



SPANISH MINISTRY OF FINANCE

GENERAL STATE COMPTROLLER

Annual Accounts Audit Report

ADIF Alta Velocidad

Audit Plan for 2018

AUDInet Code 2019/413

State Comptroller at ADIF Alta Velocidad

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



INDEX

I. INTRODUCTION	1
II. SCOPE AND OBJECTIVE OF THE ENGAGEMENT: RESPONSIBILITY OF THE AUDITORS	2
III. OPINION	2
IV. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS	3



I. Introduction

The General State Comptroller, through the State Auditor of ADIF Alta Velocidad, (hereinafter ADIF AV or the Entity), using the powers conferred thereto by Article 168 of the General Budgetary Law, has audited the annual accounts of the aforementioned Entity, which comprise the balance sheet at 31 December 2018, the income statement, the statement of changes in equity, the statement of cash flows and the notes to the annual accounts for the year then ended.

The audit firm PKF ATTEST SERVICIOS EMPRESARIALES SL by virtue of the agreement entered into with the Spanish Ministry of Finance, at the proposal of the General State Comptroller (IGAE), performed the audit engagement referred to in the preceding section. In the aforementioned engagement, the General State Comptroller applied the Technical Standards relating to the cooperation with private auditors in the performance of public audits dated 11 April 2007.

The General State Comptroller prepared this report based on the work performed by the audit firm PKF ATTEST SERVICIOS EMPRESARIALES SL.

The Chairman of ADIF Alta Velocidad is responsible for the preparation of the Entity's annual accounts in accordance with the financial reporting framework detailed in Note 2 to the annual accounts and, in particular, in accordance with the accounting principles and policies. The Chairman is also responsible for the internal control considered necessary to enable the aforementioned annual accounts to be prepared free from material misstatement.

The annual accounts to which this report refers were prepared by the Chairman of the Entity on 21 March 2019 and were furnished to the State Audit Office on that date.

The information relating to the annual accounts is contained in the file NF1548_2018_F_190321_184533_Cuentas.zip, the electronic summary of which corresponds to 02E7E958BA4C999180808352015A2D4BD734154EA57B6FF5CFBA7268CC534976 and is filed in the CICEP.Red application of the General State Comptroller.



II. Scope and objective of the engagement: Responsibility of the auditors

Our responsibility is to express an opinion on whether the accompanying annual accounts present a true and fair view, based on the work performed in accordance with Public Sector Auditing Standards. The aforementioned standards require that we plan and perform the audit, in order to obtain reasonable, but not absolute assurance, that the annual accounts are free from material misstatement.

An audit involves the use of procedures to obtain adequate and sufficient evidence on the amounts and the information included in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the annual accounts. In performing the aforementioned risk assessments, the auditor takes into account the relevant internal control for the preparation and fair presentation by the manager of the annual accounts, in order to design audit procedures that are appropriate based on the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes the assessment of the appropriateness of the accounting rules and of the reasonableness of the accounting estimates made by the manager, and an assessment of the overall presentation of the annual accounts.

We consider that the audit evidence we have obtained provides a sufficient and appropriate basis to issue our audit opinion.

III. Opinion

In our opinion, the accompanying annual accounts present, in all material aspects, a true and fair view of the net equity and the financial situation of ADIF Alta Velocidad at 31 December 2018, and of the results of its operations and its cash flows for the year ended on that date, in accordance with the applicable framework of financial reporting standards, and in particular, in compliance with the accounting principles and criteria contained in that framework.



IV. Report on other legal and regulatory requirements

Per its bylaws, the Chairman of the Entity is required to prepare a Directors' Report that contains the explanations which are considered to be appropriate about the situation and evolution of ADIF Alta Velocidad, but it is not an integral part of the annual accounts.

Also, pursuant to Article 129.3 of the General Budgetary Law, the Entity is required to present, together with the annual accounts, a report relating to compliance of the economic and financial obligations assumed by it as a member of the public sector.

Our work is limited to verifying that the aforementioned reports were prepared in accordance with the regulating legislation and that the accounting information they contain is consistent with that contained in the audited annual accounts.

The Spanish version of this auditors' report was signed electronically through the CICEP.Red application of the General State Comptroller by the Financial Comptroller for ADIF Alta Velocidad, in Madrid, on 26 March 2019.

**Entidad Pública
Empresarial
ADIF-Alta
Velocidad**

31 December 2018

*(Free translation from the Original in
Spanish. In the event of discrepancy,
the Spanish version prevails)*

INDEX

Balance Sheet	1
Income Statement	3
Statement of Changes in Equity	4
Statement of Cash Flows	6
Notes	
(1) Activity of the Entity and Legal Status	9
1.a) ADIF-Alta Velocidad statute	10
1.b) Service arrangements between ADIF and ADIF-Alta Velocidad	12
1.c) Other provisions	14
1.d) Charges and fees	17
(2) Basis of Presentation of the Annual Accounts	20
2.a) Fair presentation	20
2.b) Comparative information	21
2.c) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles	21
2.d) Functional and presentation currency	22
(3) Significant Accounting Policies	22
3.a) Intangible assets	22
3.b) Property, plant and equipment	23
3.c) Investment property	30
3.d) Financial assets	30
3.e) Financial liabilities	32
3.f) Cash and cash equivalents	33
3.g) Grants, donations and bequests received	33
3.h) Long-term employee benefits	34
3.i) Provisions	35
3.j) Classification of assets and liabilities as current and non-current	36
3.k) Foreign currency balances and transactions	36
3.l) Income taxes	36
3.m) Recognition of income and expenses	37
3.n) Related party transactions	37
3.o) Leases	38

INDEX

(4) Property, Plant and Equipment, Intangible Assets and Investment

Property	38
4.a) Operating property, plant and equipment	43
4.b) Work in progress	44
4.c) Capitalised borrowing costs	46
4.d) Fully depreciated/amortised assets	47
4.e) Government grants received	47
4.f) Intangible assets	47
4.g) Impairment of property, plant and equipment, intangible assets and investment Property	50
4.h) Investment property.....	50
4.i) Sale commitments (land associated with Chamartín Station rail complex – Fuencarral, in Madrid)	50
5) Investments in Group Companies and Associates	55
5.a) Non-current equity instruments in Group companies and associates	55
5.b) Non-current loans to Group companies and associates	56
5.c) Current investments in Group companies and associates	58
(6) Other Financial Assets	60
6.a) Investments	61
6.b) Trade and other receivables.....	62
(7) Cash and Cash Equivalents	63
(8) Equity	64
8.a) Equity contribution	64
8.b) Reserves.....	64
8.c) Proposed application of loss for the year	65
8.d) Valuation adjustments	6
(9) Grants, Donations and Bequests	65
9.a) Cohesion Funds.....	67
9.b) European Regional Development Funds	67
9.c) Community financial aid to trans-European networks	68
(10) Provisions for Liabilities and Charges.....	70
10.a) Provisions for liabilities and charges related to personnel	71
10.b) Other provisions	72

INDEX

(11) Financial Liabilities	74
11.a) Loans and borrowings and bonds and other marketable securities	75
11.b) Other financial liabilities	78
11.c) Payables to Group companies and associates	79
11.d) Trade and other payables	80
(12) Income Tax	81
12.a) Public entities, receivables	82
12.b) Public entities, payables	83
12.c) Income tax	84
12.d) Value added tax	88
12.e) Years open to inspection	88
(13) Revenue	88
13.a) Revenue from use of rail facilities	89
13.b) Passenger rail transport safety levy	90
(14) Other Operating Income	91
(15) Personnel Expenses	92
(16) Other Operating Expenses	94
(17) Recognition of Grants for Fixed Assets and Other	95
(18) Finance Costs	95
(19) Finance Income	95
(20) Environmental Information	96
(21) Information on Directors and Senior Management of the Entity	97
(22) Financial Risk Management	97
22.a) Credit risk	97
22.b) Interest rate risk	97
22.c) Liquidity risk	98
(23) Commitments and Contingencies	99
Appendix I	
Appendix II	



Financial Statements
31 December 2018

Balance Sheet
31 December 2018

Expressed in thousands of Euros

ASSETS	NOTE	31/12/2018	31/12/2017
Intangible assets	4	55,427	56,799
Property, plant and equipment	4	44,743,427	43,743,135
Land and buildings		3,767,779	3,750,665
Technical installations, machinery, equipment, furniture and other items		26,433,880	26,304,249
Under construction and advances	4	14,541,768	13,688,221
Investment property	4	191,671	195,736
Non-current investment in Group companies and associates	5	470,753	416,836
Equity instruments		8,388	8,388
Loans to companies		462,365	408,448
Non-current investments		45,524	174,291
Equity instruments	6	2,166	2,026
Public entities	12	42,485	171,399
Other financial assets	6	873	866
Deferred tax assets	11 y 12	1,357	1,522
Non-current trade receivables	6	540	616
Total non-current assets		45,508,699	44,588,935
Trade and other receivables		321,373	340,190
Trade receivables	6	100,888	103,055
Trade receivables, from Group companies and associates	6	596	5,701
Other receivables	6	131,558	151,000
Personnel	6	12	18
Current tax assets	12	27	372
Public entities, other	12	88,292	80,044
Current investments in Group companies and associates	5	26,254	26,527
Loans to companies		26,254	26,527
Short-term financial investments	6	14	35
Cash and cash equivalents	7	150,325	267,230
Cash		150,325	267,225
Cash equivalents		-	5
Total current assets		497,966	633,982
TOTAL ASSETS		46,006,665	45,222,917

Balance Sheet
31 December 2018

Expressed in thousands of Euros

EQUITY AND LIABILITIES	NOTE	31/12/2018	31/12/2017
Equity	8	13,920,213	13,840,613
Equity contributions		14,994,688	14,683,114
Reserves		38,331	46,895
Retained earnings		(889,396)	(689,399)
Loss for the year		(223,410)	(199,997)
Valuation adjustments	11	(4,072)	(4,567)
Grants, donations and bequests received	9	10,619,017	10,542,749
Total equity		24,535,158	24,378,795
Non-current provisions	10	817,381	683,214
Long-term employee benefits		785	752
Other provisions		816,596	682,462
Non-current payables	11	15,240,618	14,938,722
Bonds and other marketable securities		4,383,814	3,788,425
Loans and borrowings		10,536,584	10,926,672
Derivatives		5,429	6,090
Other financial liabilities		314,791	217,535
Long-term debts with group companies and associates	11	53,911	-
Deferred tax liabilities	12	3,539,673	3,514,250
Non-current accruals	14	488,021	514,758
Total non-current liabilities		20,139,604	19,650,944
Current provisions	10	106,113	64,465
Short-term employee benefits		522	484
Other provisions		105,591	63,981
Current payables	11	1,013,929	902,559
Bonds and other marketable securities		51,852	47,524
Loans and borrowings		615,840	455,160
Derivatives		63	46
Other financial liabilities		346,174	399,829
Current payables, to Group companies and associates	11	15,394	16,821
Trade and other payables		168,158	181,882
Other suppliers and payables	11	166,613	180,561
Suppliers, Group companies and associates	11	731	501
Personnel	11	258	263
Current tax liabilities		(23)	(23)
Public entities, payables	12	579	580
Current provisions	14	28,309	27,451
Total current liabilities		1,331,903	1,193,178
TOTAL EQUITY AND LIABILITIES		46,006,665	45,222,917

Income Statement
31 de diciembre de 2018

Expressed in thousands of Euros

	NOTE	31/12/2018	31/12/2017
Revenue	13	572,123	552,003
Self-constructed assets		8,825	9,228
Other operating income	14	411,894	404,295
Personnel expenses	15	(14,108)	(14,639)
Other operating expenses	16	(682,036)	(673,147)
External services		(676,008)	(664,767)
Taxes		(3,900)	(3,473)
Losses, impairment and changes in trade provisions		(2,128)	(4,907)
Amortisation and depreciation		(344,554)	(337,845)
Non-financial and other capital grants	17	107,334	100,093
Provision surpluses		1,226	9,742
Impairment and result on disposal of fixed assets		(11,592)	(10,751)
Results from operating activities		49,112	38,979
Finance income	19	116,464	120,755
From equity instruments		1,071	1,971
From marketable securities and other financial instruments		7,572	3,840
Capitalised finance costs	19 and 4	104,022	111,211
Other		3,799	3,733
Finance costs	18	(358,611)	(367,955)
On third party loans		(358,600)	(371,056)
Provision adjustments		(11)	3,101
Change in fair value of financial instruments		(3,866)	(6,259)
Impairment and losses on disposal of financial instruments	10.b.1	(26,509)	14,483
Net finance expense		(272,522)	(238,976)
Loss before income tax		(223,410)	(199,997)
Income tax	12.c	-	-
Loss for the year		(223,410)	(199,997)

Statement of Changes in Equity
31 December 2018

A) Statement of Recognized Income and Expense corresponding to the
year ended 31 December, 2018

Expressed in thousands of Euros

	NOTE	31/12/2018	31/12/2017
Loss for the year		(223,410)	(199,997)
Income and expense recognised directly in equity			
Grants, donations and bequests	9	209,025	150,970
Cash flow hedges	11	661	11,343
Actuarial gains and losses and other adjustments		(806)	4,824
Grants tax effect	9 and 12	(52,257)	(37,745)
Cash flow hedges tax effect	11	(166)	(2,835)
Total income and expense recognised directly in equity		156,457	126,557
Amounts transferred to the income statement			
Grants, donations and bequests	17	(107,334)	(100,093)
Tax effect	12	26,834	25,023
Total amounts transferred to the income statement		(80,500)	(75,070)
Total recognised income and expense		(147,453)	(148,510)

Statement of Changes in Equity
Corresponding to the year ended 31 December, 2018

B) Statement of Total Changes in Equity corresponding to the year ended 31 December, 2018

