1.

2.4 Transactions denominated in foreign currency

a) *Functional and presentation currency*

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) *Transactions and balances*

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 statement of financial position presented are converted at the closing exchange rate on the statement of financial position date;

(Amounts in thousands of euros unless otherwise stated)

(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 revenue 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 and tooling	4-13 years
▪ Other property, plant and equipment	5-7 years

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 statement of financial position 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 LLAH III*

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) *London Luton airport 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 fixed intangible 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.

2.7 Investment property

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 (*single till*) 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 (*dual till*) 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. This new legislation does not affect the consideration as independent cash generating units of the financial investments in dependent and associated companies, which continue to be as such.

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.

The new Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A. incorporated into the consolidation perimeter in 2018 (see Note 2.2) will be considered as a single Cash Generating Unit in itself.

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 Interest 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 instruments

Financial instruments are classified at the time of their initial recognition as a financial asset, a financial liability or an equity instrument, in accordance with the economic substance of the contractual agreement and with the definitions of financial assets, financial liabilities or equity instruments developed in IAS 32 "Financial instruments: Presentation".

Financial instruments are recognised when the Group becomes an obligated party of the legal contract or business in accordance with its provisions.

For the purposes of valuation, the Group classifies its financial instruments in the following categories: 1)Financial assets and liabilities at amortised cost, 2) Financial assets and liabilities at fair value through profit or loss, separating those originally designated from those held for trading or necessarily valued at fair value through profit or loss, 3) Financial assets and liabilities at fair value through changes in other comprehensive income, separating the equity instruments designated as such from the rest of the financial assets. The classification criterion will depend on how an entity manages its financial instruments (its business model) and the existence and characteristics of the contractual cash flows of financial assets.

The Group classifies a financial asset or liability as held for trading if:

- It is acquired or incurred mainly for the purpose of selling it or buying it again in the immediate future;

- The initial recognition is part of a portfolio of identified financial instruments, which are jointly managed and for which there is evidence of a recent pattern of obtaining short-term benefits;

- It is a derivative, except a derivative that has been designated as a hedging instrument and meets the conditions to be effective and a derivative that is a financial guarantee contract or

- It is an obligation to deliver financial assets obtained on loan that are not owned.

Likewise, the financial asset will be measured at amortised cost, at fair value with changes in another comprehensive results, or at fair value through profit or loss, in the following manner:

- If the objective of the business model is to maintain a financial asset in order to collect contractual cash flows and, according to the conditions of the contract, cash flows are received on specific dates that exclusively constitute principal payments plus interest on said principal, the financial asset will be valued at amortised cost.

- If the business model is aimed both at obtaining contractual cash flows and their sale and, according to the terms of the contract, cash flows are received on specific dates that exclusively constitute payments of the principal plus interest on said principal, the financial assets will be valued at fair value with changes in other comprehensive income (equity).

- Outside of these scenarios, the rest of the assets will be valued at fair value with changes in profit and loss. All equity instruments (for example, stocks) are valued by default in this category. This is because their contractual flows do not comply with the characteristic of being only payments of principal and interest. Financial derivatives are also classified as financial assets at fair value with changes in profit or loss, unless they are designated as hedging instruments.

Notwithstanding the foregoing, there are two irrevocable designation options in the initial recognition:

- An equity instrument, provided it is not held for trading purposes, can be designated to be valued at fair value through changes in other comprehensive income (equity). Subsequently, in the sale of the instrument, the reclassification to the income statement of the amounts recognised in equity is not allowed and only the dividends are taken to results.

- A financial asset may also be designated to be valued at fair value through profit or loss if this reduces or eliminates an inconsistency in measurement or recognition (see pp. B4.1.29 to B4.1.32 IFRS 9).

The business model is determined by the key personnel of the Group and at a level that reflects the way in which they jointly manage groups of financial assets to achieve a specific business objective. The Group's business model represents the way in which it manages its financial assets to generate cash flows.

Financial assets that are part of a business model whose objective is to hold assets to receive contractual cash flows are managed to generate cash flows in the form of contractual collections during the life of the instrument. The Group manages the assets held in the portfolio to receive these specific contractual cash flows. To determine whether cash flows are obtained through the collection of contractual cash flows from financial assets, the Group considers the frequency, value and timing of sales in prior years, the reasons for those sales and expectations in relation to the future sales activity. However, the sales themselves do not determine the business model and, therefore, can not be considered in isolation. Instead, it is the information on past sales and future sales expectations that provides indicative data on how to achieve the stated objective of the Group with respect to the management of financial assets and, more specifically, the way in which cash flows are obtained. The Group considers the information on past sales in the context of the reasons for these sales and the conditions that existed at that time in comparison with the current ones. For these purposes, the Group considers that commercial debtors and accounts receivable that are going to be transferred to third parties and that will not lead to their cancellation, remain in this business model.

Although the objective of the Group's business model is to maintain financial assets to receive contractual cash flows, the Group does not maintain all the instruments until maturity. Therefore, the Group has as a business model the maintenance of financial assets to receive contractual cash flows even if these assets have been sold or are expected to be sold in future. The Group understands this requirement fulfilled, provided that the sales are due to an increase in the credit risk of the financial assets. In all other cases, at the individual and aggregate levels, sales must be insignificant, even if they are frequent or infrequent, even if they are significant.

Financial assets that are part of a business model whose objective is to hold assets to receive contractual cash flows and sell them, are managed to generate cash flows in the form of contractual collections and sell them according to the different needs of the Group. In this type of business model, the key personnel of the Group's management have made the decision that in order to meet this objective, obtaining both contractual cash flows and the sale of financial assets are essential. To achieve this objective, the Group obtains contractual cash flows, as well as selling financial assets. Compared to the previous business model, in this business model, the Group usually makes sales of more frequent and higher-value assets.

The contractual cash flows that are only principal and interest payments on the outstanding principal amount are consistent with a basic loan agreement. In a basic loan agreement, the most significant elements of interest are generally consideration for the time value of money and credit risk. However, in an agreement of this type, the interest also includes consideration for other risks, such as liquidity and costs, such as the administrative aspects of a basic loan associated with the maintenance of the financial asset for a certain period. In addition, the interest may include a profit margin that is consistent with a basic loan agreement.

When there is an implicit derivative in a main contract that is a financial asset in the scope of IFRS 9, the implicit derivative is not separated and the classification rules apply to the hybrid instrument as a whole.

Assets are initially recognised at fair value more or less, in the case of a financial asset that is not posted at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or of the financial liability. Notwithstanding the foregoing, at the time of initial recognition, an entity shall measure trade receivables that do not have a significant financial component (determined in accordance with IFRS 15) at their transaction price.

For the subsequent recording after the initial recognition of the financial assets, the following accounting policies apply:

Financial assets at amortised cost	These assets are recorded after their initial recognition at their amortised cost in accordance with the effective interest rate method. Said amortised cost will be reduced by any impairment loss. Gains or losses will be recognised in the result of the period when the financial asset is written off or has been impaired, or due to exchange differences. Interest calculated using the effective interest rate method is recognised in the income statement under the heading “financial income”.
Financial assets at fair value through profit or loss	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 are included in the income statement under “other net financial revenue/(expense)” in the period in which they arise. Any dividend or interest is also carried to financial results.
Debt instruments at fair value with changes in other comprehensive income	They are subsequently accounted for at fair value, recognising the changes in fair value in “Other comprehensive income”. Interest income, impairment losses and exchange rate differences are recognised in the income statement. When sold or removed, the cumulative fair value adjustments recognised in “Other comprehensive income” are included in the income statement as “other net financial income/(expense)”.
Equity instruments at fair value with changes in other comprehensive income	Its subsequent measurement is at fair value. Dividends are only taken to results, unless said dividends clearly represent a recovery of the cost of the investment. Other losses or gains are carried to “Other comprehensive income” and are never reclassified to results.

The Group classifies liabilities held for trading at fair value through profit or loss.

The Group initially designates a financial liability at fair value with changes in results, if doing so eliminates or significantly reduces any inconsistency in the valuation or recognition that would otherwise arise, if the valuation of the assets or liabilities or the recognition of the results thereof was done on different bases or a group of financial liabilities or financial assets and financial liabilities is managed, and its performance is evaluated, based on fair value, according to an investment or documented risk management strategy, and information relating to said group is provided internally on that same basis to key personnel of the Group's management.

The Group classifies the rest of the financial liabilities, except financial guarantee contracts, the commitments to grant a loan at a lower interest rate than the market one and the financial liabilities resulting from a transfer of financial assets that do not meet the requirements for their derecognition or that are accounted for using the continued involvement approach, as financial liabilities at amortised cost.

- Impairment

Financial assets at amortised cost include the heading “Trade and other accounts receivable” (which include accounts receivable and other contractual assets within the scope of IFRS 15 “Revenues derived from contracts with customers” and accounts receivable for leases in the scope of IAS 17), “Cash and cash equivalents” and “Other financial assets” (in the Group, bonds and deposits).

At each reporting date, the Group applies IFRS 9 value the impairment requirements for the recognition and measurement of a value adjustment for losses to financial assets that are measured at amortised cost or at fair value with changes in other comprehensive income. A financial asset has impaired credit when one or more events have occurred that have a detrimental impact on the estimated future cash flows of that financial asset. Evidence that a financial asset has impaired credit includes, among others, observable information relating to the following events:

(a) significant financial difficulties of the issuer or the borrower;
(b) a breach of contract, such as a breach or event of default;
(c) it is becoming probable that the borrower will file for bankruptcy or otherwise undergo financial reorganisation.

For trade receivables and lease accounts, whether or not they have a significant financial component, the Group has chosen as its accounting policy to measure the value correction for impairment at an amount equal to the expected credit losses throughout the life time of the asset following the simplified approach of p. 5.5.15 of IFRS 9. IFRS 9 defines the expected loss of credit as the weighted average of credit losses with the respective risks of a default occurring as weights. Credit losses are measured as the difference between all the contractual cash flows to which one is entitled in accordance with the contract and all cash flows that the entity expects to receive (that is, all cash deficits) discounted at the original effective interest rate.

From the definition of the expected loss as an expected average, it follows that the application of judgement and an important exercise in making estimates will be necessary.

To determine whether a financial asset has experienced a significant worsening in its credit risk since its initial recognition, or to estimate the expected credit losses during the entire life of the asset, the Group considers all reasonable and sustainable information that is relevant and that is available without effort or disproportionate cost. This includes both quantitative and qualitative information, based on the experience of the Group or other entities regarding historical credit losses, and observable market information on the credit risk of the specific financial instrument or similar financial instruments.

The Group assumes that the credit risk of a financial asset has increased significantly if the default is greater than 30 days. Likewise, it adopts the presumption of non-payment for a financial asset that is in arrears over 90 days, unless there is reasonable and well-founded information that demonstrates the recoverability of the credit.

The Group considers that a debt instrument has a low risk when its credit rating, from at least one *rating* agency between Moody's, S & P and Fitch, is “investment grade”.

The maximum period over which the expected credit losses should be estimated is the maximum contractual period during which the entity is exposed to the credit risk.

Provisions for impairment of financial assets measured at amortised cost are deducted from the gross carrying amount of said assets.

For debt instruments at fair value with changes in other comprehensive income, the correction of value for losses must be recognised in other comprehensive income and will not reduce the carrying amount of the financial asset in the statement of financial position.

Impairment losses related to commercial loans and other accounts receivable, including, where appropriate, the contractual assets under IFRS 15, are presented separately in the income statement.

Impairment losses on other financial assets are included in the caption "other financial income / (expenses) - net", and are not presented separately in the income statement due to their immateriality.

2.11 Derivative financial instruments and hedges

The Aena 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 Aena 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 AENA formally documents the relationship between hedging instruments and hedged items, including an analysis of the sources of inefficiency of the hedge, as well as its risk management objectives and strategy for undertaking various hedge transactions.

AENA also documents its evaluation, both at the beginning and on an ongoing basis, of:

1. The economic relationship between the hedged item and the hedging instrument, that is, whether the derivatives that are used in hedging transactions are highly effective to offset the changes in the cash flows of the hedged items, that is, that it is expected that changes in cash flows in the hedged item will be almost completely offset by those in the hedging instrument.

2. That the effect of credit risk does not predominate over the changes in value that originate from that economic relationship.

3. The coverage ratio of the hedging relationship is the same as that from the amount of the hedged item that the entity actually covers and the amount of the hedging instrument that the entity actually uses to cover that amount of 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.

The amounts accumulated in net equity are reclassified to the income statement in the same period or periods during which the expected future cash flows hedged affect the result of the period (for example, in the periods in which the income from interest or expense by interest is recognised or when a planned sale takes place). 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 Other net financial income/(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 net equity up until that moment will be recorded as follows:

(a) If it is expected that the future cash flows covered still occur, that amount will be maintained in the cash flow hedge reserve until the future cash flows occur. When future cash flows occur, it is recognised in the income statement.

(b) If the future hedged cash flows are no longer expected to occur, that amount will be immediately reclassified from the cash flow hedge reserve to the result of the period as a reclassification adjustment, 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).

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 in the statement of financial position.

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 statement of financial position 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 at the statement of financial position 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 statement of financial position 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.

(Amounts in thousands of euros unless otherwise stated)

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 statement of financial position with respect to defined benefit commitments is the present value of the obligation accrued at the statement of financial position 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 commitment obligations based on an actuarial calculation.

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

	31 -12 -2018	**31 -12 -2017**
Technical interest rate	1.51 %	1.43 %
Salary increases	2.75 %	2.0 %
Mortality table	PERM/F 2000 P	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 1977	MO 77

(Amounts in thousands of euros unless otherwise stated)

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 -2018	**31 -12 -2017**
Technical interest rate	1.53 %	1.48 %
Long-term salary growth	2.75 %	2.00 %
Yield on Defined Contribution Fund	4.00 %	4.00 %
Mortality table	PERM/F 2000 P	PERM/F 2000 N
Financial system used	Individual capitalisation	Individual capitalisation
Accrual method	Projected Unit Credit	Projected Unit Credit
Retirement age	Mutual funds: Between 60-63 years and 11 months Non-mutual funds: In accordance with RDL 5/2013	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, 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, 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.

During 2018, contributions have been made to the Pension Plan, as foreseen in article 18. Two and Three of Law 6/2018, of 3 July, on General State Budgets for the year 2018 (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).

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

	31 -12 -2018	**31 -12 -2017**
Technical interest rate	2.80%	2.40 %
Inflation	3.10 %	3.10 %
Pension growth rate	2.90 %	2.90 %
Accrual method	Projected Unit Credit	Projected Unit Credit
Retirement age	65 years	65 years

Under IAS 19 requirements, the 2.80 % 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; 2017: 21.9)
- Women: 24.2; 2017: 24.1)

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

- Men: 23.2; 2017: 23.6)
- Women: 25.7; 2017: 26.0)

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 statement of financial position 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

(a) Recognition of income from contracts with customers

Aena Group applies the five-step model established by IFRS 15 to the accounting for revenue from contracts with customers:

Stage 1: Identify the contract (or contracts) with the customer
Stage 2: Identify performance obligations in the contract
Stage 3: Determine the price of the transaction
Stage 4: Assign the price of the transaction between the performance obligations of the contract
Stage 5: Recognise revenue from ordinary activities when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group 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. The determination of the moment in which said control is transferred (at a point in time or over a period of time) requires the making of judgements by the Group.

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). For this type of revenue, 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.

<u>Provision of Aeronautical services (airport charges and other non-regulated services):</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 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 revenue, 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. (As applicable by amount).

- 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 (IMAP) 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 2018, as well as having executed strategic investments planned, so it does not expect the maximum annual income per passenger to be penalized for these reasons..

- 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, it is established that upon completion of the cumulative tariff deficit, together with that corresponding to previous years, it can not be transferred to the next DORA.

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 (IMAP) for this period (see Note 3.1).

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.

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.

Also in application of the provisions of Article 34 of Law 18/2014, the Board of Directors of AENA S.M.E., S.A. at its meeting held on 26 July 2017, and after holding the corresponding consultation process with the associations of users, approved a 2.22 % reduction in the airport services rates applicable as of 1 March 2018.

On the other hand, on 24 July 2018 the Board of Directors of AENA approved the proposed charges for 2019, consisting in the freezing of the adjusted maximum annual income per passenger (IMAAJ) for 2019 relative to the adjusted maximum annual income per passenger (IMAAJ) for 2018. Said freeze is a consequence of the adjustments the regulation provides in relation to the quality-based performance incentive , the execution of investments and the factor of 100% fulfilment of the adjusted maximum annual income per passenger (Spanish acronym: IMAAJ) at the close of 2017.

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”).

For the rest of AENA S.M.E., S.A.’s non-regulated airport services, and for the airport services provided by the rest of the group’s companies, the same principle applies, recognising the income at the moment of their provision, at the prices and rates applicable in each case.

A liability for reimbursement will be recognised if counter-payments are received from a customer and it is expected reimbursement will be made for all or part of the consideration. A liability for reimbursement is measured by the amount of the consideration received (or pending receipt) to which the entity does not expect to be entitled (that is, the amounts not included in the transaction price). The reimbursement liability (and the corresponding change in the transaction price and, therefore, the liability of the contract) will be updated at the end of each presentation period to take into account changes in circumstances.

Therefore, for any amount received (or pending receipt) over which the entity does not expect to be entitled, the entity does not recognise income from ordinary activities when transferring the products to customers, but recognises those amounts received (or pending receipt) as a liability for reimbursement. Subsequently, at the end of each presentation period, the entity will update its evaluation of the amounts to which it expects to be entitled in exchange for the transferred products and will make the corresponding change in the transaction price and, therefore, in the amount of income from recognised ordinary activities.

Recognition of income for goods and services whose control is transferred to the customer over time

The new IFRS 15 standard requires the use of a homogeneous income recognition method for contracts and performance obligations with similar characteristics (IFRS 15 p.40). The method chosen by the Group as the preferred method for measuring the value of the goods and services whose control is transferred to the customer over time is the product method ("output method"), provided the contract and its execution allow to measure the progress of the work executed. Product methods recognise revenue from ordinary activities based on direct measurements of the value for the customer of the goods or services transferred to date in relation to the outstanding goods or services committed in the contract. In different highly interrelated contracts for goods and services to produce a combined product, the applicable product method will be the measurement of the work performed ("Surveys of performance" within the "output methods"). On the other hand, in routine services contracts in which the goods and services are substantially the same and are transferred with the same pattern of consumption, in such a way that the customer benefits from them as they are provided by the company, the income recognition method selected by the Group is based on the time elapsed ("time elapsed" within the "output methods"), while the costs are recorded according to the accrual principle. Based on the above, the degree of progress in costs (resource method, "input method") will only be applied in those cases in which the progress of the work cannot be reliably measured.

b) Recognition of income from commercial contracts:

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.

c) 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.

d) Interest and dividends

- Interest income is recognised using the effective interest method.
- Dividend income is recognised when the right to receive the dividend payment is established and it is probable that the entity will receive the economic benefits associated with the dividend.

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 statement of financial position 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 Official 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 revenue 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 recorded by the Group as concessions refer to:

- AIRM concession. The period of duration of the concession is 25 years (see Note 2.2 a)).
- 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 revenue 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 using 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 statements.

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 the main operational risks

Regulatory risks

AENA S.M.E., S.A. 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. In particular, said regulation affects:

- Management of the airport network with public service criteria.
- Regime of airport tariffs.
- Airport security measures (security).
- Operational safety (safety).
- Assignment of slots.

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, so any unexceptional deviation such as the current inflationary pressure which may be transferred to service providers is considered an operator risk.

In application of Law 18/2014, on 24 July 2018 the Board of Directors of AENA approved the proposed charges applicable from 1 March 2019, consisting in the freezing of the adjusted maximum annual income per passenger (IMAAJ) for 2019 relative to the maximum annual income per passenger (IMAP) established in the DORA at 10.42 euros per passenger for 2018, as a result of the adjustments established by the DORA regarding the performance incentive for levels of quality and the traffic structure corresponding to year-end 2017.

The European Commission initiated an infringement procedure to the Kingdom of Spain to assess whether there has been an incorrect transposition of Directive 2009/12/EC, or an incorrect application of Regulation (EC) No. 1008/2008, on common rules for the exploitation of air services in the Community. The resolution of this procedure could lead to changes in the regulatory framework applicable to airport tariffs.

The Regional Government of Catalonia asked the European Commission for a ruling on the adaptation or not to the community law of the airport regime set out in Law 18/2014.

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. AENA is a state trading company and, as such, its management capacity may be conditioned. Likewise, the top management of AENA, due to its characteristics as a state trading company, is subject to the public remuneration regime.

The main shareholder of AENA is a company belonging to the Spanish State. The Spanish State will continue to have control of AENA's operations, and its interests may differ from those of the other shareholders.

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:

- ✓ Negative developments (economic, financial or other) in Spain and other countries, both those that are origin/destination of traffic (United Kingdom, Germany, France and Italy, among others), as well as others that are competing tourist destinations. 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.
- ✓ It operates in a competitive environment both with respect to other airports and compared to other means of transport that can affect its revenue.
- ✓ 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 such as terrorist attacks, wars or global epidemics could 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 AEA 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.
- ✓ Insurance coverage may be insufficient.
- ✓ 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.
- ✓ AENA is exposed to risks related to its indebtedness, whose obligations may limit AENA's activity and the possibility of accessing financing, distributing dividends or making its investments, among others.
- ✓ 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 (see Note 24).
- ✓ AENA is exposed to the effects of climate change, changes in regulations that may lead to an increase in the price of carbon emissions, and the need to undertake adaptation actions at airports in the medium-long term.

Risks related to Brexit:

In the current financial year 2018, specific risks arise from the result of the referendum in the United Kingdom in favour of its exit from the European Union (Brexit). In this sense, 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:

- Currently, 16.7 % of passengers of the airport network of AENA S.M.E., S.A. in Spain have their origin/destination in the UK. The adverse economic developments in the United Kingdom could reduce tourism originating in that country.

- 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 decreased by 3% in 2018 compared to 2017, the last few months of 2018 witnessed a gradual acceleration in this growth. On the other hand, European legislation prevents airlines from operating between European Union countries without a majority ownership and control of community ownership, which could put into question the European ownership of Iberia and Vueling to operate in Spain, both in domestic and European routes.

- From the standpoint of commercial revenue, 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.M.E., S.A.'s revenues, although much of AENA S.M.E., S.A.'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.

- Investments, expenses and operational difficulties caused by the reconfiguration of passenger flows at airports.

- The Group reviewed possible scenarios arising from the Brexit concluding that the risk of impairment is remote.

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 2018 there has been a loss in the amount of 444 thousand euros (2017: loss of 2,123 thousand 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.

At 31 December 2018, the total amount of liabilities for these interest rate swaps amounted to 89,283 thousand euros (2017: 82,655 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 1,638 thousand euros more and 1,638 thousand euros less, respectively (2017: 1,802 thousand euros more and 1,802 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 regard, there has been no regime change in 2018, therefore the debt composition by interest rate at 31 December 2018 is maintained at 88% of fixed rate debt, as opposed to a variable 12%, similar to the one of 31 December 2017, if the effect derived from the exchange rate swaps contracted is taken into account.

On the other hand, in 2018, 166,075 thousand euros of the debt with Depfa ACS Bank at a fixed rate have been prepaid (Note 20.b).

b) Credit risk (see notes 2.1.2.1 and 10)

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 2018, the Group, in addition to the guarantees and other sureties imposed in cash included in the consolidated statement of financial position, has guarantees and other sureties related to the normal course of business for an amount of 359,928 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) Liquidity Risk

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 2018 the Group had a negative working fund (calculated as total current assets minus total current liabilities) of 385,016 thousand euros (2017: 270,554 thousand euros), an EBITDA, calculated as the sum of the operating income and depreciation and amortisation in financial year 2018 of 2,656,586 thousand euros (2017: 2,517,405 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 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)

As of 31 December 2018, the parent company AENA S.M.E., S.A. Maintains 800 million euros in a fully-available sustainable syndicated credit line with a long-term maturity (Note 20.b); and 400 million euros in available financing (unused) corresponding to a loan with EIB, with an end date of the disposition period of 1 December 2019. The dependent subgroup LLAH III has 37 million pounds sterling in unused credit lines (2017: 66 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 2018	2019	2020	2021	2022	2023	Following	Total
ENAIRE loan (Notes 20 and 34.f)	633,744	633,619	546,349	535,836	514,364	3,112,311	**5,976,223**
Accrued interest pending payment on ENAIRE borrowings (Note 34.f)	14,895	-	-	-	-	-	**14,895**
Bank borrowings AENA (Note 20.b)	-	-	-	650,000	-	-	**650,000**
Accrued interest pending payment on loans from AENA credit institutions (Note 20.b)	1,841	-	-	-	-	-	**1,841**
Bank borrowings (Note 20.b)	51,419	-	-	-	-	344,019	**395,438**
Public creditors for AIRM concession	-	-	-	-	-	47,590	**47,590**
Financial lease liabilities (note 20.c)	2,246	2,339	2,426	2,498	2,694	8,002	**20,205**
Loans with LLAH III shareholders (Note 20.b)	-	-	-	-	51,854	-	**51,854**
Interest paid from loan with LLAH III shareholders III (Note 20)	398	-	-	-	-	-	**398**
Other financial liabilities (Note 20)	28,870	44,499	8,918	21,524	14,840	33,740	**152,391**
Trade and other payables (excluding customer advances and tax liabilities) (Notes 10 and 19)	465,686	-	-	-	-	-	**465,686**
Interest on AENA S.M.E., S.A. debt (*)	82,113	73,898	65,860	54,325	43,614	154,299	**474,109**
Interest on LLAH III bank debt	15,857	15,857	15,857	15,857	15,857	52,775	**132,060**
Interest on LLAH III shareholder loan (Ardian)	4,148	4,148	4,148	4,148	4,148	-	**20,740**

(*)Estimated calculation of the interest on the average annual loan from each period calculated with the average interest rate in the period January-December 2018.

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**
Accrued interest pending payment on ENAIRE borrowings (Note 34.f)	18,812	-	-	-	-	-	**18,812**
Bank borrowings AENA (Note 20.b)	-	-	-	-	650,000	-	**650,000**
Accrued interest pending payment on loans from AENA 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 III (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)

The breakdown of AENA S.M.E., S.A. loans by applicable interest rate and the annual average interest rate on 31 December 2018 and 31 December 2017, taking into account the hedging derived from the interest rate swaps contracted (see Note 12), is the following:

Thousand euros	**31 December 2018**		**31 December 2017**	
	Balance	**Average rate**	**Balance**	**Average rate**
Variable	818,772	0.18	901,008	0.16
Reviewable	27,400	1.61	27,400	1.23
Fixed	5,780,051	1.45	6,495,875	1.55
TOTAL	**6,626,223**	**1.30**	**7,424,283**	**1.45**

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).

In addition, and in the framework of the Strategic Plan 2018-2021, AENA's Board of Directors approved a shareholder remuneration policy consisting in the distribution as dividends of an amount equivalent to 80% of each individual year's net profit, excluding non-recurring (exceptional) items. This policy will be applied to the distribution of profits for 2018, 2019 and 2020. However, the Board of Directors may change it in exceptional circumstances, in the terms set forth in the policy.

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 statement of financial position date. Actual results may differ from the estimates.

Understanding the accounting policies for these elements is important in order to understand the consolidated annual statements. 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) Criteria to report regulated income 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) New lawsuits and sources of uncertainty related to the application of IFRS 9 and IFRS 15.

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 2018 and 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) <u>Determination of cash generating units and impairment of goodwill, intangible assets, property, plant and equipment and investment property</u>

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.

(c) <u>Useful lives of property, plant and equipment</u>

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) <u>Evaluation of litigation, provisions, commitments, assets and contingent liabilities</u>

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) *<u>Fair value of derivative financial instruments</u>*

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 personnel

The calculation of the expense for pensions and other expenses due to post-retirement benefits requires the application of several hypotheses. At each year-end, 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* specialty shops in the three sets of airports until 2020. The fees are based on the volumes of sales in these specialty 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 specialty 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 S.M.E., S.A. 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) New lawsuits and sources of uncertainty related to the application of IFRS 9 and IFRS 15.

Described in Note 2.1.2.1

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 2.8 of the Consolidated Financial Statements. The information corresponding to the new Perimeter Company “Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A.” is included in the Airports segment, given that its ordinary revenue, its result and its assets are significant less than 10% the aggregate values of the Group.

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 determined 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 (defined as earnings before financial results, income tax, and depreciation, i.e. calculated as the sum of he operating revenue and of the amortisation of fixed assets). During the years 2018 and 2017, the EBITDA calculated in the manner explained above has been adjusted for the impairments and disposals of fixed assets.

The operating segment information supplied to the maximum authority for the taking of decisions for the financial years 2018 and 2017 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.

In the operating segment information as of 31 December 2018 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 35.9 million euros (including capital cost to 6.98%) with the following breakdown: Staff 1.6 million euros; Amortisation and depreciation 11.9 million euros; Other operating expenses 10.1 million euros and Capital cost 12.3 million euros. Consequently, the annual cost of aeronautical activity for 2018 has been reduced by 23.6 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.

In the financial information by segments at 31 December 2017 , the costs were also adjusted according to the DORA Resolution of 27 January 2017. According to this document and for regulatory purposes, costs of airport activity dropped 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.

(Amounts in thousands of euros unless otherwise stated)

The EBITDA reconciliation and the EBITDA adjusted to the results for the years ended 31 December 2018 and 31 December 2017 is as follows:

Item	**31 December 2018**	**31 December 2017**
Total adjusted EBITDA	**2,718,941**	**2,528,320**
Impairment	(46,248)	-
Income from disposal of fixed assets	(16,107)	(10,915)
Total segment EBITDA	**2,656,586**	**2,517,405**
Depreciation and amortization	(806,383)	(800,035)
Operating income	**1,850,203**	**1,717,370**
Net financial expense	(133,005)	(139,590)
Share of profits in associates	20,155	18,927
Income tax	(409,602)	(374,738)
Profit/(loss) for the period	**1,327,751**	**1,221,969**
Results attributable to external partners	(131)	(10,036)
Profit/(loss) for the period attributable to the parent company shareholder	**1,327,882**	**1,232,005**

The financial information by segments for the 2018 and 2017 financial years is as follows (in thousands of euros):

	Airports						
31 December 2018	**Aeronautical**	**Commercial**	**Real estate services**	**Subtotal**	**International**	**Adjustments (*)**	**Total consolidated**
ordinary revenue-	2,754,249	1,144,150	67,215	3,965,614	237,856	(2,064)	4,201,406
External customers	*2,754,227*	*1,144,150*	*67,215*	*3,965,592*	*235,814*	-	*4,201,406*
Inter-segments	*22*	-	-	*22*	*2,042*	*(2,064)*	-
Other operating revenue	98,569	18,200	1,743	118,512	201	130	118,843
Total income	**2,852,818**	**1,162,350**	**68,958**	**4,084,126**	**238,057**	**(1,934)**	**4,320,249**
Subcontracted work and other supplies	(174,694)	-	-	(174,694)	-	1,758	(172,936)
Staff	(324,629)	(40,660)	(9,560)	(374,849)	(48,876)	-	(423,725)
Other operating expenses	(702,982)	(174,803)	(22,128)	(899,913)	(106,689)	126	(1,006,476)
Depreciation and Amortisation	(626,966)	(107,303)	(16,676)	(750,945)	(55,438)	-	(806,383)
Impairment of assets	(43,061)	(2,914)	(273)	(46,248)	-	-	(46,248)
Losses on property, plant and equipment	(13,128)	(2,448)	(260)	(15,836)	(271)	-	(16,107)
Other results	457	1,364	8	1,829	-	-	1,829
Total expenditure	**(1,885,003)**	**(326,764)**	**(48,889)**	**(2,260,656)**	**(211,274)**	**1,884**	**(2,470,046)**
Operating income	**967,815**	**835,586**	**20,069**	**1,823,470**	**26,783**	**(50)**	**1,850,203**
Depreciation and Amortisation	626,966	107,303	16,676	750,945	55,438	-	806,383
EBITDA	**1,594,781**	**942,889**	**36,745**	**2,574,415**	**82,221**	**(50)**	**2,656,586**
Impairment and losses on property, plant and equipment	56,189	5,362	533	62,084	271		62,355
Adjusted EBITDA	**1,650,970**	**948,251**	**37,278**	**2,636,499**	**82,492**	**(50)**	**2,718,941**
Net finance result	(99,479)	(11,127)	(3,387)	(113,993)	(19,012)	-	(133,005)
Share of profits in associates	-	-	-	-	20,155	-	20,155
Profit / (loss) before tax	**868,336**	**824,459**	**16,682**	**1,709,477**	**27,926**	**(50)**	**1,737,353**
Total Assets	-	-	-	14,173,557	907,811	(182,298)	14,899,070
Total Liabilities	-	-	-	8,236,275	646,388	(7,398)	8,875,265

	Airports						
31 December 2017	**Aeronautical**	**Commercial**	**Real estate services**	**Subtotal**	**International**	**Adjustments (*)**	**Total consolidated**
ordinary revenue-	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 revenue	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**
Subcontracted work and other supplies	(175,921)	-	-	(175,921)		1,745	(174,176)
Staff	(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)**
Operating income	**917,540**	**766,123**	**14,004**	**1,697,667**	**19,790**	(87)	**1,717,370**
Depreciation and Amortisation	631,420	107,264	16,546	755,230	44,805	-	800,035
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**
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

(*) The adjustments column primarily includes consolidation adjustments.

(Amounts in thousands of euros unless otherwise stated)

Breakdown of ordinary revenue

The breakdown of ordinary revenue 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:

	2018	2017
Airport services	**2,754,249**	**2,638,505**
Aeronautics - Airport Charges	**2,676,491**	**2,562,051**
Landings	732,952	697,341
Parking facilities	37,431	34,188
Passengers	1,227,104	1,166,406
Telescopic boarding gates	106,830	110,166
Security	426,749	419,869
Handling	100,830	90,432
Fuel	33,747	33,535
Catering	10,848	10,114
Other airport services (1)	**77,758**	**76,454**
Commercial services	**1,144,150**	**1,049,251**
Leases	33,591	32,129
Specialty shops	106,428	91,703
Duty Free Shops	318,046	309,017
Food & Beverage	200,690	175,643
Car Rental	152,739	149,373
Car parks	143,797	132,013
Advertising	33,171	31,561
VIP services (2)	64,228	41,053
Other commercial revenue(3)	91,460	86,759
Real estate services	**67,215**	**59,687**
Leases	12,632	12,130
Cargo logistics centres	24,166	19,247
Hangars	8,145	8,392
Cargo logistic centres	15,383	13,696
Real Estate Operations	6,889	6,222

1) Includes Check-in desks, Use of 400 Hz, Fire services, Left-luggage offices and Other income.
2) Includes rental of VIP Lounges, VIP packages, other rooms, Fast-track and Fast-lane.
(3) Includes Commercial operations (banking services, Luggage plastic-wrapping machines, telecommunications services, vending machines, etc.), Commercial supplies, and Filming and recording.