Expressed in thousands of Euros

	Equity contributions (Note 8a)	Reserves (Note 8.b)	Retained earnings	Loss for the year	Grants, donations and bequests received (Note 9)	Valuation adjustments (Note 11.a.1)	Total
Balance at 31 December 2016	14,454,014	42,071	(361,252)	(328,147)	10,504,732	(13,075)	24,298,343
Recognised income and expense	-	4,824	-	(199,997)	38,155	8,508	(148,510)
Transactions with shareholders or owners	-	-	-	-	-	-	-
Increase in equity contributions (note 8c)	229,100	-	-	-	-	-	229,100
Other changes in equity	-	-	(328,147)	328,147	(138)	-	(138)
Balance at 31 December 2017	14,683,114	46,895	(689,399)	(199,997)	10,542,749	(4,567)	24,378,795
Recognised income and expense	-	(806)	-	(223,410)	76,268	495	(147,453)
Transactions with shareholders or owners	-	-	-	-	-	-	-
Increase in equity contributions (note 8.c)	311,574	-	-	-	-	-	311,574
Other changes in equity	-	(7,758)	(199,997)	199,997	-	-	(7,758)
Balance at 31 December 2018	14,994,688	38,331	(889,396)	(223,410)	10,619,017	(4,072)	24,535,158

Cash Flow Statement corresponding to the year ended 31 December, 2018

Expressed in thousands of Euros

	31/12/2018	31/12/2017
Cash flows from/(used in) operating activities		
Loss for the year before tax	(223,410)	(199,997)
Adjustments for:	514,039	475,235
Amortisation and depreciation (+)	344,554	337,845
Impairment (+/-)	36,293	(1,762)
Change in provisions (+/-)	(598)	(7,922)
Grants recognised in the income statement (-)	(107,334)	(100,093)
Proceeds from disposals of fixed assets (+/-)	3,936	2,918
Proceeds from disposals of financial instruments (+/-)		18
Finance income (-)	(116,464)	(120,755)
Finance costs (+)	358,611	367,955
Change in fair value of financial instruments (+/-)	3,866	6,259
Other income and expenses (-/+)	(8,825)	(9,228)
Changes in operating assets and liabilities	(85,519)	(20,761)
Trade and other receivables (+/-)	35,926	26,794
Trade and other payables (+/-)	(8,508)	(47,486)
Other current liabilities (+/-)	(21,298)	(70,519)
Other non-current assets and liabilities (+/-)	(91,639)	70,450
Other cash flows from/(used in) operating activities	(324,899)	(332,957)
Interest paid (-)	(291,989)	(282,571)
Dividends received (+)	1,070	1,971
Interest received (+)	139	305
Payments (collections) by tax of benefits (- / +)	368	1,080
Other amounts paid (received) (-/+)	(34,487)	(53,742)
Cash flows from/(used in) operating activities	(119,789)	(78,480)

Cash Flow Statement corresponding to the year ended 31 December, 2018

	31/12/2018	31/12/2017
Cash flows from/(used in) investing activities		
Payments for investments (-)	(878,593)	(1,216,288)
Group companies and associates	(64,874)	(332,792)
Property, plant and equipment, intangible assets and investment property	(813,719)	(883,496)
Other financial assets	-	-
Proceeds from disposals (+)	-	13
Group companies and associates	-	13
Cash flows from/(used in) investing activities	(878,593)	(1,216,275)
Cash flows from/(used in) financing activities		
Proceeds from and payments for equity instruments	428,194	243,038
Issue of equity instruments	311,574	229,100
Grants, donations and bequests received	116,620	13,938
Proceeds from and payments for financial liability instruments	453,283	788,839
Issue	949,246	1,463,151
Bonds and other marketable securities	600,000	600,000
Loans and borrowings (+)	240,000	817,143
Other payables (+)	109,246	46,008
Redemption and repayment of	(495,963)	(674,312)
Loans and borrowings (-)	(468,453)	(671,007)
Other payables (-)	(27,510)	(3,305)
Cash flows from/(used in) financing activities	881,477	1,031,877
Net increase in cash and cash equivalents	(116,905)	(262,878)
Cash and cash equivalents at beginning of year	267,230	530,108
Cash and cash equivalents at year end	150,325	267,230

Notes to the
Annual Accounts

31 December 2018

Notes to the Annual Accounts
31 December 2018**(1) Activity of the Entity and Legal Status**

The state-owned enterprise Entidad Pública Empresarial ADIF-Alta Velocidad (hereinafter ADIF-AV or the Entity) was created on 31 December 2013 following the approval of Royal Decree-Law 15/2013 of 13 December 2013 on the restructuring of the state-owned enterprise Administrador de Infraestructuras Ferroviarias (hereinafter ADIF) and other urgent economic measures.

ADIF-AV was created by spinning off the branch of activity involving the construction and running of ADIF's high-speed railway infrastructures, as well as other activities attributed to the new entity and entrusted to ADIF until this Royal Decree-Law entered force. ADIF retained the construction and running of conventional network rail infrastructures.

Due to the entry into force of this Royal Decree-Law 15/2013, Order PRE/2443/2013 of the Office of the Prime Minister was published on 27 December (hereinafter the Order or Order PRE/2443), identifying which of ADIF's assets and liabilities were to be transferred to the ownership of ADIF-AV. These assets and liabilities were to be integrated into and recognised by ADIF-AV at their carrying amounts, as indicated in the mentioned Order. Pursuant to this Order and the aforementioned Royal Decree-Law, for accounting purposes this spin-off was to take effect retrospectively from 1 January 2013.

Moreover, article 2 of Royal Decree-Law 15/2013, and Order PRE/2443/2013, governs the allocation to ADIF-AV of certain assets comprising the state-owned network, which were allocated to ADIF following the entry into force of Royal Decree-Law 4/2013, of 22 February 2013. This article stipulates that the transfer to ADIF and ADIF-AV of the title to these assets will be considered a free-of-charge transfer of assets associated with railway infrastructure administration, and should be carried out at the values taken from the financial information system and the records of the Ministry of Public Works, less any depreciation. The transfer of these assets took place at the moment Royal Decree-Law 4/2013, of 22 February 2013, came into force.

ADIF was established as a state-owned entity under the Basic Law of 24 1 January 1941 under the name Red Nacional de los Ferrocarriles Españoles (hereinafter RENFE). On 31 December 2004 Rail Sector Law 39/2003 of 17 November 2003 (hereinafter the RSL) entered into force, with the objective of incorporate various EU directives establishing a new framework for this sector in Spanish legislation and to completely re-organise the State rail sector, laying the foundations for new players to progressively enter this market. To achieve these objectives, rail infrastructure administration was regulated and entrusted to RENFE. Consequently, RENFE became Administrador de Infraestructuras Ferroviarias (ADIF), retaining its legal status as a state-owned entity. The RSL also foresaw the creation of a new state-owned entity, RENFE Operadora, to provide rail transport services, with this entity assuming the resources and assets used by RENFE to render rail transport services. Like ADIF, ADIF-AV and RENFE Operadora are subject to the RSL.

Notes to the Annual Accounts
31 December 2018

Through a modification to the ADIF statute set forth in Royal Decree 1044/2013 of 27 December 2013, ADIF-AV's statute was passed and its functions and responsibilities established, the main ones being the following:

- Construction of high-speed rail infrastructure forming part of the public service rail network, with a charge to equity and in accordance with provisions set out by the Ministry of Public Works.
- Construction of high-speed rail infrastructure with third-party funds, in accordance with the corresponding agreement.
- Running of the rail infrastructure owned by it.
- Allocation of capacity to requesting rail companies.
- Control and inspection of rail infrastructure, the protection areas and the railway circulation occurring thereon.
- Operation of owned assets.
- Additional services and, where the case may be, supplementary and auxiliary services for rail transportation in the infrastructures owned by it.
- Acquisition of electrical power to provide power supply to the rail system.

Pursuant to Royal Decree-Law 15/2013 and the RSL, the main sources of funding for ADIF-AV's activities include:

- State equity contributions, which are to make up ADIF-AV's own funds.
- Funds obtained from the management and operation of its assets and provision of services to third parties.
- Any EU funding it is allocated.
- Any grants that it may be allocated in the General State Budgets, as well as current transfers or capital contributions from the General State Administration (hereinafter AGE) and other government authorities.
- Borrowings, up to the annual limit set by the General State Budget Laws for each year.

1.a) ADIF-Alta Velocidad statute

ADIF-AV's statute was approved through Royal Decree 1044/2013 of 27 December 2013, which entered into force on 31 December 2013. The main aspects of the statute are as follows:

Notes to the Annual Accounts
31 December 2018

- ADIF-AV is a state-owned entity as provided for in article 43.1.b) of Law 6/1997 of 14 April 1997 on Organisation and Functioning of the General State Administration. This law primarily regulates the regime, organisation and operation criteria for the state administrative scheme within which state-owned entities are included. The Entity is part of this regime, falling under the Ministry of Public Works.
- ADIF-AV, as a state-owned entity, is subject to provisions set forth in the General Budget Law 47/2003. As a result, it keeps separate accounting records for its different activities (rail infrastructure construction and administration activities, and additional, supplementary and auxiliary services) and is subject to financial oversight by the Spanish General State Comptroller (hereinafter IGAE) pursuant to the terms of Law 47/2003.
- ADIF-AV was created by spinning off the branch of activity involving the construction and running of high-speed railway infrastructures, as well as other activities attributed to the entity and entrusted to Administrador de Infraestructuras Ferroviarias (ADIF) until its creation.
- ADIF-AV will assume all the functions assigned to ADIF by virtue of Rail Sector Law 38/2015 of 29 September 2015 (Law 39/2003 of 17 November 2003, previously) in respect of those infrastructures it has been assigned ownership of, as well as in connection with those infrastructures allocated in the future.
- The Ministry of Economy and Finance and the Ministry of Public Works may entrust ADIF-AV with administration of state-owned infrastructures through the corresponding agreements or public-private partnerships.
- In order to fulfil its objectives, ADIF-AV may have its own equity other than that of the General State Administration, comprising the assets, rights and obligations held in its name.
- Management, administration and operation of the assets and rights held by ADIF-AV are subject to the terms of the regulations creating the entity, to Rail Sector Law 38/2015 of 29 September 2015 and to the present statute, and, for all other aspects not regulated therein, to Law 33/2003 of 3 November 2003, on Public Authority Assets.
- In any event, the following assets and rights are considered to be held by ADIF-AV:
 - a. All assets (moveable and immovable) and rights that, at the date of its incorporation are owned by or assigned to Administrador de Infraestructuras Ferroviarias (ADIF), are assigned thereto by virtue of an order issued by the Ministry of Public Works and the Ministry of Finance and Public Administrations, in accordance with article 1.5 of Royal Decree 15/2013 of 13 December 2013.
 - b. All assets, whether they are inalienable property in the public domain or privately-owned assets, comprising the railways and that at the date of creation of ADIF-AV were owned by Administrador de Infraestructuras Ferroviarias (ADIF), where ownership thereof is allocated to the former.

Notes to the Annual Accounts
31 December 2018

- c. All stations and terminals serving the high-speed lines, where ownership has been attributed to it, and other property assets that are permanently necessary for providing the services constituting its activity.
- d. In addition, ADIF-AV will own the rail infrastructures that it builds or acquires with its own funds and those that fall to it by virtue of future agreements.
- At any point ADIF-AV may exercise, with respect to public assets it holds, the powers of administration, defence, policing, investigation, division and recovery of possession as granted to the General State Administration by Law 33/2003 of 3 November 2003, on Public Authority Assets. With respect to the aforementioned assets, ADIF-AV is entrusted with establishing the system of use and with granting the concessions, authorisations, leases and other titles that enable potential use by third parties.

1.b) Service arrangements between ADIF and ADIF-Alta Velocidad

Article 22 of Rail Sector Law 38/2015 of 29 September 2015 foresees that administration of the rail infrastructure and, where applicable, construction thereof, will correspond, within the framework of state responsibility, to one or more state-owned entities falling under the Ministry of Public Works, having their own legal identity, full capacity to operate and their own assets. These entities will be governed by the Rail Sector Law, by Law 6/1997 of 14 April 1997 on the Organisation and Functioning of the General State Administration, by its statute and by any other applicable regulations.

ADIF-AV assumes all the functions assigned to ADIF by virtue of the Rail Sector Law 38/2015 of 29 September, in respect of those rail infrastructures it has been assigned ownership of, as well as those infrastructures allocated in the future.

Article 1.7 of Royal Decree-Law 15/2013 of 13 December 2003 provides that ADIF-AV and ADIF may arrange to provide certain services to one another by signing the corresponding agreements. These agreements must state the financial compensation receivable by the entity commissioned to provide the service in question.

Specifically, the entities may commission one another to manage infrastructure capacity and, as an exception to article 22.4 of the Rail Sector Law on account of the interconnection of the networks entrusted to the two entities, also to manage control traffic and safety systems.

In addition, in the event that one of the entities commissions the other to perform tasks related with citizen security and civil protection, the same entity will be responsible for the matters in both entities. The foregoing will also apply in the case of the party responsible for workplace accident prevention and health and safety.

Notes to the Annual Accounts 31 December 2018

By virtue of resolutions issued by the chairmen of ADIF and of ADIF-AV on 31 December 2013, these entities mutually commissioned the performance of certain tasks. According to the subject resolutions, the conditions of the service arrangement will be set out in the corresponding agreements to be entered into by ADIF and ADIF-AV.

By virtue of the foregoing, the documents "Agreement between Administrador de Infraestructuras Ferroviarias (ADIF) and ADIF-AV to commission the latter to provide certain services" and "Agreement between ADIF-AV and Administrador de Infraestructuras Ferroviarias (ADIF) to commission the latter to provide certain services" were prepared.

These agreements set out those activities to be carried out by the two entities in providing the commissioned services are specified in addenda to the respective service agreements to be signed between ADIF and ADIF-AV in connection with each particular service commissioned.

The main addenda prepared are as follows:

- Addenda to the service arrangement signed by Administrador de Infraestructuras Ferroviarias (ADIF) and ADIF-AV, whereby ADIF is commissioned to provide:
 - workplace accident prevention and health and safety services
 - traffic safety services
 - capacity allocation, traffic management and associated services
 - fibre optic network maintenance, operator installation and right of way services and the regulation of ADIF's rights of use
 - engineering and innovation services to ADIF-AV
 - voice and data telecommunication services
 - IT services
 - comprehensive communication services
 - human resources services
 - comprehensive management of property assets held by the state-owned enterprise ADIF-AV
 - comprehensive management of safety and protection
 - comprehensive management of the maintenance of ADIF-AV's functioning lines
 - discounted diesel supply services
 - works co-ordination and monitoring services

Notes to the Annual Accounts
31 December 2018

- comprehensive maintenance prevention services in ADIF-AV-owned stations
- services relating to integration companies, subsidiaries and investees
- financial services
- corporate legal services
- the running and control of operations management departments
- comprehensive support for the internal audit function
- Addenda to the service arrangement signed by Administrador de Infraestructuras Ferroviarias (ADIF) and ADIF-AV, whereby ADIF-AV is commissioned to provide:
 - energy efficiency advisory services
 - management of compulsory expropriation orders awarded in favour of ADIF
 - services in the field of technical action (environmental, etc.)
 - electricity management services in non-traction use (NTU).

1.c) Other provisions

- The second additional provision of Royal Decree-Law 22/2012 of 20 July 2012 assigned ADIF ownership of the connection of the Mediterranean Corridor with the Madrid-Barcelona-French border high-speed line (Vandellós-Tarragona area) and the A Coruña-Vigo stretch of the Atlantic Axis, which had been built by the state prior to the commissioning of ADIF for completion of both infrastructures. By virtue of Order PRE/2443/2013 of 27 December 2013, ADIF-AV was assigned ownership of the high-speed Atlantic Axis (Santiago de Compostela-Vigo stretch).
- Article 34 of Royal Decree-Law 4/2013 of 22 February 2013 established the transfer to ADIF of ownership of the state rail network, as well as administration of the same. Section 1 of the article states that:

"ownership of the rail infrastructures and stations comprising the state-owned network whose administration is entrusted to ADIF will be transferred to the state-owned entity Administrador de Infraestructuras Ferroviarias (ADIF) upon entry into force of the present Royal Decree-Law", namely on 23 February 2013.

In addition, article 2 of Royal Decree-Law 15/2013 of 13 December 2013 on the restructuring of the state-owned enterprise Administrador de Infraestructuras Ferroviarias (ADIF) establishes the allocation to ADIF-AV of the infrastructures delivered to ADIF by the state by virtue of Order PRE/2443/2013 of 27 December 2013 identifying the assets and liabilities forming part of the Entity.

Notes to the Annual Accounts
31 December 2018

In light of the foregoing, in 2013 ADIF-AV was allocated ownership of the infrastructures, stations and other installations in use or under construction delivered by the State to ADIF in 2013, as follows:

- High-speed Madrid-Cuenca-Valencia line and high-speed link with Albacete and Alicante
 - Valencia-Vandellós stretch of the Mediterranean Corridor
 - Santiago de Compostela-Vigo stretch of the high-speed Atlantic Axis
 - Castellón de la Plana Station
 - The fibre optic network, as well as repeater towers and auxiliary installations located along the Orense-Santiago stretch of the high-speed Galicia line.
- Order FOM/2438/2013 of 17 December 2013 establishes the list of personnel of the state-owned entity Administrador de Infraestructuras Ferroviarias that will form part of the state-owned entity ADIF-AV.
 - In resolutions dated 27 June 2014, the Council of Ministers approved the transfer from ADIF to ADIF-AV of ownership of the following assets:
 - a) Stretches of the Iberian gauge rail network linking the cities of Plasencia, Cáceres, Mérida and Badajoz
 - Monfragüe-Plasencia stretch: from km 0/00 to km 16/700
 - Monfragüe-AG stretch km 44-Monfragüe Ag. km 255.4: from km 0/000 to km 2/700
 - Madrid-Valencia de Alcántara line: from km 251/625 to km 332/833
 - Aljucén-Cáceres line: from km 0/000 to km 65/443
 - Ciudad Real-Badajoz line: from km 453/000 to km 512/351
 - b) Bobadilla-Granada stretch of the Iberian gauge rail network
 - c) Loja Station

The Council of Ministers determined that the transfer would be made free of charge, as the assets were used in the administration of rail infrastructures, and would be valued at the net book value in ADIF of the assets subject to transfer, recognising the gross cost and the depreciation accumulated at the transfer date. The net book value of the assets transferred to ADIF-AV in June 2014 amounted to 71,321 thousand euros.

- The Council of Ministers, in its agreements dated November 24, 2017 approved the transfer of ADIF to ADIF AV from the ownership of the network segment railway between León and La Robla. The agreement establishes a free transfer by registering ADIF AV the assets received by its gross cost and its

Notes to the Annual Accounts
31 December 2018

accumulated depreciation until the transfer date, being its Net book value of 47,892 thousand euros. The formal delivery certificate was subscribed by ADIF and ADIF AV on November 30, 2017.

- In 2018, the Council of Ministers approved the assignment of different sections of the RFIG from ADIF to ADIF AV, free of charge. These transfers were motivated by the high-speed adaptation works that ADIF AV will undertake. The detail of the transfers is as follows:
 1. La Encina - Xátiva section: with a length of 38 km. The agreement of the Council of Ministers took place on February 23, 2018, formalizing its delivery through a formal document signed between ADIF and ADIF AV on May 25, 2018 for a net book value of 116,123 thousand euros
 2. Taboadela - Ourense section: with a length of 14 km. In a meeting held on April 6, 2018, the Council of Ministers agreed to transfer this section, formalizing its ADIF delivery note to ADIF AV on May 25, 2018 for a net book value of 9,945 thousand euros.
 3. El Reguerón - Cartagena - Escombreras section: with a length of 67 km. The agreement of the Council of Ministers was signed on May 25, 2018, signing its formal delivery of ADIF to ADIF AV on 26 September, 2018 for a net book value of 30,395 thousand euros.
 4. Astigarraga - Irún section: with a length of 25 km. At the meeting of the Council of Ministers held on May 25, 2018, the transfer of the aforementioned section of ADIF to ADIF AV was formalized and its delivery was formalized by means of a signed document on 26 September, 2018 with a net book value of 82,875 thousand euros.
- The resolution of the Secretary of State for Infrastructure, Transport and Housing, dated 23 May 2014, entrusts ADIF and ADIF-AV, in their respective areas of responsibility, with construction and works for the public service rail network, as put to tender and awarded by the Ministry of Public Works, determining that the construction will be made using ADIF or ADIF-AV's resources, as applicable.
- On 21 December 2009, the Ministry of Public Works, the Catalonia Regional Government, the Barcelona City Council, ADIF and RENFE Operadora signed an addenda to the collaboration agreement entered into on 12 June 2002 in connection with the high-speed network in the city of Barcelona and the corresponding remodelling of railway infrastructures. The addenda establishes the contribution from the General State Administration to ADIF of a total of 255,000 thousand euros, to finance the Sagrera Station, distributed in annual payments of 51,000 thousand euros from 2009 to 2013.
- Law 3/2017, of June 27, on General State Budgets for 2017, provides a financial contribution to ADIF- AV of 246,700 thousand euros in 2017 and an authorization of the net increase in long-term indebtedness in that year of 2,300,000 thousand euros. This figure shall be understood as the maximum net increase between 1 January and 31 December, 2018 in long-term debt at

Notes to the Annual Accounts
31 December 2018

nominal value with financial institutions and for issues of fixed income securities, (see note 8.a)

- Law 6/2018, of July 3, of the General State Budgets for 2018 provides a financial contribution to ADIF-AV of 311,574 thousand euros in 2018. It also authorized a net increase in long-term indebtedness in that year of 1,890,000 thousand euros. This figure shall be understood as the maximum net increase between 1 January and 31 December, 2018 in long-term debt at nominal value with financial institutions and for issues of fixed-income securities. (see note 8.a)).

In 2019, pursuant to article 134.4 of title VII of the Spanish Constitution, the extension of Law 6/2018, of July 3, of the General State Budgets for 2018 has taken place. Consequently, for that year, it has recorded a financial contribution for ADIF-AV of 311,573.95 thousand euros and an authorization has been established for the net increase in debt of 1,890,000 thousand euros.

1.d) Charges and fees

On 29 September, 2015, Law 38/2015 of the Railway Sector was approved, which completely replaces Law 39/2003, of November 17, which unifies and concentrates in a single standard the complete legal regime of the rail mode of transport. In addition, it incorporates into Spanish legislation the rules contained in Directive 2012/34 / EU of the European Parliament and of the Council of November 21. This standard introduces significant changes in terms of fees and fees.

- The regulation of the fees of the new Railway Sector law substantially modifies the structure of these rates established in Law 39/2003.
- The modality of access fee is abolished, in the fee for the use of the railway lines; new line classification criteria are implemented in order to link the railway canon to the potential profitability of the market; and special emphasis is placed on the regulation of bonuses and discounts on the amount of the fee to be paid by the operators, to encourage the development of rail services and the more efficient operation of the lines.
- The use of the service facilities fee structure is also modified and the tariff regime is reviewed for the provision of services, advancing in the free access to service activities without compromising the sustainability of the railway infrastructure.
- Finally, the classification criteria of passenger transport stations are modified and extended in order to take into consideration the economic capacity of the associated services for the determination of the amount of the fee.
- The fourth transitory provision of Law 38/2015 establishes that, until they are fixed in accordance with the rules established in Title VI, the railway fees will continue to apply those in force at the time of the Law's entry into force. The adequacy of the railway charges to the provisions of the aforementioned Title VI will be included in any case, in the first bill of the General Budget of the State that is processed after the entry into force of the law.

Notes to the Annual Accounts
31 December 2018

This regulation is applicable to ADIF-AV.

From July 1, 2017, the Railway Canons will be applied, in articles 97 and 98 of Law 38/2015, of 29 September of the sector railway, with the unit amounts established in articles 71 and 72 of Law 3/2017 of the General Budgets of the State for the year 2017, (BOE June, 28 2017). The following are detailed the Royalties in force, from 1 July 2017:

Charge for use of the Railway Lines within the RFIG managed by ADIF.

It constitutes the taxable event of the charge for the use of the railway lines for the members that make up the RFIG, as well as the provision of services inherent to said use, in the following modalities:

- Charge for Use of Charge for allocation of capacity (Modality A): for the assignment service of those time slots, defined in the declaration on the network, to the corresponding candidates so that a train can circulate between two points during a certain period of time. The costs of the process of capacity allocation, traffic management, security in the circulation and the replacement of the security and control facilities of the traffic, directly attributable to the operation of the rail service. The amount will be determined by each train-kilometer awarded, distinguishing by type of affected line and type of service.
- Charge for the use of railway lines (Modality B): for the action and effect of using a railway line. The costs of maintenance and conservation of railway infrastructure, directly attributable to the operation of the rail service. The amount will be determined by each train-kilometer circulated distinguishing by type of line and type of service.
- Charge for the use of the transformation and distribution facilities of the electric power of traction (Modality C), by the action or effect of using the electrification installations of a railway line. The costs will be passed on maintenance and conservation of electrification facilities and their Replacement costs, directly attributable to the operation of the service railway. The amount will be determined by each train-kilometer circulated by lines electrified railways distinguishing by type of line, type of service and type of traction.

Charge for the use of the Service Facilities owned by the general managers of railway infrastructures.

It constitutes the taxable event of the charge for the use of the service facilities and infrastructure referred to in Article 98 of the LSF, as well as the provision of public services or activities inherent to said use, in the following modalities:

A- Charge for the use of passenger transport stations (Modality A). The costs associated with the maintenance and conservation of stations, their replacement and the provision of the minimum basic services of the stations, financial expenses in the case of stations classified in the category 6, as well as the monitoring service of the stations and the control of access of travelers and their luggage. The amount is determined according to the category of the station, type of stop, type of train and number of travelers.

Notes to the Annual Accounts
31 December 2018

B- Charge for passage through width changers (Modality B). It is calculated according to the steps of each train by a width changer.

C- Charge for the use of platforms in parking stations of trains for commercial passenger services and other operations (Modality C). For the purposes of this fee, the following two rates are established:

- C.1) By parking of trains for commercial services of travelers without other operations.
- C.2) By parking trains for other operations.

D- Charge for the use of roads in other service facilities: section, of formation of trains and maneuvers, maintenance, washing and cleaning, fuel supply (Mode D).

E- Charge for the use of loading points for merchandise (Modality E).

During the first semester of 2017, the railway charges established in Law 39/2003, of November 17, of the Railway Sector that established, in articles 74 and 75, the regulation of the aforementioned fees accrued in favor of the Railway Infrastructure Administrator for the use of infrastructures by transport operators. The Law determines the need for a Ministerial order establishing the amounts resulting from application of the items and criteria regarding railway infrastructure use fees. In this regard, the regulations that have implemented this aspect of the RSL are as follows:

- Order FOM/898/2005 of 8 April 2005, establishing the amounts of rail fees
- Order FOM/3852/2007 of 20 December 2007, modifying Order FOM/898/2005
- Order FOM/2336/2012 of 31 October 2012, modifying Order FOM/898/2005
- Royal Decree-Law 11/2013 of 2 August 2013, modifying Law 39/2003, as well as the parameters and criteria established in Order FOM/898/2005
- Law 36/2014 establishing the General State Budget for 2015 which applied a 1% increase the fixed rates for 2014 (Art. 65.1)
- Railway fees provided for in Law 39/2003 can be classified into two types:

Charge for the use of rail lines forming part of the public service rail network (four categories):

- i. Access (category A). The amount for using the public service rail network is determined on the basis of the type of network stretches on which services are to be rendered and the declaration of activity carried out by the payee, in accordance with the forecast traffic level on each stretch.
- ii. Capacity reservation (category B). The amount is determined on the basis of the train-kilometres reserved, taking into account the type of line, the type of transport service and train, and the time of day of the reservation.