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 revenue of 421,337 thousand euros, 399,340 thousand euros and 350,906 thousand euros for financial year 2018 correspond to three customers, respectively (three customers for financial year 2017: 404,503 thousand euros, 362,891 thousand euros and 336,464 thousand euros, respectively). These figures correspond to the Airports segments.

(Amounts in thousands of euros unless otherwise stated)

Geographical information:

ordinary revenue from external customers is distributed geographically as follows:

	2018	2017
Country	**Volume**	**Volume**
Spain	3,966,773	3,748,978
United Kingdom	227,549	204,852
Mexico	5,764	5,602
Colombia	1,291	1,150
Cuba	29	-
TOTAL	**4,201,406**	**3,960,582**

The items of Tangible Fixed Assets, Intangible Assets and Real Estate Investments within the non-current assets of the accompanying statement of financial position, valued at net book value, are located as follows:

Financial year 2018:

Country	Property, plant and equipment	Intangible Assets	Real Estate Investments	TOTAL
Spain	12,614,929	147,049	138,183	12,900,161
United Kingdom	257,852	359,947	-	617,799
	12,872,781	**506,996**	**138,183**	**13,517,960**

Financial year 2017:

Country	Property, plant and equipment	Intangible Assets	Real Estate Investments	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**

(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 2018**	**31 December 2017**
Non-current assets	625,212	636,142
Current assets	49,838	52,979
Non-current liabilities	566,021	591,379
Current liabilities	131,614	86,666

	31 December 2018	**31 December 2017**
Income	227,549	204,852
Operating income	23,695	14,700
EBITDA	78,714	58,683
Net finance result	(23,418)	(36,651)
Profit/(Loss)	(267)	(20,481)
Comprehensive income for the period	997	(16,711)
Cash flow from operating activities	44,866	52,282
Cash flow from investing activities	(53,236)	(66,218)
Cash flow from financing activities	(2,504)	18,885

The increase in the Operating income and the EBITDA in 2018 compared to 2017 is primarily related to the increase in income, arising from a 5% increase in traffic, and the negative 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
On 1 January 2018						
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 01 January 2018	**10,929,709**	**414,922**	**1,477,931**	**4,219**	**379,165**	**13,205,946**
Additions	102,389	23,803	95,910	1,050	284,374	507,526
Disposals	(66,817)	(73,060)	(68,096)	(649)	(11,047)	(219,669)
Transfers (Notes 7 and 8)	142,994	58,692	47,531	290	(237,717)	11,790
Difference in cost conversion	(1,855)	(461)	-	-	(365)	(2,681)
Allocation to depreciation	(408,339)	(77,392)	(266,231)	(1,093)	-	(753,055)
Accumulated depreciation disposals	48,200	69,892	65,399	637	-	184,128
Amortisation transfers (Notes 7 and 8)	(12,532)	(1,247)	(1,901)	(10)	-	(15,690)
Conversion difference amortisation	430	61	-	-	-	491
Impairment allocation year (Note 4.a)	(41,792)	(2,434)	(1,418)	-	(361)	(46,005)
Carrying amount at 31 December 2018	**10,692,387**	**412,776**	**1,349,125**	**4,444**	**414,049**	**12,872,781**
On 31 December 2018						
Cost or valuation	17,004,412	1,382,052	4,676,197	143,004	414,410	23,620,075
Accumulated depreciation	(6,270,233)	(966,842)	(3,325,654)	(138,560)	-	(10,701,289)
Impairment	(41,792)	(2,434)	(1,418)	-	(361)	(46,005)
Carrying amount at 31 December 2018	**10,692,387**	**412,776**	**1,349,125**	**4,444**	**414,049**	**12,872,781**

	Land and buildings	Plant and machinery	Other facilities, tools and furnishings	Other property, plant and equipment	Property, plant and equipment under construction	Total
On 01 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 01 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
Conversion difference amortisation	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**
On 31 December 2017						
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**

(Amounts in thousands of euros unless otherwise stated)

The main additions recognized in 2018 and 2017 are described below:

Land and buildings

During 2018, the additions in land and buildings amounted to 102,389 thousand euros. The main additions of the period were the "General adaptation of the platform" of the Tenerife Sur airport, the planned actions related to the "Sound insulation plans" of the airports of Palma de Mallorca and Valencia, and the "Screeding of the paving on runway 12/30" of Bilbao airport.

The most significant examples of commissioning have been the "Reconstruction of platforms B and C" and the "Increase in the peak capacity of the SATE and new functionalities in check-in" at the airport of Palma de Mallorca, the "Regeneration of the pavement of runway 07L-25R" of Barcelona-El Prat airport, the "Screed of runway" of Fuerteventura airport, and the "New flooring on the ground floor of T1 and T2" of Adolfo Suárez-Madrid Barajas airport .

In 2017, the additions in land and buildings amounted to 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.

The Group owns real estate whose separate net values for construction and land, at the close of financial year 2018 and 2017, are the following:

	2018	**2017**
Cargo logistics centres	3,540,519	3,538,908
Buildings	7,151,868	7,390,801
Total	**10,692,387**	**10,929,709**

Technical facilities, machinery, furniture and other fixed assets

In 2018, the additions in this item of property, plant and equipment amounted to 120,763 thousand euros, highlighting the following :

- Supply and installation of new passport control systems, put into use at Palma de Mallorca, Alicante and Barcelona-El Prat airports.
- Actions related to the marking of the flight field at Malaga airport.
- Expansions multi-service networks of several airports in the network.
- Supply of new benches for passengers at the T4 and T4S of Adolfo Suárez-Madrid Barajas airport.
- New electromechanical installations to improve vertical communications at Adolfo Suárez-Madrid Barajas Airport.
- Acquisition of communications and videoconference equipment of the Central Services of AENA.

The most representative additions in 2017 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.

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

In financial year 2018, the additions in fixed assets totalled 284,374 thousand euros. The main additions of fixed assets underway relate to work involving the expansion of the terminal building, new baggage transport system and development of the London Luton airport transport system, the work related to the “General adaptation of the platform” of Tenerife Sur airport, “Extensions of multi-service networks” of several airports in the network, and “Supply and installation of new passport control systems” at Adolfo Suárez-Madrid Barajas, Málaga, Ibiza and Menorca airports.

In addition to those indicated in the previous paragraph, the main actions that are in execution at 31 December 2018, are the “Expansion air conditioning/heating ring of modules C and D” of Palma de Mallorca airport, and “Boarding bridges and service equipment” of Málaga airport, among others. And at Luton airport, the investments in the Curium Project, 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. This project, which is aimed to increase the airport’s current capacity of 12 million passengers per year to 18 million by 2019, is making significant progress in all its areas.

In financial year 2017, the additions to the fixed assets underway totalled 273,166 thousand euros. The main additions to the fixed assets underway referred to the “Regeneration of the pavement of runway 07L-25R” at Barcelona- El Prat 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; and the investments relating to the Curium Project at Luton airport.

In addition to those indicated in the previous paragraph, the main actions that were in execution at 31 December 2017 were the works involving the general adaptation of the platform of Tenerife Sur airport, the increase of peak capacity of the SATE of Palma de Mallorca airport, and the extension of the terminal building of Reus airport.

<u>Disposals of non-financial fixed assets</u>

During the 2018 period, old assets were withdrawn in the realisation of their renovation, such as the screed works of the runway of the La Palma airport, and platforms B and C of the Palma de Mallorca airport and the floors of the T1 of Adolfo Suárez-Madrid Barajas airport; and various facilities at Barcelona-El Prat and Adolfo Suárez Madrid-Barajas airports.

In addition, in 2018 and 2017, losses are included corresponding to reversals of provisions provided for expropriations or claims from suppliers, when favourable judgements were passed for AENA (see Note 23).

Disposals of property, plant and equipment in 2018 assigned to income have resulted in a total negative result of 16,696 thousand euros (the negative result of 16,107 thousand euros in the accompanying income statement also includes one thousand euros of losses on disposals of property, plant and equipment and -209 thousand euros of losses from real estate investments and 799 in profit from property, plant and equipment). In addition, disposals included the following items whose amount has not been assigned to the income statement:

(Amounts in thousands of euros unless otherwise stated)

- 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, which have been charged to the provisions for risks and expenses accounts (see Note 21) amounted to a total of 13,523 thousand euros.
- Payments to suppliers of fixed assets in relation to amounts activated in previous years, amounted to 6,628 thousand euros.

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-El Prat and Adolfo Suárez Madrid-Barajas airports when they were refurbished.

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 intangible fixed assets 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.

<u>Capitalized interest costs</u>

During the year the Group had activated costs for interest for an amount of 570 thousand euros (2017: 492 thousand euros) (Note 31).

<u>Impairment test of property, plant and equipment:</u>

On 15 January 2019, the interruption of civil air operations at Murcia San Javier Air Base (see Note 36) has occurred. This fact is considered to be one of the assumptions that the applicable regulations include within the so-called “signs of impairment” of an asset. Also, given that, at 31 December 2018, the cash flows derived from the continued use thereof, up to its definitive closure, are insignificant, it can be estimated that the value in use of San Javier is very close to its fair value less the costs of sale. As a result, the impairment test has been performed at individual level of said airport and an impairment loss amounting to 46,249 thousand euros has been recognised corresponding to the carrying amount of all the assets that could not be reused in the AIRM or in the rest of the airports of the network, with the following breakdown:

	2018
Other fixed intangible assets	(244)
Land and buildings	(41,792)
Plant and machinery	(2,434)
Other facilities, tools and furnishings	(1,418)
Fixed intangible assets underway	(361)
Total	**(46,249)**

On the other hand, the balance of the capital grants related to the aforementioned assets has also been applied to results for an amount of 26,700 thousand euros, giving rise to a net impact in the accompanying income statement of 19,549 thousand euros.

In 2018 and 2017, the Group has not detected any signs of impairment of fixed assets other than those mentioned in the previous paragraph. As outlined in Note 4.1, on 31 December 2018 the Group’s management reviewed the 2018 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 2018 and 2017, the Group performed the impairment test for the network of airports and did not identify significant impacts in the annual accounts on 31 December 2018 and on 31 December 2017, respectively, including after applying sensitivities on the variables used. The main premises used in 2018 and 2017 were the following:

(Amounts in thousands of euros unless otherwise stated)

Growth rate	1.50 %
Before-tax discount rate	6.98 %
Post-tax discount rate	5.23 %

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 2018, 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 2018, property, plant and equipment include a cogeneration plant at Adolfo Suárez Madrid-Barajas Airport, a support computer for the intrusion detection system at the AENA central services building (acquired in 2018) 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 2017, this also included an automated flight inspection system (console).

The amounts are shown below:

	31 December	
	2018	**2017**
Cost- capitalized finance leases	23,764	23,684
Accumulated depreciation	(10,808)	(9,138)
Carrying amount	**12,956**	**14,546**

(Amounts in thousands of euros unless otherwise stated)

The maturity of the rental contracts are as follows:

	31 December	
	2018	**2017**
Gross finance lease liabilities, minimum lease payments:		
– Less than one year	3,093	3,045
– Between 1 and 5 years	12,438	12,179
– More than 5 years	8,856	11,949
	24,387	27,173
Future financial charge by financed lease	(4,182)	(4,869)
Present value of finance lease liabilities	**20,205**	**22,304**

The present value of finance lease liabilities is as follows:

	31 December	
	2018	**2017**
– Less than one year	2,247	2,153
– Between 1 and 5 years	9,926	9,431
– More than 5 years	8,032	10,720
TOTAL	**20,205**	**22,304**

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, 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 figures for 2017 also include those relating to the civil operation of the Murcia San Javier airport, which is currently interrupted.

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 statement of financial position and the income statement:

	31 December	
	2018	**2017**
- Non-current assets	183,490	245,464
- Non-current/corrientes liabilities	-	-
Net assets	**183,490**	**245,464**

	2018	**2017**
- Income	15,585	27,924
- Expenses	(34,520)	(43,489)
Profit/ (loss) after taxes	**(18,935)**	**(15,565)**

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"), for an amount of 257,852 thousand euros at 31 December 2018, 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.

(Amounts in thousands of euros unless otherwise stated)

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).

7 Intangible assets

The movement of this heading during 2018 has been as follows:

	Service concessions	Development	Software	Goodwill LLAH III	LLAH III concession	Other fixed intangible assets	Fixed intangible assets in progress	Total
On 1 January 2018								
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 01 January 2018	**10,741**	**-**	**34,121**	**1,872**	**390,492**	**1,719**	**52,228**	**491,173**
Additions	47,764	-	15,951	-	-	-	4,821	68,536
Disposals	-	-	(396)	-	-	(851)	(1,280)	(2,527)
Transfers (Notes 6 and 8)	-	-	7,220	-	-	631	(7,471)	380
Foreign exchange translation differences	-	-	-	-	(3,969)	-	-	(3,969)
Allocation to amortisation and impairment (*)	(708)	-	(17,606)	-	(29,555)	(1,083)	-	(48,952)
Accumulated depreciation disposals	-	-	369	-	-	851	-	1,220
Amortisation transfers (Notes 6 and 8)	-	-	28	-	-	-	-	28
Conversion difference amortisation	-	-	-	-	1,107	-	-	1,107
Carrying amount at 31 December 2018	**57,797**	**-**	**39,687**	**1,872**	**358,075**	**1,267**	**48,298**	**506,996**
On 31 December 2018								
Cost	65,163	1,608	272,609	1,872	482,305	92,843	48,298	964,698
Accumulated depreciation and impairment losses	(7,366)	(1,608)	(232,922)	-	(124,230)	(91,576)	-	(457,702)
Carrying amount at 31 December 2018	**57,797**	**-**	**39,687**	**1,872**	**358,075**	**1,267**	**48,298**	**506,996**

(*) An impairment of 244 thousand euros is included in the amount of the provision for the amortisation of other intangible assets due to the interruption of activity at Murcia San Javier Airport (see Notes 4.a and 6)

There are no individually significant intangible assets.

The most important additions of the year correspond to the administrative concession related to the AIRM. In this sense, in 2018, the Group formalised a contract for the management of public services with a concession modality with the Autonomous Community of the Region of Murcia, for the management, operation, maintenance and conservation of Murcia International Airport. The duration of the concession will be 25 years on the terms of the formalisation of the contract. The Group has rated the consideration received as intangible assets, given that such consideration consists of the right to charge the corresponding rates based on the degree of utilisation of the public service provided, assuming the demand risk. Thus, the intangible asset derived from the concession agreement has been valued for the consideration paid or payable, without considering the contingent payments associated with the operation, that is, the updated value of the minimum guaranteed fees, with a result of 46,457 thousand euros. During the year, various investments were made in improvements to the cited infrastructure, totalling the figure of 47,764 thousand euros corresponding to said concession.

(Amounts in thousands of euros unless otherwise stated)

The movement of this heading during 2017 was as follows:

	Service concessions	Development	Software	Goodwill LLAH III	LLAH III concession	Other fixed intangible assets	Fixed intangible assets in progress	Total
On 01 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 01 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
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**
On 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**

At year-end of the 2018 and 2017 financial periods, there are no intangible fixed assets subjected to guarantees.

Of the total costs activated on 31 December 2018 and 2017 in the different kinds of intangible fixed assets include assets underway in accordance with the following breakdown (in thousand euros):

	2018	**2017**
Software	10,240	15,534
Other fixed intangible assets	38,058	36,694
Total	**48,298**	**52,228**

On the other hand, the main additions in 2018 and 2017 financial periods 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. Noteworthy in 2018 and 2017 are the investments in free Wi-Fi systems at several airports in the network and in 2017 the elements related to cybersecurity.

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

In the 2018 financial period, a total of 36 thousand euros in financial expenses were activated associated with intangible fixed assets (2017: 33 thousand euros) (Note 31).

Service concessions:

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

- Ceuta Heliport:

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 bis of Law 27/92, the Company pays a fee amounting to 0.823386 euros per passenger to the Port Authority, depending on volume of passengers.

- Algeciras Heliport:

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

On the perimeter of the Group's consolidation, the accounts of the London Luton Airport Holdings III Limited (LLAH III) have been wholly integrated since 16 October 2014 (see Note 2.2.1); 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).

- International Airport of the Region of Murcia

As mentioned in Note 2.2 a) the consolidation perimeter of the group globally integrates as of 1 January 2018 the accounts of the group of the company AIRM, S.M.E., S.A., created with the objective of managing the International airport of the Region of Murcia under concession. The summarised main lines of the concession agreement are:

- Once the total term of the concession has ended, the full and unlimited possession of the land and all the existing facilities (including the useful expenses made by the concessionaire and the improvements that may have been incorporated by it) will revert to the Autonomous Community of the Region of Murcia without there being any right to compensation in favour of the Concessionaire.

- Obligation to operate, maintain and preserve the AIRM.

- Right to receive remuneration for the use of the facilities and for the provision of services and activities related to traffic and air transport (landing fees, economic exploitation of the terminal and passenger services, merchandise and air transport companies) or linked to airport management, as well as related activities.

- Before the commissioning of the Airport, the Concessionaire will propose to the granting Administration for its approval the maximum rates to be applied for the airport services, as well as for any other service and activity that it carries out at the Airport. Likewise, before the start of each calendar year, it must propose the updated rates for their approval.

- For its part, the Administration receives an operating fee for passenger traffic, which will be the result of applying a certain amount in concept of rate per passenger/year to the volume of traffic that is reflected in the Annual Traffic Act. The Economic Bid establishes the Traffic Threshold of one million passengers, from which the Company will remunerate the passenger traffic, from the first thereof. The Administration will also have the right to receive a guaranteed minimum fee and to participate in the income derived from the traffic of merchandise.

(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 2018 and 2017 the Group performed impairment tests on the non-amortised intangible assets and did not identify any adjustments as of 31 December 2018 and 2017, 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, in 2018 and 2017, to calculate value-in-use are as follows:

Growth rate	1.50 %
Before-tax discount rate	6.98 %
Post-tax discount rate	5.23 %

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

On 31 December 2018, 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 2018, 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 2018: 0.89453; 2017: 0.887230). 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 18 million passengers in 2021; beyond 2021 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 10.79 % was used (2017: 9.25 %). 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.

(Amounts in thousands of euros unless otherwise stated)

− **Sensitivity to changes to the assumptions**

On 31 December 2018 and 2017, 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 2018, 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 2018 and 2017, is greater than the carrying amount of the fixed assets mentioned.

Goodwill stemming from the acquisition of LLAH III (Note 2.2)

In accordance with the impairment calculations carried out, at the end of 2018, 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.

8 Real estate investments

	Land and buildings	Technical installations and other property, plant and equipment	Total
On 1 January 2018			
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 01 January 2018	**134,892**	**216**	**135,108**
Additions	4,410	-	4,410
Disposals	(408)	(168)	(576)
Transfers (Notes 6 and 7)	4,667	10	4,677
Allocation to depreciation	(4,579)	(40)	(4,619)
Disposals	214	154	368
Amortisation transfers (Notes 6 and 7)	(1,181)	(4)	(1,185)
Carrying amount at 31 December 2018	**138,015**	**168**	**138,183**
On 31 December 2018			
Cost or valuation	238,019	5,900	243,919
Amortisation	(93,761)	(5,732)	(99,493)
Accumulated impairment losses	(6,243)	-	(6,243)
Carrying amount at 31 December 2018	**138,015**	**168**	**138,183**

(Amounts in thousands of euros unless otherwise stated)

	Land and buildings	Technical installations and other property, plant and equipment	Total
On 01 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 01 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**
On 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**

This heading mainly includes real estate assets 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 2018 and 2017 there were no investment properties subject to guarantees.

The Company's policy is to obtain insurance policies to cover all risks that could affect its investment properties. At the end of 2018 and 2017 the Company had reasonably covered these risks.

In 2018, the additions in real estate investments totalled 4,410 thousand euros, 137 thousand of which correspond to reversals upon the end of contracts of assets built by third parties on leased plots, 3,300 thousand euros correspond to the acquisition of a warehouse exercising the pre-emptive right and the remainder primarily from refurbishment projects of different buildings.

In 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.

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

	2018	**2017**
Rent income	66,940	59,366
Direct operating expenses	(36,924)	(35,704)

(Amounts in thousands of euros unless otherwise stated)

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

	Thousand euros	
	2018	**2017**
Cargo logistics centres	302,855	329,432
Buildings	592,602	499,649
Total	**895,457**	**829,081**

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 2018 with the goal of determining the fair value of its real estate investments, as it did for 31 December 2017.

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.

(Amounts in thousands of euros unless otherwise stated)

9 Equity-accounted investees

The breakdown and movement of this item in the years 2018 and 2017 is as follows (in thousand euros)

2018

	Balance at 01 January 2018	**Additions/Reductions (Capital reduction)** (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)	**Other**	**Balance at 31 December 2018**
SACSA	4,873	-	5,159	(6,796)	103	-	-	3,339
AMP (*)	54,093	(3,518)	13,579	(10,772)	2,068	-	1,359	56,809
AEROCALI (**)	4,989	-	1,417	(907)	(214)	-	-	5,285
Total	**63,955**	**(3,518)**	**20,155**	**(18,475)**	**1,957**	**-**	**1,359**	**65,433**

2017

	Balance at 01 January 2017	**Additions/Reductions (Capital reduction)** (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)	**Other (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**

(*) The impact of the reduction of capital in AMP explained in Note 2.2. on accumulated profits was (116) thousand euros (2017: 699 thousand euros). On 19 December 2018, AMP sold 250,000 shares of the GAP series B, which represents 0.04% of GAP's total shares. In accordance with the foregoing, as of 31 December 2018, AMP has a total holding in GAP of 17.37%. The impact that this operation has had on the value of the AMP investment is reflected in the "Other" caption.

(**) 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 17.37 % 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.

(Amounts in thousands of euros unless otherwise stated)

The audited information expressed under IFRS relating to Associates and joint control at 31 December 2018 and 2017, measured in euros at the exchange rate in force at the end of each of the years, is as follows:

Name	Country of constitution	Assets	Liabilities	Operating income	Profit/ (Loss)	% of ownership
31 December 2018:						
- SACSA	Colombia	25,835	17,023	341	13,614	37.89%
- AMP	Mexico	177,566	13,501	18,122	40,740	33.33%
- AEROCALI	Colombia	26,858	16,287	38,040	2,834	50.00%
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 %

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

	2018	2017
Non-current assets	160,701	155,299
Current assets	16,865	11,499
Current liabilities	13,502	10,881
Ordinary revenue	18,122	16,759
Results of the year from ongoing operations	40,740	38,673
Total overall profit/(loss)	40,740	38,673

10 Financial instruments

10 (a) Financial instruments by category

	31 December 2018			
	Loans and receivables	Hedging derivatives	Available for sale	Total
Assets in the statement of financial position				
Derivative financial instruments	-	1,144	-	**1,144**
Other financial assets	72,507	-	347	**72,854**
Trade and other receivables (excluding pre- payments and non-financial assets) (Note 13)	433,646	-	-	**433,646**
Cash and cash equivalents (Note 15)	651,380	-	-	**651,380**
Total	**1,157,533**	**1,144**	**347**	**1,159,024**

	31 December 2018		
	Hedging derivatives	Other financial liabilities at amortized cost	Total
Liabilities in the statement of financial position			
Borrowings (excluding finance lease liabilities) (Note 20)	-	7,285,301	**7,285,301**
Finance leases (Note 20)	-	20,205	**20,205**
Financial derivatives (Note 12)	89,283	-	**89,283**
Trade and other payables (excluding non- financial liabilities) (Note 19)	-	465,686	**465,686**
Total	**89,283**	**7,771,192**	**7,860,475**

	31 December 2017			
	Loans and receivables	Hedging derivatives	Available for sale	Total
Assets in the statement of financial position				
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)	316,755	-	-	**316,755**
Cash and cash equivalents (Note 15)	854,977	-	-	**854,977**
Total	**1,243,238**	**360**	**347**	**1,243,945**

	31 December 2017		
	Hedging derivatives	Other financial liabilities at amortized cost	Total
Liabilities in the statement of financial position			
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**

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	**2018**	**2017**
Clients with external credit rating *(Source Reuters)*		
BBB	69.2	36.1
BB+	3.1	2.7
B	2.1	0.7
Clients without external credit rating		
Group 1	6.1	2.9
Group 2	328.2	260.6
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)

10 (c) Concentration of credit risk

The Group has determined that the application of the impairment requirements of IFRS 9 to existing financial assets has produced the following variation in the provision for impairment during the 2018 financial period:

(In thousand euros)

	Trade and other receivables	*Other financial assets and treasury*	*Total*
Balance of the provision for impairment as of 1 January 2018 under IFRS 9 (Note 2.1.2)	**115,902**	**1,618**	**117,520**
Variation of the provision during 2018:			
Provision reversal for value impairment of trade and other receivables	(7,831)	-	(7,831)
Impairment of other financial assets	-	238	238
Cash and cash equivalents	-	(9)	(9)
Balance of the provision for impairment as of 31 December 2018 under IFRS 9	**108,071**	**1,847**	**109,918**

The following analysis provides additional information on the calculation of expected credit losses by financial asset category:

Customers and other commercial and leasing receivables (see Note 13)

Of the reversal of 7,831 thousand euros in the provision for impairment of customers and other accounts receivable, 1,268 thousand euros would not have occurred under the previous IAS 39 standard.

Other financial assets (guarantees and sureties constituted)

The main impact is due to the high risk situation for some bonds that has led to calculate the expected loss for its entire average life (3 years). The estimated total loss expected for this heading as of 31 December 2018 has amounted to 1,841 thousand euros; given that at 01 January 2018 an expected loss of 1,603 thousand euros had been estimated (see Note 2.1 B (ii)), the difference was allocated during the year, producing an unfavourable impact on results of 238 thousand euros.

Cash and cash equivalents

The total estimated loss expected for this heading as of 31 December 2018 has amounted to 6 thousand euros; given that an expected loss of 15 thousand euros had been estimated at 01 January 2018 (see Note 2.1 B ii), the difference has been reversed during the period, producing a favourable impact on results of 9 thousand euros.

11 Other financial assets

As of 31 December 2017, this heading was classified as “Available-for-sale financial assets” (see Note 2.1.2.1). Its movement during 2018 has been:

	31 December	
	2018	**2017**
At 1 January	**347**	**354**
Reclassification to “other financial assets”	(347)	-
Disposals	-	(7)
At 31 December	**-**	**347**

(Amounts in thousands of euros unless otherwise stated)

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 2018	2017	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	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 2018 and 2017 is as follows (in thousand euros):

Name and Address	Amount of share 2018	2017
Agencia Barcelona Regional. Edificio Centreservei, Zona Franca Carrer 60, 25-27 Barcelona	180	180
Airport Concessions and Development Limited (ACDL) 10, Upper Bank St- London – UK	-	-
European Satellite Service Provider, SAS (ESSP SAS) Toulouse – France	167	167
	347	**347**

None of these companies is listed on the stock market.

In financial years 2018 and 2017, 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.

In 2018 the group received a dividend from European Satellite Services Provider SAA (ESSP SAS) amounting to 500 thousand euros (2017: 417 thousand euros).

On 31 December 2018 and 2017, 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.

These financial assets are denominated in euros at 31 December 2018 and 2017 and 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.

(Amounts in thousands of euros unless otherwise stated)

12 Derivative financial instruments

The breakdown of the fair value of the derivative financial instruments at 31 December 2018 and 31 December 2017 is shown in the following table.

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges AENA	-	89,283	-	82,655
Interest rate swaps - cash flow hedges LLAH III	1,144	-	360	-
Total	**1,144**	**89,283**	**360**	**82,655**
Current portion	**-**	**32,740**	**-**	**37,010**
Non-current portion	**1,144**	**56,543**	**360**	**45,645**

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 2018 and 31 December 2017, 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.

The fair value of the interest swaps has been obtained by updating the net cash flows expected during the contractual period, using at each time of valuation the discount factors obtained from the zero coupon curve. In order to estimate the variable cash flows, the *forward* rates or implicit rates obtained from the zero coupon interest rates existing in the market at the time of the valuation of the interest swap. The fair value thus obtained is adjusted for credit risk, understanding credit risk for both the credit risk of the counterparty and the credit risk itself when necessary. In order to quantify the credit risk of a financial agent, there are three methodologies commonly accepted in the market, which are applied in the following order of priority: 1) Whenever there is *Credit Default Swap* (CDS) quoted in the market, the credit risk is quantified based on its market price. 2) Whenever there are debt issues accepted for trading in the different financial markets, the quantification of credit risk can be obtained as the differential between the internal rate of return (*yield*) of the bonds and the risk-free rate. 3) If it is not possible to obtain the quantification of the risk following the two previous methodologies, the use of comparables is generally accepted, that is, to take as a reference companies or bonds of companies of the same sector as the one that we want to analyse.

<u>**Interest rate swaps**</u>

- 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 31/12/2018	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 0.144 % against variable interest rate (Eur6M)	290,000 (*)	145,000	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	664,300	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	1,941,420	10/06/2015	15/06/2015	15/12/2026	10/06/2015

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

(Amounts in thousands of euros unless otherwise stated)

The sums of notional principal in those interest rate swap contracts outstanding at 31 December 2018 amounted to 2,750,720 thousand euros (31 December 2017: 3,064,713 thousand euros).

The balance recognised in the reserve for equity cover in interest rate swap contracts at 31 December 2018 will be continuously transferred to the income statement until the bank loans are repaid. During 2018, 37,333 thousand euros were assigned to the income statement as losses on hedging instruments (in 2017: 40,347 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 89,283 thousand euros on 31 December 2018 (31 December 2017: 82,655 thousand euros) and its breakdown between current and non-current parts is as follows:

Fair value registered in "Non-current liabilities" on 31 December 2018 (in thousand euros)	Fair value registered in "Current liabilities" on 31 December 2018 (in thousand euros)
56,543	32,740
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

At 31 December 2018, if the interest rate had increased or decreased by 20 basis points, keeping the rest of the variables constant, the liabilities for said derivatives would have been 27,256 thousand euros lower and 27,669 thousand euros higher, respectively (31 December 2017: 32,709 thousand euros lower and 33,271 thousand euros higher, respectively); and the profit before taxes for 2018 would have been 1,638 thousand euros higher and 1,638 euros lower, respectively (2017: 1,802 thousand euros more and 1,802 thousand euros less, respectively).

On 31 December 2018 and 2017, hedging derivatives were effective and met the requirements needed to apply hedge accounting (see Note 2.1.2.1.B(iv)), such that there is no ineffectiveness recorded in the income 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**				

(Amounts in thousands of euros unless otherwise stated)

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 2018 was 1,144 thousand euros at the exchange rate at year-end of 2018 (31 December 2017: long-term assets of 360 thousand euros at the exchange rate at year-end of 2017).

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 (see Note 2.1.2.1.B(iv)).

13 Trade and other receivables

	Thousand euros	
	2018	**2017**
Trade receivables for sales and services rendered	522,880	411,906
Credit right to receive a building	3,259	2,958
Lower: provision for impairment losses on receivables	(108,071)	(114,977)
Trade receivables for sales and services rendered – net	418,068	299,887
Trade receivables from related parties (Note 34)	4,912	3,523
Other receivables from related parties (Note 34)	1,529	4,309
Sundry debtors and other assets	9,137	9,036
Accruals for anticipated expenses	14,017	12,196
Staff	868	371
Current tax assets	-	34
Other receivables from public administrations	9,566	25,284
Total	**458,097**	**354,640**
Less non-current portion	**3,259**	**2,831**
Current portion	**454,838**	**351,809**

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

At 31 December 2018 this heading showed 34,864 thousand euros denominated in foreign currency, of which 29,392 thousand euros are denominated in pounds sterling (2017: 27,538 thousand euros denominated in foreign currency, of which 21,553 thousand euros are denominated in pounds sterling).

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 amounts to 3,259 thousand euros at 31 December 2018 (2,831 thousand euros at 31 December 2017).

(Amounts in thousands of euros unless otherwise stated)

The heading "Sundry debtors" mainly 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. Likewise, taxes and deposits with a maturity of less than twelve months but more than three months are also included.

At 31 December 2018, "Other receivables from public administrations" records 1,619 thousand euros relating to ERDF grants receivable awarded to the Company (2017: 15,913). At 31 December 2018 and 2017, the rest of the line item records receivables relating to indirect taxes.

Likewise, of the balance of customers amounting to 418,068 thousand euros, at 31 December 2018, there are accounts receivable pending maturity and not provisioned for the amount of 400,637 thousand euros (2017: 285,089 thousand euros) and accounts receivable totalling 17.431 thousand euros (2017: 14.798 thousand euros) matured 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.

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

	Thousand euros	
	2018	**2017**
Up to 3 months	11,866	9,846
Between 3 and 6 months	2,993	1,277
More than 6 months	2,572	3,675
	17,431	**14,798**

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	
	2018	**2017**
Less than 3 months	118	358
Between 3 and 6 months	33	72
More than 6 months	107,920	114,547
	108,071	**114,977**

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

	Thousand euros	
	2018	**2017**
Beginning balance	114,977	123,452
Adjustment to IFRS 9 (see Note 2.1.2.1)	925	-
Provision for impairment of the value of receivables	(7,326)	(8,642)
Other movements	(505)	167
At 31 December	**108,071**	**114,977**

The allocation and application of the provision of the accounts receivable impaired in 2018 has been included in the line "Losses, impairment and variation of provisions for commercial transactions", in accordance with the provisions of IFRS 9 (see Note 2.1.2.1). In 2017, they were included in the line "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 negative change of 7,326 thousand euros (2017: negative variation of 8,642 thousand euros) in the provision for impairment due to transactions, in the 2018 financial period, in the heading "Losses, impairment and variation in provisions for transactions" of the profit and loss statement, losses of 5,513 thousand euros (2017: 2,571 thousand euros) were posted for permanent disposals given by the State Tax Administration Agency from debts sent to debt collection proceedings, up to 1,813 thousand euros positive which appear in that heading (2017: 6,072 thousand euros). (Note 30).

(Amounts in thousands of euros unless otherwise stated)

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 statement of financial position date is the carrying amount of each of the categories of the aforementioned receivables. The Group does not maintain any guarantee as insurance.