Notes to the Annual Accounts
31 December 2018

- iii. Circulation (category C). The amount is calculated based on the train-kilometres effectively used, taking into account the type of line, the type of transport service and the type of train.
- iv. Traffic (category D). The amount is established on the basis of the economic value of the passenger rail transport service, measured in terms of capacity (seats per kilometre), taking into account the type of line and time of day of the service.

Charge for the use of stations and other rail installations (five categories):

- i. Use of stations by passengers (category A). This is applied to passengers using the rail transport service, based on the distance travelled and the classification of the departure and arrival stations.
- ii. Stopping and use of station platforms (category B). The amount is determined on the basis of the time a train is stopped and track change operations are carried out at the request of the operator, as well as the category of station, especially taking into account those stations which could encounter traffic congestion problems (first category stations).
- iii. Use of gauge-changing facilities (category C). The amount is determined using the number of times the train passes through a gauge-changing facility.
- iv. Use of sidings (category D). The amount is calculated based on the type of line of the station to which the siding corresponds, the time trains are stopped on sidings, and the type of service/train.
- v. Rendering of services that require authorisation for the use of public rail assets (category E). This category represents a charge for use of the public rail assets, based on the area occupied.

(2) Basis of Presentation of the Interim Financial Statements**2.a) Fair presentation**

The annual accounts have been prepared in accordance with the accounting records of the Entity, in order to show the true image of the assets and the financial situation as of 31 December, 2018 and the results of its operations, changes in the net equity and cash flows for the period from 1 January, 2018 to 31 December, 2018.

ADIF-AV presents the annual accounts in accordance with the accounting principles and measurement standards set out in Royal Decree 1514/2007 of 16 November 2007, approving the General Chart of Accounts and applying, among other aspects, the going concern basis in accordance with the legal and statutory regime described in Note 1, as well as the modifications to the General Chart of Accounts incorporated by virtue of Royal Decree 1159/2010 of 17 September 2010, and Royal Decree 602/2016 of 2 December 2016 and on the basis of the accounting principles and criteria set by the Spanish General State Comptroller (IGAE) through the resolution dated 30 December 1992 (hereinafter the Resolution), which continues in force in all aspects not in opposition to the provisions of the subject General Chart of Accounts. In addition, in preparing the financial statements the Entity has taken into account Order EHA/733/2010 of 25

Notes to the Annual Accounts 31 December 2018

March 2010, published in the Official State Gazette of 26 March 2010, approving accounting practices for state-owned companies operating in certain circumstances.

Furthermore, in the preparation of these interim financial statements the Entity also considered the IGAE opinion relating to accounting policies as expressed through answers to questions presented by ADIF in accordance with Law 47/2003, of 26 November 2003. Significant accounting policies are disclosed in Note 3.

2.b) Comparative information

The Entity's Management presents, for comparative purposes, with each of the items in the balance sheet, the profit and loss account, the statement of changes in equity, the statement of cash flows and in the notes to the annual accounts, as well as of the figures for the financial year 2018, those corresponding to the previous year that were part of the annual accounts for 2017 approved by the Board of Directors of ADIF AV dated March 23, 2018.

2.c) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Preparation of the interim financial statements requires that certain estimates be made, based on past experience, the assessment of certain risks (see note 22) and other factors considered reasonable in the current circumstances, which serve as a basis to establish the value of assets and liabilities where this cannot be easily determined using other sources. The Entity revises its estimates continuously. However, in light of the inherent uncertainty, there is a considerable risk that the assets and liabilities involved could require significant adjustments in the future, in the event of a major change in the assumptions, facts and circumstances on which the estimates are based.

Key assumptions concerning the future and other relevant data on the uncertainty of estimates and important judgements in the application of accounting policies at year end, which entail a considerable risk of significant changes in the value of assets and liabilities in coming years, are as follows:

- Depreciation of high-speed rail infrastructure: depreciation of property, plant and equipment included in the high-speed railway infrastructure requires the use of estimates to determine the useful life and impairment deriving from normal activity and usage. Management of the Entity has had to estimate depreciation based on the use of these installations over their useful life, considering different assumptions regarding fluctuations in rail traffic in line with expected demand.
- Deferred tax assets: when determining the amount of deferred tax assets and tax credits to be recorded, Management of the Entity measures the probability of generating future tax profits, as well as the amount and timing of such profits (see Note 12.a).
- Impairment of non-financial assets (see Note 3(b)).

Notes to the Annual Accounts
31 December 2018

- Property, plant and equipment for railway infrastructures executed by various integration companies in which the Entity participates under the Integration Agreements of which they bring cause (see notes 3.b and 3.i). The infrastructures put into service are recorded as property, plant and equipment even if their formal delivery has not occurred, provided that future economic returns are expected through their exploitation and a reliable valuation of their cost is available. The realization of these estimates requires the application of relevant professional judgments to classify the infrastructures executed, which are complex in nature, such as railways or urban development, as well as to allocate certain costs necessary for the development of the global project entrusted to the aforementioned companies. The final allocation to the partners must be agreed within each of them, so there is uncertainty about the final attribution of the various assets to each of its shareholders.
- Determination of the commercial or non-commercial nature of the non-financial fixed asset swaps.
- Impairment of the value of the credits granted to group companies and associates, (see note 3 (i))
- Provisions for liabilities and charges: provisions are recognised when it is probable that a present obligation resulting from a past event will give rise to an outflow of resources and the amount of the obligation can be reliably estimated. Entity Management makes estimates based on an evaluation of all relevant information and events, of the probability that a contingency will materialise, and of the amount of the liability to be settled in the future. (see Note 3.i).

These estimates have been made on the basis of the best information available up to the date of preparation of these annual accounts. Any future events not known at the date of preparation of these estimates could lead to modifications (up or down), which would be carried out, where appropriate, prospectively.

2.d) Functional and presentation currency

The annual accounts are presented in thousands of Euros, which is the functional and presentation currency of the Entity, rounded to the nearest thousand, unless otherwise stated.

(3) Significant Accounting Policies**3.a) Intangible assets**

Intangible assets are comprised primarily for the rights of use of space owned by ADIF AV acquired by Renfe Operadora in 2015 and whose origin comes from the OM FOM/2909 of 19 September 2006, which established a right to use, without payment to RENFE-Operadora of certain sites, basically spaces in passenger stations. That decree established that such rights of use would be later replaced by the transfer of the property to be agreed. Due to this, ADIF AV registered in 2014 a provision for risks and charges amounting to 21,952 thousand euros

Notes to the Annual Accounts
31 December 2018

corresponding to the estimated replacement costs of such spaces to be delivered in terms of use.

The Entity has valued the rights of use acquired in 2015 by the current value of the purchase price for RENFE Operadora after deducting the provision for risks and expenses that the Entity had registered for the replacement costs and the delivery of the properties that should replace these spaces under the conditions of use. These assets are presented net of accumulated depreciation on a straight-line method during a useful life of 75 years. To calculate this useful life period, the Entity has developed a business plan in which they have considered the cash flows generated by the agreed leases with RENFE Operadora and its group of companies for a renewable term of 10 years as well as by those that are considered likely to be received from third parties. In the mentioned business plan, various scenarios changes have been considered in the occupation of spaces, changes in price indexes and interest rates in line with current conditions in the housing and financial markets.

In addition, the Entity has included in the section of intangible assets, computer software and research and development, specifically the technology platform linked to rail traffic management "Da Vinci". This technology platform has been assigned a useful life in line with those of the security and signalling installations it supports, namely 25 years. Intangible assets are stated at cost of acquisition or production, net of accumulated amortisation, which is calculated on a straight-line basis or, in the case of assets linked to high-speed lines, using the increasing balance method, in accordance with the following estimated useful lives:

	<u>YEARS</u>
R&D expenses	25
Computer software	5

R&D expenses are recognised as intangible assets of the Entity when the following conditions are met:

- They are segregated by project, and the cost is established so that it can be distributed over time
- There is evidence of the project's technical success and the economic profitability of the project.

3.b) Property, plant and equipment

The fixed assets attributed to ADIF-AV can be classified into the following categories:

- Publicly owned railway assets: these assets include railway lines, the land on which they are located and installations built in the public property zone (article 27 of the RSL). According to article 13 of the RSL, the public property zone includes the land on which the lines forming part of the public service rail network are laid, as well as an eight-metre strip of land on either side of the track bed, with special rules depending on the associated infrastructures (tunnels, bridges, etc.). Most of the assets contributed to ADIF-AV are

Notes to the Annual Accounts
31 December 2018

considered to be publicly owned assets. In order to dispose of these assets, their legal status would first need to be amended through delisting from this category by way of a resolution from the Entity's board of directors declaring them to be unnecessary [article 16, section 1, point q) and article 31 of Royal Decree 1044/2013]. As a result of this delisting, the assets in question would be included among the Entity's own assets (under the Entity's private ownership) and could then be disposed of or exchanged.

- Privately-owned assets: those not covered by the legal definition of publicly owned railway assets. ADIF-AV's privately-owned assets comprise stations, terminals or other buildings or installations used for passenger services, except for the railway lines and land mentioned above. Nevertheless, if any of these assets (stations, terminals or other buildings or installations for services linked to rail transport) were acquired as a result of a compulsory purchase order, despite being included among the Entity's own assets under the Rail Sector Law and Regulation, in the interests of legal certainty such assets would undergo the same category delisting procedure foreseen for publicly owned assets, as set forth in article 66.2 c) of Law 33/2003 of 3 November 2003, on Public Authority Assets. Finally, this category could also comprise all buildings associated with railway lines that have been closed down or abandoned.

- ***Cost of property, plant and equipment***

Items of property, plant and equipment are presented in the balance sheet at cost, less any accumulated depreciation or impairment allowances. The general criteria used for valuing these items is the cost of acquisition or the cost of production, including materials, direct labour and costs incurred.

Borrowing costs related with the loans extended by the European Investment Bank (hereinafter EIB) and by other financial institutions, as well as those derived from fixed-income securities issues, to finance railway infrastructure under construction that requires more than one year to become operational are recognised as an increase in the cost of these assets. In cases where a high-speed line is in partial use, the Entity has estimated and capitalised borrowing costs relating only to the stretches under construction in proportion to the total cost of the investment therein.

The cost of expansion, modernisation or improvements that increase productivity, capacity or efficiency, or extend the useful lives of the assets, are capitalised as an increase in the cost of these assets. Repair and maintenance costs are expensed when incurred.

Funds earmarked for maintenance and conservation of Spanish heritage sites, as established in Law 16/1985, Royal Decree 111/1986 and Instruction No. 43 from the Sub-Secretary for Public Works of 16 May 2014, are also capitalised as an increase in the cost of the associated assets. The aforementioned laws stipulate that the budget for each public project entirely or partially financed by the State should include an item equivalent to 1.5% of the funds contributed by the State to finance this type of work.

Notes to the Annual Accounts
31 December 2018

Work carried out by the Entity to improve or extend the useful lives of its assets is treated as an investment and recognised at the accumulated cost, which is the sum of external costs (based on suppliers' invoices), internal costs (determined on the basis of in-house consumption of materials in warehouses) and all other costs incurred. Capitalised production costs are recognised under self-constructed assets in the income statement.

Where applicable, the initial cost of property, plant and equipment is corrected when differences arise between the non-deductible input VAT initially recognised by the Entity as cost and that which is finally applicable when an interpretation of tax legislation is amended or is established by a court of law or the tax authorities.

The Entity classifies acquisitions of property, plant and equipment through barter exchange, entailing the acquisition of an item of property, plant and equipment in exchange for non-monetary assets or a combination of monetary and non-monetary assets, in commercial or non-commercial barter exchange transactions, using the following criteria:

- a) Barter exchange in which the cash flows from the assets received differ significantly from the cash flows from the asset delivered, or when the present value of the post-tax cash flows deriving from the activities affected by the transaction changes as a result of the barter exchange, are considered commercial barter exchange.
- b) Other barter exchange is considered non-commercial barter exchange.

In the case of non-commercial barter exchange, the Entity measures the asset received at the net carrying amount of the asset delivered, plus any monetary consideration received, up to the fair value of the asset received.

In the case of commercial barter, the asset received is measured at the fair value of the asset delivered, plus any monetary consideration received, unless there is a clearer evidence of the fair value of the asset received with the limit of this latter.

According to the Order PRE/2443/2013 mentioned in note 1, assets and liabilities transferred from ADIF to ADIF-AV have been integrated into and recognised by ADIF-AV at those carrying amounts as accounted for in ADIF at the spin-off date.

The criteria used to value rail infrastructure by ADIF-AV are as follows:

- a) Infrastructure constructed by the Entity was measured using the cost of construction plus the cost of preparing directly-related reports, blueprints, drafts, studies, technical assistance, surveillance, etc., the cost of supplementary studies and reports necessary for planning and designing lines, work carried out for assets and non-deductible input VAT. Also included, as a higher cost of infrastructure, is the best estimate available at the closing date, of the current amounts claimed by contractors of works or expropriated, which the Entity considers likely to generate a future outflow of resources, and which correspond inter

Notes to the Annual Accounts
31 December 2018

alia to differences in the measurements of works and to claims of costs linked with increases in execution times over those originally planned.

- b) Other infrastructures received from the seconding State were valued at an amount equal to that contained in the corresponding subrogation certificates, at the purchase price or production cost incurred by the Ministry of Development, in accordance with the data contained in its Accounting Information System and in its accounting records, deducting its accumulated amortization on the date of transfer. However, if subsequent to the initial valuation, changes are shown in the values included in the corresponding delivery documents or other provisions by which railway infrastructures are transferred to ADIF-AV or new investments related to the lines or sections are identified previously assigned, these adjustments are recorded in the year in which the new values are known and the corresponding rectifying minutes are signed or the aforementioned provisions are modified.
- c) The assets relating to Madrid-Sevilla high-speed rail line, transferred by the State to RENFE through the Submission and Receipt Agreement, were valued by the Ministry of Public Works at cost, less accumulated depreciation at 31 December 2004, calculated using the depreciation criteria applied by RENFE based on the type of asset and the date of its entry into service.
- d) Investments underway and in operation on the high-speed Atlantic Axis and the Mediterranean corridor connection were allocated to ADIF for no consideration, in accordance with the second additional provision of Royal Decree-Law 22/2012 of 20 July 2012, and were spun off to ADIF-AV as per the Spin-Off Order. These assets were constructed by the State before ADIF was commissioned to operate both sets of infrastructure through respective rulings issued by the Secretary of State for Infrastructure on 11 May 2012. These items and work in progress were recognised at the amount of 2,476,419 thousand euros, which corresponds to the acquisition price or cost of production incurred by the Ministry of Public Works based on data contained in its financial information system and accounting records, less accumulated depreciation at the transfer date. This amount is equivalent to the fair value of these assets, since it was defined in the context of the tenders provided for under legislation applicable to the General State Administration and results from a public tender process conducted between knowledgeable independent parties.
- e) In respect to the infrastructures built by the Sociedad Estatal de Infraestructuras del Transporte Terrestre, S.A. (Hereinafter SEITTSA) on the Madrid - Galicia high-speed rail line, these were delivered to ADIF AV in accordance with the provisions of the Agreement signed on August 25, 2015 by the mentioned Entity, ADIF and the Ministry of Development (hereinafter referred to as the Recast Convention or the Convention). The aforementioned agreement establishes that the delivery of these assets will be considered as a free transfer of assets assigned to the activity of railway infrastructure management. ADIF AV has been

Notes to the Annual Accounts
31 December 2018

recording these assets at the acquisition price or the cost of production for which SEITTSA had valued them in its books and which were previously paid by the AGE to the Company.

- f) Land and natural assets are valued based on the amounts paid for expropriations and the assignment value in the case of expropriations that were paid in due time by the Ministry of Public Works and Transport and in which the Entity was subrogated, The Entity began in 2014, the work of delimitation, individualized valuation and registration where appropriate, of those lands that, being of their ownership, were not registered due to expropriations of historical origin undertaken in the 19th or 20th centuries, Additionally, the Entity has carried out a similar process to regularize the book value of the land linked to infrastructures and railway facilities delivered by the State and that until that time, were registered by the assignment value according to the information received from the AGE, For this, the value of acquisition or expropriation according to the supporting documentation has been used as valuation method and, in cases where this has not been available, the acquisition value of adjoining land expropriated in similar years.

As explained in note 4, at the end of 2017, all expropriated land by the Ministry of Public Works and Transport that were incorporated into the Balance of ADIF-AV at their assignment value have been adequately delimited and valued according to the methodology described in previous paragraphs.

- g) The assets transferred by ADIF to ADIF-AV under the Agreements of the Council of Ministers mentioned in note 1 are valued in accordance with the provisions of these agreements for the book value for which they were posted in ADIF, recognizing in ADIF AV by their gross cost and accumulated depreciation up to the date of transfer (see note 1.c).
- h) The infrastructures executed within the framework of the Agreements for the integration of the railroad in the cities, which are carried out either by commercial companies created for this purpose or directly by one or more of the entities that have signed the aforementioned agreement, are valued with the best estimation of the construction costs incurred and that have been necessary for putting it into operating conditions.

In those cases in which the Agreement establishes the obligation to finance all the actions through monetary contributions of all or some of the entities that are subscribed to them, the costs corresponding to certain provisional works or to urban integration infrastructures, such as the walls and slabs derived from the execution of burials or coverings, whose basic purpose is to achieve permeability between different areas of a city, are included in the value of railway infrastructures, by means of reasonable imputation criteria, up to the limit of the contributions assumed by the Entity. In the event that the agreement does not foresee that the Entity will assume the financing of the infrastructures contemplated therein through monetary contributions, the

Notes to the Annual Accounts
31 December 2018

aforementioned burials or coverings, considered as urban infrastructures, are not, in general, integrated into the ADIF Alta Velocidad's asset.

ADIF-AV records in its fixed assets both the railway infrastructures received by means of delivery and / or through a standard with the rank of Law, Royal Decree, agreement of the Council of Ministers or Ministerial Order, as well as any other railway infrastructures and stations that, forming part of the network of its ownership whose administration is entrusted, have entered into service, although they are not subject to formal delivery by means of a Minute, Royal Decree or Ministerial Order, provided that economic returns are expected through exploitation and a reliable valuation is available of its cost.

- **Transfers from work in progress:**

The Entity reclassifies work in progress to fixed assets according to the nature of the asset at the date on which the works become operative state.

- **Depreciation of property, plant and equipment**

- Depreciation of high-speed rail infrastructure

High-speed rail infrastructure is generally depreciated using an increasing balance method at an annual geometric progression of 3%, over the following estimated useful lives:

	<u>Years</u>
Track bed	
- Earthmoving	100
- Stone and brick works	100
- Tunnels and bridges	100
- Drainage	25
- Enclosures	50
Track superstructure	30-60
Electric installations	
- Overhead lines	20
- Supporting elements for overhead contact system	60
- Electric substations	60
- Signalling, safety and communications installations	25
Buildings and other constructions	50
Rolling stock	10-20

- Depreciation of other property, plant and equipment.

Depreciation of other property, plant and equipment is provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Notes to the Annual Accounts
31 December 2018

	<u>Years</u>
Buildings and constructions	50
Transport elements	10 - 30
Other items of property, plant and equipment	5 - 40

The Entity reassesses the useful lives of its property, plant and equipment every year.

• **Impairment**

In application of Ministry of Economy and Finance Order EHA/733/2010 of 25 March 2010, the Entity has considered that its property, plant and equipment should be fundamentally classified as non-cash-generating assets, considering that these are part of the public interest rail network infrastructure and essentially held for the socioeconomic benefit of the public and, therefore, not for commercial gain. In cases where it is not clear whether assets are held for the main purpose of generating cash flows, rule two from the above-mentioned Order is applied whereby, given the general objectives of the Entity, these assets are assumed to be non-cash-generating.

In accordance with rule two of the aforementioned Ministerial Order, at least at year end, management of the Entity assesses its property, plant and equipment, intangible assets and investment property for indications of impairment, in which case should estimate the recoverable amount.

When assessing whether there are any significant indications that an asset is impaired, the Entity takes the following circumstances into account:

- Significant changes in the technological, regulatory or legal environment in which the Entity operates, either during the year or which are expected to arise in the short term, which will adversely affect the Entity.
- Significant decline in the asset's market value, if one exists and is available, in excess of that expected due to the passage of time or normal use.
- Evidence of obsolescence or physical deterioration of the asset.
- Significant changes in the method of or scope for using the asset, either during the year or which are expected to arise in the short term, which will adversely affect the Entity.
- There are reasonable doubts as to whether the technical performance of the asset can be maintained in the future, on the basis of the forecasts considered at the date of its recognition by the Entity.
- Suspension of the asset's construction before it is ready to enter into service.

Notes to the Annual Accounts 31 December 2018

- Cessation of or significant reduction in demand or need for the services rendered with the asset. Nevertheless, a mere reduction in demand does not necessarily indicate that these assets are impaired, as the demand or need for these services may fluctuate over time.

In that regard, the Entity has categorised its assets into operating units which can be assessed for indications of impairment. These units are essentially the railway lines or axes forming the public service rail network in which the assets are utilised. The different operating units considered are listed below:

- Axis 11 of Madrid Chamartín - Valladolid - León HSL.
- Axis 12 of Madrid Atocha - Barcelona - French border HSL.
- Axis 13 of Madrid Atocha - Levante HSL.
- Axis 14 of Madrid Atocha - Toledo - Seville Santa Justa - Málaga María Zambrano HSL.
- Axis 16 of Olmedo - Medina del Campo - Zamora - Galicia HSL.

According to rule four from the above-mentioned Ministerial Order, at least at year end the Entity should recognise impairment losses if the carrying amount of operating units exceeds their recoverable amount on the date the analysis is carried out. Recoverable amount is the higher of fair value less costs to sell and the value in use, which is the depreciated replacement cost.

After this impairment loss or reversal of an impairment loss is recognised, the depreciation charge for the asset is adjusted in future periods based on its new carrying amount. If the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the income statement.

3.c) Investment property

Investment property comprises property which is earmarked totally or partially to earn rentals or for capital appreciation or both. Property that is being constructed for future use as investment property is classified as property, plant and equipment under development until construction is complete. The Entity measures and recognises investment property following the policy for property, plant and equipment.

Investment property is generally depreciated on a straight-line basis over an estimated useful life of 50 years.

Income from real estate operating leases is recognised in the income statement in the year in which it is earned. Rent received in advance are recognised as accruals under liabilities in the balance sheet and taken to profit and loss over the term of the contract signed with the lessee.

3.d) Financial assets

- Equity investments in Group companies and associates

Notes to the Annual Accounts 31 December 2018

This item includes investments in companies over which the Entity has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Entity or other entities, are considered when assessing whether an entity has significant influence.

Non-current investments in Group companies and associates are initially measured at cost, which is the fair value of the consideration given plus directly attributable transaction costs. After initial recognition, these financial assets are measured at cost net of any accumulated impairment losses, which are recognised when there is evidence that the carrying amount of an investment is not recoverable. The impairment loss reflects the difference between the carrying amount and the recoverable amount, understood as the higher of the fair value of the asset less costs to sell and the value in use. Accordingly, value in use is calculated to the extent of the Entity's interest in the present value of estimated cash flows from ordinary operations and the proceeds generated on final disposal, or the estimated cash flows from the distribution of dividends and final disposal of the investment. However, in certain cases, when estimating possible impairment, unless better evidence is available, the Entity considers the equity of the investee, corrected for unrealised gains and losses existing at the measurement date, relating to identifiable balance sheet items.

Nonetheless, when the carrying amount of an investment has been reduced to zero, the additional losses and the corresponding liability are recognised to the extent that the Entity has incurred a legal, contractual, constructive or tacit obligation, or if ADIF-AV has made payments on behalf of this Group company, jointly-controlled entity or associate. (see Note 3,i)

- Loans and receivables

This category includes trade and non-trade receivables with fixed or determinable payments, which are not traded in an active market and for which the Entity expects to recover the full amount recognised, except in the event of customer arrears.

These financial assets are initially measured at fair value, which, in the absence of evidence to the contrary, is the transaction price, i.e. the fair value of the consideration given plus costs directly attributable to the transaction. After initial recognition, these assets are measured at amortised cost calculated using the effective interest method, which is the discount rate that exactly matches the initial amount of a financial instrument to its total estimated cash flows in respect of all items over the remaining useful life. Accrued interest is accounted for in the income statement using the aforementioned method.

Notes to the Annual Accounts 31 December 2018

Trade and non-trade receivables falling due within one year that do not have a contractual rate of interest are initially and subsequently measured at their nominal amount when the effect of not updating the cash flows is immaterial.

The Entity tests these financial assets for impairment at least at each year end. Objective evidence of impairment is considered to exist when the carrying amount of the financial asset exceeds the recoverable amount. The Entity determines the recoverable amount based on historical default rates, classifying receivables into groups with similar risk characteristics. Impairment is recognised in the income statement when it arises.

3.e) Financial liabilities

- Debts and payables

This category comprises financial liabilities arising on the Entity's acquisition of goods and services, or non-trade goods and services that do not meet the criteria for consideration as derivative financial instruments.

Debts and payables are initially measured at the fair value of the consideration received, adjusted for any directly attributable transaction costs. These liabilities are subsequently measured at amortised cost calculated using the effective interest method. Accrued interest is accounted for in the income statement using the aforementioned method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

- Financial guarantee contracts

If no payments from the associate to the Entity are agreed for such a guarantee, then the Entity has provided the guarantee in its capacity as a shareholder and accounts for the issuance of the guarantee as a capital contribution to the associate. After initial recognition, financial guarantee contracts are measured at the higher of:

- the amount determined in accordance with the accounting policy for provisions in section i), and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the accounting policy for revenue recognition in section m).

- Derivative financial instruments

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments.

Notes to the Annual Accounts
31 December 2018

The Entity contracts cash flow hedges. At the inception of the hedge, the Entity formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80%-125% (retrospective analysis).

The Entity records the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in recognised income and expense. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised under change in fair value of financial instruments in the income statement.

When the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the corresponding cumulative amount in equity is recognised in the income statement.

3.f) Cash and cash equivalents

This item includes cash in hand, current bank accounts, deposits and resale agreements that meet the following conditions:

- They may be converted into cash.
- They have a maturity of three months or less upon acquisition.
- They are not subject to a significant risk of changes in value.
- They form part of the Entity's usual cash management policy.

3.g) Grants, donations and bequests received

This item forms part of the Entity's equity and mainly comprises non-refundable capital grants awarded for the construction of state-owned assets, principally from European funds (Cohesion Fund, Trans-European Networks Transport (TEN-T), European Regional Development Fund (ERDF)). The Entity recognises these grants at the amount awarded, net of tax, when, in accordance with recognition and measurement standard 18 of the Spanish General Chart of Accounts, a grant award agreement has been reached, the conditions of award have been met and there is no reasonable doubt that the grant will be received.

Notes to the Annual Accounts
31 December 2018

In application of the single additional provision of Ministry of Economy and Finance Order EHA/733/2010 of 25 March 2010, for accounting purposes only, grant conditions are considered to be met when, at the date of authorisation for issue of the financial statements, the works have been partially or fully completed, quantified in the proportion of works financed that have been completed. This item also includes grants received in kind from the State through the conveyance of certain railway lines in operation or under construction, for no consideration.