14 Inventories

	Thousand euros	
	2018	**2017**
Raw materials and other supplies	7,258	7,051
Total inventories	**7,258**	**7,051**

The balance of raw materials and other supplies primarily includes materials and spare parts used in the operational activities.

15 Cash and cash equivalents

	Thousand euros	
	2018	**2017**
Cash and bank deposits	651,380	854,977
Cash and cash equivalents	**651,380**	**854,977**

At 31 December 2018 and 2017, there are no cash balances and other equivalent liquid assets that are not available for use. At 31 December 2018 and 2017 the Group does not have any bank overdrafts.

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

	2018	**2017**
Cash and cash equivalents in US dollars (USD)	-	2,094
Cash and cash equivalents in Great Britain Pound (GBP)	19,829	30,834

16 Share capital and share premium

The number of shares and the amount of share capital and share premium of the parent Company in both 2018 and 2017 are as follows:

	Thousand euros		
Number of shares	**Share Capital**	**Share premium**	**Total**
150,000,000	1,500,000	1,100,868	**2,600,868**

The Parent Company was created on 31 May 2011 with an initial capital of 61 shares, each with a nominal value of 1,000 euros, subscribed in their entirety by the public business entity Aeropuertos Españoles and Navegación Aérea.

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

- 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.

(Amounts in thousands of euros unless otherwise stated)

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 2018 and 2017, 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 2018, there are no capital increases in progress nor authorisations to operate in own shares.

According to the information available, on 31 December 2018 the shares over 10% are the following:

ENAIRE	51.00 %

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)

Retained earnings

	Legal reserve	Capitalisation reserve	Other reserves	Total
On 01 January 2017	**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
On 31 December 2017	**299,199**	**70,566**	**2,810,259**	**3,180,024**
Adjustments for adoption of IFRS 9	-	-	(795)	(795)
Profit from the year	801	-	1,327,081	1,327,882
Allocation to capitalisation reserve		43,060	(43,060)	-
Dividends paid	-	-	(975,000)	(975,000)
Other movements	-	-	2,524	2,524
On 31 December 2018	**300,000**	**113,626**	**3,121,009**	**3,534,635**

On 31 December 2018, the heading "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 (116) thousand euros (2017: 699 thousand euros, offset by the payment of the tax on wealth of (32) thousand euros made in Aerocali) (Note 9), as well as the impact of 1,359 thousand euros from the sale of 250,000 shares of GAP series B described in Note 9. Also included in this heading is the contribution of minority shareholders in LLAHIII for a value of 1,730 thousand euros, offset by the impact of (31) thousand euros when accounting for the market value of the services provided to the parent company ENAIRE for employee parking.

This heading also includes an amount of 113,626 thousand euros of the capitalisation reserve that has been allocated in accordance with Articles 25 and 62 of the Corporate Income Tax Law, which establishes that the reserve be set aside for the amount of the right to the reduction of the tax base of the tax group for the year. The right to reduce the tax group's tax base amounts to 10% of the increase of the equity of the tax group, as defined in said article, without in any case exceeding the amount of 10% of the positive tax base of the tax group of the tax period prior to the reduction and integration referred to in section 12 of Article 11 of the Law and the compensation of negative tax bases. However, in the event of insufficient tax base of the tax group to apply the reduction, the pending amounts may be applied in the tax periods ending in the two years immediately following the closing of the tax period in which the right to the reduction was generated, together with the reduction that may correspond in that year and with the indicated limit. The reserve is unavailable and is conditioned on maintaining the increase of the equity of the tax group for a period of 5 years from the close of the tax period to which the reduction corresponds, except for the existence of accounting losses.

(Amounts in thousands of euros unless otherwise stated)

Proposed allocation of profits

The allocation of profits from financial year 2018 proposed by the Management Board of the parent company AENA S.M.E., S.A. under the General Accounting Plan approved by Royal Decree 1514/2007 in the General Shareholders' Meeting, is the following:

	Thousand euros
	2018
Allocation basis:	
Profit and Losses (Profits)	1,301,182
Application:	
Dividends	1,039,500
Capitalisation reserve (Law 27/2014)	20,089
Voluntary reserve	241,593

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

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.

After the application of the Profit for the year 2017, at year-end of 2018 the legal reserve amounts to 300,000 thousand euros (31 December 2017: 299,198 thousand euros), reaching the minimum limit legally established in accordance with Article 274 of the Law on Capital Companies.

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

After this approval by the General Shareholders' Meeting, during 2018 the proposed dividend of 975,000 thousand euros was paid (year 2017: payment of dividends of 574,500 thousand euros).

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.

(Amounts in thousands of euros unless otherwise stated)

18 Non-controlling interests and Other reserves

a) Non-controlling interests

The composition of non-controlling interests is as follows:

	Segment	Country	Minority interest	2018	2017
LLAH III (Note 2.2)	International	United Kingdom	49 %	(11,064)	5,426
				(11,064)	**5,426**

The movement of these minority interests in 2018 and 2017 were as follows:

	LLAH III
On 01 January 2017	**32,400**
Distribution of dividends	(17,631)
Total contributions by and distributions to shareholders recognised in equity	**(17,631)**
Profit for the period	(10,036)
Other comprehensive income for the year	693
Total comprehensive profit (/loss) for the period	**(9,343)**
On 31 December 2017	**5,426**
Distribution of dividends	(18,390)
Other movements	1,263
Total contributions by and distributions to shareholders recognised in equity	**(17,127)**
Profit for the period	(131)
Other comprehensive income for the year	768
Total comprehensive profit (/loss) for the period	**637**
On 31 December 2018	**(11,064)**

(Amounts in thousands of euros unless otherwise stated)

b) Other reserves

	Note	Hedging derivatives	Actuarial gains and losses	Foreign exchange translation differences	Results of associates	Total
On 01 January 2017		**(101,830)**	**(11,310)**	**(16,261)**	**30**	**(129,371)**
Cash flow hedges		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)
On 31 December 2017		**(64,225)**	**(11,729)**	**(22,523)**	**23**	**(98,454)**
Cash flow hedges		(42,837)	-	-	-	(42,837)
Actuarial gains and losses		-	(443)	-	-	(443)
Tax effect		10,796	81	-	-	10,877
Transfers to the income statement		37,333	-	-	-	37,333
Tax effect		(9,332)	-	-	-	(9,332)
Share in other comprehensive income of associates	9	-	-	-	-	-
Translation differences - associates	9	-	-	1,957	-	1,957
Translation differences - group		-	-	265	-	265
On 31 December 2018		**(68,265)**	**(12,091)**	**(20,301)**	**23**	**(100,634)**

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 2018			
Items which may be reclassified after the results:			
Cash flow hedges (Note 32)	(4,040)	897	(3,143)
Foreign exchange translation differences	2,222	146	2,368
Actuarial gains and losses (Note 32)	(362)	(275)	(637)
Total	**(2,180)**	**768**	**(1,412)**
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**

(Amounts in thousands of euros unless otherwise stated)

19 Trade and other payables

	31 December	
	2018	**2017**
Suppliers	777	229
Trade payables	212,750	187,550
Creditors from related parties (Note 34)	29,958	29,566
Asset suppliers	191,172	200,073
Payables to related parties for property, plant and equipment (Note 34)	2,230	5,034
Staff	28,799	30,376
Current tax liabilities	24,889	3,279
Social Security and other taxes	26,072	20,727
Advance from World Duty Free Group	41,714	40,497
Other prepayments from customers	79,577	71,088
	637,938	**588,419**

In 2018 this heading included 78,584 thousand euros which were originally expressed in pounds sterling (2017: 65,931 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.

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* specialty 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 2018 short-term advances amounted to 41,714 thousand euros (2017: 40,497 thousand euros), and long-term advances included in the heading "Other non-current liabilities", amounted to 38,296 thousand euros (2017: 80,011 thousand euros) (Note 25).

Information on postponements of payments made to suppliers

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:

	2018	**2017**
	Days	**Days**
Average payment period	48	51
Average collection period	51	54
Ratio of outstanding payments	21	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).

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 statement of financial position.

	2018	**2017**
	Amount (thousand euros)	**Amount (thousand euros)**
Total payments made	850,582	802,499
Total payments outstanding	97,306	79,496

In 2018 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 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.

(Amounts in thousands of euros unless otherwise stated)

20 Borrowings

The components of the financial debt as of 31 December 2018 and 2017 are the following:

	31 December 2018	31 December 2017
Non-current		
ENAIRE loans (Note 34)	5,338,222	6,104,218
AENA S.M.E., SA bank borrowings	649,913	649,888
Other bank borrowings	344,019	346,585
Loans with LLAH III shareholders	51,854	52,280
Finance lease liabilities	17,959	20,152
Public Entity creditor by AIRM concession	47,590	-
Other financial liabilities	123,521	102,893
	6,573,078	**7,276,016**
Current		
ENAIRE loans (Note 34)	647,654	683,540
AENA credit institutions loans	1,841	1,848
Bank borrowings	51,419	19,346
Loans with LLAH III shareholders	398	401
Finance lease liabilities	2,246	2,152
Other financial liabilities	28,870	27,656
	732,428	**734,943**
Total current and non-current	**7,305,506**	**8,010,959**

The reconciliation between the opening and closing balances for 2018 in the statement of financial position of the components of Borrowings is as follows:

		Cash flow								
	31 December 2017	Financing activities Collections	Financing activities Payments	Operating activities Interest payments	Adjustments of opening balance entry into force IFRS 9 (Note 2.1 B)	Short/long-term transfers	Accrued interest	Additions	Exchange differences	31 December 2018
Non-current										
Loan from ENAIRE	6,104,218	-	-	-	(877)	(765,976)	857	-	-	5,338,222
AENA bank borrowings	649,888	-	-	-	-	-	25	-	-	649,913
Other bank borrowings	346,585	-	-	-	-	-	264	-	(2,830)	344,019
Loans with LLAH III shareholders	52,280	-	-	-	-	-	-	-	(426)	51,854
Finance lease liabilities	20,152	-	-	-	-	(2,765)	550	79	(57)	17,959
Public Entity creditor by AIRM concession	-	-	-	-	-	-	1,133	46,457	-	47,590
Other financial liabilities	102,893	30,526	(10,264)	-	-	(131)	497	-	-	123,521
Total non-current	**7,276,016**	**30,526**	**(10,264)**	**-**	**(877)**	**(768,872)**	**3,326**	**46,536**	**(3,313)**	**6,573,078**
Current										
Loan from ENAIRE	683,540	-	(798,059)	(55,285)	(871)	765,976	52,353	-	-	647,654
Interest accrued on Aena bank loans AENA	1,848	-	-	(4,522)	-	-	4,515	-	-	1,841
Bank borrowings	19,346	32,779	-	(11,661)	-	-	11,470	-	(515)	51,419
Loans with LLAH III shareholders	401	-	-	(4,195)	-	-	4,195	-	(3)	398
Finance lease liabilities	2,152	-	(3,072)	-	-	2,765	347	33	21	2,246
Other financial liabilities	27,656	1,204	(121)	-	-	131	-	-	-	28,870
Total current	**734,943**	**33,983**	**(801,252)**	**(75,663)**	**(871)**	**768,872**	**72,880**	**33**	**(497)**	**732,428**
Total Financial debt	**8,010,959**	**64,509**	**(811,516)**	**(75,663)**	**(1,748)**	**-**	**76,206**	**46,569**	**(3,810)**	**7,305,506**

(Amounts in thousands of euros unless otherwise stated)

As mentioned in note 2.2. a), dated 15 January 2019, the operations of the Aeropuerto Internacional Región de Murcia (AIRM), whose management will be carried out by the dependent company Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia as the holder of the management, operation, maintenance and conservation contract of the Aeropuerto Internacional Región de Murcia (AIRM), in the modality of concession of said airport and its zone of complementary activities, during a term of 25 years. This concession agreement has been classified as belonging to the Intangible Assets model of IFRIC 12 and, therefore, a Debt has been recorded with the granting Public Entity for the same amount of the concession asset and which is registered under the heading of E.P. creditor by AIRM concession.

Likewise, as can be seen, in 2018 the variations in the loan balance of ENAIRE corresponded mainly to the amortisation of principal amounting to 798,059 thousand euros (See Note 20.b). The variation in the heading “Other loans with credit institutions” is mainly due to a net provision to the credit policies of the subgroup formed by LLAH III and its subsidiaries for the amount of 32,779 thousand euros. The variations in the 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 heading of other financial liabilities varied as a consequence of collections and payments of guarantees in AENA S.M.E., S.A.

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

		Cash flow						
	31 December 2016	**Financing activities Collections**	**Financing activities Payments**	**Operating activities Interest payments**	**Short/long-term transfers**	**Accrued interest/ Updates**	**Exchange 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).

(Amounts in thousands of euros unless otherwise stated)

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.

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

	Carrying amount		Fair value	
	31 December		31 December	
	2018	2017	2018	2017
Financial debt with the Group	5,338,222	6,104,218	5,347,229	6,105,413
AENA S.M.E., SA bank borrowings	649,913	649,888	652,836	643,051
Bank borrowings	344,019	346,585	325,510	346,585
Loans with LLAH III shareholders	51,854	52,280	63,899	52,280
Finance lease liabilities	17,959	20,152	17,959	20,152
Public Entity creditor by AIRM concession	47,590	-	47,590	-
Other financial liabilities	123,521	102,893	123,521	102,893
Total	**6,573,078**	**7,276,016**	**6,578,544**	**7,270,374**

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 (OIS curve) plus an equal spread in AENA's CDS (81 bps) (2017: Euribor 12M swap curve plus a spread of 62 bps) and are at Level 2 in the fair value hierarchy.

(a) <u>ENAIRE loan (Note 34)</u>

	31 December 2018	31 December 2017
Non-current		
Loan to AENA S.M.E., S.A. from ENAIRE	5,342,479	6,109,084
Adjustment to IFRS 9 (see Note 2.1.2.1)	(292)	-
Adjustment of the loan from ENAIRE using the effective cost criterion.	(3,965)	(4,866)
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**5,338,222**	**6,104,218**
Current		
Loan from ENAIRE	633,743	665,199
Adjustment to IFRS 9 (see Note 2.1.2.1)	(584)	-
Adjustment of the loan from ENAIRE using the effective cost criterion.	(401)	(471)
Interest accrued on loans from ENAIRE	14,896	18,812
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**647,654**	**683,540**
Total	**5,985,876**	**6,787,758**

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 Españolesy Navegación Aérea" is the formal borrower as regards the financial lending institutions, but it also recognises that AENA 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 EspañolesyNavegación 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. The average rate of this debt during 2018 was 1.30% (2017: 1.45%).

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”, AENA 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.

(Amounts in thousands of euros unless otherwise stated)

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.

EBITDA: This means the operating income plus: (i) allocations for the repayment and impairment and losses on disposal of 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 statement of financial position 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	2017	2018	2019	2020	2021 and after
Net financial debt/EBITDA Less than or equal to:	7.00 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" and therefore maintaining the contractual relationship between AENA S.M.E, S.A. And 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 statement of financial position, 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 statement of financial position 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 creditor 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 2018 is the following (in thousands of euros):

Financial institutions	Amount
BEI	3,592,240
ICO	1,752,230
FMS	666,670
TOTAL Co-accredited	**6,011,140**

Of the 6,011,140 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 2018 totalled 5,932,469 thousand euros, 98.7 % of the total debt owed. In addition, AENA S.M.E., S.A owes to the public entity "ENAIRE" in concept of other loans 43,755 thousand euros. The maturity schedule of both items, at year-end, is detailed further on.

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 statement of financial position on 31 December 2018 and 31 December 2017. 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

(Amounts in thousands of euros unless otherwise stated)

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.

Likewise, in July 2018, AENA carried out a new early amortisation of the total debt outstanding with Depfa at that date, which amounted to 166,075 thousand euros.

As a result of these actions, at 31 December 2018 there AENA records no debt affected by the change in the risk weighting.

In relation to the costs incurred as a result of the change in the risk weighting, they are expected to be adjusted throughout 2017. In 2017 these costs amounted to 11.8 million euros, corresponding to the payment of the guarantee required by DEPFA bank to maintain its debt with AENA, were provisioned at 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 this expense. In 2018, the costs associated with the early cancellation of the debt with Depfa amounted to 17.2 million euros corresponding to the present value of the interest pending payment from the date of the early cancellation until the original maturity (15/09/2022). As of 31 December, 2018, an income of 1.0 million euros has been recorded as a partial recovery of the guarantee imposed on the debt cancelled during that year.

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 2018 is as follows:

Quotas with Maturity	**Thousand euros 2018**
2019	633,744
2020	633,619
2021	546,349
2022	535,836
2023	514,364
Following	3,112,311
Total	**5,976,223**

The variations in the balance of the ENAIRE debt produced in financial year 2018 correspond primarily to repayment of the principal for the amount of 798,059 thousand euros, 166.1 million euros of which corresponds to the early repayment of the fixed interest loan with Depfa Bank, as explained above. 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:

		Cash flow						
	31 December 2017	**Financing activities Collections**	**Financing activities Payments**	**Operating activities Interest payments**	**Opening balance adjustments, entry into force of IFRS 9 (Note 2.1. B)**	**Short/long-term transfers**	**Accrued interest**	**31 December 2018**
Non-current								
Loan to AENA S.M.E., S.A. from ENAIRE	6,109,084	-	-	-	(877)	(766,020)	-	5,342,187
Adjustment of the loan from ENAIRE using the effective cost criterion.	(4,866)	-	-	-	-	44	857	(3,965)
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**6,104,218**	**-**	**-**	**-**	**(877)**	**(765,976)**	**857**	**5,338,222**
Current								
Loan from ENAIRE	665,199	-	(798,059)	-	(871)	766,020	871	633,159
Adjustment of the loan from ENAIRE using the effective cost criterion.	(471)	-	-	-	-	(44)	114	(401)
Interest accrued on loans from ENAIRE	18,812	-	-	(55,285)	-	-	51,368	14,896
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**683,540**	**-**	**(798,059)**	**(55,285)**	**(871)**	**765,976**	**52,353**	**647,654**
Total	**6,787,758**	**-**	**(798,059)**	**(55,285)**	**(1,748)**	**-**	**53,210**	**5,985,876**

(Amounts in thousands of euros unless otherwise stated)

The variations in the balance of the ENAIRE debt produced in financial year 2017 corresponded 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.

		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. short-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**

Likewise, as a result of a review process of variable rate loans, in 2017 the Company modified the rate regime for loans at reviewable rate that could be revised, for a total amount of 478,632 thousand euros, corresponding to all EIB loans that went to fixed rate upon maturity, at an average rate of 0.78% per annum (previously 1.14% per annum).

In 2018, no review process has taken place that involves modification of the type regime of the debt.

(b) *Loans with credit institutions and loans with LLAH III shareholders*

On 31 December 2018, Debts with credit institutions of LLAH III totalled 395,438 thousand euros of which 344,019 thousand euros are non-current debt and 51,419 thousand euros is current debt. Additionally, AENA S.M.E., S.A. had a long- term loan on that date with credit entities totalling 649,913 thousand euros and a short-term loan of 1,841 thousand euros.

On 31 December 2017, Debts with credit institutions of LLAH III totalled 365,931 thousand euros of which 346,585 thousand euros are non-current debt and 19,346 thousand euros is current debt. Additionally, AENA S.M.E., S.A. 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.

The carrying amount of Group bank borrowings is denominated in the following currencies:

	31 December	
	2018	**2017**
Thousand euros (AENA)	651,754	651,736
Thousands of pounds sterling (LLAH III)	353,730	324,664

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, 51,854 thousand euros at the exchange rate at the end of 2018 (2017: 46,740 thousand pounds, 52,681 thousand euros at the exchange rate at year-end).

(Amounts in thousands of euros unless otherwise stated)

1**. Loans of the parent company AENA S.M.E., S.A.:**

During 2017, AENA took debt with various entities amounting to 650,000 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
BNP	50,000
BANKINTER	25,000
SABADELL	25,000
TOTAL	**650,000**

This loan came with an opening commission of 126 thousand euros, 87 thousand euros of which remain unpaid on 31 December 2018.

Thus, the balance of long-term debts with credit entities totalled 649,913 thousand euros on 31 December 2018 (31 December 2017: 649,888 thousand euros).

The balance of short-term debts with credit entities of AENA S.M.E., S.A. on 31 December 2018 totalled 1,841 thousand euros, coming from interest pending payment (31 December 2017: 1,848 thousand euros).

On 29 July 2015, credit policies were signed with banks for an amount of 1,000 million euros with a maturity in 2019 to cover any specific treasury needs. In December 2018, these policies were cancelled by signing, on 12 December 2018, a new contract for a Sustainable Syndicated Credit Line (ESG-linked RCF) in the amount of 800 million euros according to the following breakdown by entities:

The distribution by Entities is as follows:

BANKING ENTITY	AMOUNT (thousand euros)
BBVA	190,000
SANTANDER	160,000
BANKINTER	100,000
SABADELL	100,000
UNICAJA	100,000
KUTXA	100,000
IBERCAJA	50,000
TOTAL	**800,000**

The maturity of this new Credit Line, of which no amount has been arranged as of 31 December 2018, is 5 years, renewable for a further two years. The interest rate is variable, with an initial spread of 0.275% on one-month Euribor and a usage commission of between 0.075%, 0.15% and 0.33%, depending on the average balance used according to ≤ 33%, > 33 % ≤ 66% or > 66%, respectively.

(Amounts in thousands of euros unless otherwise stated)

The initial spread is reviewed annually based on the following two variables:

a) Moody's and/or Fitch's credit evolution of AENA according to the following table:

CREDIT RATING	Applicable margin
A+/A1 or above	0.225%
A/A2	0.250%
A-/A3	0.300%
BBB+/Baa1	0.350%
BBB/Baa2	0.400%
BBB-/Baa3 or lower	0.550%

b) The evolution of AENA's sustainability parameters in environmental, social and good governance issues (ESG "Environmental, Social and Governance" rating) evaluated by the ESG rating provider selected by AENA (Sustainalytics), so if the score increases or diminishes by 5 or more points with respect to the initial one, the resulting applicable margin will be reduced by 0.025% in the first case and will increase in the second.

2. 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,
- 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 statement of financial position at that time without yet being repaid were taken to the net finance result as the new financing is considered a substantial modification or cancellation of the initial debt.

(Amounts in thousands of euros unless otherwise stated)

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: 165bps Year 2: 175bps Year 3: 185bps Year 4: 195bps Year 5: 200bps Year 6: 225bps Year 7: 250bps	For the £30 m bullet loan and the credit line: Year 1: 135bps Year 2: 140bps Year 3: 150bps Year 4: 160bps Year 5: 175bps Year 6: 190bps Year 7: 240bps For the repayable loans of £40 m and £10 m: Year 1 until maturity: 185bps	The average cost of the debt dropped by 0.13%
"Covenant" Net debt/ EBITDA/ Net financial expenses	2015: 8.25x 2016: 8.25x 2017: 7.5x 2018: 7.0x 2019: 6.5x 2020: 6.5x 2021: 6.0x	2017: 7.5x 2018: 7.5x 2019: 7.0x 2020: 7.0x 2021: 6.5x 2022: 6.0x 2023: 6.0x 2024: 5.0x 2025: 4.5x 2026: 4.0x 2027: 3.5x 2028: 2.5x 2029: 2.5x	Improvement in ratios to provide greater financial flexibility
Covenant ICR: EBITDA/ Net financial expenses	From 2015 to 2021: 1.25x	From 2017 to 2029: 2.00x	

On 31 December 2018 there is a drawn balance of 43 million pounds of the credit facility for cash.

On 31 December 2017 there was a drawn balance of 14 million pounds of the credit facility for cash and 25 million pounds to finance investments.

(Amounts in thousands of euros unless otherwise stated)

3. 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 AMP.

This caption has only had a variation of -426 thousand euros during 2018 (2017: - 2,123 thousand euros), originating in both cases by the fluctuation of the exchange rate during 2018 and 2017, respectively (Note 31).

(c) *Finance lease liabilities*

At the end of 2018, the Group had financial lease agreements related to an electric cogeneration power plant at the Adolfo Suárez Madrid-Barajas Airport, certain computer equipment (acquired in 2018), and a parking platform for aircraft at London Luton airport, which are registered as "property, plant and equipment" of the consolidated statement of financial position at 31 December 2018 and 31 December 2017.

The carrying amount of debt entered into the accounts denominated in currencies other than the euro was as follows:

	31 December	
	2018	**2017**
Pounds sterling	7,853	8,482

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	
	2018	**2017**
– Less than one year	2,247	2,153
– Between 1 and 5 years	9,926	9,431
– More than 5 years	8,032	10,720
Total	**20,205**	**22,304**

(Amounts in thousands of euros unless otherwise stated)

21 Deferred taxes

The analysis of deferred tax assets and liabilities is as follows:

	31 December	
	2018	**2017**
Deferred tax assets:		
–Deferred tax assets to be recovered in more than 12 months	91,710	90,263
– Deferred tax assets to be recovered within 12 months	33,234	32,106
	124,944	**122,369**
Deferred tax liabilities:		
–Deferred tax liabilities to be recovered in more than 12 months	62,816	74,218
–Deferred tax liabilities to be recovered within 12 months	8,179	5,935
	70,995	**80,153**
Net deferred tax assets	**53,949**	**42,216**

Gross movement in the Deferred taxes heading was as follows:

	2018	**2017**
At 1 January	**42,216**	**53,981**
Tax charged against/credited to the income statement (Note 32)	13,503	368
Tax charged/paid relating to components of other comprehensive income (Note 32)	1,422	(12,563)
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)	(260)	(264)
Reclassifications	577	651
Exchange differences	490	3,056
Other	(1,664)	(200)
At 31 December	**53,949**	**42,216**

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**	**Other**	**Total**
At 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
Exchange differences	(3,418)	-	(3,418)
On 31 December 2017	**79,273**	**880**	**80,153**
On 1 January 2018	**79,273**	**880**	**80,153**
Reclassifications	(577)	-	(577)
Charged/(credited) to the income statement	(8,269)	-	(8,269)
Charged/(credited) to the income statement from changes in interest rates in England	348	-	348
Charged/(credited) to the income statement from adjustments the previous year	(107)	-	(107)
Exchange differences	(553)	-	(553)
On 31 December 2018	**70,115**	**880**	**70,995**

(Amounts in thousands of euros unless otherwise stated)

Deferred tax assets	Amortisation (*)	Impairment losses credits	Derivatives	Immobilised impairment	Other	Total
On 01 January 2017	**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 tax rates in England	-	-	-	-	(154)	(154)
Charge to Net Equity change in rates in England	-	-	125	-	(21)	104
Other (**)	(55)	(43)	-	-	28	(70)
Exchange differences	-	-	(51)	-	(312)	(363)
On 31 December 2017	**76,253**	**(212)**	**22,258**	**-**	**24,070**	**122,369**
Charged/(credited) to the income statement	(5,086)	(315)	-	11,562	(927)	5,234
Charged/(credited) to other comprehensive income	-	-	1,239	-	153	1,392
Use of credits	(2,335)	-	-	-		(2,335)
Charged to the income statement from changes in tax rates in England (Note 32)	-	-	-	-	88	88
Charge to Net Net change in UK rates (Note 32)	-	-	44	-	(14)	30
Other (**)	(826)	(840)		-	(105)	(1,771)
Exchange differences	-	-	(1)	-	(62)	(63)
On 31 December 2018	**68,006**	**(1,367)**	**23,540**	**11,562**	**23,203**	**124,944**

** The heading "Amortisation" includes 14,006 thousand euros (2017: 16,431 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 2018 was considered (2017: 2,335 thousand euros) see deductions table below).*

(**) Primarily shows the effect of the definitive payment of the Corporate Tax in 2017 and 2016 submitted in 2018 and 2017.

In financial year 2018, 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 31/12/2017	Amount recognised in 2018	Amount applied	Amount pending at 31/12/2018
Deductions in the Canary Islands for investments in fixed assets	**2018**	**2033**	-	14,168	(14,168)	-
Deduction for donations	**2018**	**2028**	-	12	(12)	-
Deduction of double international tax	**2018**	**-**	-	700	(700)	-
Recovery of 30% not deductible (3)	**2018**	**-**	-	2,335	(2,335)	-
Total			**-**	**17,215**	**(17,215)**	**-**

(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**	**-**		634	(634)	-
Recovery of 30% not deductible (3)	**2017**	**-**	-	2,335	(2,335)	-
Total			**-**	**16,882**	**(16,882)**	**-**

(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 2018 and 2017, does not reduce the expense for tax in that period since it were recognised in the accounting in 2015 (see Note 32).

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	
	2018	**2017**
Obligations in the statement of financial position for:		
- Length of service awards	8,725	8,106
- Length of service awards	670	540
- Pension plans of defined loan from LLAOL	37,227	50,480
Liabilities for provisions for employee benefit obligations	**46,622**	**59,126**
- Defined contribution pension plans (Other payables)	-	-
- Defined benefit pension plans	-	-
Total liabilities in the statement of financial position	**46,622**	**59,126**
Charges in the income statement included in the operating profit account (Note 28):		
- Length of service awards	1,154	455
- Length of service awards	26	23
- Defined contribution pension plans	2,750	2,247
- Pension plans of defined loan from LLAOL	791	8,905
	4,721	**11,630**
Recalculation of valuations for:		
- Length of service awards (22.a)	577	(121)
- LLAOL defined benefit pension plans (22.d)	620	976
- Early retirement awards (22.b)	96	11
	1,293	**866**

(Amounts in thousands of euros unless otherwise stated)

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 makes provision for the present value of the best possible estimate of future commitment obligations based on an actuarial calculation.

The amounts reported in the statement of financial position were determined as follows:

	2018	2017
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	8,725	8,106
Total deficit of pension plans with defined benefits	8,725	8,106
Impact of the requirement of minimum financing/ asset limit	-	-
Liabilities recognised in the statement of financial position	**8,725**	**8,106**

Length of service awards are non-financed plans of defined benefits, so no assets affected in the plan are recorded.

	Present value of the obligation	Total
On 01 January 2017	**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)
On 31 December 2017	**8,106**	**8,106**
Expense / (Income) Interest	111	111
Past service cost and gains and losses on settlements	577	577
	688	**688**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	577	577
	577	**577**
- Plan payments:		
- Benefit payments	(646)	(646)
On 31 December 2018	**8,725**	**8,725**

The estimated book expense for length of service awards for the financial year ending on 31 December 2018 totalled 1,265 thousand euros. (2017: 566 thousand euros). The amount of the book expense expected corresponding to these awards throughout 2019 is 766 thousand euros.

(Amounts in thousands of euros unless otherwise stated)

The weighted average length of the obligations for defined benefits is 15.97 years.

b) ***Early retirement awards***

The collective bargaining agreement states that any worker between the ages of 60 and 64 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 2004 the early retirement awards were outsourced by taking out a single payment life insurance policy with Mapfre Vida on 25 March 2004. The value of the assets in the plan was determined as the value of the mathematical provision of the insurance policies affected.

The movement of the obligation for benefits defined during the year was the following:

	Present value of the obligation	**Total**
On 31 December 2017	**540**	**540**
Expense / (Income) Interest	8	8
Expected return of the funds affected	-	-
Past service cost and gains and losses on settlements	26	26
	34	**34**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	96	96
	96	**96**
Returns (Premiums)		
• Returns	-	-
Plan payments:		
- Benefit payments	-	-
On 31 December 2018	**670**	**670**

The movement of the obligation for benefits defined during 2017 was the following:

	Present value of the obligation	**Total**
On 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	-	-
On 31 December 2017	**540**	**540**

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 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.

For this benefit, the Group has made definite contributions to the fund during the years prior to 2013. 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, 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.

During 2018, contributions have been made to the Pension Plan, as foreseen in article 18. Two and Three of Law 6/2018, of 3 July, of General State Budgets for the year 2018, amounting to 498 thousand euros.

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 2018 was 2,252 thousand euros (2017: 2,247 thousand euros).

(Amounts in thousands of euros unless otherwise stated)

The defined benefit commitments from the LLAH III group recognised in the consolidated statement of financial position, 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
On 31 December 2017	**177,459**	**177,459**
Expense / (Income) Interest	4,169	4,169
Past service cost and gains and losses on settlements	791	791
	4,960	**4,960**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	(13,582)	(13,582)
- Impact of the requirement of minimum financing/ asset limit	5,427	5,427
	(8,155)	**(8,155)**
Foreign exchange translation differences	(1,253)	(1,253)
Employer contributions (*)	271	271
Plan payments:		
- Benefit payments	(8,667)	(8,667)
- Administration expenses	(717)	(717)
On 31 December 2018	**163,898**	**163,898**

(*) For administration costs

	Fair value of plan assets	Total
On 31 December 2017	**(126,979)**	**(126,979)**
Expense / (Income) Interest	(2,965)	(2,965)
Expected return of the funds affected	8,775	8,775
	5,810	**5,810**
Recalculation of Ratings:		
- (Gains)/losses due to changes in actuarial assumptions	-	-
Foreign exchange translation differences	1,044	1,044
Employer contributions	(15,923)	(15,923)
Contributions from Plan members	-	-
Plan payments:		
- Benefit payments	8,660	8,660
- Administration expenses	717	717
On 31 December 2018	**(126,671)**	**(126,671)**
Provisions for pensions and similar obligations	**37,227**	**37,227**

(Amounts in thousands of euros unless otherwise stated)

The defined benefit commitments recognised in the 2017 consolidated statement of financial position, 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
On 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)
On 31 December 2017	**177,459**	**177,459**

	Fair value of plan assets	Total
On 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)
Contributions from Plan members	(86)	(86)
Plan payments:		
- Benefit payments	3,914	3,914
On 31 December 2017	**(126,979)**	**(126,979)**
Provisions for pensions and similar obligations	**50,480**	**50,480**

The amounts reported in the profit and loss statement are the following:

Postings to results	**2018**	**2017**
Expense / (Income) Interest	1,204	1,254
Past service cost and gains and losses on settlements	1,062	8,905
Total charge in profit and loss statement	**2,266**	**10,159**

(Amounts in thousands of euros unless otherwise stated)

The assets of the plan, expressed in a percentage over the total fair value of the assets, are the following:

Assets del plan	**2018**	**2017**
Equities	23 %	32 %
Fixed income in qualified investment bonds	3 %	4 %
Investment funds	46 %	62 %
Cash	28 %	2 %

- (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:

	2018	**2017**
Profitability of assets affected above the expected profitability	8,775	(5,038)
Financial hypotheses	(14,504)	4,233
Impact of the requirement of minimum financing/asset limit	5,427	-
Demographic experience	922	1,781
At 31 December	**620**	**976**

The net liability was reduced during 2018 from a deficit of 50,480 thousand euros to a deficit of 37,227 thousand euros, mainly as a result of a substantial contribution (15,652 thousand euros) made by the company during the period. Changes in the financial assumptions used in the calculation of liabilities (mainly the increase in the discount rate used - from 2.4% in 2017 to 2.8% in 2018-) have also reduced the deficit, although this effect was partially offset by a lower than expected return on assets and the impact of the adjustment resulting from the minimum financing requirement, due to the new deficit reduction plan implemented during the period.

In 2017, a small drop in the profitability of 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.

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 %	(15,215)	17,364
Rate of inflation	0.5 %	12,515	(11,471)
		One year younger than assumed	**One year older than assumed**
Life expectancy	1 year	4,912	(4,880)

Moreover, to eliminate the Plan's deficit LLAOL agreed to make contributions to the Plan until 31 March 2023. The next contribution to the Plan, amounting to 11,785 thousand pounds, will be made before 31 December 2019. Additionally, the Company will make contributions of 240 thousand pounds per year to cover the costs of administering the Plan.

The Contribution Plan for deficit compensation is reviewed every three years with each formal actuarial valuation. The next triennial assessment of the Pension Plan is set for 31 March 2020.

(Amounts in thousands of euros unless otherwise stated)

23 Provisions and contingencies

a) Provisions

The movement in this heading for financial years 2018 and 2017 is shown below:

	Environmental action	Liabilities	Taxes	Expropriations and late-payment	Other operating provisions	Total
Balance at 01 January 2018	**56,647**	**22,171**	**11,798**	**15,081**	**49,071**	**154,768**
Charge for the period	28,031	13,090	2,199	434	31,134	74,888
Reversals/Excesses	(6,386)	(10,319)	(3,242)	(2,142)	(8,587)	(30,676)
Amounts Used	(6,317)	(3,243)	(178)	(122)	(44,236)	(54,096)
Foreign exchange differences	(14)	(1)	-	-	-	(15)
On 31 December 2018	**71,961**	**21,698**	**10,577**	**13,251**	**27,382**	**144,869**

	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)
On 31 December 2017	**56,647**	**22,171**	**11,798**	**15,081**	**49,071**	**154,768**

Analysis of total provisions:

	31 December 2018	31 December 2017
Non-current	84,700	70,901
Current	60,169	83,867
Total	**144,869**	**154,768**

Provision for environmental action

This heading recognises provisions amounting to 70,107 thousand euros (31 December 2017: 54,793 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 71,961 thousand euros (2017: 56,647 thousand euros) is reported, an environmental provision of 1,854 thousand euros (2017: 1,854 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.

The increase in the provision for environmental actions during 2018 has been due to the approval of acoustic easements at several airports in the Spanish network, which has led to an additional allocation of 28 million euros, and whose counterpart is reflected in the “Property, plant and equipment” heading.

A reversal which took place in 2018 for the amount of 6,386 thousand euros is essentially related to a drop in the mean estimated cost of insulation per home for the amount of 8,956 euros/home (except for the Adolfo Suárez Madrid-Barajas airport, for which a cost of 16,743 euros is estimated due to the typology of the homes and buildings yet to be insulated in this airport); and for a further 3 airports, for which the mean estimated cost amounts to 5,567 euros/home).

In the Annual statement for the 2017 financial period, an average cost per unit of 9,111 euros was used (except for the Adolfo Suárez Madrid-Barajas airport, for which a cost of 16,795 euros was estimated due to the type of homes and buildings yet to be insulated in this airport). Such reversal has been made against the value of the property, plant and equipment against which the provision was originally made.

A reversal which took place in 2017 for the amount of 19,896 thousand euros was 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 was 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 annual statement from financial year 2016. 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 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 for Environmental Transition, which contain the obligation to develop and execute Soundproofing Plans.

In terms of noise, Law 5/2010, of 17 March, amending Law 48/1960, of 21 July, 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.

The Group posts 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. These published standards 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.

<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 2018 and 2017, the balances of the provision essentially corresponded to claims made by contractors, claims from airlines and labour claims.

During 2018, the provisions made by the Group for a total of 13,090 thousand euros corresponded mainly to employment claims (3,271 thousand euros), various claims by tenants of premises and land (1,014 thousand euros) and claims by works contractors (8,805 thousand euros). 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 2018, the reversals totalling 10,319 thousand euros (2017: 15,974 thousand euros) primarily correspond to judgements favourable to the Group from contentious suits with construction companies for the amount of 5,047 thousand euros (2017: 10,603 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 5,272 thousand euros (2017: 5,371 thousand euros) has been credited to the profit and loss account, mainly in the “Provision releases” heading, or decreasing employment costs due to various favourable labour judgements obtained. In particular, with regard to the provision made at the time for unfavourable judgements on claims made by airlines, amounting to 4,111 thousand euros, against the rates applicable from 1 July 2012, the repercussion of which had not been possible for end passengers, 1,380 thousand euros have been reversed, given that finally some companies submitted requests for the refund of undue income (as required by the judgement) for an amount lower than initially provided. During the 2018 financial period, 1,169 thousand euros were paid for this concept.

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 these financial statements were prepared.

The amount of the reversals, credited in their entirety to the profit and loss account under "Provision releases", is mainly related to the requirements of these tax settlements in favour of the Group.

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 2018 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 6,518 thousand euros at 31 December 2018, of which 4,276 thousand euros corresponded to differences in assessment, balanced against the higher land value, and 2,246 thousand euros for interest on delay due at 31 December 2018, balanced against the expense for interest for delay on expropriations (31 December 2017: 6,390 thousand euros, of which 4,276 thousand euros were for differences in assessment, balanced against higher land value, and 2,113 thousand euros in interest for delay due at 31 December 2017, balanced against the expense for interest for delay on expropriations).

There are additional provisions for an amount of 6.7 million euros (31 December 2017: 8.7 million euros), corresponding to other disputes at other airports in the network.

Reversals identified in the movement of the provision during 2018 and 2017 are the consequence of the result in favour, 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 the Group.

The interest expense for expropriations as of 31 December 2018, once the aforementioned reversals were taken into account, amounted to 310 thousand euros (31 December 2017: positive effect of 4,594 thousand euros).

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.

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 the Group 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. The Group 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.

As indicated in section 3.9.2 of the DORA, in 2018 the commercial incentive scheme approved in February 2017 is maintained, with the aim of continuing to encourage the opening of new routes, the increase of long-haul passengers, incentivise traffic at airports with lower traffic volume and reduce the seasonality of airports with a strong seasonal component.

The effect of the traffic incentives entailed provisioning 22,547 thousand euros in 2018 (net of the reversal of 8,587 thousand euros of provisions from previous years) as against 45,133 thousand euros in the same period of 2017 (net of the reversal of 3,940 thousand euros from provisions from previous years), it being important to point out that the commercial incentive for 2017 started on 1 April, coinciding with the start of the summer season, so no incentives were accrued in respect of traffic of the first quarter of 2017. There have been payments of 44,236 thousand euros against this provision during the period (2017: 68,267 thousand euros).

At 31 December 2018 the sum of the amount provisioned for all these items amounted to a balance of 27,382 thousand euros (31 December 2017: 49,071 thousand euros).

b) Contingent liabilities

At the end of 2018 and 2017 the Group 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.

Environmental action

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 parent 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 2018 and 2017 financial years, the parent 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 this appeal for judicial review. 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 Court 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 judgement are AENA, ENAIRE and the General Directorate of Civil Aviation as a specific body of the Ministry of Public Works.

(ii) On 31 July 2017, the State Attorney provided the Court with the technical report prepared jointly by AENA, ENAIRE and the DGAC, which outlined how the judicial mandate would 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 indicated that the Supreme Court ruling of 3 April 2017 required a check to be carried out on the noise levels inside and outside the homes using the methodology referred to by Regulation (EU) 598/2014. Consequently, the actions carried were 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.

[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.*

The estimated periods for the finalisation of these verifications and the presentation of results to the TSJ was the end of November 2017, providing it were possible to access the dwellings whose noise level must be verified in the dates estimated for said purposes.

On 4 September 2017, a ruling was received from the TSJ (High Court) of Madrid handed down on 1 September 2017, in which, in response to the request from the State Attorney, an extension of one month was granted for the execution period with respect to the provisions of Article 104.2 LJCA, pointing out that the specific content of the report provided should be decided upon by the rapporteur of the proceedings.

This extension expired on 4 October 2017, and the State Attorney proceeded to request a new extension of the period, informing the TSJ of the status of enforcement and of the proceedings already carried out. In response to this request, the TSJ issued a new ruling on 17 October 2017, extending the term of execution for a period of 1 month. This extension period ended on 23 November 2017, 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. Following this request, the TSJ passed a ruling on 22 December 2017, through which a new extension was granted to complete execution for two months, meaning that the term to finalise actions concluded on 22 February 2018.

On 6 March 2018 a ruling from the TSJ was received through which the State Attorney's Office was required to inform the Court within a period of five days, "if for the technical validation pending on noise issues necessary for the passing of the ruling means it is essential to enter into the home of one of the residents, given the numerous difficulties arising in the measuring of the same". Said request was be made once all of the actions that had to be performed had been completed, with the exception of the evaluation of the noise levels in the dwelling of the resident mentioned above, in which, until now, the permission on the part of the occupant (tenant) has not been forthcoming to access the same.

In its written brief dated 15 March, the State Attorney's Office, providing the reports drafted for this purpose, asked the TSJ to state that it was not necessary to enter the dwelling of the resident referred to in order for the order to be considered to have been executed, adding that in any case the parties charged with execution (Ministry of Public Works, ENAIRE and AENA) would undertake such actions as the Court might consider necessary to complete the execution. By a ruling of 22 March 2018, the parties and the Public Prosecution Service were granted one month in which to react to the documentation that had been presented by the State Attorney's Office relating to all the actions taken and reports produced so far in fulfilment of the Supreme Court order.

By successive requests of the parties the deadline for submitting allegations was extended, the period for which ended on 15 June 2018, after which the Supreme Court of Madrid issued an order dated 30 July 2018 which agreed:

(i) To dismiss the allegation of the lack of a resident's legitimacy.
(ii) To declare the 13 October 2008 Supreme Court ruling executed.

Subsequently, several Ciudad Santo Domingo residents filed a motion for reconsideration before the Supreme Court on 30 July 2018, on which, on September 14, 2018, AENA filed a writ of recourse.

By Order dated 21 December 2018 the Supreme Court dismissed the appeal for reversal against which appeal can be lodged. On 1 February 2019, the neighbours announced an appeal against the rulings dated 30 July 2018 and 21 December 2018. At this point, the Supreme Court must decide on the admission of the appeal and summon AENA to appear before the Supreme Court.

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 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. The report of the Government Attorney's Office that was requested for that purpose has not been conclusive, but since we have not been accredited military use of the enclosure, the Ministry has been answered in the following terms:

"No reference has been found to the military use of the facility, on the contrary, all reviews speak of Son San Joan as the military airfield of the island.

For all the above and according to the opinion of the Council of State of 8 October 1998, the aforementioned budget compensation does not correspond".

There has been no response to the aforementioned letter with departure date 21 January 2019.

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 31 December 2018 and 2017 could not be quantified 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 Group is likely.

Commercial activities

At 31 December 2018 and 31 December 2017 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 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 31 December 2018 and 31 December 2017 there are claims that have been filed against the parent 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 15,6 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 initial allocation of a provision for liabilities of 4,111 thousand euros (see the section on Provision for liabilities in Note 21).

Therefore, the Company's management does not consider that any further financial consequences can arise against it.

Other claims with airlines

The Parent Company maintains claims and controversies for specific incidents that have caused damage to aircraft at the airports of the network, at 31 December 2018 the management of the Parent Company considers that they would not be significant.

c) Contingent assets

Rate deficit

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 euros.

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 euros. 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 revenue 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.

Resource 318/2015

On 12 June 2018, AENA filed the lawsuit against the agreement of 23 April 2015. Throughout the months of October and November of 2018 both the Government Attorney's Office and the user and airline companies have submitted their responses to the claim.

By Order of 14 December 2018, the National Court agreed to receive the litigation on trial, stating the ratification of the expert report for 17 January 2018.

On 4 January 2019, AENA requested that the ratification of the expert be replaced by the extension of the effects of the expert evidence practised in appeal No. 355/2015, taking into account the object identity of both processes, as well as the fact that on that occasion there were no questions from the opposing party.

The National Court accedes to said request by means of a ruling dated 11 January 2019, in which it leaves the point without effect. Likewise, it transfers to the other parties so that they may claim what they consider appropriate in relation to the incorporation into the branch of evidence of this procedure of the recording of the act of ratification of the expert opinion held in procedure 355/15. The aforementioned period for allegations expired on 18 January 2019, without the Court having given its decision at the date of this report on any other action.

(Amounts in thousands of euros unless otherwise stated)

Resource 355/2015

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 Group filed an administrative appeal before the National High Court against this Resolution (Appeal 355/2015). The processing of Appeal 355/2015 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 28 February 2018, AENA filed a lawsuit against the Resolution of 23 July 2015. Throughout the months of May and June 2018, both the Government Attorney's Office and the user and airline companies have filed the responses to the lawsuit.

The expert's ratification takes place on 26 July 2018, after which, by means of an Order of Arrangement, it is agreed to declare the trial period concluded and to begin the term of conclusions. Both parties present their conclusions during the months of September and October.

By means of a ruling dated 16 November 2018, the Court draws up for voting and ruling on 16 January 2019, but that date is suspended due to the Order of Arrangement of 13 December 2018, without setting an alternative date.

The Group considers that these types of assets do not comply with all of the requirements to be recognised in the statement of financial position since they involve an asset that depends on future events.

24 Grants

The breakdown and movement of this heading on 31 December 2018 and 2017 was as follows (in thousand euros):

Capital grants from official European bodies	**2018**	**2017**
1 January	**552,079**	**582,648**
Additions	73,808	11,935
Postings to results	(95,076)	(42,504)
31 December	**530,811**	**552,079**

The breakdown of this balance between the current and non-current part is as follows:

	31 December 2018	**31 December 2017**
Non-current	495,594	511,927
Current	35,217	40,152
Total	**530,811**	**552,079**

The grants primarily come from resources granted by the European Regional Development Fund (ERDF) for the development of airport infrastructures (see Note 13).

During the 2018 tax year, the remaining balance of the capital grants related to the assets subject to impairment and mentioned in Note 6, for an amount of 26,700 thousand euros, has been applied to results.

The breakdown of the gross grants by operative programmes which were earned in financial years 2018 and 2017 is as follows in thousands of euros:

	Thousand euros	
	2018	**2017**
Andalusia Operative Programme	2,443	2,451
Valencian Operative Programme	-	1,319
Region of Murcia Operative Programme	4,579	5,570
Galician Operative Programme	42,714	-
Canary Islands Canary Islands	18,233	-
Extremadura Operative Programme	1,561	-
Castile and León Operative Programme	904	-
Knowledge Economy Operative Programme	17,663	-
Total ERDF Funds earned	**88,097**	**9,340**

At the close of financial year 2018, 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 2018 the long-term advance which was pending compensation totalled 38,296 thousand euros (2017: 80,011 thousand euros).

	Long-term liabilities	
	2018	**2017**
Securities and others	10,945	11,398
Accruals (Note 19)	38,296	80,011
Total	**49,241**	**91,409**

26 Commitments

a) *Environmental commitments*

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 2018 tangible fixed assets included environmental investments totalling 529.2 million euros, whose accrued depreciation totals 243.0 million euros (2017: investments of 508.2 million euros and depreciation of 229 million euros).

The environmental investments made by the Group in financial year 2018, which encompass the elements included in the Company'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 performed by the Company, totalled 60,896 thousand euros (2017: 14,474 thousand euros), broken down as follows:

(Amounts in thousands of euros unless otherwise stated)

	Thousand euros	
	2018	**2017**
Palma Mallorca	24,785	1,374
Valencia	23,655	358
Seville	3,346	156
Bilbao	2,776	705
London-Luton	1,261	-
Madrid/Barajas	936	4,930
Tenerife Norte	645	1,642
Barcelona	543	1,358
San Sebastián	518	-
Ibiza	491	-
Gran Canaria	480	417
Alicante	309	1,212
Tenerife Sur	305	28
Malaga	144	767
Menorca	53	155
Santiago	-	418
Other airports	649	954
Total	**60,896**	**14,474**

The profit and loss statements of financial years 2018 and 2017 include the following environmental expenses, broken down by category:

	Thousand euros	
	2018	**2017**
Repairs and maintenance	(9,504)	(7,049)
Independent professional services	(2,423)	(1,255)
Other environmental services	(2,947)	(2,859)
Total	**(14,874)**	**(11,163)**

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 for Environmental Transition, which contain the obligation to develop and execute Soundproofing Plans.

At 31 December 2018, in application of the Soundproofing Plans, a total of 23,897 homes (2017: 23,096 homes) were soundproofed, most notably the 12,902 homes near Adolfo Suárez Madrid-Barajas airport (2017: 12,861 homes), 2,990 in Alicante- Elche (2017: 2,882 homes), 1,800 homes in Valencia-Manises (2017: 1,647 homes), 1,520 in Bilbao (2017: 1,432), 836 in Palma de Mallorca (2017: 836) and 811 in Málaga-Costa del Sol (2017: 811 homes).

Likewise, in accordance with the resolutions of the Ministry for Environmental Transition for which environmental impact statements are formulated for AENA'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 2018, outstanding investments amount to 829,7 million euros (2017: 563.0 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 income statement includes lease expenses in 2018 amounting to 6,367 thousand euros (2017: 6.112 thousand euros).

The total minimum future payments of operating leases that cannot be cancelled (until the contract expires) are the following:

	2018	**2017**
Less than 1 year	3,551	4,949
Between 1 and 5 years	15,545	18,767
More than 5 years	-	330
Total	**19,096**	**24,046**

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) <u>Minimum future payments to be received for operating leases</u>

The company AENA S.M.E., S.A, rents out several specialty 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:

	2018	2017
Less than 1 year	707,679	616,687
Between 1 and 5 years	1,402,744	1,405,955
More than 5 years	148,219	14,884
Total	**2,258,642**	**2,037,526**

27 Others (losses) / earnings - net

	2018	2017
Other losses	(9)	1
Other earnings	1,838	2,968
Total Other net (losses)/ earnings	**1,829**	**2,969**

The amount of Other earnings in financial years 2018 and 2017 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 Employee benefit expenses

	2018	2017
Salaries and wages, including other indemnifications for dismissal	(311,573)	(298,138)
Security Social costs	(95,029)	(91,774)
Costs for pensions (Note 22)	(3,541)	(11,152)
Cost of premiums for retirement and tenure (Note 22)	(1,180)	(479)
Other social costs	(12,402)	(15,612)
Total	**(423,725)**	**(417,155)**

The inter-annual payment variation in Employment Costs primarily stems from the agreement reached between AENA S.M.E., S.A. and the trade union organisations on 12 November 2018.

Both parties agreed to a 1.50% increase for the first half of 2018, effective 1 January 2018 to 30 June 2018; and an additional 0.25% increase for the second half of 2018 (1.50% + 0.25%), with effects from 1 July 2018 to 31 December 2018 (2017: 1% salary increase for the period and increase of the wage bill in concept of productivity by an additional 8.5 million euros, associated with the fulfilment of objectives).

Social Security increased for the same reasons.

Additionally, in financial year 2017, the LLAH III Group saw an increase in this heading of 8.8 million euros, primarily due to the impact of the closure of the LLAOL pension plan with indefinite benefits reflected in the line “Cost for pensions” (see, also, 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:

	31/12/2018(*)			31/12/2017(*)		
Professional Category	Men	Women	Total	Men	Women	Total
Senior management	10	2	12	7	2	9
Executives and graduates	964	733	1,697	940	704	1,644
Coordinators	833	329	1,162	809	301	1,110
Technicians	3,038	1,426	4,464	3,004	1,431	4,435
Support personnel	576	525	1,101	551	485	1,036
Total	**5,421**	**3,015**	**8,436**	**5,311**	**2,923**	**8,234**

(*) The figures above include temporary employees, which at the close of financial year 2018 totalled 807 (2017: 1,026).

The average staff of the financial year by category was the following:

Professional Category	2018(*)	2017(*)
Senior management	11	10
Executives and graduates	1,671	1,603
Coordinators	1,148	1,078
Technicians	4,454	4,451
Support personnel	1,082	1,032
Total	**8,366**	**8,174**

(*) The figures above include temporary employees, which at the close of financial year 2018 totalled 937 (2017: 983).

The Board of Directors of the parent Company consisted of 15 members (12 men and 3 women) as of 31 December 2018 (2017: 11 men and 4 women).

At 31 December 2018, an average of 112 employees were disabled (2017: 115).

29 Other operating revenue

The breakdown of Other revenue for financial years 2018 and 2017 is as follows:

	2018	2017
Miscellaneous revenue and other current management revenue	9,400	9,777
Operating grants incorporated into the profit (loss) of the financial year	1,707	1,075
Other operating revenue	**11,107**	**10,852**

(Amounts in thousands of euros unless otherwise stated)

30 Supplies and Other operating expenses

a) *Subcontracted work and other supplies*

The breakdown of the "Supplies" heading for financial years 2018 and 2017 is as follows (in thousand euros):

	2018	2017
Purchases of other supplies	(694)	(1,054)
Work performed by other companies	(172,242)	(173,122)
Total	**(172,936)**	**(174,176)**

The jobs performed by other companies primarily include services provided by the Ministry of Defence deriving from the agreement reached with it, which totalled 3,631 thousand euros (2017: 2,906 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 136,472 thousand euros (2017: 138,930 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 (2017: 10,000 thousand euros), as well as 1,428 thousand euros of services provided by INECO (2017: 2,228 thousand euros) (Note 34).

b) *Other operating expenses*

The breakdown of Other operating expenses for financial years 2018 and 2017 is as follows:

	2018	2017
Leases and royalties	(6,367)	(6,112)
Repairs and maintenance	(268,990)	(256,839)
Independent professional services	(56,383)	(49,785)
Bank services	(700)	(653)
Public relations	(5,618)	(6,255)
Supplies	(95,870)	(91,666)
Other services	(187,411)	(153,106)
Surveillance and security services	(167,100)	(145,276)
Taxes	(153,792)	(154,153)
Losses, impairment and changes in provisions for commercial transactions (Note 13)	-	6,072
Other ordinary expenses	(66,058)	(53,139)
Other operating expenses	**(1,008,289)**	**(910,912)**

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" heading primarily shows the administrative concession fee for LLAH III (see Notes 7 and 26) for an amount of 54,981 thousand euros (2017: 50,691 thousand euros).

(Amounts in thousands of euros unless otherwise stated)

31 Financial income and expenses

The details of Net financial expenses for 2018 and 2017 were as follows:

	2018	2017
Financial expense:		
Financial expense on amounts owed to third parties	(28,813)	(37,813)
Financial expenses on loans from ENAIRE	(69,588)	(64,197)
Financial expenses for settlement of derivatives (Note 12)	(37,332)	(40,530)
Update of provisions	(119)	(119)
Lower: financial expenses capitalised for qualifying assets (Notes 6 and 7)	604	525
Total financial expense	**(135,248)**	**(142,134)**

	2018	2017
Financial income:		
Financial income from shares in equity instruments (Note 34)	500	429
Financial income of interest from expropriations (Note 23)	-	4,593
Other financial income	2,485	1,869
Total finance income	**2,985**	**6,891**

	2018	2017
Other net financial income/(expense)		
Net translation differences	(513)	(4,340)
Disposal / impairment of financial assets available for sale (Note 11)	(229)	(7)
Total other net financial income/(expense)	**(742)**	**(4,347)**
Net financial expenses	**(133,005)**	**(139,590)**

In this chapter, the main variations in financial year 2018 compared to 2017 are the following:

- The heading of financial expenses with third parties includes in 2018 an expropriation interest expense amounting to 310 thousand euros from expropriation disputes, compared to the profits of 4,593 thousand euros in 2017 (see Note 23 Provision for expropriation and interest for late payment).

- The increase in the heading "Financial expenses for debts with ENAIRE" is the result of the early cancellation of the debt with Depfa Bank in July 2018, which has been associated with a severance cost of 17,249 thousand euros corresponding to the present value of the interest pending payment from the date of the early cancellation until the original maturity date (15 September 2021) (see Note 20). This effect has been largely offset by a decrease in the average debt of 819.5 million euros and a slight decrease in the average interest rate.

- The decrease in the heading "Financial expenses for debts with third parties" is mainly related to the initial impact of the refinancing in the LLAH III subgroup made in 2017, which increased its financial expenses for 2017 to 32.3 million euros, compared to 19.1 million euros in 2018 (see Notes 12 and 20.b). Additionally, the financial expenses for debts with third parties of the parent company AENA increased by 3 million euros due to the interest derived from the new financing with credit institutions of the Parent Company (Note 20.b), which amounted to 4.5 million euros in 2018 (2017: 2.4 million euros corresponding to 7 months of 2017 -June to December).

- 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 2018, the negative impact was 0.4 million euros (Notes 3.2 and 20), while in 2017 the negative impact was 2.1 million euros.

(Amounts in thousands of euros unless otherwise stated)

32 Income tax

The expense for Income Tax is composed of:

	2018	2017
Current tax:		
Current tax on income for the period	(438,188)	(388,735)
Adjustment of ACDL portfolio against result (Note 21)	-	(478)
Change in tax rates in the United Kingdom (Note 21)	(260)	(264)
Adjustments from previous financial years and others	463	(176)
Total current taxes	**(437,985)**	**(389,653)**
Deferred tax (Note 21)	13,503	368
Deductions generated (Note 21)	14,880	14,547
Income tax	**(409,602)**	**(374,738)**

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 in the following year.

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 impairment of Property, plant and equipment, provisions for insolvency and contingencies and employment costs.

The general tax rate of the Corporate Tax for financial years 2018 and 2017 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 % in 2018 (2017: 19.25%).

On the other hand, as a consequence of the approval of a drop in tax rates in England, in 2018 the assets and deferred tax liabilities were reassessed 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 260 thousand euros, liabilities charged to temporary differences (heading “Deferred tax liabilities” from the Non-current liabilities on the statement of financial position), with a decrease of 348 thousand euros, while on the other hand, assets charged to temporary differences (heading “Deferred tax assets” on the Non-current assets in the statement of financial position), with an increase of 88 thousand euros (see Note 21).

- An increase in the “Deferred tax assets” heading for the amount of 30 thousand euros with a balancing entry in Equity (Note 21).

In 2017, 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

- 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).

(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:

	2018	**2017**
Profit / (loss) before tax	**1,737,353**	**1,596,707**
Tax calculated at standard national applicable rate	(434,338)	(399,177)
- Tax effects of:		
- Profits from associates, net of taxes	5,039	4,732
- Effect of smaller rate applicable to LLAH III	255	(1,032)
- Non-deductible expenses for tax purposes	(674)	(3,078)
- Capitalisation reserve	5,868	11,099
- Use of tax deductions not previously recognised	14,880	14,547
- Tax adjustments in England (Note 21)	(260)	(264)
- Adjustment of ACDL portfolio	-	(478)
- Adjustment of previous periods	649	(153)
- Negative tax adjustment	(761)	(705)
- Passive Reversal Deferred tax derived acquisition LLAH III	575	-
- Other	(835)	(229)
Tax expense	**(409,602)**	**(374,738)**

The charge/credit for taxes relating to the components of Other comprehensive income is as follows:

	2018			**2017**		
	Before taxes	**Tax (charge)/ credit**	**After taxes**	**Before taxes**	**Tax (charge)/ credit**	**After taxes**
Cash flow hedges (Note 18)	(4,425)	1,282	(3,143)	52,581	(12,732)	39,849
Actuarial losses and gains (Note 18)	(777)	140	(637)	(986)	169	(817)
Share in other comprehensive income of associates (Note 18)	-	-	-	-	-	(7)
Other overall profit/(loss):	**(5,202)**	**1,422**	**(3,780)**	**51,595**	**(12,563)**	**39,025**
Current income tax						
Deferred tax (Note 21)	-	1,422	-	-	(12,563)	-
	-	**1,422**	**-**	**-**	**(12,563)**	**-**

<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. As of 31 December 2018, the last four fiscal years for all taxes are open to inspection, with the exception of Corporation Tax that is open for 2014 and subsequent years.

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.

(Amounts in thousands of euros unless otherwise stated)

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 2018	31 December 2017
Result of the financial year (thousand euros)	1,327,882	1,232,005
Weighted average number of ordinary shares	150,000,000	150,000,000
Basic earnings per share (euro per share)	8.85	8.21

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 2018 and 2017 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 Group 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:	2018	2017
- Last company	**1,467**	**1,726**
ENAIRE	1,467	1,726
- Associates	**7,055**	**6,752**
Sacsa	931	761
AMP	5,764	5,602
AEROCALI	360	389
- Related parties	**355**	**334**
SENASA	236	236
INECO	112	93
AEMET	-	-
ISDEFE	7	5
Total	**8,877**	**8,812**

(Amounts in thousands of euros unless otherwise stated)

(b) *Purchases of goods and services*

	2018	2017
Services received:		
– Last company	**137,630**	**140,003**
ENAIRE	137,630	140,003
–Associates	**792**	**-**
AMP	10	-
AEROCALI	782	-
–Related parties	**28,189**	**27,447**
SENASA	1,338	1,359
INECO	13,846	12,897
AEMET	10,000	10,000
ISDEFE	3,005	3,191
Total	**166,641**	**167,450**
Acquisition of assets		
-Group companies	**234**	**320**
ADI	234	320
–Related parties	**4,057**	**8,665**
INECO	2,058	5,729
ISDEFE	1,999	2,936
Total	**4,291**	**8,985**

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:

The following are the contracts entered into by the Company with its majority shareholder, the public entity

- ENAIRE

On 20 December 2016, the Board of Management of Aena S.M.E, S.A. approved the ATM Agreement (Air Traffic Management) and CNS (Communication, Navigation, Surveillance), "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 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. Derived from this agreement, the economic benefits between the parties during 2018 amounted to 80.3 thousand euros (2017: 7.1 thousand euros) recorded at market value, although the amount paid by ENAIRE has amounted to 20.1 thousand euros (2017: 1.8 thousand euros).

- Aena Desarrollo Internacional S.M.E., S.A.

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 and is revised according to the volume of services rendered. In 2018, the services rendered amount to 113 thousand euros (2017: 104 thousand euros).

- Aena, Sociedad Concesionaria del Aeropuerto de la Región Internacional de Murcia S.M.E., S.A.

On 25 April 2018, an agreement was signed whereby Aena, Sociedad Concesionaria del Aeropuerto de la Región Internacional de Murcia S,M,E., S.A., contracts AENA, S.M.E, S.A. for the provision of advisory services and assistance in the planning, organisation, coordination and management of business activity areas. The contract has a duration of 3 years from the signing thereof. Among the services provided, the following stand out;

- Financial management
- Legal and equity management consultancy
- Human Resources Management
- Management of the President's Office
- Commercial management
- Communication management

The provision of services will be developed in two phases;

1. Pre-operative stage: from the signing of the agreement until the start of operation of the Airport.
2. Operational Stage: begins from the entry into operation of the Airport until the termination of the agreement.

In 2018, the services provided under this agreement amount to 2,000 thousand euros.

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.

- INECO

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.

(Amounts in thousands of euros unless otherwise stated)

- ISDEFE

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.

- AEMET

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 a duration of 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.

(c) *Income from shareholdings in Related parties*

	2018	2017
-**Related parties**	**500**	**429**
ACDL	-	12
ESSP SAS	500	417
Total (Note 31)	**500**	**429**

As indicated in Note 11, in financial years 2018 and 2017, Airport Concessions and Development Limited (ACDL) was inactive and in the process of liquidation. 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.

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 2018 the group received a dividend from European Satellite Services Provider SAS (ESSP SAS) amounting to 500 thousand euros (31 December 2017: 417 thousand euros).

(Amounts in thousands of euros unless otherwise stated)

See financial income from approved dividends from associates in Note 9.

During 2018, the subsidiary LLAH III distributed to its shareholders dividends amounting to GBP 33,200 thousand (37,531 thousand euros at the transaction exchange rate), of which Aena Desarrollo Internacional S.M.E., S.A. has received 19,141 thousand euros and the remaining 18,390 thousands euros was received by external partners.

During 2017, LLAH III 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. received 18,299 thousand euros and the remaining 17,631 thousands euros was 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*

	2018	**2017**
Receivables from related parties:		
- Associates	**3,943**	**3,376**
SACSA	122	96
AMP	3,793	3,248
AEROCALI	28	32
- Related parties	**179**	**47**
INECO	139	33
SENASA	34	14
AEMET	1	-
ISDEFE	5	-
- Last parent entity	**790**	**100**
ENAIRE	790	100
Total receivables from related parties (Note 13)	**4,912**	**3,523**

	2018	**2017**
Payables to related parties:		
- Associates	**782**	**-**
AEROCALI	782	-
- Related parties	**6,307**	**9,102**
SENASA	1	13
INECO	4,453	6,625
AEMET	833	833
ISDEFE	1,020	1,631
- Last parent entity	**25,099**	**25,498**
ENAIRE	25,099	25,498
Total payables to related parties (Note 19)	**32,188**	**34,600**

(Amounts in thousands of euros unless otherwise stated)

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.

The heading "Other accounts receivable with related parties" includes 1,529 thousand euros (Note 13) corresponding to approved dividends from the associate SACSA pending collection at 31 December 2018 (2017: total 4,309 thousand euros, of which 2,609 thousand euros correspond to approved dividends pending collection from AEROCALI, and 1,700 thousand euros from receivables from ENAIRE which have been collected in 2018).

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	
	2018	**2017**
Non-current		
Loan to AENA S.M.E., S.A. from ENAIRE	5,342,479	6,109,084
Adjustment IFRS 9 (See Note 2.1)	(292)	-
Adjustment of the loan from Company using the effective cost criterion	(3,965)	(4,866)
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**5,338,222**	**6,104,218**
Current		
Loan from ENAIRE	633,744	665,199
Adjustment IFRS 9 (See Note 2.1)	(584)	-
Adjustment of the loan from ENAIRE using the effective cost criterion.	(401)	(471)
Interest accrued on loans from Company	14,895	18,812
Subtotal AENA, S.M.E., S.A. short-term debt with ENAIRE	**647,654**	**683,540**
	5,985,876	**6,787,758**

The fair values of the loans with the Company (public business entity "ENAIRE") are broken down in Note 20.