According to corresponding subrogation documents and in line with the reply given by the IGAE's Sub-Directorate General for Planning and Accounting Guidance on 22 April 2013, to the consultation put forth by the Delegate Comptroller in ADIF regarding the accounting application of Royal Decree Law 22/2012 of 20 July 2012, Entity management has considered the assignment to ADIF-AV of finished assets and work in progress corresponding to the connection between the Mediterranean Corridor and the high-speed Madrid-Barcelona-French border line and the high-speed Santiago-Vigo stretch of the high-speed Atlantic Axis to be a free-of-charge title of assets used in an activity of public interest. Article 19, section 2 of the RSL stipulates that rail infrastructure administration is an essential public service.

As a result of the foregoing and applying recognition and measurement standard 18, and in accordance with regulation 6, section 1 of Order EHA/733/2010 of 25 March 2010, the Entity recognised a capital grant in the amount of 2,476,419 thousand euros, reflecting the fair value of the items received calculated as the depreciated replacement cost of those items pursuant to the aforementioned ministerial order (see Note 3.b)). This grant will be taken to income each year in proportion to the depreciation of the assets received.

Similarly, in application of Royal Decree-Law 4/2013 of 22 February 2013, the Entity has recognised a grant for the value of the works delivered by the State to ADIF-AV for no consideration in 2013 (see Note 1).

The Entity recognises any amounts received in advance, and balances relating to grants awarded and receivable for which not all the above conditions have been met, as payables convertible into grants, under other financial liabilities.

The Entity recognises grants as operating income from non-financial grants, in line with the depreciation for the year of the fixed assets for which the grants have been received.

3.h) Long-term employee benefits (liabilities)

The Entity classifies long-term employee benefit commitments as defined contribution plans and defined benefit plans, accordingly. Defined contribution plans are those whereby the Entity undertakes to make contributions of a specified amount to a separate entity, provided that there is no legal, contractual or constructive obligation to make additional contributions were the separate entity unable to meet the commitments

Notes to the Annual Accounts
31 December 2018

undertaken. Plans other than defined contribution plans are considered as defined benefit plans.

- Defined benefit plans

Long-term defined benefit commitments are recognised at the present value of the committed remuneration, which is estimated using actuarial calculation methods and financial and actuarial assumptions that are unbiased and mutually compatible.

The Entity recognises these provisions as and when employees render their services. The contributions payable are recognised as an expense for employee remuneration in the income statement, and as a liability after deducting any contribution already paid.

Variations in the calculation of the present value of this remuneration due to actuarial gains and losses are directly taken to equity in the year in which they arise, recognised as reserves.

- Defined contribution plans

Long-term contributions payable are recognised as a liability, where applicable, at the amount of the accrued contributions payable at year end.

Obligations accrued as a result of changes in the actuarial assumptions used to determine the contributions made by the Entity are recorded directly under equity in the year in which they arise, recognised as reserves.

3.i) Provisions

The Entity recognises as provisions those present obligations arising from past events of which settlement is likely to give rise to an outflow of resources, but for which the amount or date of settlement is uncertain.

All the obligations mentioned in the preceding paragraph are disclosed in these annual accounts, provided that it is more likely than not that the obligation will require settlement.

Provisions are measured at the present value of the best estimate of the amount required to settle or transfer the obligation, taking into account available information on the event and its consequences, and recognising any adjustments arising on the discounting of these provisions as a finance cost when accrued. Provisions maturing in one year or less are not discounted when the financial effect is immaterial. Provisions are reviewed at each year end and adjusted to reflect the best present estimate of the liability at each given time.

The Entity records, as provisions, the best estimate available at the closing date of the obligations assumed by the participation in various integration companies whose cancellation is likely to result in an outflow of resources, but which are indeterminate as to their amount or date. For the quantification of the aforementioned obligations, estimates of the

Notes to the Annual Accounts
31 December 2018

expected cash flows to be obtained in each case are considered, provided by the Management of each of the Companies, analyzing their capacity to obtain income from the sale of land that allows them to face the obligations contracted with third parties to develop the project entrusted to them, as well as the needs for contributions of funds by the shareholders and their capacity to reimburse the financing provided and pending contribution, In the cases in which it is estimated that there will be a deficit to be assumed by the shareholders, the final risk assumed by the Entity is determined, taking into account, in addition, the best estimate of the value of the railway infrastructures that the Company must deliver to ADIF AV, As a result, the loss assumed by the Entity and recognized as a provision for risks and expenses and as a provision for impairment of financial assets is quantified as the difference between the present value of the aforementioned deficit and the estimated cost of the infrastructures that the Entity (See note 3b).

In quantifying the estimation of the cash flows that the Companies intend to obtain in the future, the residual dynamic method is generally used, for the valuation of soils, for reasons of prudence excluding duly justified exceptions. This method uses techniques to discount cash flows and therefore takes into account the evolution of the value of money over time.

3.j) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current on the balance sheet. Assets and liabilities are classified as current when they are connected with the Entity's normal operating cycle of less than one year and are expected to be recovered, consumed or settled within twelve months after the balance sheet date.

3.k) Foreign currency balances and transactions

Foreign currency transactions are recognised at the exchange rate prevailing at the transaction date.

Loans in foreign currency are reflected at the effect exchange rate at the balance sheet date and exchange differences are recorded at the time they occur.

3.l) Income taxes

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Notes to the Annual Accounts
31 December 2018(i) Recognition of taxable temporary differences

Taxable temporary differences are recognised in all cases except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Recognition of deductible temporary differences

Deductible temporary differences are recognised provided that it is probable that sufficient taxable income will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets and if the Entity intends to use these opportunities or it is probable that they will be utilised.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Entity expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Offset and classification

Deferred tax assets and liabilities are recognised in the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

3.m) Recognition of income and expenses

Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

Revenue is measured at the fair value of the consideration received or receivable, less any interest on the nominal amount of loans. Nevertheless, the Entity includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest, when the effect of not discounting the cash flows is immaterial.

3.n) Related party transactions

Related party transactions, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the

Notes to the Annual Accounts
31 December 2018

consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

3.o) Leases

Lease contracts, which at the outset transfer, substantially all the inherent risks in ownership of the assets to the Entity, are classified as finance leases and, if they are not, are classified as operating leases. The lease contracts in effect at the date of closing of these financial statements, all classified as operating leases, consist mainly of the rental of vehicles and administrative offices.

(4) Property, Plant and Equipment, Intangible Assets and Investment Property

Details of the balances of property, plant and equipment, intangibles and investment property and their corresponding depreciation and impairment and movement at 31 December 2018 and full year 2017 are shown in Appendix 1.

By virtue of a Council of Ministers Resolution or Resolutions of the Secretary of State for Planning and Infrastructure, ADIF-AV is entrusted with the following:

- Construction and administration of the Madrid-Zaragoza-Barcelona-French border high-speed rail line. The Figueras-French border sub-stretch was excluded from this service arrangement as it is part of the Figueras-Perpignan stretch by virtue of the agreement between the Spanish and French governments signed on 10 October 1995 (Agreement 9/04/99).
- Construction of a new North-Northwest rail access: Madrid-Segovia-Valladolid/Medina del Campo.
- Construction and administration of the new Córdoba-Málaga rail access.
- Construction and administration of the new Levante high-speed rail access: Madrid-Castilla la Mancha-Valencia Autonomous Community-Murcia Region.
- Construction and administration of the León-Asturias high-speed line (La Robla-Pola de Lena stretch/Pajares alternate route) of the North-Northwest Corridor.
- Construction and administration of the new Toledo high-speed rail access.
- Construction and administration of the Basque Country high-speed line of the North-Northwest Corridor.
- Construction and administration of the Navalmoral de la Mata-Cáceres stretch of the Madrid-Cáceres / Mérida-Badajoz high-speed line of the Extremadura Corridor.
- Construction and administration of the stretch between Almeria and the Murcia region border of the Murcia-Almeria high-speed line of the

Notes to the Annual Accounts
31 December 2018

Mediterranean Corridor.

- Completion of construction work on the Bobadilla-Granada high-speed line, including track bed and track.
- Drafting and execution of the basic projects and construction of the Madrid-Asturias high-speed line. Stretch: Venta de Baños-León-Asturias (excluding the Pajares alternate route) (Resolution of 28/12/06).
- Drafting and execution of the basic projects and construction of the Madrid-Basque Country/French border high-speed line. Stretch: Valladolid-Burgos-Vitoria. (Resolution of 28/12/2006).
- Drafting and execution of the basic projects and construction of the Mediterranean Corridor high-speed line. Stretch: Murcia region-Murcia border. (Resolution of 28/12/2006).
- Drafting and execution of the basic projects and construction of the Madrid-Extremadura/Portuguese border high-speed line. Stretch: Cáceres-Mérida-Badajoz. (Resolution of 28/12/2006).
- Construction of the Olmedo-Medina-Zamora-Puebla de Sanabria-Lubián-Orense stretch of the Madrid-Galicia high-speed line, in the North-Northwest Corridor. (Resolution of 4/12/2009).
- Construction of the Castejón-Pamplona region stretch of the Zaragoza-Pamplona high-speed line in the Navarre territory. (Resolution of 30/3/2010).
- Construction of the connection of the Mediterranean Corridor with the Madrid-Barcelona-French border high-speed rail line: Vandellós-Tarragona area. (Resolution of 11/5/2012).
- Construction of the Santiago de Compostela-Vigo section of the A Coruña-Vigo stretch of the high-speed Atlantic Axis. (Resolution of 11/5/2012).
- Construction of the update for the link between the Medina del Campo siding and the Medina del Campo-Salamanca line.
- The drafting and execution of the projects and maintenance of the overhead lines installations, telecommunications systems, GSM-R mobile radio system and items related with the high-speed Bobadilla-Granada line.

Up to 31 December, 2018, as explained in note 3,b), the Entity has recorded the best estimate of railway works executed by various investees whose corporate purpose is the integration of railways in urban areas according to the following breakdown:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Valencia Parque Central Alta Velocidad 2003, S.A.	71,859	71,859
Valladolid Alta Velocidad 2003, S.A.	53,911	61,882
Zaragoza Alta Velocidad 2002, S.A.	5,457	5,457
AV Alicante Nodo de Transporte S.A.	53,147	53,147
León Alta Velocidad AV, S.A.	9,686	9,686
TOTAL	194,060	202,031

The Entity has recorded, in the financial statements, the best estimate available of the railway works executed to date by the integration companies Zaragoza Alta Velocidad 2002 S.A., Valencia Parque Central Alta Velocidad 2003, S.A., Alta Velocidad Alicante Nodo Transportes S.A., Valladolid Alta Velocidad 2003, S.A. and León Alta Velocidad 2003, S.A., in which it participates and which are put into operation.

The railway works executed by Zaragoza Alta Velocidad were delivered to ADIF AV through a formal act signed on February 1, 2016 and its valuation amounted to 5,457 thousand euros, which were recorded in the annual accounts for 2015.

At the close of 2018, the Entity had registered in investments, works executed by the subsidiary Alta Velocidad Alicante Nodo Transportes S.A. for an accumulated value of 53,147 thousand euros. Of this amount, ADIF AV had recorded at 31 December 2016 a total of investments amounting to 30,989 thousand euros and an amount of 22,158 thousand euros in the year 2017.

In the case of Valencia Parque Central 2003, S.A. railway works registered at the end of 2017 and which were registered in 2016 amount to 71,859 thousand euros.

On November 12, 2018 ADIF-AV and ADIF subscribed with the investee Valladolid Alta Velocidad 2003, SA, hereinafter VAV, an agreement for the transfer of railway assets in which a total value was established, excluding VAT of 53,911 thousand euros. In said agreement it is established that the consideration to be paid for this delivery will consist of the delivery of ADIF AV to VAV of the lands that are unaffected or that may be affected in the future of the railway use and that are owned by them.

As of the closing date of these annual accounts, ADIF AV has recorded a long-term liability for this concept with the company VAV.

In 2017, the Entity recorded in investments the best estimate with the available information of the value of the works executed by the subsidiary Valladolid AV 2003, S.A., which were in operation and that should be delivered to the Entity according to the criteria of assignment of actions contemplated in the agreement signed on November 20, 2017 between ADIF, ADIF-AV, RENFE Operadora, Valladolid Alta Velocidad 2003, S.A. the Junta de Castilla y León and the Ayuntamiento de Valladolid for the development of the works derived from the transformation of the railway arterial network of Valladolid.

Notes to the Annual Accounts
31 December 2018

On June 3, 2018, the contract for the delivery of railway works was signed between ADIF-AV and León Alta Velocidad 2003, S.A. for a total value, VAT excluded from 9,686 thousand euros. At 31 December, 2017, the best estimate available for these works was recorded and amounted to 9,686 thousand euros.

At the date of formulation of these annual accounts, the Entity and the companies Valencia Parque Central Alta Velocidad 2003, S.A. and AV Alicante Nodo de Transporte S.A have not formalized a delivery certificate for the transmission of the property. Additionally, it should be noted that, with the exception of Alta Velocidad Alicante Nodo Transportes SA, the rest of the investee companies have executed other works or ancillary costs that have not been recorded in these annual accounts and that are pending attribution to their shareholders, in function of its final classification as railway or urban infrastructure and the allocation of certain costs necessary to carry out the global project entrusted to the aforementioned companies. The final attribution of said works to the partners must be subject to an agreement within each company, which is considered complex as of the date of these annual accounts.