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 statement of financial situation on 31 December 2018 and 31 December 2017**.**

(Amounts in thousands of euros unless otherwise stated)

35 Other information

Audit fees

The auditing company KPMG Auditores, S.L. of the Group's annual accounts has charged, during the years 2018 and 2017, professional fees and expenses, according to the following breakdown:

Item	2018	2017
Audit services	176	159
Other verification services	42	42
Other services	95	73
Total	**314**	**274**

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 years ended on 31 December 2018 and 2017.

The amounts included in the table above include all the fees for services rendered during financial years 2018 and 2017 regardless of when they were invoiced.

In addition, other entities affiliated to KPMG International have invoiced the Group during the years ended 31 December 2018 and 2017 for fees and expenses for professional services broken down as follows:

Item	2018	2017
Audit services	64	87
Other verification services	10	3
Other services	7	72
Total	**81**	**162**

Compensation for senior management and directors

Compensation received during 2018 and 2017 by the senior management and directors of the parent Company, classified by item, was as follows (thousand euros):

	2018			2017		
Item	Senior management	Board of Directors	Total	Senior management	Board of Directors	Total
Salaries	1,376	-	**1,376**	1,192	-	**1,192**
Per Diems	26	120	**146**	24	125	**149**
Insurance premiums	7	-	**7**	6	-	**6**
Total	**1,409**	**120**	**1,529**	**1,222**	**125**	**1,347**

The remuneration received during the year 2018 corresponds to those received in AENA S.M.E., S.A. for 10 senior management positions and by the Chairman-CEO, and in Aena Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A. for one higher management position.

In turn, the compensation received during financial year 2017 corresponded to the compensation received by AENA S.M.E., S.A. for 9 senior management positions and by the Chairman-CEO.

In addition, the Directors have not been granted advances or credits, nor have obligations been assumed on their behalf as collateral, nor have civil liability insurance premiums been paid for damages caused by acts or omissions in the exercise of the position. Likewise, the Company has no obligations in respect of pensions and life insurance with respect to former or current Directors, nor with respect to senior managers.

<u>Transactions unrelated to ordinary traffic or in non-market conditions carried out by the Company's Directors</u>

During 2018 and 2017 tax periods, the Directors did not carry out transactions with the Group or with Group companies outside of ordinary traffic or under conditions other than market conditions.

<u>Shareholdings and positions held, and activities carried out, by members of the Board of Directors in other similar companies.</u>

In 2018 and 2017 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 2018 and 2017 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.

<u>Directors' conflicts of interest</u>

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.

<u>Sureties and guarantees</u>

The bank guarantees submitted to various bodies at 31 December 2018 amounted to 10,372 thousand euros (31 December 2017: 588 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, date on which the Guarantee expired.

36 Subsequent events

On 15 January 2019, the Aeropuerto Internacional de la Región de Murcia (AIRM) was inaugurated, having started operating. As indicated in Note 1, with this entry into operation of AIRM, as foreseen in the "Protocol to establish the bases for the development of civil aviation in the Autonomous Community of the Region of Murcia" and in the offer presented by AENA in the public tender for the management and operation of the AIRM, the Murcia San Javier Airport remains exclusively for military aviation.

CONSOLIDATED MANAGEMENT REPORT

2018

“AENA S.M.E., S.A.”
AND SUBSIDIARIES

1. Executive summary

2018 continues to show Aena's[1] outstanding performance in terms of both, operations and results.

The following aspects can be highlighted in this period:

- In relation to the Airport Regulation Document (DORA) for the period 2017-2021, on 24 July 2018 the Board of Directors of Aena approved the proposed charges for 2019, consisting of the freezing of the adjusted maximum annual income per passenger (Spanish acronym: IMAAJ) for 2019 in relation to the maximum annual income per passenger (IMAAJ) for 2018. Said freeze is a consequence of the adjustments the regulation provides in relation to the quality-based performance incentive, the execution of investments and the factor of 100% fulfilment of the adjusted maximum annual income per passenger (Spanish acronym: IMAAJ) at the close of 2017.

  As Independent Supervisory Authority, the National Commission for Markets and Competition (Spanish acronym: CNMC) resolved on 10 December 2018 to declare the rate update approved by Aena applicable.

- At operative level, traffic at the airports managed by Aena continues to break records, with a volume of 280.3 million passengers in the period (+5.8% in comparison with the previous year), including Luton Airport.

  In the airports of the Spanish network, traffic also grew by 5.8%, reaching a new historical record of 263.8 million passengers, driven by the continuity of positive figures from the tourism sector and the excellent performance of national traffic. This growth was in line with Aena's passenger traffic forecast for 2018, estimated to increase by 5.5% (with a ± 1% margin) in the Spanish airport network.

  International traffic continues to grow strongly (4.1%); however, we are witnessing a decline in the number of passengers to and from the UK (-3.0%). Among other things, this is due to the recovery of alternative tourist destinations to Spain and the depreciation of the pound against the euro.

  On the other hand, national traffic is up 10.0%, favoured by the positive evolution of the Spanish economy and the increase of the state bonus for inter-island traffic from 50% to 75%, applied since 28 June 2017 and trips to the Peninsula by residents of the islands, Ceuta and Melilla since 16 July 2018.

- Growth in traffic at Aena's airports contributed to the increase in total revenue to €4,320.2 million (up 7.3% on the same period of 2017[2]), partly offset by the 2.22% reduction in airport charges from 1 March 2017 and a further 2.22% from 1 March 2018.

- In commercial activity, it is worth mentioning that May saw the opening of 49 food and beverages points of sale awarded in the first quarter of 2018 at Barcelona-El Prat Airport. The new offering will occupy a surface area of approximately 16.000 m², which will mean an increase of 19% at this airport and the incorporation of the latest trends in gastronomy.
  The new contracts involve an estimated increase in revenue from this business line in Barcelona of close to 30% relative to 2017 on a full-year basis and with the new minimum annual guaranteed rents.

  Regarding the renewal of the food and beverages offering at Málaga-Costa del Sol Airport, the new tenants opened for business in September. The new offer will maintain a total surface area of more than 6500 m², divided into 25 premises, and the implementation works of the new brands will be completed in the first half of 2019. The new contracts represent an estimated improvement of 30% in revenue from this activity in Málaga relative to 2017 (on a full-year basis and with the new minimum annual guaranteed rents).

- EBITDA for the period reached €2,656.6 million, an increase of 5.5% compared to 2017, including the €78.7 million of the consolidation of Luton and the extraordinary net impact of €19.6 million from the interruption of civil operations at Murcia San Javier airport, once the International Airport of the Region of Murcia (AIRM) has started operations.

  Excluding this impact, EBITDA for the period increased by 6.3% to €2,676.1 million.

  In this financial year, the increase in the costs of services provided by third parties in tenders launched since the end of 2016 has been highlighted, which have come into force with higher associated costs, reflecting the significant increase in traffic experienced in the airports of Aena's network in Spain in recent years, the conditions agreed upon in sectoral collective agreements, as well as the service requirements linked to compliance with DORA's quality levels.

[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.

Thus, said increase in costs of services provided by third parties has been reflected in the item "Other operating expenses", which grew by 10.5%, affected by the entry into force in 2018 of the contracts corresponding to the new services of assistance to people with reduced mobility (PMR), the new private security contracts, as well as the start of the cleaning services and luggage trolleys awarded between the second and the third quarter.

- Profit before tax reached €1,737.4 Million compared with €1,596.7 million in 2017, and net profit for the period amounted to €1,327.9 million, 7.8% up on 31 December 2017 (€1,232.0 million).

- Cash flow from operating activities came to €1,947.7 million at the close of the year, down 3.3% compared with €2,014.6 million in 2017, affected by an extraordinary tax refund in 2017 (€110.5 million) and, in 2018, the change of payment method by one airline from pre-payment to guarantee payment (€28.4 million). Excluding both effects, the increase in net cash from operating activities would have increased by 3.8% (€71.9 million).

  The consolidated financial net debt ratio of the Aena Group (calculated as Current financial debt plus Non-current financial debt minus Cash and cash equivalents) has been reduced to 2.5x as of 31 December 2018 compared to 2.8x at 31 December 2017.

  This financial solidity was reflected in Moody's upgrade of Aena's credit rating in April, from "Baa1" to "A3", with the outlook held at stable, confirmed in November (following publication of the Strategic Plan 2018-2021) and in Fitch's confirmation of its "A" credit rating, with outlook stable in May.

- As for the execution of capital expenditure, the amount paid out in the period amounted to €524.6 million (including €53.2 Million invested in Luton airport), representing an increase of €153.4 million relative to the same period of last year, of which €101.8 million corresponded to payments for capex made and certified at the end of 2017. Capital expenditure in the network of airports in Spain centred mainly on security and maintenance, in accordance with the regulated capex programme established in the DORA.

- On October 10, Aena presented its Strategic Plan for the period 2018-2021. The Plan, which was approved by the Board of Directors on 29 May, aims to consolidate the Company's strong growth and promote new lines of business that generate value, through nine lines of action that revolve around the two pillars of the company: the regulated business and the unregulated business.

  In the regulated business, associated with aeronautical activity, the strategy focuses on consolidating leadership, providing the airports with greater capacity, maintaining competitive rates and improving service quality levels.

  In the unregulated business, work is to be carried out on the diversification and search for new opportunities as a source of future growth. To do this, commercial services will be redesigned and optimized, the development of real estate projects will be carried out and international expansion will be promoted.

- Furthermore, in the framework of the Strategic Plan 2018-2021, Aena's Board of Directors approved a shareholder remuneration policy consisting in the distribution as dividends of an amount equivalent to 80% of the annual net profit of the parent company Aena S.M.E, S.A., excluding exceptional items. This policy will be applied to the distribution of profits for 2018, 2019 and 2020. However, the Board of Directors may change it in exceptional circumstances, in the terms set forth in the policy.

- With the presentation of the 2018-2021 Strategic Plan, the Company announced that it estimates a growth in passenger volume in the airports network in Spain of 2,0% for fiscal year 2019. This estimate is considered to vary by around ± 0.5%.

- The Board of Directors of Aena has agreed to propose to the General Shareholders' Meeting the distribution of a gross dividend of €6.93 per share charged to the results of 2018. This dividend implies sharing out 80% of the net profit of Aena SA and represents an increase of 6.6% with respect to the previous year.

- In 2018, Aena's stock varied between a maximum of €179.50 and a minimum of €133.0. The share closed the period at €135.8, down 19.7%, reflecting the general evolution of the Spanish market in this period, in which the IBEX35 lost 15.0%.

2. Macroeconomic environment and business figures

2.1. Macroeconomic situation and sector details

The Spanish economy continues along its path of growth and air transport stands as one of its main industries.

According to figures provided by the National Institute of Statistics, the growth of the GDP throughout 2018 in comparison with 2017 is estimated at 2.5% and the fourth quarter registered a year-on-year growth of 2.4%, a rate similar to that of the third quarter.

For its part, the contribution made by air transport is particularly relevant (according to ACI-Interviews in Spain, it generates approximately 5.9% of the GDP) and is strongly linked to one of the main industries: tourism, which according to Exceltur, accounted for 11.8% of Spain's GDP in 2018, with indicators that continue to evolve favourably, reaching record figures in terms of foreign tourists.

Thus, the data given by the National Institute of Statistics show that Spain welcomed 82.8 million tourists in 2018, 1.1% more than the previous year, with the United Kingdom (18.5 million tourists), Germany (11.4 million) and France (11.3 million) being the main sources.

However, in 2018 these markets showed a variation of -1.6%, -4.1% and + 0.7% respectively, clearly lower than the growth of recent years. This is due, among other reasons, to the recovery of alternative tourist destinations to Spain and, in addition, in the case of tourists from the United Kingdom (which, on the Aena network, accounted for 16.7% of passenger traffic in 2018) to the evolution of the price of the pound against the euro and, in general, the current trading environment of the date and United Kingdom's departure from the European Union (Brexit).

By communities, Catalonia was the leading autonomous community in 2018, assuming 23.1% of the total number of tourists, followed by the Balearic Islands (16.7%) and the Canary Islands (16.6%).

Even more remarkable for Aena is that more than 81% of tourists travel to Spain by air and therefore used one of our airports.

Mention must also be made of the fact that Spain has a significant position as a gateway to and from Latin America by air.

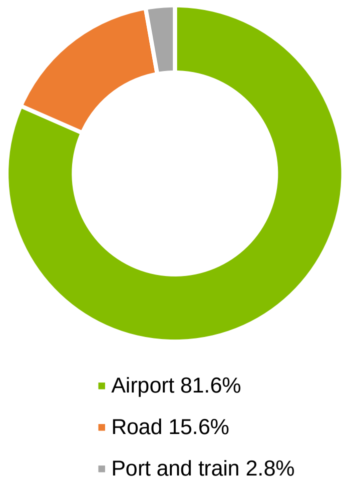


Figure 1. Distribution of tourists by means of access

2.2. Traffic in the Aena airport network in Spain

In 2018, passenger traffic in the airport network in Spain grew by +5.8%, reaching 263.8 million, a new record of passengers carried. More specifically, the months of July and August were the best two months in Aena's history. In the fourth quarter, traffic increased by 6.9% (compared to an increase of 9.7% in the first quarter, 4.8% in the second quarter and 3.7% in the third quarter).

The growth seen in 2018 has been favoured by the positive evolution of domestic traffic (+10.0%), which reached 80.8 million passengers and represents 30.6% of total network traffic, driven by the upward trend of the Spanish economy and the increase of the state bonus for inter-island traffic from 50% to 75%, applied since June 28, 2017, and, from July 16, 2018, journeys to the Peninsula by residents on the islands, Ceuta and Melilla.

International traffic has increased 4.1%, reaching 183.0 million passengers. Its contribution to total traffic fell to 69.4% (70.5% in 2017), involving a decrease in the number of passengers to and from the UK (-3.0%), due among other reasons to the progressive recovery of alternative tourist destinations that, in a stable environment, are very competitive and to the impact of Brexit being reflected in the trends in exchange rates.

In terms of aircraft movements, 2,300,189 flights were recorded, up 5.8% on the same period of last year.

The volume of freight continued to increase significantly, up 9.9% to 1 million metric tons.

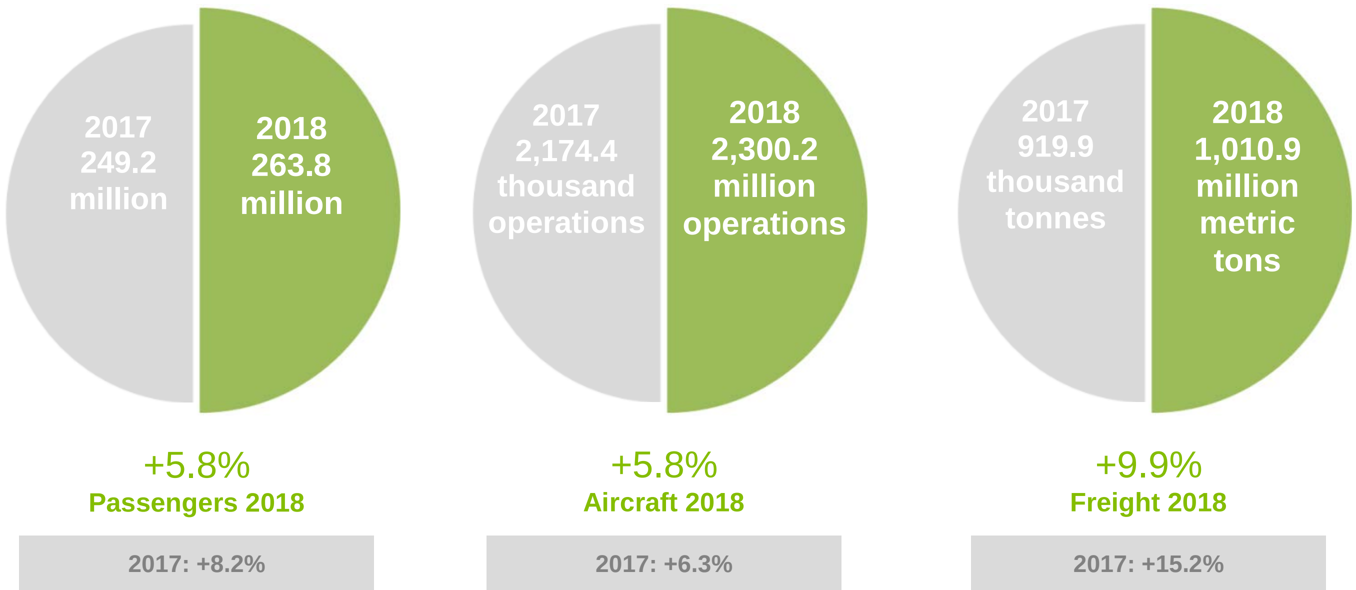


Figure 2. Traffic on the Aena airport network in Spain

2.3. Analysis of air passenger traffic by airport and airline

The distribution of passengers in terms of percentage shows that the volume remains concentrated at the network's seven main airports:

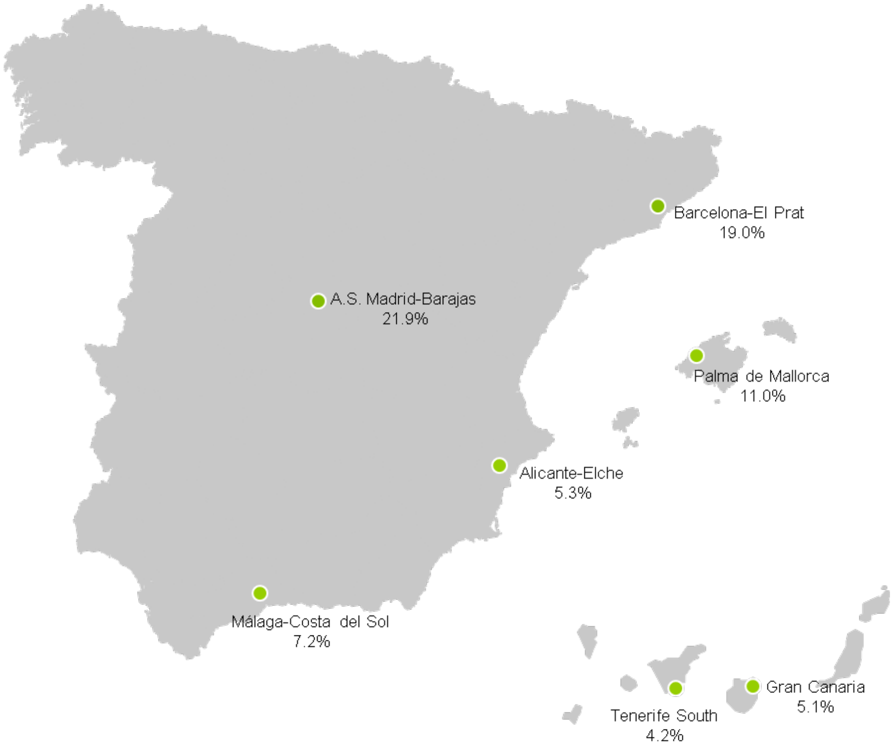


Figure 3. Share of passenger traffic at major airports in Spain

The evolution of traffic by airport in 2018 is as follows:

	Passengers			Aircraft			Cargo		
Airports and Airport groups	**Million**	**Variation 2018/2017**	**Share according to total**	**Thousands**	**Variation 2018/2017**	**Share according to total**	**Metric tons**	**Variation 2018/2017**	**Share according to total**
Adolfo Suárez Madrid-Barajas	57.9	8.4%	21.9%	409.8	5.7%	17.8%	518,859	9.9%	51.3%
Barcelona - El Prat	50.2	6.1%	19.0%	335.7	3.7%	14.6%	172,940	10.8%	17.1%
Palma de Mallorca	29.1	4.0%	11.0%	220.3	5.5%	9.6%	10,018	-1.7%	1.0%
Total Canary Islands Group	45.3	2.8%	17.2%	416.5	9.3%	18.1%	37,433	-0.4%	3.7%
Total Group I	66.2	6.0%	25.1%	548.0	5.1%	23.8%	38,032	2.0%	3.8%
Total Group II (1)	13.6	6.5%	5.2%	187.5	4.1%	8.2%	171,121	17.3%	16.9%
Total Group III	1.5	18.2%	0.6%	182.4	6.0%	7.9%	62,471	3.0%	6.2%
TOTAL	**263.8**	**5.8%**	**100.0%**	**2,300.2**	**5.8%**	**100.0%**	**1,010,873**	**9.9%**	**100.0%**

Traffic data pending definitive close, not subject to significant variations.

(1) *Includes data on civil air operations at the Murcia San Javier Air Base (1.3 million passengers and 9,179 aircraft movements in 2018), which were interrupted on 15 January 2019, when the International Airport of the Region of Murcia (AIRM) started up operations (see Note 2.2 of the Consoldated Financial Statements).*

Table 1. Analysis of air traffic by airport and groups of airports

Adolfo Suárez Madrid-Barajas is the leading airport of the network in terms of passenger traffic, aircraft and freight, accounting for 21.9% of the total number of passengers in the Spanish network (57.9 million). In 2018, the number of passengers increased by 8.4% in comparison with the same period of last year (+7.4% domestic traffic and +8.8% international traffic).

In terms of aircraft movements, a total of 409,832 flights operated out of this airport, 5.7% up on the same period of 2017.

Freight, which accounts for more than half of the total volume passing through the network, increased by 9.9% to 518,859 metric tons transported.

At Barcelona-El Prat Airport, passenger traffic grew by 6.1% (domestic by +5.7% and international by +6.2%) to 50.2 million.

There were 335,651 movements, a year-on-year increase of 3.7%, while freight maintained its significant growth trend with a 10.8% increase in volume to 172,940 metric tons (17.1% of the total freight handled in the network).

Passenger traffic at Palma de Mallorca Airport reached 29.1 million, up by 4.0% year-on-year (domestic up +9.9% and international by 2.2%).

Aircraft operations increased by 5.5% to 220,329.

In the Canary Islands Group, the number of passengers passing through the islands' eight airports increased by 2.8% to 45.3 million (those on domestic flights increasing by +15.5% and those on international flights falling by 3.3%).

The eight airports in Group I grew by 6.0% in passenger traffic, to 66.2 million, the main increases being seen in Seville (+24.9%), Valencia (+15.2%) and Bilbao (+10.0%).

Traffic at Malaga-Costa del Sol Airport grew by 2.1% (to 19.0 million passengers) and Alicante-Elche by 2.0% (to 14.0 million passengers). Domestic traffic in this group grew by 11.2% and international traffic was up 4.1%.

The 11 airports in Group II posted overall growth in passenger traffic of 6.5%, reaching 13.6 million. This growth was seen in both domestic and international traffic (+8.9% and +3.1% respectively).

In this group it is worth highlighting the 17.3% increase in the volume of freight handled at Zaragoza airport, which accounted for 16.5% of the freight handled in the network.

The airports in Group III, those with the lowest volumes of traffic, posted an increase of 18.2% (to 1.5 million passengers).

In this group the 2.8% growth in freight volumes seen at Vitoria airport stands out (6.1% of all cargo handled in the network).

Airport marketing has had a very positive impact in 2018 resulting in the opening of 343 new routes[1] from the airports on Aena's network: 38 with domestic destinations, 285 medium-haul[2] and 20 long-haul[3].

The airports opened with the highest numbers of new routes were: Palma de Mallorca (64), Adolfo Suárez Madrid-Barajas (28), Málaga-Costa del Sol (26), Tenerife South (21) and Barcelona - El Prat (21). By airline, Ryanair has been the airline with the highest number of new routes (59), followed by Laudamotion (40), easyJet (22) and Vueling (15).

By destination, special mention must be made of the new routes opened from Adolfo Suárez Madrid-Barajas Airport with Shenzen (operated by Hainan Airlines), San Francisco (Iberia), Los Angeles and New York (Norwegian). From Barcelona-El Prat Airport, Level has established a new route with Boston, Asiana with Seoul and Ethiad with Abu-Dhabi. From the Málaga-Costa del Sol Airport, another four long-haul routes have been opened: Doha (operated by Qatar), Jeddah and Riyadh (Saudia Airlines) and Kuwait (Kuwait Airlines). And finally, from Tenerife North, Plus Ultra has opened a connection with Caracas.

In addition, in 2018, three bases of the companies Volotea, SAS and Thomas Cook Balearics were opened at the airports of Bilbao, Malaga and Palma de Mallorca, respectively.

In terms of traffic distribution by geographical area, besides the increase in the share of domestic passengers already commented on (30.6% in 2018), mention must be made of the significant growth in traffic to Asia (+29.6%) and North America (+16.6%), which, despite being lightweight markets in absolute terms, shows the positive impact of the Company's airport marketing measures.

The growth of traffic with Asia is particularly relevant and has tripled over the last three years. Today, this market has 16 destinations and 1.1 million passengers (compared to 6 destinations and 368,000 passengers in 2015).

Region	**Passengers 2018**	**Variation %**
Europe (1)	161,592,201	3.2%
Spain	80,773,105	10.0%
Latin America	7,638,118	7.1%
North America (2)	5,973,719	16.6%
Africa	3,393,658	9.5%
Middle East	3,240,858	8.3%
Asia Pacific	1,141,747	29.6%
TOTAL	**263,753,406**	**5.8%**

(1) Excluding Spain
(2) Including the USA, Canada and Mexico

Table 2. Breakdown of traffic by geographical area

[1] Routes with more than 5,000 passengers in 2018 and fewer than 1,000 in 2017.
[2] Routes of less than 4,000 km and destination in the EEA (excluding Spain).
[3] Routes of more than 4,000 km and destination non-EEA.

Figure 4. Map of traffic distribution by geographic area

By countries, total traffic on the airport network remains concentrated in Spain (30.6%), the UK, Germany, Italy and France, which together account for a 38.8% market share (40.3% in 2017).

Of these countries it is worth noting, as already mentioned, the decrease in the number of passengers with origin/destination in the United Kingdom (-3.0%) affected by the recovery of alternative tourist destinations to Spain as well as the impact of Brexit and its reflection on the evolution of exchange rates.

Country	Passengers		Variation		Share (%)	
	2018	2017	%	Passengers	2018	2017
Spain	80,773,105	73,441,642	10.0%	7,331,463	30.6%	29.5%
United Kingdom	44,114,652	45,460,047	-3.0%	-1,345,395	16.7%	18.2%
Germany	29,735,131	28,676,583	3.7%	1,058,548	11.3%	11.5%
Italy	15,322,572	14,024,888	9.3%	1,297,684	5.8%	5.6%
France	13,229,644	12,354,027	7.1%	875,617	5.0%	5.0%
Holland	8,771,402	8,603,723	1.9%	167,679	3.3%	3.5%
Switzerland	6,411,587	6,391,259	0.3%	20,328	2.4%	2.6%
Belgium	6,088,932	5,990,013	1.7%	98,919	2.3%	2.4%
Portugal	4,877,201	4,295,889	13.5%	581,312	1.8%	1.7%
Ireland	4,332,257	4,162,682	4.1%	169,575	1.6%	1.7%
United States	4,408,673	3,719,791	18.5%	688,882	1.7%	1.5%
Sweden	3,873,457	4,048,144	-4.3%	-174,687	1.5%	1.6%
Denmark	3,455,567	3,442,023	0.4%	13,544	1.3%	1.4%
Norway	3,118,163	3,190,928	-2.3%	-72,765	1.2%	1.3%
Poland	2,660,779	2,472,060	7.6%	188,719	1.0%	1.0%
Total Top 15	**231,173,122**	**220,273,699**	**4.9%**	**10,899,423**	**87.6%**	**88.4%**
Rest of the world	**32,580,284**	**28,944,617**	**12.6%**	**3,635,667**	**12.4%**	**11.6%**
Total Passengers	**263,753,406**	**249,218,316**	**5.8%**	**14,535,090**	**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 55.4% of the total (54.3% in 2017) while the remaining 44.6% are legacy carriers (45.7% in 2017). Nonetheless, the degree of concentration remains moderate.

Aena's main client airlines continue to be the IAG Group and Ryanair. The former, comprising Iberia, Iberia Express, Vueling, British Airways, Aer Lingus and the Level brand, increased its share of total passenger traffic from 26.2% in 2017 to 27.8%, while Ryanair also increased its share, albeit only slightly, from 17.7 to 17.8%. Among other airlines, mention must be made of the increase in Eurowings business, the sustained growth of Jet2.com (passengers travelling mainly from the United Kingdom to tourist destinations in Spain), the growth of the Binter Group, which mainly operates traffic between airports of the Canary Group, and Air Europa, mainly at Madrid-Barajas Airport, and EasyJet.

As for the long-haul flights started by low-cost carriers Norwegian and Level (IAG Group) in June 2017 with new routes from Barcelona, mention must be made of the fact that, albeit still at an early-stage in Spain, it continues its upward trend and, from when it opened for business to the close of 2018, it has carried more than 1,100,000 passengers, exceeding the figure of 840,000 edges in 2018. Furthermore, in July, Norwegian started two new routes from Madrid (Los Angeles and New York) and, since October, Level has been operating a new route from Barcelona (San Francisco).

In addition, the consolidation trend of airlines, which involves the progressive re-absorption of passengers by other airlines, has been evident in 2018 in the cases of Air Berlin, Niki and Monarch, companies that operated in relevant markets (Air Berlin and Niki in Germany and Monarch in United Kingdom), which ceased operations in 2018.

Airline	Passengers		Variation		Share (%)	
	2018	2017	%	Passengers	2018	2017
Ryanair [1]	46,834,426	44,026,566	6.4%	2,807,860	17.8%	17.7%
Vueling	39,388,231	34,802,550	13.2%	4,585,681	14.9%	14.0%
Iberia	19,280,728	17,465,094	10.4%	1,815,634	7.3%	7.0%
Air Europa	17,362,329	15,655,282	10.9%	1,707,047	6.6%	6.3%
Easyjet [2]	16,753,696	15,433,064	8.6%	1,320,632	6.4%	6.2%
Norwegian Air [3]	9,996,446	9,771,993	2.3%	224,453	3.8%	3.9%
Iberia Express	9,532,184	8,577,197	11.1%	954,987	3.6%	3.4%
Air Nostrum	8,414,781	7,748,597	8.6%	666,184	3.2%	3.1%
Jet2.Com	7,241,470	6,058,120	19.5%	1,183,350	2.7%	2.4%
Grupo Binter [4]	7,051,906	6,148,173	14.7%	903,733	2.7%	2.5%
Eurowings	5,612,244	3,803,852	47.5%	1,808,392	2.1%	1.5%
Thomson Airways	4,813,506	5,108,094	-5.8%	-294,588	1.8%	2.0%
Lufthansa	4,246,828	3,703,650	14.7%	543,178	1.6%	1.5%
Transavia	3,689,599	3,741,371	-1.4%	-51,772	1.4%	1.5%
Condor	3,394,319	3,035,958	11.8%	358,361	1.3%	1.2%
Total Top 15	**203,612,693**	**185,079,561**	**10.0%**	**18,533,132**	**77.2%**	**74.3%**
Other airlines	60,140,713	64,138,755	-6.2%	-3,998,042	22.8%	25.7%
Total Passengers	**263,753,406**	**249,218,316**	**5.8%**	**14,535,090**	**100.0%**	**100.0%**
Total Low Cost Passengers [5]	**146,228,689**	**135,345,861**	**8.0%**	**10,882,828**	**55.4%**	**54.3%**

(1) Includes Ryanair Ltd. and Ryanair Sun, S.A.
(2) Includes Easyjet Switzerland, S.A. and Easyjet Airline Co. Ltd.
(3) Includes Norwegian Air International and Norwegian Air Shuttle AS
(4) Includes Binter Canarias, Naysa and Canarias Airlines.
(5) Includes traffic of low-cost carriers on regular flights.

Table 4. Distribution of air traffic by airlines

2.4. 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 and Kingston airports in Jamaica. The evolution of traffic at these airports has been as follows:

Millions of passengers	2018	2017	Change [(1)] %	% Aena share
London Luton United Kingdom)	16.6	15.8	5.0%	51.0%
Grupo Aeroportuario del Pacífico (GAP) [(2)] (Mexico)	44.9	40.7	10.4%	5.8%
Aerocali (Cali, Colombia)	5.1	5.2	-2.4%	50.0%
SACSA (Cartagena de Indias, Colombia)	5.5	4.8	14.7%	37.9%
TOTAL	**72.0**	**66.5**	**8.4%**	-

[(1)] *Percentage changes calculated in passengers*

[(2)] *GAP includes traffic at Montego Bay Airport, MBJ (Jamaica)*

Table 5. Passenger traffic in investee airports

London Luton Airport saw its passenger traffic increase by 5.0%. This growth reflects the recovery of the traffic operated by Monarch (which applied for bankruptcy in October 2017), and the growth provided by Wizz Air (9%), which has based 6 new aircraft at the airport over the year. At the end of 2018, the airport had 149 destinations (6 more than the previous year).

Total passenger traffic of GAP ("Grupo Aeroportuario del Pacífico") grew by a significant 10.4% in the period, in line with the annual estimate published by this Company, with traffic performing particularly well at the group's main Mexican airports: Guadalajara, Guanajuato, Mexicali and Tijuana, the latter driven by the increase of users of the CBX (*Cross Border Xpress*).

In addition, it is relevant to mention that on 10 October 2018, GAP closed the agreement with the Jamaican Government to operate, modernize and expand the Norman Manley International Airport in the city of Kingston by signing a 25-year Concession Agreement with a possible extension of five years. With this operation, GAP now operates the two commercial airports of Jamaica (Montego Bay and Kingston), which manage and process 99% of the country's traffic.

With respect to the Cali Airport**,** traffic was down 2.4% in 2018 due to the effects of the Avianca pilots strike at the end of 2017. In November 2018, the number of national frequencies operated before the aforementioned strike was recovered and the last quarter of the year witnessed a slight improvement in passenger traffic due to the new Easyfly routes and the recovery of the routes operated by Avianca. International traffic also grew by 11.2% in 2018, partially offsetting the fall in domestic traffic, driven by new international routes and improved international performance by Avianca and Copa.

The Cartagena de Indias Airport has experienced an increase of 14.7%. Despite having also been affected by the effects of the Avianca strike in 2018, the lower dependence of this airport on its airline and its increased tourist component, has brought about a rapid recovery of routes and a moderate growth of national traffic. The significant increase in international traffic at Cartagena de Indias Airport (39.7%) has boosted growth in 2018 through the introduction of new routes and airlines.

With regard to the targets of the Strategic Plan 2018-2021, Aena is working to analyse new international development opportunities and consolidate and develop current assets. In terms of capital expenditure of equity-accounted associates, on 29 June 2018 the feasibility study on a Public-Private Partnership (PPP) was presented to the Colombian National Infrastructure Agency to obtain a new concession for Cali Airport and other secondary airports in the region.

Apart from this, at Cartagena de Indias Airport negotiations are currently under way with the National Infrastructure Agency for the development of a private initiative PPP, the objective of which is to sign a new concession on completion of the current contract in 2020.

2.5. Commercial Activity

One fundamental part of the experience Aena offers passengers travelling through its airports integrates the commercial business. 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.

In 2018, commercial revenues reached €1,162.4 million, up 9.6% on the previous year. This growth is mainly due to the improved contractual conditions of the new tenders, which include higher minimum annual guaranteed rent (MAGR), the increase in guaranteed minimum rents included in the current contracts and the evolution of sales of own businesses, parking and VIP services, where income continues to evolve significantly. The increase in the traffic mix of low-cost passengers with lower propensity to spend, Brexit and the devaluation of the pound sterling continue to affect revenue from this business.

In per-passenger terms, commercial revenue remained at €4.34, 3.0% up on the same period of 2017 (€4.21). This ratio includes revenue from commercial activities inside the terminal and from car parks, but does not take into account income from real estate services, which form a different business segment.

As for contractual conditions, we would point out that 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 a minimum annual guaranteed rent (MAGR) which ensures that the lessee pays a minimum amount by compromising a percentage of its Business Plan. The following graph shows how the minimum annual guaranteed rents for each business line will evolve until 2022 for contracts in force at 31 December 2018:

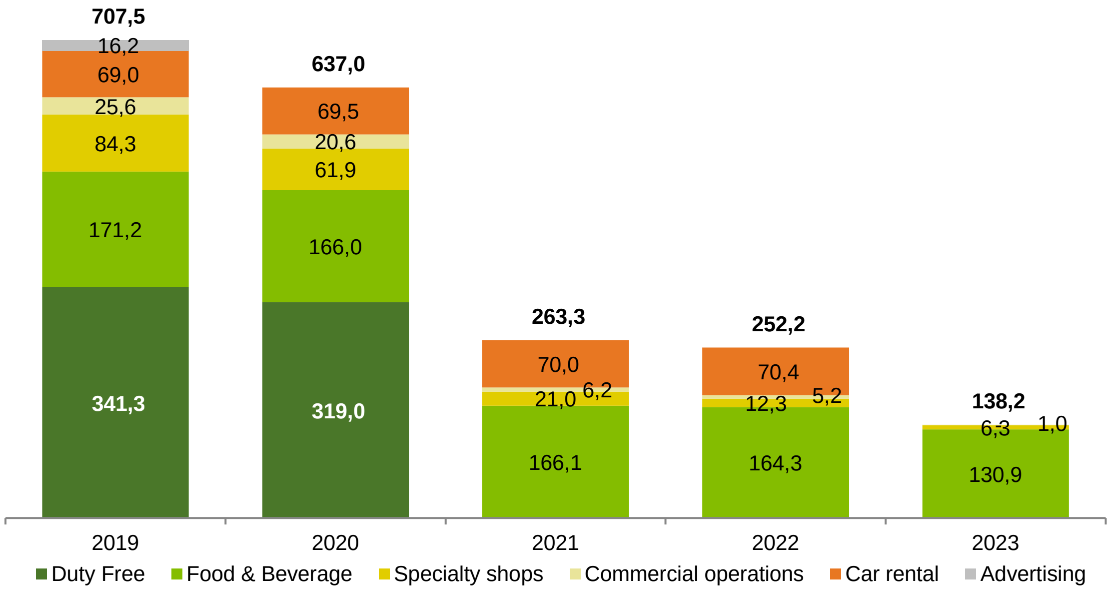


Figure 5. Minimum annual guaranteed rents (MAGR) by business line

The MAGR has been prorated to the actual days at the beginning and end of the contracts.
Commercial operations include contracts for financial and regulated services (currency exchange, pharmacies, tobacco shops, etc.)
Duty Free: the current contract ends in October 2020.
Advertising: the new contract is at tender stage and the rents correspond to the extension of the previous contract to June 30.

As targets included in the Strategic Plan 2018-2021, progress has been made in 2018 on the definition of projects which form part of the commercial digitalization strategy and will be developed and implemented throughout 2019. These projects focus on strengthening relations with passengers on digital media and increasing points of contact with them. This will provide access to services and information in order to improve their experience through a newcomer personalized and fluent offer that helps maximize commercial business.

3. Business lines

The main figures for Aena's results 2018 are shown below itemized by business area: The airports segment accounts for 95.5% of total EBITDA (aeronautical activity represents 60.0% and commercial activity contributes 35.5%), the real estate services segment contributes 1.4%, and international business accounts for 3.1%.

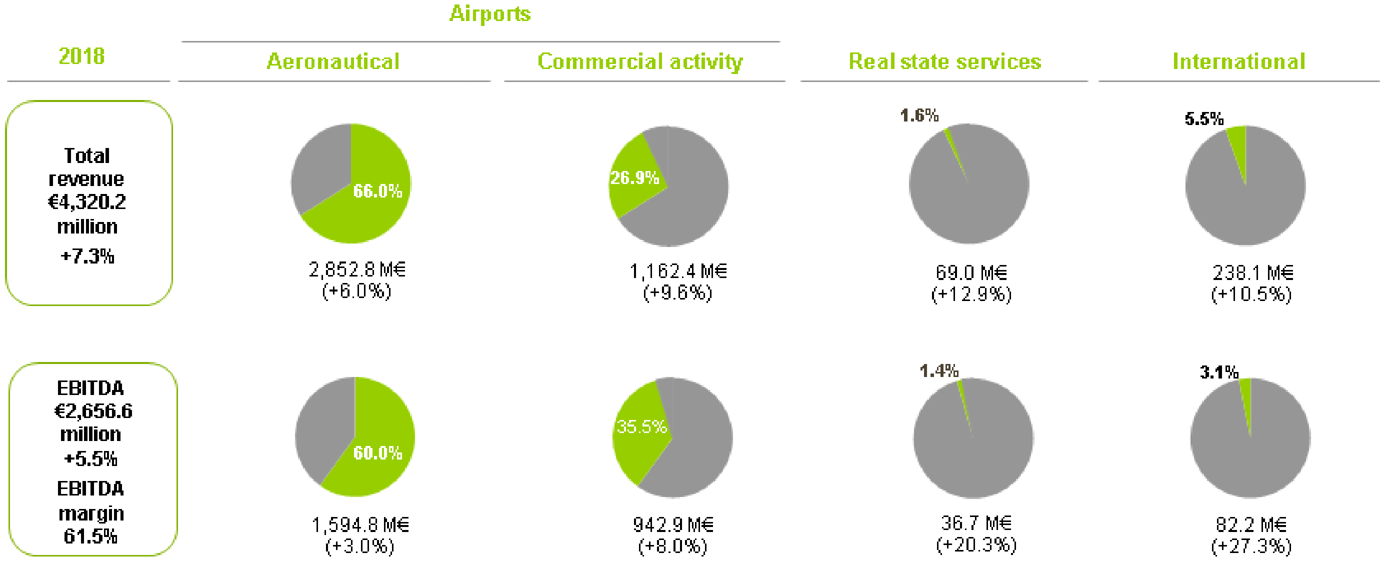


Figure 6. Aena's main results by business area

3.1 Airports segment

3.1.1 Aeronautical

Process of consultation on airport charges 2019

In accordance with the provisions of the legislation (Law 18/2014 and Directive 2009/12/EC on airport charges), in May and July the process of consultation took place between Aena and the associations of airlines using the airports on the revision of airport charges for 2019.

In the course of this consultation process Aena has provided users and the CNMC (Spain's National Authority for Markets and Competition), which performs the functions of Independent Supervisory Authority, with the information required by the legislation and a proposal of charges which meets the requirements given in the Airport Regulation Document (DORA) and in Law 18/2014.

The first meeting in the consultation process was held on 21 May, the second on 21 June, and a third on 13 July, at which the definitive charges proposal for 2019 was presented to the Board of Directors of Aena, which approved it on 24 July and communicated to the CNMC, the users' associations and the General Directorate for Civil Aviation (DGAC).

The users called upon by Aena to take part in the consultation process belong to the following airline associations and airlines not represented by said associations:

- IATA: International Air Transport Association
- A4E: Airlines for Europe
- AIRE: Airlines International Representation in Europe
- ACETA: Asociación de Compañías Españolas de Transporte Aéreo (Association of Spanish Air Transport Companies)
- ALA: Asociación de Líneas Aéreas
- AECA: Asociación Española de Compañías Aéreas (Spanish Airline Association)
- AOC España: Comité de Operadores de Líneas Aéreas (Committee of Airline Operators)
- RACE: Real Aeroclub de España (Royal Aero-Club of Spain)
- RFAE: Real Federación Aeronáutica Española (Spanish Royal Aeronautical Federation)
- AOPA: Aircraft Owners and Pilots Association
- Ryanair
- Norwegian
- Jet2.com

The meetings of this process were also attended by the CNMC, the DGAC and AESA (the Spanish Aviation Safety and Security Agency) as observers.

As a result of this process, the Board of Directors of Aena approved the proposed charges applicable from 1 March 2019, consisting of the freezing of the adjusted maximum annual income per passenger (IMAAJ) for 2019 relative to the maximum annual income per passenger (IMAAJ) for 2018 as a result of the adjustments established by the DORA regarding the performance incentive for levels of quality, the completion of investments and the 100% compliance factor for the adjusted maximum annual revenue per-passenger (IMAAJ) corresponding to year-end 2017.

As the Independent Supervision Authority, in December 2018 the CNMC approved the freezing of the airport tariffs as of March 2019 and compliance with the legal requirements of transparency and consultation with airport users given in the regulations applied by Aena to update the rates.

Aeronautical activity

During the period there have been some important changes in the provision of airport services. These include the new assistance service for persons with reduced mobility, the start-up of new contracts for the private security service and the cleaning and luggage cart services at 19 airports.

In the area of facilities and maintenance, we started up the Strategic Airport Maintenance Plan for 2018-2021 (PEMA in the Spanish acronym), which aims to rationalize and standardize maintenance services in the network.

As regards airport security, it is important to highlight the awarding of the contract to provide passenger assistance service at the passport control point of the main airports in support of the National Police. Also, in line with the foregoing, automated border control (ABC) equipment has been installed at Adolfo Suárez Madrid-Barajas, Barcelona, Palma de Mallorca, Málaga, Alicante, Menorca and Ibiza airports.

Furthermore, airport security, border control and customs control are the three basic features affected at operational level by Brexit, on which Aena has been working throughout 2018, also taking part in the National Security Committee with all the players involved.

On 14 January 2019, the last operation took place at the civil airport of Murcia San Javier, leaving way for the International Airport of the Region of Murcia (AIRM), which started up operations the following day, i.e. 15 January (see Note 2.2 in the Consoldated Financial Statements).

Since the signing of the contract for the management, operation, maintenance and conservation of the International Airport of the Region of Murcia for a term of 25 years in February 2018, signed by the Company “Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A.”, all the necessary actions were taken for the airport to start up as scheduled.

The financial information corresponding to the new Company "Aena Sociedad Concesionaria del Aeropuerto Internacional de la Región de Murcia S.M.E., S.A." is included in the Airports segment (see Note 5 of the Consoldated Financial Statements).

The following is a summary of the most significant figures of the aeronautical activity during the period:

Thousand euros	2018	2017	Variation	% Variation
Ordinary revenue	2,754,249	2,638,505	115,744	4.4%
Airport charges[(1)]	2,676,491	2,562,051	114,440	4.5%
Passengers	1,227,104	1,166,406	60,698	5.2%
Landings	732,952	697,341	35,611	5.1%
Security	426,749	419,869	6,880	1.6%
Telescopic boarding bridges	106,830	110,166	-3,336	-3.0%
Handling	100,830	90,432	10,398	11.5%
Fuel	33,747	33,535	212	0.6%
Parking facilities	37,431	34,188	3,243	9.5%
Catering	10,848	10,114	734	7.3%
Other Airport Services[(2)]	77,758	76,454	1,304	1.7%
Other revenue	98,569	53,848	44,721	83.1%
Total revenue	2,852,818	2,692,353	160,465	6.0%
Total expenses (including depreciation)	-1,885,003	-1,774,813	110,190	6.2%
EBITDA[(3)]	1,594,781	1,548,960	45,821	3.0%

(1) The amounts for passenger fees, landing charges and security charges are shown net of commercial incentives: €20.9 million in 2018 (€36.4 million in 2017).

(2) Includes: Check-in counters, use of 400 Hz gateways, fire service, luggage lockers and other revenue.

(3) Earnings before interest, tax, depreciation and amortization.

Table 6. The most significant figures in aeronautical activity

Total revenue from the aeronautical activity increased to €2,852.8 million (up +6.0% on 2017) driven by the growth in traffic (5.8% increase in passenger traffic and number of aircraft).

Conversely, the impact of the -2.22% reduction in charges from 1 March 2017 and a further -2.22% from 1 March 2018 amounted to €58.3 million.

The effect of the traffic incentives entailed provisioning €20.9 million in the period (net of the reversal of €4.4 million of provisions from previous years) as against €36.4 million in 2017 (net of the reversal of €3.9 million), it being important to point out that the commercial incentive for 2017 started on 1 April, coinciding with the start of the summer season, so no incentives were accrued in respect of traffic of the first quarter of 2017.

Rebates for passengers on connecting flights amounted to €73.5 million, higher than the amount for the same period of 2017 (€69.7 million).

On the other hand, the item of other revenue includes the extraordinary effect of the application to income of €26.7 million from capital grants associated with assets related to civil operations at Murcia San Javier Airport, interrupted once the International Airport of the Region of Murcia has started up operations.

Total expenses of the aeronautical activity increased by 6.2% in comparison with the same period of 2017. Excluding amortizations, as well as €46.2 million for the impairment of the assets affected by the civil operations of Murcia San Javier Airport, which cannot be reused at another airport, upon the interruption of civil air operations at the airport, once the International Airport of the Region of Murcia started up operations (see Notes 6 and 7 of the Consoldated Financial Statements), the total expenses have increased by 6.0%. This increase was due to the increase in employee benefits and other operating expenses as explained in section 4. Income Statement.

EBITDA for the period stood at €1,594.8 million, up €45.8 million on 2017 (+ 3.0%) impacted by a net extraordinary expense of 19.6 million derived from the recognition of impairment of the assets affected by the civil operations of Murcia San Javier Airport for €46.2 million and €26.7 million for the application of income from capital grants related to the aforementioned impaired assets. Excluding this effect, the EBITDA for aeronautical activity increased by 4.2% (€65.4 million) to €1,614.3 million.

As for the main actions carried out at the airports in the network and with the main objective of maintaining the quality of service provided to passengers and airlines, the following are particularly noteworthy:

Passenger services

To improve the passenger experience at its airports, Aena continuously carries out actions in the terminal buildings and other access points by improving cleaning services, assistance services for persons with reduced mobility (PRM), passenger information and other services.

- Cleanliness

In the framework of the Strategic Cleaning Plan, in 2018, the provision of this service was tendered at 21 airports on the network and the services have been awarded at 19 of them.

The new contracts came into force between May and November and account for €27.4 million and a period of one year (including two possible annual extensions).

The award of the contracts for the cleaning services of the Madrid and Barcelona airports is scheduled for the first quarter of 2019. The tender amounts to €134.8 million over a period of 3 years, extendible for 2 annuities.

The main objectives of the new contracts are to improve the quality offered to passengers in compliance with the quality standards given in the Airport Regulation Document 2017-2021 (DORA). It provides a model that focuses on the values of quality, efficiency and flexibility, modernizing the service by means of a digital platform for resolving incidents in real time.

- PRM service

From February to April, the new service entered into operation to assist persons with reduced mobility at the 20 main airports on the network. The price of the four-year contract is €272.5 million.

The new service seeks to improve the quality offered to passengers and airlines, with more demanding requirements, increasing the support elements (ambulift, vans and wheelchairs) in comparison with the previous service.

It is also complemented by the implementation of mobile devices for passenger care and the development of assistance, improvements included in the digitalization project for the PRM assistance service.

- Passenger information

In 2018, the *Contact Centre* has also come into operation, replacing the former *Call Centre*, to provide services in addition to telephone assistance, such as chats on websites, the processing of complaint and suggestion boxes and the telephone booking of PRM and parking services, which make it possible to extend the channels of communication with and services to passengers.

- Other activities

Furthermore, in order to offer a continuous improvement of the passenger experience at its airports, Aena actively participates in different forums that promote good practices to guarantee the highest quality standards.

In 2018, Aena sat on the Facilitation Committees of ACI Europe (Airports Council International), which focuses on good practices, in the first global summit for *Airport Service Quality* (ASQ) *Forum and Customer Excellence Global Summit ACI WORLD* organized by ACI , and on the AQC Committee (*Airports Quality Club*) for the continuous improvement of the passenger experience.

Airline services

The actions carried out by Aena on a regular basis include offering a better service to airlines and, in particular in 2018, those offered for the provision of handling and fuel assistance:

- Handling

Various projects were started up in 2018 for the expansion and improvement of handling services, including the creation of a new luggage self-check-in service (*Self BagDrop*) for the airports of Madrid, Barcelona, Palma de Mallorca, Malaga, Alicante, Gran Canary, Tenerife South, Ibiza, Bilbao and Seville. This service will provide passengers with an automated system for completing the check-in process without the intervention of external personnel.

Similarly, in order to propose improvements to the distribution of passenger traffic and increase service capacity, a study has been carried out on the current use of conventional check-in counters at Adolfo Suárez Madrid-Barajas and Barcelona-El Prat.

- Fuel and Into-Plane services

In relation to the provision of the fuel assistance service to third parties, 2018 closed with the award of this service at 41 airports on the Aena network for a period of 7 years.

Increased competition, improved service quality and price limitation are the key factors in the tenders.

Air traffic services

In ATC (*Air Traffic Control*) and AFIS (*Aerodrome Flight Information System*), in the last quarter the change of supplier has been published at the airports of El Hierro, La Gomera, Burgos and Huesca. A transition stage is planned between the new provider of these services (Saerco) and the previous provider, scheduled to end in March 2019.

Likewise, in the last quarter of 2018 so completion of the actions associated with the transition of the provision of air traffic services the International Airport of the Region of Murcia (AIRM).

Operational systems

Throughout 2018, progress has been made in the integration of the airports on the Aena network into the "A-CDM" (Airport-Collaborative Decision Making) and Advanced Tower programs sponsored by Eurocontrol. These programs encourage the exchange of information among all the players involved in operating a flight to encourage joint decision making, improve punctuality, reduce the cost of movements and soften the environmental impact.

Accordingly, in 2018, Ibiza, Menorca, Lanzarote and Fuerteventura obtained the Advanced Tower Certification. As a result, the operational data of these airports are integrated into the European real-time data network managed by Eurocontrol, reaching approximately 70% of the network operation traffic in Spain in 2018.

The necessary changes were also made to Operational Systems at the new International Airport of the Region of Murcia for the start of operations.

Operations

- ### Airfield and platform

In order to define the new standardized information model for flight crews to ensure a more accurate adaptation of runway operations in cases of snow, ice or water, in 2018, Aena formed part of a joint working party with ENAIRE and AESA (State Agency for Air Security) to define the new model for reporting ground conditions to be applied as from November 2020.

Mention must also be made of the fact that actions have been started up at airports on the Aena network for the implementation of the *European Action Plan for the Prevention of Runway Incursions* (EAPPRI) published by EUROCONTROL.

- ### Safety

Here, it is important to note that, in relation to the Operational Safety Management System, in Aena supervised 30 airports on the network and AESA (State Agency for Air Security) performed inspections at 27 airports in 2018.

Furthermore, in the fourth quarter of 2018, the process ongoing with the aeronautical authority (AESA) to define the standards for encoding incidents associated with wildlife ended and became ready for implementation at all Aena airports. This will improve the quality of the data used to manage the risks associated with wildlife and their notification to the SNS (Event Notification Service).

- ### Operating capacity

As regards actions in relation to the operational capacity, in the fourth quarter of 2018, the analysis was drawn up to increase the operational capacity of departures from the Terminal Building of the Seve Ballesteros-Santander Airport.

Furthermore, in preparation for the 2018 summer season, the runway operating capacity of the Alicante-Elche and Málaga-Costa del Sol airports has been increased.

- ### Meteorological service

In 2018, Aena has continued the process of implementing the Automated Meteorological Reporting System (METAR) at medium and small airports.

This is an important technological advance that will improve the meteorological information provided to users in terms of time and accuracy. These reports are used by airlines to plan flights and by airports for various procedures, such as reduced visibility and actions in the event of adverse weather conditions.

Furthermore, the AENA-AEMET Mixed Commission held its second meeting as given in the current contract between both organizations. The main topics dealt with are the optimization of information exchange processes and the definition of service levels of meteorological performance.

- ### Aircraft rescue and fire fighting (ARFF)

In the fourth quarter, the SSEI category of the airports was reviewed, taking into account programming for the winter season, and several sieges were awarded for the renewal of personal protective equipment (PPE) for fire-fighting staff.

- ### Emergency management

The Emergency Drills Plan for the Aena airport network includes the simulation schedule to be performed by each airport and/or heliport in compliance with the corresponding AESA Technical Instruction. In 2018, a total of 29 aeronautical drills have been carried out and the Emergency Plan of the International Airport of the Region of Murcia (AIRM) has been prepared and put in place. Both obtained approval by the aeronautical authority (AESA) and the different groups and local and autonomous authorities involved.

In operational security and emergency management, we successfully implemented the Business Continuity and Disaster Recovery Plan at the seven busiest airports on the network. This plan defines the sequence of actions to be performed at the airport following an emergency to ensure continuity of activities and operations in strict conditions of safety to avoid or minimize associated potential risks.

- ### Management of the risks associated with wildlife

In accordance with European regulations, the third quarter of 2018 so the definition of the control and monitoring methodology for the defence measures in place at each of the airports with which the Wildlife Risk Management Programmes were equipped during the second quarter.

Security

Here, special reference must be made to the award of the private airport security service for all the airports on the network in 2018. The service came into operation between the months of June and July (in the month of October at the Canarian airports of Tenerife North, Tenerife South and La Palma).

The total value of the new contracts amounts to €345.5 million for a period of two years, and the contracts have the dual objective of continuous improvement of the levels of quality provided in the security service, in accordance with the DORA, and maintaining the highest quality standards reached in the past few years, endorsed by the AESA and European Commission audits. Based on the annual cost of this service in 2017, the new contracts represent a cost increase of more than 20%.

These contracts include the requirements set by the Airport Regulation Document 2017-2021 (DORA) and the conditions agreed upon at the negotiation table for the State Collective Agreement for private security companies for 2017-2020, signed on November 8, 2017 .

They also establish different management models focused on boosting effectiveness, efficiency and quality depending on the specifications of each airport and the involvement of all players (security companies and guards) by including target-linked bonuses and penalties.

- Border control

To enable passport control by the National Police, in July the first phase of installation of automatic border control equipment (ABC) was completed and the assistance service for passengers at passport controls at various airports on the network was awarded in the second quarter of 2018. Madrid, Barcelona, Palma de Mallorca, Málaga, Alicante, Gran Canaria, Tenerife South, Lanzarote and Fuerteventura.

The ABC equipment installed at the airports of Madrid, Palma de Mallorca, Barcelona, Malaga and Alicante is now in operation and pending final configuration at the airports of Menorca and Ibiza.

Furthermore, the installation of the new equipment at Gran Canary, Tenerife South, Lanzarote and Fuerteventura is at project phase.

- Security Equipment

In order to improve safety processes, 2018 saw commencement of the automation of the connections filter T4 at Madrid airport. The system came into operation on several lines at the end of the year.

These actions have continued at the airports of Ibiza, Seville and Santiago, which are currently at equipment deployment phase.

In addition, in November 2018, the Board of Directors of Aena awarded the supply and installation of the hold baggage inspection equipment which, in compliance with European regulations, will replace the machines for the automatic detection of explosives in checked-in baggage.

This investment amounts to €380 million, awarded under the Framework Agreement to companies: Telefónica, Cotelsa, Proselec, Excem and Tecosa. It is to be implemented in phases between 2019 and 2023 at 27 airports on the network.

Within the scope of this Framework Agreement, the replacement of equipment for the airport of Menorca was tendered in December 2018.

- Other actions.

Finally, in the area of physical security at airports, Aena has checked the application of the National Civil Aviation Security Program at 32 airports. The State Agency for Air Security (AESA) has audited airport security regulations at 32 airports and compliance with European security regulations has been inspected at the airports of Madrid and Ibiza.

Facilities and Maintenance

During the second quarter of 2018, the first phase of the Strategic Airport Maintenance Plan (PEMA) 2018-2021 began with the hiring of technical assistance to achieve its objectives.

The purpose of the Plan is to streamline and standardize maintenance services at all airports on the Aena network over a period of three years.

In 2019, implementation will focus on the grouping of projects to create synergies in the provision of services and greater efficiency in their management.

3.1.2 Commercial activity

The following table shows the most significant figures for commercial activity.

Thousand euros	2018	2017	Variation	% Variation
Ordinary revenue	1,144,150	1,049,251	94,899	9.0%
Other revenue	18,200	11,299	6,901	61.1%
Total revenue	1,162,350	1,060,550	101,800	9.6%
Total expenses (including depreciation)	-326,764	-294,427	32,337	11.0%
EBITDA (1)	942,889	873,387	69,502	8.0%

(1)Earnings before interest, tax, depreciation and amortization.

Table 7. Most relevant figures for commercial activity

In 2018, total revenue from commercial activity increased by 9.6% compared to 2017, to €1,162.4 million. Ordinary revenue, accounting for 27.2% of the Group's total revenue, reached €1,144.2 million, representing an increase of 9.0% relative to 2017.

This growth is mainly due to the improved contractual conditions of the new tenders, which include higher minimum annual guaranteed rents (MAGR), the increase in guaranteed minimum rents included in the current contracts and the evolution of sales of own businesses, parking and VIP services, where income continues to evolve significantly.

The detail and analysis of ordinary revenue from the commercial business lines are as follows:

	Income		Variation		Minimum Guaranteed Rent	
Thousand euros	2018	2017	Thousand euros	%	2018	2017
Duty-free shops	318,046	309,017	9,029	2.9%		
Specialty shops	106,428	91,703	14,725	16.1%		
Food and Beverages	200,690	175,643	25,047	14.3%		
Car Rental	152,739	149,373	3,366	2.3%		
Car Parks	143,797	132,013	11,784	8.9%		
VIP services	64,228	41,053	23,175	56.5%		
Advertising	33,171	31,561	1,610	5.1%		
Leases	33,591	32,129	1,462	4.6%		
Other commercial revenue (1)	91,460	86,759	4,701	5.4%		
Ordinary revenue	1,144,150	1,049,251	94,899	9.0%	**123,998**	**79,224**

(1) This includes various commercial activities carried out at airports such as banking services, baggage wrapping machines, other vending machines and regulated services (pharmacies, tobacco shops and lotteries).

Table 8. Analysis of commercial business lines

The amount posted in revenue from commercial activity corresponding to minimum annual guaranteed rents represented 16.5% of the revenue of the business lines that have contracts with these clauses, compared with 11.4% in 2017. This difference was due mainly to the trend in sales in current contracts (€22.2 million), the conditions agreed in new contracts (€15.0 million) and to the increase in existing contracts (€3.4 million).

Total expenses for this activity increased by 11.0%, or by 17.3% if depreciation and amortization are excluded. This increase in the commercial activity, impacted by the increase in costs that has affected the Company as explained in section 4. Income Statement, shows the increase in operating expenses of the new VIP lounges amounting to €8.6 million, associated with the incorporation during the period of new lounges at the airport of Barcelona (January). They are now managed in-house according to the strategy of this line of business and have included an increase in the income for this line of business (+65.5%). Excluding this effect, commercial expenses would have grown by 8.4%.

EBITDA stood at €942.9 million, 8.0% up on the same period of 2017.

By business lines, the following commercial actions developed during the period include:

Duty-free Shops

Revenue from duty free shops grew by 2.9% in the period relative to 2017 and represented 27.8% of revenue of Aena's commercial activity, generated at 86 points of sale (76 shops and 10 *Buy-Byes*) with a total area of approximately 44,400m², managed by Dufry under the trade name World Duty Free Group (WDFG), through contracts signed with Aena divided into three lots.

This business generates assured revenue through the application of minimum annual guaranteed rents in the contracts.

In 2018, in collaboration with Aena, Dufry launched a project at 5 airport pilots (T2 Barcelona-El Prat, Malaga-Costa del Sol, Alicante-Elche, Gran Canary and Bilbao) to identify actions to optimize commercial performance. Dufry has also completed marketing and surface improvement actions to reinforce sales and the supply at airport shops.

The analysis and diagnosis project and action plan at duty-free shops at the 5 airports began in June 2018 and the actions implemented will be extended during the first half of 2019, based on five levers:

- Actions in the terminal building.
- Review of the interior design and layout of products in the shop.
- Improvements to the sales force.
- Optimization of the commercial offer (brands, categories, prices, services)
- Digitalization.

In terms of the marketing and improvement to surfaces during the year, following is a note:

- The remodelling and opening of the shops at Malaga airport (those located in the bays and the main pass-through shop), the remodelling of the T4 *Atrio* store at Madrid airport, the Millennium shop *at T2-T3* and the opening of the new pass-through shop at Bilbao airport.

  The refurbishment of the T1 non-Schengen shop at Madrid airport remains ongoing.

- Promotions were carried out to enhance purchases of products in categories with the greatest appeal to British passengers, in order to offset the effect of the depreciation of sterling, which seems still to be affecting purchases by these passengers.

- A campaign advertising guaranteed best prices at Madrid, Barcelona and tourist airports to change passengers' perceptions of prices in our duty free shops. With this action, Dufry proposed discounts of up to 40% in perfumery and up to 30% in spirits , as well as the promotion of the third item at 50% in perfumery.

It is also relevant to mention the positive support for duty-free sales provided by new routes to emerging countries, such as those to Asia and Latin America from Madrid and Barcelona Airports and to the Middle East from Málaga Airport.

Furthermore, the offer of duty-free shops in the new non-Schengen areas has been adapted, strengthening the presence of brands sought by Russian and British passengers, stemming from the expansion of the ABC filters at the airports of Barcelona and Malaga and the installation of the new line of filters at the airports of Alicante, Ibiza and Reus.

It should also be noted that the duty-free shop of the International Airport of the Region of Murcia is planned to be up and running during the first quarter of 2019 after the premises have been refurbished. Temporarily the operator (Dufry) has a mobile store from the day on which the airport started up operations.

Bilbao Airport

Specialty shops

In 2018, Aena ran 389 shop premises (22 in the luxury segment), generating €106.4 million in revenue, up 16.1% on the same period in 2017.

To boost the revenues of this commercial line and following the trend of continuous improvement in the commercial offer, said premises have been refurbished at different airports in 2018:

- At the Adolfo Suárez Madrid-Barajas Airport, the refurbishment work was completed on the stores in terminals T1, 2 and 3 with the opening of the 22 new premises awarded in 2017.

  Furthermore, 2 shops have been tendered and awarded on the land side of the T4, in addition to 3 surfaces on the air side to maintain the quality of the commercial offer until the start of the redesign works for the commercial area planned for said terminal.

- At the Barcelona-El Prat Airport, the renewal of the T2 commercial offer, which began in 2017, has moved on with the opening of 7 stores in the departures area and 1 multi-store in arrivals. The stores occupy more than 1,400 m² and offer new brands such as Victoria's Secret and the Real Madrid Store for the first time in the terminal.

  To complete the renewal of the commercial offer of the T2A, contracts are being drawn up for another 4 stores and 2 multi-stores (almost 650 m²), planned for opening to the public in 2019.

- In the last quarter of 2018, an important part of the Malaga-Costa del Sol Airport offer was put up for tender. It includes 15 stores totalling more than 1,700 m2, accounting for 75% of the commercial surface on the air side.

  The new offer, scheduled for award in the first quarter of 2019, will introduce local single-brand companies such as Natura, Vidal & Vidal and Tous, maintaining others of recognized prestige, such as Victoria's Secret and Adolfo Domínguez.

- In addition, mention must be made of the December award of the press and convenience stores to the company Lagardère at the airports of Gran Canaria, Lanzarote, Fuerteventura and Tenerife-South, increasing the number of stores from 8 to 12.

- Furthermore, the commercial offer in various locations of other airports on the network, such as Alicante (3 locations), Lanzarote (4), Ibiza (2) and Girona (2) must also be taken into consideration, together with the emergence of new brands, such as ALEHOP, at the Airport of Valencia.

In order to continue providing specialized assistance to passengers and improve the customer experience, following the trends set at other international airports, Aena has incorporated the *Personal Shopper* service since at Malaga airport since 2018. This free service has been available at the airports of Madrid (T1, T4 and T4S), Barcelona since 2017.

The service is scheduled to start at Alicante Airport in February 2019.

Finally, with regard to the International Airport of Murcia (AIRM), 3 stores have been awarded and are scheduled to open in the first quarter of 2019. The offer for users of these airport facilities will be completed with at least 1 additional store.

Food and Beverages

In 2018, Aena has managed 352 premises dedicated to food and beverages, occupying more than 105,000 m². Their performance levels remain very high with revenues for the period amounting to €200.7 million, up 14.3%.

In this period, mention must be made of the commencement of the activity of the new premises at the airports of Barcelona, Malaga and Gran Canary, the refurbishment of certain premises at the airports of Madrid and Palma de Mallorca and the tenders for refurbishment work at the airports of Alicante, Seville, Jerez and Girona.

- At the Barcelona-El Prat Airport, the new lessees started refurbishment work at the 49 points of sale in terminals T1 and T2 on May 8. In 2018, 22 stores have been opened with new brands and the remaining stores are to be refurbished during the first half of 2019.

  The food and beverages operators awarded the greatest numbers of outlets were the EatOut Group (Pansfood) with 19 premises, Áreas with 15, Select Service Partner (SSP) with 7 and Autogrill with 5.

  The new food and beverages range will occupy an area of close to 16,000 m², representing an increase of nearly 19% relative to the existing area.

- On 14 September, the new tenants of the 25 points of sale awarded at the end of June began the restoration activity at Malaga-Costa del Sol Airport.