Under Royal Decree Law 4/2013 of February 22 and the Recast Convention (see note 3,b), the General State Administration and SEITTSA have transmitted to ADIF AV, since 2015 and free of charge, the land and platform works linked to different sections of the LAV Madrid-Galicia, predominately between Medina and Zamora, Until the date of issuance of these Annual Accounts, the Entity has recorded, as fixed assets in progress or completed, when the infrastructures has been put into operation, said assets for an accumulated value of 561,675 thousand euros, recognizing as a counterpart the corresponding capital grant, Of this amount, a total of 521,168 thousand euros corresponds to assets that have been transmitted by SEITTSA, As part of this figure, there are the assets registered by ADIF AV in 2018 as fixed assets for the amount of 7,481 thousand euros, Below is a summary, in thousands of Euros, of the situation as of 31 December, 2018 and 31 December, 2017 for the works received by the Entity free of charge and relating exclusively to the Madrid-Galicia High Speed Line, in application of the Royal Decree-law 4/2013 and the aforementioned recast agreement:

ORIGIN	Land Valuation and works received for free platform in operation LAV Madrid- - Galicia	
	31/12/2018	31/12/2017
A.G.E. Royal Decree Law 4/2013	40,507	40,507
SEITTSA, Recast Agreement	521,168	513,687
	<u>561,675</u>	<u>554,194</u>

In the process of accounting regularization of land owned by ADIF - AV, (see note 3,b,) the Entity up until 31 December, 2018 and until 31 December, 2017 has delimited, valued, and entered, or, where appropriate, regularized its value in the economic accounting inventory the land located in the following areas of action:

- Sections of the conventional width rail network that connect the cities of Plasencia, Cáceres, Merida and Badajoz and a stretch of 27 km, of the conventional rail network Bobadilla- Granada,

Notes to the Annual Accounts
31 December 2018

- Madrid-Sevilla high-speed line, for the land mainly referred to the Getafe-Córdoba section, which was paid by the Ministry of Development and whose records were not included in the Entity's economic and accounting inventory at 31 December 2013.
- 31 stations assigned to ADIF AV whose land was not registered in the Entity's economic inventory as of 31 December, 2013.
- The Valencia-Vandellós section of the Mediterranean Corridor, for the land of historical origin, which is expropriated by private companies that were integrated into the former National Network of the Spanish Railways and also the expropriations undertaken by this public business entity and by the Ministry of Public Works and Transport, In 2016, the Entity had access to the supporting documentation for the expropriations carried out by the Ministry of Public Works and Transport in this area and, as a result of its analysis, said land has been delimited and valued, increasing its acquisition value to 45,773 thousand euros, For its part, as of 31 December, 2015, these lands were registered for 56,339 thousand euros, a figure contributed by the Ministry at the time and collected in the corresponding signed memorandum, so that in 2016 the accounting acquisition value has been regularized.
- The Santiago-Vigo section included in the High Speed Atlantic Axis, referring both to land of historical origin, expropriated by RENFE or the previous private rail companies that were delimited, valued and registered in the year 2016, for a total of 295 thousand Euros, as well as the land expropriated by the Ministry of Public Works and Transport, which have been delimited, valued and recorded in 2017 for an amount of 71,272 thousand euros, based on the available documentation, and which were recorded in the year 2016 for an acquisition value of 70,000 thousand euros.
- Madrid-Barcelona-French border Link of the high-speed line with the Mediterranean Corridor, referring to the land expropriated by the Ministry of Public Works and Transport, which at the close of the 2016 fiscal year were registered for a value of 48,665 thousand euros and have been revalued at 31,745 thousand euros, with the delimitation, valuation and registration, based on the supporting documentation of the expropriations being performed in 2017.
- Galicia High Speed Line, land referred to expropriated by the Ministry of Public Works and Transport, These lands, which at the close of the 2016 fiscal year were registered for an acquisition value of 43,000 thousand euros, have now been valued at 22,801 thousand euros, once their delimitation, valuation and registration was performed based on the available documentation.
- León-La Robla Section of conventional width line, in relation to the land of historical origin (378 thousand euros) transferred from ADIF to ADIF AV in November 2017, as well as those expropriated by the Ministry of Public Works and Transport (see note 1, c), which have been valued at 2,073 thousand euros.

Notes to the Annual Accounts 31 December 2018

With the described process, the Entity considers that it has completed the update of its inventory of land of historical origin from expropriations undertaken in the nineteenth or early twentieth century. Likewise, all lands expropriated by the Ministry of Public Works and Transport that were incorporated into the Balance sheet of ADIF-AV due to their value of affection have been adequately delimited and valued.

Below is a summary, as of 31 December, 2018 of the appraisal of land owned by ADIF Alta Velocidad and coming mostly from free deliveries from the State.

	Thousands of Euros	
	Delimited Land value at 31 December 2018	Delimited Land value at 31 December 2017
Historic land AV stations and others	17,004	17,003
Madrid-Sevilla HSL	51,055	51,055
Mediterranean Corridor, Valencia-Vandellos section	45,773	45,773
Santiago de Compostela-Vigo Atlantic axis	71,567	71,567
Corredor Mediterráneo HSL Link	31,745	31,745
Olmedo-Zamora-Lubían-Orense HSL	22,808	22,801
León - La Robla Section	3,277	2,073
El Reguerón - Cartagena	864	-
Variante de Alpera y La Encina - Xátiva	11,474	-
Total	255,567	242,017

In 2017, the Entity recorded the addition of assets relating to the León - La Robla railway section for a total net value of 47,892 thousand euros, recording as a counterpart a capital grant and a deferred tax liability for the same amount to the extent in which it is established that it can be considered a free delivery, (see note 1.c).

In 2018, the Entity recorded the addition of assets related to infrastructure works of the La Encina - Xativa, Taboadela - Ourense, El Regueron - Cartagena - Escombreras and Astigarraga - Irún rail sections for a total net value of 239,338 thousand euros, recording as a counterpart a capital grant and a deferred tax liability for the same amount because they were fully subsidized (see note 1.c).

4.a) Operating property, plant and equipment

The following is a breakdown of the acquisition or production cost at 31 December, 2018 and at 31 December, 2017 of the Entity's property, plant and equipment by high speed network line:

Notes to the Annual Accounts
31 December 2018

31/12/2018 Thousands of Euros					
	Land and natural resources	Buildings and other constructions	Track and other technical installations	Other property, plant and equipment	Total
Madrid-Barcelona-Figueras	782,336	642,234	10,189,299	15,465	11,629,334
Mediterranean Corridor	52,858	23,283	882,421	185	958,747
Madrid-Levante	819,106	202,059	6,533,682	1,219	7,556,066
Madrid-Sevilla and branch to Toledo	76,691	442,575	2,468,704	9,710	2,997,680
Córdoba-Málaga	174,801	67,443	2,268,461	1,846	2,512,551
Bobadilla - Granada y Extremadura	1,470	2,569	129,849	105	133,993
Madrid-Valladolid	44,133	62,551	3,801,259	559	3,908,502
Valladolid - León	98,793	32,908	1,147,700	176	1,279,577
Olmedo - Zamora	71,786	16,730	547,565	163	636,244
Santiago de Compostela-Vigo					
Atlantic axis	124,282	58,864	1,864,240	461	2,047,847
Others	262,547	57,776	650,071	12,837	983,231
	2,508,803	1,608,992	30,483,251	42,726	34,643,772

31/12/2017 Thousands of Euros					
	Land and natural resources	Buildings and other constructions	Track and other technical installations	Other property, plant and equipment	Total
Madrid-Barcelona-Figueras	780,559	638,900	10,181,252	7,360	11,608,071
Madrid-Levante	864,378	223,515	7,234,193	1,361	8,323,447
Madrid-Sevilla and branch to Toledo	76,691	437,400	2,432,565	9,490	2,956,146
Córdoba-Málaga	168,144	66,965	2,250,067	1,846	2,487,022
Bobadilla - Granada y Extremadura	1,470	2,569	129,538	105	133,682
Madrid-Valladolid	43,811	61,401	3,781,774	523	3,887,509
Valladolid - León	98,396	32,530	1,146,030	176	1,277,132
Olmedo - Zamora	70,132	16,730	536,420	163	623,445
Santiago de Compostela-Vigo Atlantic axis	121,881	57,129	1,844,153	461	2,023,624
Others	249,520	64,589	382,743	12,964	709,816
	2,474,982	1,601,728	28,918,735	34,449	34,029,894

4.b) Work in progress

Work in progress at 31 December 2018 and 31 December 2017 is detailed in the table below:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Madrid - Zaragoza - Barcelona - Figueras	311,923	280,105
Zaragoza - Pamplona, Castejón - Comarca de Pamplona Stretch	79,001	75,258
Madrid - Castilla la Mancha - Com, Valenciana - Murcia Region	2,002,862	1,922,921
Mediterranean High Speed Corridor	10,985	145,621
Link Mediterranean Corridor, Tarragona Area	540,042	517,442
Pulpí - Murcia High Speed Line	78,001	76,460
Murcia - Almería High Speed Line	583,117	567,764
Madrid-Sevilla and Toledo branch	-	-
Córdoba - Málaga	700	1,055
Bobadilla - Granada High Speed Line	1,311,683	1,263,491
Madrid - Cáceres, Navalmoral de la Mata stretch - Cáceres High Speed Line	672,110	581,285
Madrid - Extremadura - F, portugues, Cáceres stretch - Mérida - Badajoz High Speed Line	357,275	325,106
Madrid - Segovia - Valladolid	1,466	1,149
Valladolid - Burgos - Vitoria	671,726	631,905
País Vasco High Speed Line	1,366,141	1,284,293
Palencia - León	116,539	114,234
León - Asturias High Speed Line	2,988,015	2,930,332
Galicia (Olmedo - Lubián) High Speed Line	744,710	526,250
Galicia (Lubián - Ourense) High Speed Line	1,697,590	1,502,399
High Speed Atlantic Axis	79,012	78,060
Madrid Atocha - Madrid Chamartín	774,166	783,784
Atocha Station complex expansion	4,838	3,868
Other High Speed investments,	53,078	29,303
Investment in asset reposition and improvement	96,788	46,136
TOTAL	14,541,768	13,688,221

The Entity recognized, in previous years, as a greater value of work in progress, the best available estimate of those executed and outstanding works pending certification at 31 December, 2018 and 31 December, 2017 arising from outstanding contractual issues pending formalization worth 45,472 and 62,937 thousand euros, respectively. ADIF AV continues with a process of regularization of these situations and is working on the development of instruments to avoid such incidents in the future.

Work in progress at 31 December 2018 and 31 December 2017 includes 169,941 and 207,035 thousand euros, respectively, for advances to suppliers. At 31 December 2018 and at 31 December 2017, this item also comprises advances extended to suppliers that have not been formally set out in contracts, in the amount of 42,008 and 44,612 thousand euros respectively. The heading includes advances for the future delivery of railway works derived from agreements signed between the Entity and its associates, as per the following breakdown at 31 December 2018 and 31 December 2017:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Valencia Parque Central Alta Velocidad 2003, S.A.	48,084	48,084
Valladolid Alta Velocidad 2003, S.A.	1,529	1,529
Zaragoza Alta Velocidad 2002, S.A.	11,165	11,165
Almería Alta Velocidad, S.A.	10,169	-
TOTAL	70,947	60,778

Under the act of formal delivery of signed works on February 1, 2016 between Zaragoza Alta Velocidad 2002, SA, ADIF and ADIF-AV, in 2015, the Entity has partially cancelled the advances for outstanding works to be received from Zaragoza Alta Velocidad 2002, SA, pending at 31 December, 2014. The value of the works received and recorded in 2015 amounted to 5,457 thousand euros. In addition, the Entity, in light of the best available estimate at year end, valued the railway projects likely to receive in future years, registered in the 2015 income statement a loss of 2,157 thousand euros (see Note 3,b).

Applying the same criteria used by the State for its real estate and infrastructure works, ADIF-AV has not taken out any insurance coverage for these assets, except as regards extraordinary infrastructure risks, which do not include stations, tunnels, bridges and other buildings.

Also ADIF-AV, like the State, has not listed its buildings and infrastructure works in the Property Register, except for housing and commercial premises.

At 31 December 2018, the Entity has firm commitments with third parties to make future investments of 2,502,772 thousand euros, excluding VAT. At 31 December 2017, the Company had firm commitments with third parties to make future investments of 2,925,847 thousand euros, excluding VAT.

4.c) Capitalised borrowing costs

During 2018, the Entity capitalised borrowing costs totalling 104,022 thousand euros, comprising the cost of the loans received from the EIB or other institutions, and the cost of the liabilities and Green Bonds emissions, which were primarily allocated to finance the construction of various high-speed lines. Among other items, this amount comprises 23,332 thousand euros in relation to the Levante line; 22,991 thousand euros reflecting the cost of the high-speed rail network of the Basque Country, called "Y Vasca"; 7,440 thousand euros representing the costs of the Valladolid-Vitoria stretch of the Madrid-Basque Country/French border high-speed line; and 10,247 thousand euros for the costs of the Pajares alternate route of the Madrid-Asturias high-speed line and 16,535 thousand euros for the railway connection between Madrid Atocha station and Madrid Chamartín station; and 11,344 thousand euros of the Galicia high-speed line.

During 2017, the Entity capitalised borrowing costs totalling 111,211 thousand euros, comprising the cost of the loans received from the EIB or other institutions and the cost of the Obligations emissions which were primarily allocated to finance the construction of various high-speed lines. Among other items, this amount comprises 22,667 thousand euros in relation to the Levante line; 24,494

Notes to the Annual Accounts
31 December 2018

thousand euros reflecting the cost of the high-speed rail network of the Basque Country, called "Y Vasca"; 7,422 thousand euros representing the costs of the Valladolid-Vitoria stretch of the Madrid-Basque Country/French border high-speed line; and 11,882 thousand euros for the costs of the Pajares alternate route of the Madrid-Asturias high-speed line and 17,427 thousand euros for the railway connection between Madrid Atocha station and Madrid Chamartín station.

4.d) Fully depreciated/amortised assets

Details of the cost of fully depreciated or amortised items of property, plant and equipment, intangible assets and investment property in use at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Intangible assets	8,209	8,209
Property, plant and equipment	606,924	488,361
Investment property	103	84
TOTAL	615,236	496,654

4.e) Government grants received

The construction of property, plant and equipment for railway infrastructure has partly been financed by non-refundable capital grants, among which some come from European Funds (Cohesion Funds, TEN-T, ERDF) (see Note 9).