  The new establishments will continue to occupy a total area of more than 6,500 m² and the works for the new brands, which began in the last quarter of 2018, are scheduled for completion in the first half of 2019.

  The operators who placed successful bids for food and beverages were: Select Service Partner (SSP) with 8 premises, the EatOut Group with 6, Lagardère Travel Retail with 4 and Áreas with 7.

- Regarding the 19 premises awarded at the airport of Gran Canary at the end of 2017, in April 2018 they started to operate 11 with the new brands and the rest are scheduled to open for business in 2019, once the reforms have been completed during the first half of the year.

  The complete food and beverages range comprises 19 points of sale spread among five concessions, of which the operator Select Service Partner (SSP) manages ten premises, the EatOut Group six and Autogrill three.

- The new premises of the *Starbucks*, *Paul* and *O'Learys* brands opened to the public at the airport of Ibiza.

- At Alicante Airport, at the end of July, the offer for the refurbishment of 18 stores divided into 10 procedures was offered for tender.

- The new offer (scheduled for award in the first quarter of 2019) is to occupy an area of approximately 5,600 m². This represents an increase of 15% compared with the existing area.

- The tenders for refurbishment work at the airport of Seville airport awarded four points of sale to Select Service Partner (SSP) and two other points of sale and 52 vending machines to Areas.

- At the airport of Jerez, 3 points of sale and vending machines were awarded to the Lagardère Travel Retail company.

- At the airport of Girona-Costa Brava, 5 points of sale and vending machines were awarded to the company Areas. The new offer includes well-known brands.

- Other refurbishment work has been carried out at different locations at the airports of Madrid and Palma de Mallorca.
  The T4 of Madrid saw the opening of a new Café Pans, the brands *Eat*, *La Place* and *Paul* have been renewed, with the start-up of *Mama Campo* scheduled for the first quarter of 2019. Likewise, *Origins by Enrique Tomás* opened in the T4S and a *Santa Gloria* and another *Rodilla*, *Farine* and *Paul* opened in the T2.

  At the airport of Palma de Mallorca, the local cafeteria brands *Forn d'es Pont* and the vermouth bar *Es Rebost* opened up for business, together with the expansion of the *Burger King* premises.

Furthermore, at the International Airport of the Region of Murcia (AIRM) the operation of 4 catering establishments (and vending machines) was awarded to the operator Airfoods for the well-known brands *Costa Coffee* and *Subway*, as well as a cafeteria with multi-store in the boarding area and a general-purpose restaurant in the check-in and arrivals area.

Gran Canaria Airport

Car rental

In 2018, its revenues amounted to €152.7 million, up 2.3% on the previous year as a result of improved sales of 2.4% and 1,3% in the number of contracts. This line of business continues to grow thanks to the improvement of total passenger numbers, and there is a rebound effect on the client company in the airports with the largest business segment.

In the third quarter, the operations of the multinational SIXT began in the airports of Coruña, Vigo, Asturias and Santander. This has meant occupying 4 more licences which brings the total number of licences occupied to 162 at 36 airports on the network.

In December 2018, two new positions were tendered for the International Airport of the Region of Murcia (AIRM) in response to the demand by operators in the sector. These licenses will be awarded in the first quarter of 2019.

Car park

The 8.9% increase in revenues from the parking business in 2018 (up to €143.8 million) was mainly due to the improvement of the segment without bookings, online bookings at the main airports (a total of 870,000, which represents an improvement of 20% over the same period of 2017), as well as the positive effect of the new express parking service in Madrid and Barcelona.

The Aena network of car parks has more than 80 car parks and more than 130,000 parking spaces, distributed across 32 airports.

This business line is managed by Aena, which ensures control of all operational processes as well as the marketing actions, pricing policy and the structuring of the various parking services, with the aim of meeting the needs of the wide range of passengers (low-cost/long-stay, general, preferential, express, VIP service with pick-up and drop-off, with driver, and additional services).

In 2018 marketing campaigns were launched to increase the number of customers and the number of reservations, boosting the knowledge and positioning of the Aena Parking brand combined with promotional actions to advertise the payment service by registration number at the airport of Madrid (to be extended to the airports of Barcelona, Alicante and Bilbao during the first quarter of 2019).

The bookings made along the different channels have reached 1.5 million customers in 2018, exceeding 40 million in sales.

Aena also offers an online channel via a web platform from the Aena APP (where customers can book in advance at special prices), as well as from different distribution channels.

VIP services

The VIP Services business includes income from the operation of the VIP lounges, the Premium Lounge and the preferred security access points: *Fast Lane* and *Fast Track*.

The network has 24 VIP lounges and one Premium Room at 15 airports, operated through a proprietary management model that provides Aena with the option to set the commercial policy and hire a supplier to operate the service at each airport.

The *Fast Lane* service provides passengers with preferential access to security controls at 7 airports on the network (Barcelona, Palma de Mallorca, Malaga, Alicante, Gran Canary, Tenerife South and Valencia) and the *Fast Track* service corresponds to the independent security control offered only at the

Adolfo Suárez Madrid-Barajas Airport.

In 2018, revenue from the VIP services activity stood at €64.2 million, up 56.5% on the previous year.

Revenues from VIP lounges contributed €56.4 million, up 65.5% (€22.3 million), mainly due to the addition of the 4 VIP lounges at the Barcelona airport (+€13.8 million) into the in-house management model, to an increase of 17.8% in number of users and the effect of marketing actions and pricing policies implemented in the management of this line of business by Aena.

Excluding the effect on revenues of the VIP lounges in Barcelona, revenues from the VIP lounges are up 26.9%, above the increase in the number of users, which stands at 23.5%.

Throughout the period, Aena has also incorporated into the proprietary management model the new 200 m² VIP room at the airport of Santiago (June). It has also continued remodelling the existing rooms (Palma de Mallorca and Barcelona), started expansion works (in the VIP room of Malaga), extended agreements of use with airlines and other companies and awarded the management of the T1 Business Centre at Barcelona Airport (25 rest units) that opened on July 1.

Furthermore, in relation to the integral management of the rooms, the services have been awarded at the airports of Seville, Lanzarote, Alicante and Palma de Mallorca. The tender for the management of this service at the airports of Tenerife South, Bilbao, Valencia and Gran Canary is ongoing.

Mention must also be made of the fact that new projects for the redesign and extension of the rooms are under-way (in Madrid, Gran Canary and Alicante), together with the necessary works project and bidding for the corresponding management procedures, for the new rooms of the airports of Menorca, Fuerteventura and Vigo, which are scheduled to open in 2019.

New VIP lounge at Santiago Airport

Advertising

At Aena, advertising is carried out under a concession model, where the companies that operate the advertising spaces in the network are also responsible for marketing them: JFT in the Canary Islands airports and JCDecaux in the airports on the Spanish mainland and the Balearic Islands.

These contracts have expired in 2018 and the new advertising contract has been tendered in September. It will give continuity to the current contract, which is expected to be awarded in the first quarter of 2019.

The new agreement seeks to attract local, Spanish and international operators through tendering eight lots by geographic distribution with relevant interest: Centre, North, Levante, Catalonia, Balearic Islands, Canary Islands, South and Northwest.

The tender, currently under evaluation, has received bids for all the lots.

As far as advertising at the airports is concerned, it is important to mention that although the airports sector accumulated an improvement in sales over 10% in the year, the outdoor advertising sector in Spain maintains moderate growth, according to the report by the consultancy "I2p", which places estimated total growth for 2018 below 1%.

3.2 Real estate services segment

The activity of the real estate services segment consist of the provision of leasing or transfer of use of land (built on or not), office buildings, warehouses, hangars and cargo sheds to airlines, airfreight operators, handling agents and other providers of airport services aimed at supporting the activity and developing complementary services, such as the 24 service stations (15 land-side and 9 air-side) at 12 airports and the FBO (fixed-base operator) terminals at five of the major airports in the network, where private jets are handled exclusively.

As regards the real estate development plans for Adolfo Suárez Madrid-Barajas and Barcelona-El Prat Airports, both have been publicly presented.

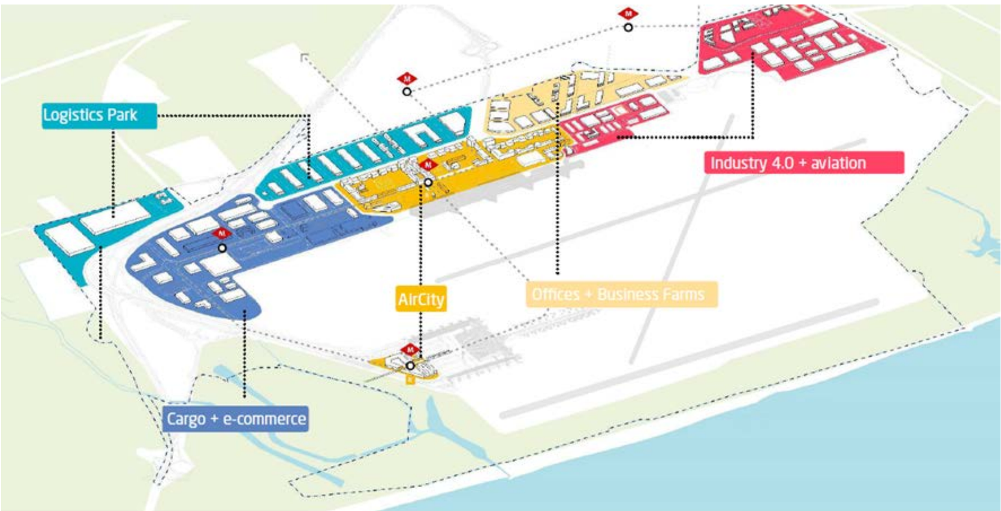
The real estate plan for Adolfo Suárez Madrid-Barajas Airport involves the development, in the next 40 years, of 562 hectares of the 902 hectares of potentially saleable free land, with 244 hectares of available land remaining to provide capacity for continued real estate growth at the airport in the future.

The objective is to position Adolfo Suárez Madrid-Barajas Airport as a global connectivity gate, a major logistics centre in Spain, a global business hub and a zone of services for passengers and zones of influence. The plan is to build on nearly 2.7 million m^2 for mixed uses, notably logistics, e-commerce, offices and hotels and a commercial leisure centre, which will be complemented by aviation facilities such as airfreight and hangars. To carry out this development, the capital expenditure required is estimated at nearly €2,997 million from numerous players.

Real estate development proposal for Adolfo Suárez Madrid-Barajas Airport

The Barcelona-El Prat real estate plan involves developing 328 hectares of the 543 hectares of potentially marketable free land, over 20 years, while preserving 215 hectares of land due to its high environmental value.

The objective of this development is to position Barcelona-El Prat Airport as an economic and digital services hub in the metropolitan area. In the course of the development period it is planned to build more than 1.8 million m^2 for mixed uses, in particular logistics, e-commerce, offices and hotels, and Industry 4.0, which will be supplemented by air cargo and hangar services. To carry out this development it has been estimated that capital expenditure of €1,264 million will be required, on the part of numerous agents.



Real estate development proposal for Barcelona-El Prat Airport

For the implementation of these real estate plans, Aena has hired the services of three of the four external advisers that are to provide support to determine the most appropriate corporate model in terms of financial, legal and corporate matters: Deloitte (as financial adviser), Garrigues (as legal adviser) and Valtecnic (as independent valuer).

In the first quarter of 2019, the tender was put out to select the expert adviser in urban planning. The work of these advisers will allow the Company define the strategy for implementing the business model, based on which the process for selecting partners by public tender will begin in the third quarter of 2019.
Furthermore, at the end of December, the tender was put out to hire a consultant to provide Aena with support for its real estate development plans at other airports in which the Company has land that can be developed. Palma de Mallorca, Malaga-Costa del Sol, Valencia and Seville.

Key financial data for the real estate services segment is set out below:

Thousand euros	2018	2017	Variation	% Variation
Ordinary revenue	67,215	59,687	7,528	12.6%
Real estate services[1]	67,215	59,687	7,528	12.6%
Other revenue	1,743	1,382	361	26.1%
Total revenue	68,958	61,069	7,889	12.9%
Total expenses (including depreciation)	-48,889	-47,065	1,824	3.9%
EBITDA [2]	36,745	30,550	6,195	20.3%

[1]*Includes warehouses, hangars, real estate operations, off-terminal supplies and others.*
[2]*Earnings before interest, tax, depreciation and amortization.*

Table 9. Key financial data for the real estate services segment

In 2018, revenue from these activities totalled €67.2 million, 12.6% more than in 2017 due to signing new contracts at the end of the last year for Adolfo Suárez Madrid-Barajas Airport, the amounts of which were recognized entirely in 2018. Excluding the adjustment for 2017, growth would have stood at 7.0%.

Total expenses increased by 3.9%. Excluding depreciation and amortization, total expenses increased by 5.6%. This increase is explained in Section 4. Income Statement.

The most noteworthy actions in the period were:

Hangar activity:

- The award of two hangers at Adolfo Suárez Madrid-Barajas Airport: one of approximately 15,000 m^2 and another of 22,000 mm^2, and the commencement of work on another hangar of 8,500 m^2.
- Additionally, construction work continues on two new large-capacity hangars, which together with a third (in the zone known as Ramp 7) that recently came into service, will provide support for airlines operating at the airport.
- At Seville Airport, a hangar measuring approximately 6,000 m^2 is being constructed for an operator and is expected to be commissioned for the last quarter of 2019.
- At Santiago Airport, construction began on a new 1,200 m^2 hangar, also due to become operational at the beginning of 2019.
- Finally, in 2018 mention must be made of the fact that two hangars were awarded at Madrid-Cuatro Vientos Airport (700 and 300 m²), together with one at Sabadell Airport (550 m²) and one at the Huesca-Pyrenees Airport (1,600 m^2).

Cargo:

Regarding the commercialization of spaces for air cargo, the following actions have been completed:

- At Adolfo Suárez Madrid-Barajas Airport, the pre-emptive right was exercised to acquire a new warehouse with office space measuring 7,200 m2 from the company DHL. This will allow us to increase goods handling capacity at the airport.

  In addition, almost 4,900 m² of offices have been awarded to the company DHL in the General Services Building of the Air Cargo Centre, together with a cargo terminal of more than 1,500 m² built for the company WFS.

  A second-line cargo building of 1,000 m² was awarded at the same airport in August.

  Furthermore, the construction on the new cargo facilities in the zone known as 'Rejas' continue to progress. In one of the warehouses, work will be completed and operations will begin in October, while in the other, the construction project is being drawn up.
- At the Barcelona-El Prat airport, there is a first-line cargo terminal of 3,311 m² under construction.
- At Tenerife North Airport, the contract for the two modules of the new cargo terminal, with a built area of nearly 1,500 m², was awarded to Eurotransmex. The Terminal was handed over to the client on 6 July.
- At Seville Airport the contract for the approximately 1,200 m2 built-up area of the cargo terminal was awarded to Groundforce Cargo.

Executive aviation:

- The fixed bases of operations for executive aviation (FBOs) of the two main airports in the network have been awarded: Adolfo Suárez Madrid-Barajas and Barcelona-El Prat, after renewing a service that has been provided successfully in recent years. The new awardees started up operations in the first week of January 2019.

Service stations:

- The service stations at two airports of the Canary group have been awarded: La Palma and Gran Canary. The new operators commence operations at the beginning of January (La Palma) and in March (Gran Canary).

Other assets:

- The contracting by Jet2.com of almost 700 m² in the old Terminal 2 of the Elche-Alicante Airport to house its headquarters in Spain. The space initially rented may be increased in the coming months and is an important milestone for re-marketing the spaces in this old terminal.
- In December, work began on the construction of two warehouses for handling equipment maintenance at the Barcelona El Prat Airport. Completion is scheduled for mid-2019.

3.3 International activity

Financial 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 revenues improved €22.6 million in 2018.

Thousand euros	2018	2017	Variation	% Variation
Ordinary revenue	237,856	215,344	22,512	10.5%
Other revenue	201	163	38	23.3%
Total revenue	238,057	215,507	22,550	10.5%
Total expenses (including depreciation)	-211,274	-195,717	15,557	7.9%
EBITDA (1)	82,221	64,595	17,626	27.3%

(1)Earnings before interest, tax, depreciation and amortization.

Table 10. Key data for the international segment

Consolidation of London Luton Airport entailed allocating €78.7 million to EBITDA, compared with €58.7 million in 2017, affected by the exceptional recognition in January 2017 of €8.0 million for extraordinary expenses associated with one of the agreements reached with Luton Airport employees to close the defined pension plan as well as due to the accrual, on 30 June 2018, of an extraordinary bonus of €3.4 million for employees corresponding to the 2013-2018 period. Excluding the impact of these exceptional expenses, EBITDA in GBP would have increased by €15.4 million, which would have meant growth of 23.1%.

(Thousand euros)(1)	2018	2017	Variation	% Variation
Airport charges	102,521	95,420	7,101	7.4%
Commercial revenue	125,028	109,432	15,596	14.3%
Total revenue	**227,549**	**204,852**	**22,697**	**11.1%**
Staff	46,877	47,852	-975	-2.0%
Other operating expenses	101,689	97,301	4,388	4.5%
Depreciation and impairments	55,288	44,999	10,289	22.9%
Total expenses	**203,854**	**190,152**	**13,702**	**7.2%**
EBITDA(2)	**78,714**	**58,683**	**20,031**	**34.1%**
Operating income	**23,695**	**14,700**	**8,995**	**61.2%**
Net finance result	-23,418	-36,651	13,233	36.1%
Profit/(loss) before tax	**277**	**-21,951**	**-22,228**	**-101.3%**

(1) Euro-sterling exchange rate: 0.8847 in 2018 and 0.8767 in 2017.

(2)Earnings before interest, taxes, depreciation and amortization.

Table 11. Detailed financial information on the evolution of Luton Airport

At operational level, traffic at Luton Airport shows a moderate increase in passengers of 5.0%, to 16.6 million which, together with the positive evolution of commercial revenue, place revenue for the period at €227.5 million, 11.1% up on the same period of 2017 (€204.9 million).

In 2018, the airport celebrated its 80th anniversary and a new business record.

In GBP, Luton's revenues have grown in the period to 201.3 million (12.1% vs. 2017) driven by healthy commercial revenues.

- Aeronautical revenue grew by 8.6% in sterling terms, and commercial revenue by 15.1%.

  Within the income from the commercial activity, there was good performance in food and beverage, shops and car parking. Food and beverages and speciality shops also increased by 21.3% thanks to the opening of new shops as part of the terminal expansion project, a more varied selection on offer, improved concession royalties and the shift in passenger flows. Furthermore, car park revenues have also evolved very positively (+16.2%) reflecting the management strategies and prices applied and the healthy demand in the Drop-off zone, which has benefited from improvements in design and access.

- The EBITDA in GBP is up 40.2% on 2017 and has reached 73.4 million. The EBITDA margin for the period was 34.6% compared to 28.6% in 2017.

  In addition to the above mentioned performance in revenues, this increase reflects the extraordinary effect of the accounting in January 2017 of one of the agreements associated with closing the defined benefit pension plan for the amount of 6.9 million GBP (€8.0 million), as well as for the accrual of an extraordinary bonus in June 2018 amounting to 3 million GBP (€3.4 million) for the period 2013-2018. Excluding the impact of these exceptional expenses, which had no cash impact, EBITDA in GBP would have increased by £14.3 million, which would have meant growth of 24.5% and the EBITDA margin would have reached 36.1%.

As regards the results of equity-accounted investees, their evolution is shown hereunder as per equity accounting:

	Equity method profit/loss				Exchange rates [1]			
Thousand euros	**2018**	**2017**	**Variation**	**% Variation**	**Foreign exchange rate**	**2018**	**2017**	**Variation**
AMP (Mexico)	13,579	12,890	689	5.3%	€ - MXN	22.71	21.33	-6.5%
SACSA (Colombia)	5,159	3,476	1,683	48.4%	€ - COP	3,489.44	3,336.16	-4.6%
AEROCALI (Colombia)	1,417	2,561	-1,144	-44.7%	€ - COP	3,489.44	3,336.16	-4.6%
Total Income from associates	**20,155**	**18,927**	**1,227**	**6.5%**				

[1] *Average rate for the period*

Table 12. Equity method for investee companies

4. Income statement

Thousand euros	2018	2017	Variation	% Variation
Ordinary revenue	4,201,406	3,960,582	240,824	6.1%
Other revenue	118,843	67,012	51,831	77.3%
Total revenue	**4,320,249**	**4,027,594**	**292,655**	**7.3%**
Supplies	-172,936	-174,176	-1,240	-0.7%
Staff costs	-423,725	-417,155	6,570	1.6%
Other operating expenses	-1.008.289	-910.912	97.377	10,7%
Losses, impairment and change in trading provisions	1.813	0	1.813	100,0%
Depreciation and amortization	-806,383	-800,035	6,348	0.8%
Impairment of fixed assets	-46.248	-	46.248	100,0%
Income from disposal of fixed assets	-16.107	-10.915	5.192	47,6%
Other results	1,829	2,969	-1,140	-38.4%
Total expenses	**-2,470,046**	**-2,310,224**	**159,822**	**6.9%**
EBITDA (1)	**2,656,586**	**2,517,405**	**139,181**	**5.5%**
Operating income	**1,850,203**	**1,717,370**	**132,833**	**7.7%**
Financial expenses and Other financial results	-132,695	-144,183	-11,489	-8.0%
Interest expense on expropriations	-310	4,593	-4,904	-106.8%
Net finance expense	**-133,005**	**-139,590**	**-6,585**	**-4.7%**
Share of profits in associates	20,155	18,927	1,228	6.5%
Profit/(loss) before tax	**1,737,353**	**1,596,707**	**140,646**	**8.8%**
Income tax	-409,602	-374,738	34,864	9.3%
Consolidated result of the period	**1,327,751**	**1,221,969**	**105,782**	**8.7%**
Profit/(loss) for the period attributable to non-controlling interest	-131	-10,036	-9,905	98.7%
Profit/loss for the period attributable to shareholders of the Parent Company	**1,327,882**	**1,232,005**	**95,877**	**7.8%**

(1) *Earnings before interest, taxes, depreciation and amortization.*

Table 13. Income statement

As a result of the positive evolution of all business lines, Aena's **total revenue** increased to €4,320.2 million in the period, representing a 7.3% increase on the same period of 2017.

Growth in **ordinary revenue** was 6.1%, to €4,201.4 million. This increase of €240.8 million has been explained above in the analysis of the various business lines.

Revenue from commercial activity increased as a percentage of the total to 27.2%, compared with 26.5% in the same period of 2017.

As for the item of **other operating revenue** reflects an increase of 77.3%, mainly resulting from the application of grants from the collection in 2018 of higher resources granted by the European Regional Development Fund (Spanish acronym: FEDER) for operational programs for the development of airport infrastructures. It also includes the application to results of €26.7 million for the capital grants associated with assets affected by the civil operations of the Murcia San Javier Airport, interrupted once the International Airport of the Region of Murcia has started up operations.

Regarding to the change in **expenses**, this period shows an increase of 6.9% in the total (€159.8 million), or 10.2% if depreciation and amortization are excluded, due to the effect of changes in the following items:

- Supplies were reduced by 0.7% (€1.2 million), due mainly to the new conditions of the air navigation services agreement (ATM/CNS) signed with ENAIRE until 2021.
- Staff costs increased by 1.6% (€6.6 million) which is affected by the recognition at Luton of an €8.0 million (£6.9 million) charge

associated with one of the agreements reached with Luton Airport employees regarding pensions recognized in January 2017, as well as the accrual of an exceptional bonus of €3.4 million (£3.0 million) for all employees for the period 2013-2018.
Excluding Luton, staff cost reflect an increase of 2.0% (€7.5 million) due mainly to provisions for the salary increase expected for 2018 and new hires.

- Other operating expenses increased by 10.7% (€97.4 million), mainly due to the effect of the entry into force of new contracts with higher associated costs, such as in private security services (€20.2 million, +14.4%), the service for people with reduced mobility (€19.3 million, + 52.4%), cleaning (€6.0 million, + 10.7%), the increase in maintenance expenditure (€5.6 million, +2.9%), as well as in the new VIP lounge management contracts (€8.7 million, + 69.2%) due to the incorporation of new lounges under the in-house management model. Likewise, the management expenses associated with the closing of the Murcia San Javier Air Base (€7.4 million) and technical service costs (€5.6 million) have increased.

- The depreciation of fixed assets has increased €6.3 million (0.8%), mainly due to the amortization of the new investment associated with the extension project of the Luton airport terminal and parking at height (€10.5 million), as well as the amortization of investments in runways and taxiways on the network, which has been partially offset by the completion of the amortization of certain assets.

- The impairments and disposals of fixed assets show €46.2 million associated with the recognition of the impairment of the assets affected by the civil operations of Murcia San Javier Airport, not reusable at another airport, following the interruption of commercial operations at the airport, once the International Airport of the Region of Murcia started up operations (see Notes 6 and 7 of the Consoldated Financial Statements). The recognition of this extraordinary loss has entailed the application of grant income explained when commenting on the variation in **other operating revenue.**

EBITDA (earnings before interest, taxes, depreciation and amortization) has increased to €2,656.6 million, which represents an increase of 5.5% with respect to 2017, including €78.7 million from the consolidation of Luton and the extraordinary net impact of €19.6 million from the interruption of the civil operations at Murcia San Javier Airport, once the International Airport of the Region of Murcia (AIRM) has started up operations.

Excluding the extraordinary net effect derived from the recognition of the impairment of the assets affected by the civil operations of Murcia San Javier Airport for the amount of €46.2 million, and the application of €26.7 million of income from grants from capital related to the aforementioned impaired assets, EBITDA for the period grew by 6.3%, to €2,676.1 million.

The EBITDA margin for the period was 61.5% (62.5% in 2017) and 61.9%, excluding the aforementioned extraordinary impacts.

Net finance income expense shows a year-on-year reduction of €6.6 million in expenses.

The heading "Financial expenses and Other financial results" fell by €11.5 million (8.0%), mainly due to the reduction in debt volume and the interest rate of Aena loans (€11.6 million), as well as the variation caused by the financial costs of Luton recognized in 2017 as a result of the refinancing of the debt completed the previous year (€12.7 million). These reductions are partially offset by the accrual of the cost of unwinding the corresponding interest rate hedge associated with the loan with Depfa Bank, which was cancelled in July (€17.2 million).

Income tax expense amounted to €409.6 million, an increase of €34.9 million, as a result of higher earnings for the period. The effective tax rate for the period was 23.6% (23.5% in the same period of 2017).

The **consolidated profit (/loss) for the period** reached €1,327.8 million. Earnings for the period attributable to non-controlling interests came to €0.1 million (corresponding to 49% of Luton's net profit/(loss), which places **Profit for the period attributable to shareholders of the Parent Company** at €1,327.9 million, 7.8% more than at the end of the same period in 2017.

5. Investments

The total amount of capital expenditure paid during the period (property, plant and equipment, intangible assets and real estate investments) came to €524.6 million, including €53.2 million in Luton.

In terms of execution, the volume of investment amounted to €508.7 million (€509.0 million in 2017).

On the airport network, payments for investments during the period amounted to €470.3 million representing an increase of €165.2 million (+54.2%) compared to 2017, which was €305.0 million, mainly due to investments paid in infrastructure maintenance.

Based on execution, the volume of capex in the network amounted to €460.1 million, up €17.7 million on 2017.

The main actions put into service in 2018 have focused mainly on the airfield and, in particular, include the regeneration of the runway paving at the airports of Barcelona, Tenerife South and Fuerteventura and the improvement of various areas of the airfield in Santiago and Palma de Mallorca. In the terminal area, the expansion of the climate -controlled system in Palma de Mallorca and new flooring in the Adolfo Suárez Madrid-Barajas Airport stand out as the main projects in 2018. In reference to actions on installations, mention must be made of the increase in the peak capacity of the automatic baggage transport system (SATE) in the north check-in area of Palma de Mallorca.

Regarding investments in execution during this year, two be extended in coming months, it should be noted that they are also particularly focused on the airfield and on improving or expanding the platforms of the airports of Tenerife South, Palma de Mallorca, Ibiza, Lanzarote and Girona-Costa Brava. Similarly, the resurfacing of the runways at Bilbao and Tenerife North and improvements to the terminal buildings, including the new flooring at Palma de Mallorca and the extension of the terminal building at Reus. In facilities, special mention must be made of the supply and installation of gateways at the Malaga-Costa del Sol airport and work on the peak capacity of the automatic baggage transport system (SATE) in the south check-in area of Palma de Mallorca. There are also actions under-way for the environment: the thermal insulation of the Palma de Mallorca terminal building and a new lighting with LED technology for the automatic baggage transport system at the Adolfo Suárez Madrid-Barajas Airport. Finally, reference must be made to the general adaptation of the drainage system at the Alicante Airport.

As regards important actions begun in 2018 include the adaptation of VIP lounges at Barcelona-El Prat, the remodelling of the south bay building of said airport, the regeneration of runway 32R-14L of the Adolfo Suárez Madrid-Barajas Airport and the remodelling of the shopping gallery and boarding hall at Gran Canary.

Resurfacing of Tenerife South Airport Runway

At Luton airport, investments have continued focused on the maintenance and renovation of equipment, as well as the *Curium Project,* which aims to increase capacity to 18 million passengers and an investment of approximately 160 million. In December, work finished on the terminal and on the land side, which represent the most important part of the extension project.

In particular, work has been completed on the extension and remodelling of the terminal building (20,000 and 10,000 m², respectively); the new B-dock has been put into operation; and there are new boarding gates and additional security lines (with an increase in the security lobby space of 50%). On the air side, 6 new aircraft parking positions have been opened.

Furthermore, work is ongoing on the construction of the new Foxtrot taxiway, which is planned for completion mid-2019.

As part of the preliminary work for the construction of a light rail system that will connect the terminal building with *Luton Airport Parkway* railway station, to be financed by the local authority, the *drop-off* area has been moved to a provisional location, and construction of the new *Multi-Storey Car Park 2* has started.

As for investments by associates that are not fully consolidated in terms of the books, the new international terminal of the Airport of Cali was opened in June.

At GAP airports, in 2018, investments were made for 1,800 million Mexican pesos (approximately, €80 million), including investments in Montego Bay (Jamaica), which include the remodelling of terminal buildings at the Guadalajara airports (8,800 m², the T1, 9 new boarding gates, a new security control with 5 posts and extension of aircraft parking), Tijuana (2,000 m² terminal building and commercial area), Guanajuato (11,000 m² terminal building) and La Paz (1,500 m² terminal building, runway and roads).

5.1 Analysis of investments broken down by action area

The following shows the distribution of the payments for the investment in the Spanish airports network at 31 December 2018 and its comparison with 2017:

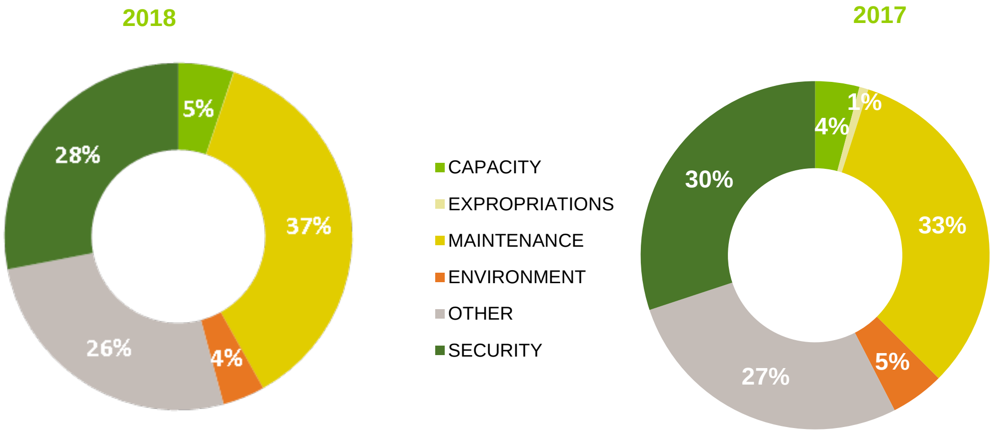


Figure 7. Analysis of investments by area of application

- Capex in security represented 28% of Aena's total capital expenditure (compared with 30% in the same period of 2017) and increased by €40 million, from €91.8 to €131.8 Million. Regarding the operations in operational safety in the aircraft movement area, special mention must be made of projects aimed at improving surfaces in various areas of the airfield at the Fuerteventura, Tenerife South, Girona Costa Brava and Bilbao airports. With regard to the security of people and facilities, actions have focused on providing the terminals with automatic systems (passport control systems, mobile X-ray equipment and access control).

- Capex allocated to improving facilities to ensure service continuity increased its weight from 33% in 2017 to 37% in 2018. It also increased in quantity terms during this period from €99.3 million to €172.5 million (+73.8%). The actions carried out include improvements to the Tenerife South, Palma de Mallorca (platforms B and C) and Lanzarote Airport aprons, as well as the provision of footbridges for Malaga Airport.

- Investments in capacity amounted to €24.3 million, compared to €12.5 million in investment paid in 2017. In the airfield, the reconfiguration of the south bay apron of the airports of Barcelona and Madrid, the supply and installation of apron assistance equipment and new parking spaces. The work on terminal capacity highlights the improvement of the automatic baggage transport system in Palma de Mallorca.

- In the environment, the investment made was €18.5 million (€3.2 million more than in 2017). This amount corresponds mainly to the sound insulation of homes in the areas near several airports, the installation of lighting systems with efficient technology at various airports on the network, the construction of a hydrocarbon separator at Valencia Airport and the adaptation cooling equipment at Adolfo Suárez Madrid-Barajas Airport to environmental regulations.

- In terms of expropriations, payments of €0.2 million were made in comparison with the €2.6 million paid in the same period in 2017.

- Capex classified as other investments amounted to €123.0 million, 47.0% higher than in 2017 (€83.7 million). This section includes investments in information technologies, especially those aimed at storing information and improving communication infrastructures at several airports. Mention must also be made of projects for improving commercial and real estate revenue, including the improvement of parking systems in Barcelona-El Prat and that of several car parks at the airport of Malaga-Costa del Sol.

6. Balance Sheet

6.1 Net assets and capital structure

Thousand euros	2018	2017	Variation	% Variation
ASSETS				
Non-current assets	13,785,594	14,093,595	-308,001	-2.2%
Current assets	1,113,476	1,213,837	-100,361	-8.3%
Total assets	**14,899,070**	**15,307,432**	**-408,362**	**-2.7%**
EQUITY AND LIABILITIES				
Equity	6,023,805	5,687,864	335,941	5.9%
Non-current liabilities	7,371,884	8,135,177	-758,404	-9.3%
Current liabilities	1,503,381	1,484,391	14,101	0.9%
Total equity and liabilities	**14,899,070**	**15,307,432**	**-408,362**	**-2.7%**

Table 14. Summary of the consolidated balance sheet

Effects of the entry into force of the new IFRS 15 and IFRS 9 accounting standards

IFRS 15 and IFRS 9 were applied in preparing the financial statements for the first time in 2018, as reported in note 2.1.2.1 to the Consolidated Financial Statements. The Aena Group has opted not to restate previous periods, and the impacts on Equity at the initial application date (1 January 2018) deriving from the coming into force of these standards was not significant, being limited exclusively to a €0.8 million reduction in Reserves deriving from the transition to IFRS 9.

Additionally, the available-for-sale financial assets shown in the financial statements for 2017 (€0.3 million) have been reclassified to “Other Financial Assets”.

Impacts on the Income Statement for 2018 were also insignificant, mainly as follows:

- Increase in financial expenses of €0.9 million, deriving from the application of the provisions of IFRS 9 to on debt restructuring.
- €1.1 million more profit deriving from the quantification of the amount of impairment of financial assets under the new “expected loss” methodology relative to that which would have been calculated under the previous IAS 39.

Main changes

Non-current assets decreased by €308.0 million, mainly due to the decrease of €333.2 million in "Property, plant and equipment", explained by the evolution of the investment in the Spanish network, which implies that the amount of the Fixed assets for the period are lower than the amortizations made, as well as recognition of the impairment amounting to €46,2million corresponding to the book value of all the assets of the Murcia San Javier Airport that could not be reused at the International Airport of the Region of Murcia (AIRM) or the remaining airports on the network (see Note 6 Consoldated Financial Statements).

This change was partly offset by the increase of €15.8 million of the “Intangible Asset” item, mainly associated with Aena's concluding the concession agreement for the management, operation, maintenance and conservation of the International Airport of the Region of Murcia and its zone of activities for a period of 25 years, the balancing entry for which is long-term “Financial Debt” (see Note 7 of the Consolidated Financial Statements).

Current assets have been reduced by €100.4 million due to the decrease in the balance of "Cash and cash equivalents" by €203.6 million (the variation of which is explained in section 7, Cash flow statement) and the increase in the balance of "Trade and other receivables" by €103.0 million, for the accrual as of 31 December 2018 of €117.8 million for minimum annual guaranteed rents (MAGR) (compared to the €75.8 million accrued for MAGR at the end of 2017), the change in the payment method of one airline company from pre-payment to guaranteed in 2018 (€28.4 million), and the increase in turnover for the period.

Equity increased by €335.9 million mainly as a result of the difference between the dividends distributed in the period (-€993.4 million) and consolidated profit for the period (+€1,327.9 million).

The €758.4 million reduction in Non-current liabilities was basically due to the €702.9 million reduction in “Financial Debt”, which in turn was mainly due to transfer of €766.6 million to current liabilities to meet the payment of €798.1 million corresponding to the amortization of the principal of Aena's debt to ENAIRE (as co-borrower with various financial institutions), in accordance with the repayment schedule established, and to prepay debt to Depfa Bank, in an amount of €132.9 million from the total amount

(€166.1 million) contained under this heading (see movement of Financial debt in Note 20 of the Consolidated Financial Statements).

The balance of "Other non-current liabilities" has decreased by €42.2 million, mainly due to the compensation of €41.7 million in turnover during the period, the advance charged by World Duty Free Group España, S.A. for the rental contracts of the commercial premises for the *duty free* and *duty paid* shops across the airport network in Spain (see Note 25 of the Consoldated Financial Statements).

The increase of €14.1 million in current liabilities mainly reflects the increase in the items “Current tax liabilities” and "Trade and other payables" by €49.5 million as a consequence of the increase in the credit balance with the Public Treasury due to the increase in Corporations Tax and the increase in turnover (see Notes 19 and 32 of the Consolidated Financial Statements). Furthermore, the balance of “Provision for other liabilities and charges” is down €23.7 million (see movement in Note 23 of the Consolidated Financial Statements).

Working capital, calculated as the difference between current assets and current liabilities, which is generally negative in the Company as a result of its operations and financing structure, stood at -€385.0 million at the end of the period (-€270.6 million at 31 December 2017), due to the changes in current assets and liabilities commented on previously.

6.2 Net financial debt

The Aena Group’s consolidated net financial debt, calculated as Current financial debt plus Non-current financial debt less Cash and cash equivalents, stood at €6,654.1 million at 31 December 2018 (including €435.7 million from the consolidation of Luton Airport’s debt), compared with €7,156.0 million at 31 December 2017 and the associated ratios continue to decrease:

Thousand euros	**2018**	**2017**
Gross financial debt for accounting purposes	7,305,506	8,010,959
Cash and cash equivalents	651,380	854,977
Net financial debt for accounting purposes	**6,654,126**	**7,155,982**
Net financial debt for accounting purposes/EBITDA(1)	**2.5x**	**2.8x**

(1)*Earnings before interest, tax, depreciation and amortization.*

Table 15. Accounting net financial debt of the Group

Net individual financial debt of Aena, for purposes of the covenants contained in the financing agreements novated on 29 July 2014, stood at €6,424.6 million at the close of the period, compared with €6,947.9 million at the close of 2017. The associated ratios have decreased relative to year-end 2017:

Thousand euros	**2018**	**2017**
Gross financial debt according to *covenants*	6,892,076	7,665,989
Cash and cash equivalents	467,444	718,115
Net financial debt according to *covenants*	**6,424,633**	**6,947,874**
Net financial debt covenants/EBITDA(1)	**2.5x**	**2.8x**

(1)*Earnings before interest, tax, depreciation and amortization.*

Table 16. Net financial debt *covenants* of Aena SME, S.A. .

During the period, debt amounting to €798.1 million was repaid, including €166.1 million corresponding to the early repayment of Depfa Bank's debt at a fixed interest rate.

The average interest rate of Aena's debt in the period stood at 1.30% (1.45% as of 31 December 2017).

With respect to the early repayment of the full ongoing loan Aena had with Depfa Bank for an amount of €166.1 million, it should be noted that it was completed on 18 July in response to the application of Circular 2/2016 of 2 February, sent by the Bank of Spain to credit institutions, on supervision and solvency. This Circular, which complemented the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No. 575/2013, obliged some financial lenders to assign their exposures to ENAIRE (of which Aena is co-accredited) a risk weight different from that assigned to its exposures to the General State Administration, which is 0%.

In accordance with the contractual conditions of said loan, payment has also been made regarding the cost of unwinding the associated interest rate hedge for the amount of €17.2 million.

Furthermore, on 13 December 2018, Aena formalized a sustainable syndicated credit facility ("ESG-linked RCF") for an amount of €800 million to reinforce its commitment to the environment, social responsibility and good corporate governance.

With this operation, the Company extends the term of its financing for general corporate requirements to 5 years (with the possibility of an extension for 2 years) taking advantage of favourable market conditions. The most outstanding feature of this credit facility is that the interest rate is set based not only on the credit rating, but also on the evolution of Aena's sustainability parameters in environmental, social and good governance issues (ESG rating "Environmental, Social and Governance ").

At the same time, the Company cancelled its current bilateral credit facilities for an amount of €1,000 million due in 2019.

6.3 Information about the average payment period

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

Days	2018
Average term of payment to suppliers	48
Ratio of transactions paid	51
Ratio of transactions pending payment	21

Table 17. Average payment period

These parameters were calculated per Art. 5 of the 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.

Thousand euros	2018
Total payments made	850,582
Total payments outstanding	97,306

Table 18. Balance concerning suppliers

In the accumulated period, the average payment terms are adapted to the terms established 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 weighted average price is calculated based on invoices received and endorsed pending payment. The balance of "Trade payables" is greater than that of "Payments pending", because the former includes amounts of invoices pending receipt and/or approval, as well as balances brought in from Luton Airport.

7. Cash flow

Thousand euros	2018	2017	Variation	% Variation
Net cash flows from operating activities	1,947,658	2,014,612	-66,954	-3.3%
Net cash flows from investing activities	-502,307	-361,614	-140,693	-38.9%
Net cash used in financing activities	-1,648,908	-1,364,274	-284,634	-20.9%
Cash and cash equivalents at the beginning of the period	854,977	564,616	290,361	51.4%
Effect of exchange rate fluctuations	-40	1,637	-1,677	102.4%
Cash and cash equivalents at the end of the period	**651,380**	**854,977**	**-203,597**	**-23.8%**

Table 19. Summary of consolidated cash flow statement

The Group's financing needs and the €975 million of the payment of dividends (charged to the result of the parent company's 2017 fiscal year), were covered by the cash flows from operating activities (€1,947.7 million) and by the reduction of the treasury balance to €651.4 million, from the initial €855.0 million. The above mentioned financing needs, include the non-financial fixed assets investment program (€524.6 million), the payment of debt according to the established schedule (€632.0 million) as well as €166.1 million debt with Depfa Bank paid in advance.

Net cash flows from operating activities

The main cash inflows from operating activities related to payments from customers, both airlines and commercial tenants, while the main outflows involved payments for sundry services received, employee benefits and local and state taxes. Cash flow from operating activities before changes in working capital and other cash from operations (interest and tax on profits paid and received), increased in the period by +4.9% to €2,655.9 million, from €2,532.1 million in the same period of 2017, mainly as a result of the improvement in the Group's operations as reflected in EBITDA (earnings before interest, tax, depreciation and amortization) of €2,656.6 million for the period, as against €2,517.4 million in the same period of 2017.

Despite the foregoing, net cash from operating activities (€1,947.7 million) was down by 3.3% on the same period of 2017 due to the effect of the €110.5 million tax refund received in the first quarter of 2017 in respect of Corporation Tax for 2015 and, in 2018, the change of payment method by Vueling airline from pre-payment to guarantee (€28.4 million). Excluding both effects, the increase in net cash from operating activities would have increased by 3.8% (€71.9 million).

Net cash flow from investment activities

Net cash used in investment activities in this period amounted to €502.3 million, compared with €361.6 million in the same period of 2017, and mainly consisted of payments for acquisition and replacement of non-financial fixed assets relating to airport infrastructure for an amount of €524.6 million (€371.2 million in 2017).

These investments mainly focused on improvements to facilities and operational security of the airports in the network and the expansion project for London Luton Airport in the UK (see Section 5. Investments).

Long-term deposits were also established for the amount of €12.9 million.

Investment activities also include dividend proceeds from equity-accounted associates in an amount of €20.1 million and "Proceeds from other financial assets" for an amount of €10.1 million corresponding to the refund of the guarantee established for participation in the bidding process for the management, operation, maintenance and conservation of the International Airport of the Region of Murcia (AIRM) under a concession of the airport and its zone of complementary activities

Cash flow from financing activities

The main financing outflows corresponded to the payment of dividends and principal repayment of debt in accordance with contractually established payment schedules and the advance settlement of the debt with Depfa. Dividends paid amounted to a total of €993.4 million, of which €975.0 million was paid to Aena shareholders and the rest to the non-controlling shareholders of LLAH III (Luton Airport).
The main inflow of funds has corresponded to the collection of €88.1 million of the European Regional Development Fund (FEDER) (see Note 24 of the Consoldated Financial Statements).

8. Operational and financial risks

The main risks to which Aena is exposed in its operations and financial activity are outlined in Note 3 of the Consoldated Financial Statements ("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, including the risks considered by the Company after the referendum in the United Kingdom in favour of its exit from the European Union (Brexit), whose final results is subject to both the negotiation process ongoing between the British Government and the European Union to determine the final conditions for its exit, and to the regulatory developments involving the United Kingdom and the European Union in the event of an exit without agreement.

With respect to the financial risks to which the operations of the Aena Group are exposed, Note 3 of the Consoldated Financial Statements specifies various risks: market risk (including exchange rate risk and fair value risk by interest rate), credit risk and liquidity risk.

This information is completed with the contents of chapter 3 of the non-financial information statement, which forms part of this report and which is presented separately in the NON-FINANCIAL INFORMATION STATEMENT: Corporate Responsibility Report 2018.

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 this appeal for judicial review. 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 judgement 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 Court 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 judgement are Aena, ENAIRE and the General Directorate of Civil Aviation as a specific body of the Ministry of Public Works.
(ii) On 31 July 2017, the State Attorney provided the Court with the technical report prepared jointly by Aena, ENAIRE and the DGAC, which outlined how the judicial mandate would 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 indicated that the Supreme Court ruling of 3 April 2017 required a check to be carried out on the noise levels inside and outside the homes using the methodology referred to by Regulation (EU) 598/2014. Consequently, the actions carried were 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 to block out external overhead noise.*

The expected periods for the finalization of these verifications and the presentation of results to the TSJ was the end of November 2017, providing it were possible to access the dwellings whose noise level must be verified in the dates estimated for said purposes.
On 4 September 2017, a ruling was received from the TSJ (High Court) of Madrid handed down previously on 1 September in which, in response to the request from the State Attorney, an extension of one month was granted for the execution period with respect to the provisions

[1] Regulation (EU) 598/2014, of the European Parliament and of the Council, of April 16, 2014, concerning the establishment of norms and procedures for the introduction of operational restrictions related to noise at Union airports as part of a balanced approach, repealing Directive 2002/30/EC.

of Article 104.2 LJCA, pointing out that the specific content of the report provided should be decided upon by the rapporteur of the proceedings.

This extension expired on 4 October 2017, and the State Attorney proceeded to request a new extension of the period, informing the TSJ of the status of enforcement and of the proceedings already carried out. In response to this request, the TSJ issued a new ruling on 17 October 2017, extending the term of execution for a period of 1 month. This extension period ended on 23 November 2017, 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. Following this request, the TSJ passed a ruling on 22 December 2017, through which a new extension was granted to complete execution for two months, meaning that the term to finalize actions concluded on 22 February 2018.

On 6 March 2018 a ruling from the TSJ was received through which the State Attorney’s Office was required to inform the Court within a period of five days, “if for the technical validation pending on noise issues necessary for the passing of the ruling means it is essential to enter into the home of one of the residents, given the numerous difficulties arising in the measuring of the same”. Said request was be made once all of the actions that had to be performed had been completed, with the exception of the evaluation of the noise levels in the dwelling of the resident mentioned above, in which, until now, the permission on the part of the occupant (tenant) has not been forthcoming to access the same.

In its written brief dated 15 March, the State Attorney’s Office, providing the reports drafted for this purpose, asked the TSJ to state that it was not necessary to enter the dwelling of the resident referred to in order for the order to be considered to have been executed, adding that in any case the parties charged with execution (Ministry of Public Works, ENAIRE and Aena) would undertake such actions as the Court might consider necessary to complete the execution. By a ruling of 22 March 2018, the parties and the Public Prosecution Service were granted one month in which to react to the documentation that had been presented by the State Attorney’s Office relating to all the actions taken and reports produced so far in fulfilment of the Supreme Court order.
By successive requests of the parties the deadline for submitting allegations was extended, the period for which ended on 15 June 2018, after which the Supreme Court of Madrid issued an order dated 30 July 2018 which agreed:

(i) To dismiss the allegation of the lack of a resident's legitimacy.

(ii) To declare the 13 October 2008 Supreme Court ruling executed.

Subsequently, several Ciudad Santo Domingo residents filed a motion for reconsideration before the Supreme Court on 30 July 2018, on which, on September 14, 2018, Aena filed a writ of recourse.

By Order of December 21, 2018 the TSJ dismissed the appeal for reversal against which an appeal for review can be lodged. On 1 February 2019, the neighbours announced an appeal against the Rulings handed down on 30 July and 21 December 2018. The Supreme Court must now decide on the admission of the appeal and summon Aena to appear before the Supreme Court.

10. Non-financial information

The NON-FINANCIAL INFORMATION STATEMENT: Corporate Responsibility Report 2018, which forms part of this report, is presented separately and has been available since the date of publication of the annual accounts on the Aena website (www.aena.es). The statement, has been prepared in line with the requirements given in Law 11/2018 of December 28, 2018 on non-financial information and diversity, approved on December 13, 2018 by the Congress of Deputies, amending the Commercial Code, the revised text of the Corporations Act approved by Royal Legislative Decree 1/2010 of July 2 and Law 22/2015 of July 20 on Accounts Auditing, regarding non-financial information and diversity (from Royal Decree Law 18/2017 of November 24).

11. Human resources

In the area of human resources, to promote the actions given in the Strategic Plan 2018-2021, actions have been defined to plan and anticipate the people and the organizational changes necessary to undertake the increase in activity and new roles and challenges. Measures have also been given to improve working conditions, enable the training and development of talent and professional skills and the promotion of diversity and equality.

The most relevant actions carried out during 2018 regarding recruitment, development/promotion and training at Aena S.M.E., S.A., as listed below, are completed with the information on human resources contained in chapter 7 of the NON-FINANCIAL INFORMATION STATEMENT: Corporate Responsibility Report 2018 (section "People at Aena").

Recruitment processes

In 2018, several processes have been completed:

- Completion of the In-house Provision of 18 December 2017 for non-university graduates By means of this process, 211 vacancies have been filled, 128 of which have been awarded with candidates from the internal job opportunities system, 79 vacancies with external candidates and 4 are pending a new internal job opportunities process.
- Finalization of the Call for External Selection for University Graduates. This call began in 2017 and ended in 2018, leaving the vacancies covered and the job opportunities system in place.
- Call for Candidate Exchanges through the Public Employment Services for support personnel and personnel for attending passengers, users and customers.
- On 28 June 2018 and November 22, 2018, two selection processes were carried out for non-fixed contracts at 16 airports on the network for non-university technicians.
- Call for internal employment for university graduates, dated December 13, 2018, which will give all the company's fixed employees the opportunity to apply for promotion, development and/or reorientation of their professional career.
- Scholarships:72 final-year university students have been given scholarships for academic practicums in 2018. This has given them the possibility to acquire practical knowledge of real business situations at Aena.

Training, Professional Development and Talent Management

We have continued training actions focused on the cultural and digital transformation. Training in behaviour and technology has been given to ensure better and greater knowledge of Aena by all employees to increase the sense of belonging and the involvement of all workers. Training for diversity and equality has continued to ensure regulatory compliance. As in previous years, one of the main pillars of the training has been to ensure levels of physical and operational safety at all our airports.

Digital transformation

In 2018, the main items of the Digital Transformation roadmap were established to address the future modernization of Human Resources management systems for two reasons: to harness the support of the human resources department in the form of specific training and information schemes; and, at the same time, continue with process automation and development of proprietary applications to increase work efficiency and boost the modernization of the department.

12. Procurement

In terms of hiring, as a complement to the information given on the NON-FINANCIAL INFORMATION STATEMENT: Corporate Responsibility Report 2018 ("Social cash flow" section) on the volumes of procurement awarded by Aena in 2018, the Company is digitally transforming its procurement processes.

The entry into force on 9 March 2018 of Law 9/2017 of 8 November on Public Sector Procurement is worthy of particular mention*. Said law transposes Directives 2014/23/EU and 2014/24/EU of the European Parliament and of the Council of February 26, 2014 into Spanish legislation*, affecting the procurement processes of Aena's suppliers.

The *definition and implementation of the electronic procurement program at Aena* is multi-annual and consists of more than 10 different projects, related to each other. They will enable the automation and improvement of procurement processes and the reduction of administrative deadlines and procedures for economic operators and the procurement units of Aena.

In compliance with the Additional Provision 15 of Law 9/2017 on Public Sector Contracts, in 2018 the electronic presentation platform for PPO offers was defined, analysed, developed and implemented to enable bidders to submit their proposals or offers in the projects telematically.

13. Stock performance

In 2018, Aena's stock varied between a maximum of €179.50 and a minimum of €133.0. The share closed the period at €135.8, down 19.7%, reflecting the general evolution of the Spanish market in this period, in which the IBEX35 lost 15.0%.

Figure 8. Stock performance

The main performance figures for Aena's price on the continuous market of the Madrid Stock Exchange in 2018 are summarized as follows:

2018	AENA.MC
Total volume traded (no. shares)	87,945,064
Daily average volume traded in the period (No. of shares)	344,883
Capitalization €	20,362,500,000
Closing price €	135.75
Number of shares	150,000,000
Free Float (%)	49%
Free Float (shares)	73,500,000
Turnover	119.7%

Table 20. Main data on Aena's evolution

In connection with the acquisition and disposal of treasury shares at 31 December 2018, 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. Subsequent events

Subsequent to 31 December 2018 and up to the date of publication of this report, the International Airport of the Region of Murcia (AIRM) was opened on 15 January 2019, following the start-up of operations. With this entry into operation of AIRM, as provided in the "Protocol to establish the bases for the development of civil aviation in the Autonomous Community of the Region of Murcia" and in the offer presented by Aena in the public tender for the management and operation of the AIRM, Murcia San Javier Airport is exclusively for military aviation.

APPENDICES:

I. Consolidated financial statements
II. Summary of relevant facts published
III. Corporate Governance Report

APPENDIX I: Consolidated financial statements

Consolidated statement of financial position at 31 December 2018 and 2017

Thousand euros	**2018**	**2017**
ASSETS		
Non-current assets		
Property, plant and equipment	12,872,781	13,205,946
Intangible assets	506,996	491,173
Investment properties	138,183	135,108
Equity-accounted investees	65,433	63,955
Other receivables	3,259	2,831
Deferred tax assets	124,944	122,369
Available for sale financial assets	-	347
Other financial assets	72,854	71,506
Derivative financial instruments	1,144	360
	13,785,594	**14,093,595**
Current assets		
Inventories	7,258	7,051
Trade and other receivables	454,838	351,809
Cash and cash equivalents	651,380	854,977
	1,113,476	**1,213,837**
Total assets	**14,899,070**	**15,307,432**
EQUITY AND LIABILITIES		
Equity		
Share capital	1,500,000	1,500,000
Share premium	1,100,868	1,100,868
Retained earnings	3,534,635	3,180,024
Accumulated translation differences	-20,301	-22,523
Other reserves	-80,333	-75,931
Non-controlling interests	-11,064	5,426
	6,023,805	**5,687,864**
Liabilities		
Non-current liabilities		
Borrowings	6,573,078	7,276,016
Derivative financial instruments	56,543	45,645
Deferred tax liabilities	70,995	80,153
Provisions for employee benefit obligations	46,622	59,126
Provision for other liabilities and charges	84,700	70,901
Grants	495,594	511,927
Other non-current liabilities	49,241	91,409
	7,376,773	**8,135,177**
Current liabilities		
Trade and other payables	613,049	588,419
Current tax liabilities	24.889	3.279
Borrowings	732,428	734,943
Derivative financial instruments	32,740	37,010
Grants	35,217	40,152
Provision for other liabilities and charges	60,169	83,867
	1,498,492	**1,484,391**
Total liabilities	**8,875,265**	**9,619,568**
Total equity and liabilities	**14,899,070**	**15,307,432**

APPENDIX I: Consolidated financial statements

Consolidated income statement for the years ended on 31 December 2018 and 2017

Thousand euros	2018	2017
Continuing operations		
Ordinary revenue	4,201,406	3,960,582
Other operating revenue	11,107	10,852
Work carried out by the Company for its assets	4,981	4,751
Supplies	-172,936	-174,176
Staff costs	-423,725	-417,155
Losses, impairment and change in trading provisions	1,813	-
Other operating expenses	-1,008,289	-910,912
Depreciation and amortization	-806,383	-800,035
Capital grants taken to income	95,076	42,504
Provisions surpluses	7,679	8,905
Impairment of fixed assets	-46,248	-
Income from disposal of fixed assets	-16.107	-10,915
Other net gains/(losses)	1,829	2,969
Operating income	**1,850,203**	**1,717,370**
Financial income	2,985	6,891
Financial expenses	-135,248	-142,134
Other net financial income/(expenses)	-742	-4,347
Net financial expenses	**-133,005**	**-139,590**
Share of profits in associates	20,155	18,927
Profit/(loss) before tax	**1,737,353**	**1,596,707**
Income tax	-409,602	-374,738
Consolidated profit (/loss) for the period	**1,327,751**	**1,221,969**
Profit/(loss) for the period attributable to non-controlling interest	**-131**	**-10,036**
Profit/(loss) for the period attributable to the equity holders of the Parent Company	**1,327,882**	**1,232,005**
Earnings per share (Euro per share)		
Basic earnings per share	8.85	8.21
Diluted earnings per share	8.85	8.21

APPENDIX I: Consolidated financial statements

Consolidated cash flow statement for the years ended on 31 December 2018 and 31 December 2017

Thousand euros	2018	2017
Profit/(loss) before tax	**1,737,353**	**1,596,707**
Adjustments for:	**918,553**	**935,380**
Depreciation and amortization	806,383	800,035
Impairment adjustments	-1,813	-6,072
Changes in provisions	30,729	50,222
Impairment of fixed assets	46,248	-
Grants taken to income	-95,076	-42,504
(Profit)/(loss) on disposal of fixed assets	16,107	10,915
(Profit)/(loss) on disposal of financial instruments	229	7
Financial income	-2,985	-6,891
Financial expenses	97,915	101,604
Exchange differences	513	4,340
Losses/(gains) in the fair value of financial instruments	37,333	40,530
Other revenue and expenses	3,125	2,121
Share in profits/(losses) of equity method companies	-20,155	-18,927
Changes in working capital:	**-180,504**	**-122,326**
Inventories	-211	552
Trade and other receivables	-115,020	-4,587
Other current assets	-184	-117
Trade and other payables	-7,871	-73,779
Other current liabilities	-56,427	-43,007
Other non-current assets and liabilities	-791	-1,388
Other cash generated from operating activities	**-527,744**	**-395,149**
Interest paid	-131,539	-134,661
Interest received	1,143	4,311
Taxes paid	-396,836	-263,490
Other income (received)	-512	-1,309
Net cash flows from operating activities	**1,947,658**	**2,014,612**
Cash flow from investing activities		
Acquisitions of property, plant and equipment	-498,865	-339,189
Acquisitions of intangible assets	-21,328	-31,220
Acquisitions of investment properties	-4,410	-831
Payments for acquisitions of other financial assets	-12,905	-12,933
Proceeds on disposal of/loans to companies of the Group and associates	5,044	5,376
Proceeds from property, plant and equipment divestment	34	-
Proceeds from other financial assets	10,071	124
Dividends received	20,052	17,059
Net cash flows from investing activities	**-502,307**	**-361,614**

APPENDIX I: Consolidated financial statements

Consolidated cash flow statement for the years ended on 31 December 2018 and 31 December 2017 (continued)

Thousand euros	2018	2017
Cash flow from financing activities		
Proceeds from ERDF grants	88,097	9,340
Shareholder contributions	3,392	-
Proceeds from borrowing	32,779	991,053
Other proceeds	31,730	22,794
Repayment of bank debts	-	-278,285
Repayment of Group financing	-798,059	-1,497,288
Dividends paid	-993,390	-592,232
Other payments	-13,457	-19,656
Net cash used in financing activities	**-1,648,908**	**-1,364,274**
Effect of exchange rate fluctuations	**-40**	**1,637**
Net (decrease)/increase in cash and cash equivalents	-203,597	290,361
Cash and cash equivalents at the beginning of the period	**854,977**	**564,616**
Cash and cash equivalents at the end of the period	**651,380**	**854,977**

APPENDIX II: Summary of relevant facts published

Register	Date	Type of fact	Description
260536	10/01/2018	Composition of the Board of Directors	The Company reports the resignation of a member of the Board of Directors
260991	25/01/2018	Composition of the Board of Directors	The Company announces changes in the composition of the Board of Directors and in the Nominations and Remuneration Committee
260992	25/01/2018	Composition of the Board of Directors	The Company announces changes in the composition of the Board of Directors and in the Nominations and Remuneration Committee
261748	20/02/2018	Calls for meetings or informative events	Aena, S.M.E, S.A. announces the holding of the presentation of earnings corresponding to FY 2017
262159	27/02/2018	Interim financial information	The company sends information on results for the second half of 2017.
262162	27/02/2018	Corporate Governance Annual Report	The Company submits the Corporate Governance Annual Report for 2017.
262164	27/02/2018	Annual report on remuneration for directors	The Company submits the Annual Report directors' remuneration for 2017
262165	27/02/2018	Information on results	Presentation of results and Consolidated Management Report for 2017
262170	27/02/2018	Information on dividends	Dividend for 2017
262171	27/02/2018	Strategic plans, forecasts and presentations	Passenger traffic forecast for 2018
262172	27/02/2018	Calls for and resolutions adopted by General Meetings of Shareholders	The Company announces the calling of the General Meeting of Shareholders
262602	07/03/2018	Calls for and resolutions adopted by General Meetings of Shareholders	The Company announces the calling of the 2018 AGM
262955	15/03/2018	Composition of the Board of Directors	The Company reports the resignation of the Vice-Secretary of the Board of Directors
263764	05/04/2018	Others on corporate operations	The Company announces that it will not exercise its purchase option on 49% of London Luton Airport Holding III Ltd
263927	10/04/2018	Calls for and resolutions adopted by General Meetings of Shareholders	The Company announces the approval of the Resolutions of the General Meeting of Shareholdings.
263928	10/04/2018	Calls ad resolutions for General Meetings of Shareholders - Composition of the Board of Directors	The Company announces the approval of the appointment of directors by the General Meeting of Shareholdings.
263929	10/04/2018	Information on dividends. - Calls and resolutions for General Meetings of Shareholders	The Company announces the approval by the General meeting of Shareholders of the payment of the dividend
264212	17/04/2018	Credit ratings	Moody's Investors Service Ltd upgrades Aena's credit rating
264217	17/04/2018	Calls for meetings or informative events	Aena, S.M.E, S.A. announce the presentation of 1T 2018 results
264560	25/04/2018	Interim financial information	The Company sends information on results for the first quarter of 2018.
265651	14/05/2018	Credit ratings	Fitch Ratings confirms its "A" credit rating with stable outlook for Aena S.M.E., S.A.
265695	15/05/2018	Placing of large numbers of shares (block trades)	Citigroup Global Markets Limited and UBS Limited are carrying out on behalf of TIC Luxembourg, S.Á.R.L. and Talos Capital Designated Activity Company a private placement among professional investors of a package of Aena, S.M.E S.A. shares representing approximately 2.6% of its share capital.
265702	16/05/2018	Placing of large numbers of shares (block trades)	Citigroup Global Markets Limited and UBS Limited submit details of the private placement among professional investors of a package of shares in Aena, S.M.E S.A., representing approximately 2,7% of its share capital, on behalf of TIC Luxembourg, S.Á.R.L. and Talos Capital Designated Activity Company.
266240	29/05/2018	Strategic plans, forecasts and presentations	The Company announces the lines of action of the Strategic Plan approved by the Board of Directors and the proposed date for its presentation.

APPENDIX II: Summary of relevant facts published (continued)

Register	Date	Type of fact	Description
266242	29/05/2018	Information on dividends	The Company announces that the Board of Directors has approved the dividend policy
266371	01/06/2018	Strategic plans, forecasts and presentations	Strategic Plan: Postponement of presentation
267046	21/06/2018	Composition of the Board of Directors	The Company announces the resignation of members of the Board of Directors and Committees of Aena S.M.E., S.A.
267916	16/07/2018	Composition of the Board of Directors	The Company announces changes in the composition of the Board of Directors, the Audit Committee and the Executive Committee.
267917	16/07/2018	Composition of the Board of Directors	The Company announces changes in the composition of the Board of Directors, the Audit Committee and the Executive Committee. The English version is modified
267971	17/07/2018	Calls for meetings or informative events	Aena, S.M.E, S.A. announce the presentation of 1S 2018 results
268251	24/07/2018	Interim financial information	The Company sends information on results for the first half of 2018.
268252	24/07/2018	Information on results	H1 2018 results presentation
269270	03/09/2018	Composition of the Board of Directors	The Company reports the resignation of a member of the Board of Directors
269682	18/09/2018	Calls for meetings or informative events. - Strategic plans, forecasts and presentations	The Company communicates the Strategic Plan presentation date
269837	24/09/2018	Composition of the Board of Directors	The Company reports the resignation of a member of the Board of Directors
270376	10/10/2018	Strategic plans, forecasts and presentations	The company publishes the presentation of the Strategic Plan 2018-2021 to analysts and investors
270377	10/10/2018	Strategic plans, forecasts and presentations	The company announces the forecast for passenger traffic for 2019
270383	10/10/2018	Strategic plans, forecasts and presentations	The Company attached Press release regarding the presentation of the strategic plan 2018-2021
270752	23/10/2018	Calls for meetings or informative events	Aena, S.M.E, S.A. announces the presentation of results for the nine-month period closed on 30 September 2018.
271028	30/10/2018	Interim financial information	The Company sends information on results for the third quarter of 2018.
271029	30/10/2018	Composition of the Board of Directors	The company announced the appointment of a Proprietary Director
271030	30/10/2018	Others on corporate governance	The company announces a change of registered office
271043	30/10/2018	Others on corporate governance	The company announces a change of registered office
271045	30/10/2018	Composition of the Board of Directors	The company announces the appointment of a Proprietary Director
271950	27/11/2018	Composition of the Board of Directors	The company announces the appointment of a Proprietary Director and member of the Audit Committee

APPENDIX III: Corporate Governance Report

Aena's Corporate Governance Annual Report for the year 2018 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 2018

On 26 February 2019, 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 2018, which are comprised of the attached documents which precede this text.

Position	Name	Signature
Chairman and Chief Executive Officer:	Mr. Maurici Lucena Betriu	
Director:	Ms Pilar Arranz Notario	
Director:	Mr. Francisco Javier Martín Ramiro	
Director:	Mr. Angel Luis Arias Serrano	
Director:	Ms Angélica Martínez Ortega	
Director:	Mr. Francisco Ferrer Moreno	
Director:	Mr. Juan Ignacio Díaz Bidart	
Director:	Ms Marta Bardón Fernández-Pacheco	
Director:	TCI Advisory Services, LLP, represented by Mr. Christopher Anthony Hohn	
Director:	Mr. Eduardo Fernández-Cuesta Luca de Tena	
Director:	Mr. Juan Ignacio Acha-Orbea Echeverría	
Director:	Mr. Amancio López Seijas	
Director:	Mr. Jaime Terceiro Lomba	
Director:	Mr. Jose Luis Bonet Ferrer	
Director:	Mr. Josep Antoni Duran i Lleida	
Non Member Secretary:	Mr. Juan Carlos Alfonso Rubio	