Current and on-going investments delivered by the State to ADIF in 2012 and 2013, mainly the works on the Atlantic Hub and the link to the Valencia-Vandellós section of the Mediterranean Corridor. In 2015 and following by the State and SEITTSA in relation to the platform works of various sections of the Madrid-Galicia line, they have been registered with a counterpart being the recognition of a capital grant (see Notes 3(b) and 3(g)).

4.f) Intangible assets

Details of intangible assets at 31 December 2018 and 31 December 2017 are as follows:

Notes to the Annual Accounts
31 December 2018

	31/12/2018 Thousands of Euros		
	Cost	Accumulated amortisation	Total
Operating intangible assets			
Computer software	6,426	(6,349)	77
Rights of use space RENFE	50,831	(2,033)	48,798
Research and development expenses	10,520	(4,687)	5,833
Other intangible assets	6,713	(6,090)	623
Total operating intangible assets	74,490	(19,159)	55,331
Intangible assets in progress			
Computer software	-	-	-
Research and development expenses	-	-	-
Other intangible assets	96	-	96
Total intangible assets in progress	96	-	96
Total intangible assets	74,586	(19,159)	55,427

	31/12/2017 Thousands of Euros		
	Cost	Accumulated amortisation	Total
Operating intangible assets			
Computer software	6,387	(6,311)	76
Rights of use space RENFE	50,831	(1,356)	49,475
Research and development expenses	10,519	(4,099)	6,420
Other intangible assets	6,413	(5,823)	590
Total operating intangible assets	74,150	(17,589)	56,561
Intangible assets in progress			
Computer software	31	-	31
Research and development expenses	141	-	141
Other intangible assets	66	-	66
Total intangible assets in progress	238	-	238
Total intangible assets	74,388	(17,589)	56,799

The intangible asset called "rights of use Renfe space " referred to in the above tables correspond to the current value of acquisition of these rights after deducting the provision for risks and expenses that the Entity created to address the replacement costs for preparation of the spaces for suitable use that will replace these spaces, which is included in the purchase price.

On December 28, 2015, the Entity, together with ADIF, signed with RENFE Operadora, Renfe Viajeros, S.A., Renfe Fabricación y Mantenimiento, S.A. y Renfe Alquiler de Material Ferroviario, S.A an agreement for partial acquisition of the rights of use in spaces owned by the Entity for a current value of 50,831 thousand euros, once applied the provision for risks and expenses cited in the preceding

Notes to the Annual Accounts
31 December 2018

paragraph which the Entity carried on its balance sheet amounting to 21,952 thousand euros.

The purpose of this agreement is to extinguish the rights of use without financial compensation recognized in the Order FOM / 2909/2006 to RENFE-Operadora in diverse administrative and operational spaces located in buildings owned by the Administrador de Infraestructuras Ferroviarias. The mentioned Order established the obligation of ADIF to replace, within a maximum period of three years, these spaces for their property that can be capitalized by RENFE Operadora.

As a result of the creation of ADIF AV, in the Order PRE-2443/2013 of 27 December, the assets, rights and obligations of ADIF which became owned by ADIF AV established the subrogation from the Entity in its obligations for the replacement of the rights of use corresponding to the spaces located in buildings attributed to ADIF AV, for a total of 20,947.76 net square meters.

Given the legal complexity and practice in the execution of Order FOM / 2909/2006, and since ADIF and ADIF AV did not have sufficient property to replace all the rights recognized for RENFE-Operadora's use, it has been necessary to reach an agreement that allows, first partially to replace a portion of the surface subject to such rights of use, by incorporating it in the equity of the mentioned company of certain properties owned by ADIF and ADIF AV and, secondly, the termination of other rights not replenished, recognizing the corresponding RENFE-Operadora consideration.

In order to extinguish the totality of the commitments assumed by ADIF-AV (see note 10.b.2) derived from the aforementioned FOM Order, the Entity acquired from RENFE Operadora in 2015, the usage rights corresponding to a total of 17,826.35 net useful squares meters and committed to deliver in a maximum period of one year, office space located in the Atocha historic station equivalent to 3,121.41 useful square meters. ADIF-AV and RENFE-Operadora are currently holding talks assessing the possibility of acquiring from RENFE-Operadora in favour of ADIF-AV, the rights of use held at the offices located at the Atocha station, as provided for in the Agreement of 28 December 2015

The amount payable to RENFE Operadora for the rights of use acquired in 2015 has been quantified at 77,434 thousand euros, excluding VAT. Of that amount the Entity has paid in January 2016 to Renfe Operadora a figure of 50,831 thousand euros and agrees to pay 2,660 thousand euros each year until the year 2025, inclusive. (See notes 10.b.2 and 11.d))

Additionally, the agreement reached with RENFE Operadora includes leasing, by the mentioned entity and the Group companies, in accordance with the conditions shown in the following table:

Net useful squared Metres	Period	Annual income (euros)
15,887.49 m ²	Ten years	2,406,491.64

After the 10-year period, the lease may be extended by mutual agreement between the parties, updating the lease income according to the general index of

Notes to the Annual Accounts
31 December 2018

competitiveness. As the leased assets have a great relationship with the activity undertaken by Renfe Operadora, it is understood that these leases will be extended for the very long term.

4.g) Impairment of property, plant and equipment, intangible assets and investment property

At 31 December 2018 and 31 December 2017, the Entity assessed the operating units forming its property, plant and equipment, intangible assets and investment property for indications of impairment. From this analysis it was concluded that the operating units forming the Entity's non-financial assets showed no indications of impairment except that indicated in Annex I (see Note 3.b)).

4.h) Investment property

The breakdown at 31 December 2018 and 31 December 2017 is as follows:

	31/12/2018 Thousands of Euros		
	Cost	Accumulated depreciation	Total
Shopping centres at passenger rail stations	101,625	(21,643)	79,982
Commercial car parks	78,596	(11,669)	66,927
Buildings and hotels at intermodal stations	61,683	(17,341)	44,342
Housing, premises and garages	228	(211)	17
Investment property in progress	403	-	403
Total	242,535	(50,864)	191,671

	31/12/2017 Thousands of Euros		
	Cost	Accumulated depreciation	Total
Shopping centres at passenger rail stations	101,624	(19,643)	81,981
Commercial car parks	78,596	(10,575)	68,021
Buildings and hotels at intermodal stations	61,683	(16,372)	45,311
Housing, premises and garages	209	(189)	20
Investment property in progress	403	-	403
Total	242,515	(46,779)	195,736

4.i) Sale commitments (land associated with Chamartín-Fuencarral Station rail complex, in Madrid)

In the case of the railway-urban development transaction, the "Chamartín Transaction", the rights and obligations of ADIF arising from the agreement entered into between ADIF, RENFE Operadora and "Desarrollo Urbanístico Chamartín, S.A." on 23 June 2009 will be split between ADIF-AV and ADIF based on the area pertaining to each entity and the price per square metre established in the agreement.

Notes to the Annual Accounts
31 December 2018

Under this contract, ADIF and RENFE Operadora signed a Revised Text of the Contract with Desarrollo Urbanístico de Chamartín, S.A. (DUCH), which stipulated that ADIF and RENFE Operadora agree to give priority to DUCH to complete the urban planning of the land included in both the PPRI (Partial Interior Reform Plan) of the APR (Area planned for development to be defined at a later stage) 08.03 "Extension of the Castellana" and the APE (Special Planning Area) 05.27 "Colonia Campamento" and that affects the Chamartín and Fuencarral railway station complexes. The aim is to obtain the best conditions and urban land classes when the urban development rights are assigned to certain land, mostly associated with Chamartín station in Madrid, included in the project called "Extension of the Castellana". In accordance with the terms of the Revised Text of the Contract, DUCH agreed to pay a consideration, part in cash and part in kind (through the transfer of developed land classified for government-supported residential properties) up to the limits established and for specific amounts, in exchange for the transfer of the title to land and building rights included in the APR 08.03 and the APE 05.27, which comprises the Chamartín and Fuencarral station complexes.

The consideration payable to ADIF and RENFE Operadora (with distribution subject to the agreement between the parties, although the larger portion of this amount would correspond to ADIF) would be 984 million euros (in cash) and 100,000 m² of urban land for the building of government-supported residential properties (payment in kind).

On 21 June 2013, the High Court of Justice in Madrid handed down a ruling that resolves an appeal against the Partial Interior Reform Plan of APR 08.03 "EXTENSION OF THE CASTELLANA" that partially upholds the appeal and annuls the provisions of the plan permitting buildings of more than three floors plus a penthouse in that area, as well as other provisions regarding urban development aspects of the Partial Interior Reform Plan. As a result of this ruling, the development according to the Partial Plan is not technically and economically viable.

The Madrid City Council, ADIF, RENFE Operadora and DUCH filed appeals against this ruling with the Supreme Court. Additionally, ADIF, RENFE Operadora and DUCH have considered that this ruling means that the obligations under the agreement are not enforceable.

Pursuant to the agreement, on 29 July 2014 DUCH petitioned ADIF and RENFE Operadora to formally open renegotiations, since more than five years had elapsed since the last section of the agreement was signed and the PPRI had not been approved on the foreseen terms.

Subsequently, on 22 January 2015, the parties signed a Framework Agreement whereby DUCH undertook to pay the public entities a cash amount of 984,225 thousand euros, over a 20-year payment period and subject to 3% annual interest, and an in-kind payment comprising use of 100,000 m² of government-supported residential area. The validity and effectiveness of this agreement is subject to definitive approval of the modification of the PPRI.

In accordance with the Framework Contract, ADIF and ADIF-AV may receive 84.027% of the price foreseen of 1,245,460 thousand euros (including delay

Notes to the Annual Accounts
31 December 2018

interest), namely 1,046,523 thousand euros. A priori, this is the maximum amount receivable, given that if ADIF/ADIF-AV is not allocated ownership of an area in the corresponding urban development re-parcelling, this price would be reduced in accordance with a predetermined unit price. Of the total of 1,046,523 thousand euros, 20.430% corresponds to ADIF-AV (254,447 thousand euros), while 63.507% (792,075 thousand euros) corresponds to ADIF.

In addition, both state-owned entities will receive a payment in kind through the delivery of plots on which 84,027 m² can be built for government-supported residential use (53,438.65 m² for ADIF and the remaining 30,588.35 m² for ADIF-AV).

Moreover, on 22 January 2015 the parties affected by the Operation Chamartín (DUCH, ADIF, ADIF-AV, RENFE Operadora, RENFE Fabricación y Mantenimiento, Madrid City Council, Madrid Regional Government and Canal de Isabel II) signed an urban development agreement for the management and execution of APR 08.03.

DUCH drafted a new document which was initially approved by the City Council on 19 February 2015. Following the completion of the public exposure period and the securing of sector reports, the processing of this planning instrument was completed on 18 Of May of 2015, pending final approval by the City of Madrid.

On June 9, 2015 the Supreme Court of Madrid issued a new judgment on the PPRI restating the nullity of the determinations that allowed more than 3 floors plus an attic, to buildings in this area. This prediction makes the operation technically and economically inviable. Duch, ADIF, ADIF and RENFE Operadora-AV have appealed the decision.

Despite the above, on December 28, 2015 it was published in the B.C.A.M. the approval by the Assembly of Madrid Law 4/2015 of 18 December Partial Amendment of Art. 39 of Law 9/2001 of 17 July, Community of Madrid Land, eliminating section 8 which established the prohibition to build to a height greater than three floors plus an attic in each and every one of the points on the ground, with this modification of interpretations that is not applicable in this urban area the limitation of height.

On July 14, 2015, the resolution of the Board of Directors of the company Desarrollo Urbanístico Chamartín S.A. was published to the public, dated June 29, 2015, the name change to the de Distrito Castellana Norte S.A. (DCN)

On 10 May 2016, the Madrid City Council presented a proposal for the management of the APR 08.03 "Prolongación de la Castellana" alternative to that promoted by DCN, called Madrid Puerta Norte.

This proposal eliminates the prolongation of the Castellana, it reduces to nearly half the buildability of the area, excluding a large part of the railway land, while decreasing the urban costs, among others, the area of road cover.

Likewise, the scope is divided into three, proposing that the South of 30 street, be managed by the administrations through the creation of a Consortium or public society.

Notes to the Annual Accounts
31 December 2018

This new ordination proposal would need the modification of the General Plan in force in several aspects. The procedure would extend the deadlines.

During the months of May and June 2016, meetings have been held between the Ministry of Public Works, the Community of Madrid, the City Council, BBVA, which controls the DCN, ADIF and RENFE-Operadora, in which both the Ministry, Community of Madrid and Public Entities have expressed their opposition to the municipal proposal.

On May 25, 2016, based on the report of its Planning and Urban Planning DG, the Plenary of the City Council agreed to deny the definitive approval of the Partial Plan of APR 08.03 "Prolongación de la Castellana" promoted by DCN and declaring the impossibility of processing the Urban Agreement for the management and execution of the Partial Plan (BOCM Publication dated June 24, 2016).

On June 24, 2016, the Ministry of Public Works, sent a prior notice against the agreement cited in the previous paragraph to the City of Madrid, which requires the declaration of nullity of the Agreement mentioned, as well as negotiations with all the signatories of the Management Urban Agreement and execution of Partial Plan APR 08.03 "Extension of the Castellana".

In September 2016, as they understand that the Agreement adopted by the City Council is contrary to law and because of their importance, the Ministry of Public Works, ADIF and RENFE-Operadora filed the corresponding administrative appeals.

On 30 November 2016, a meeting took place between the Minister of Public Works and the Mayor of Madrid, where they agreed to create a working group to work jointly on an urban planning approach for the northern part of Madrid, starting from scratch and without any apriorism by any of the parties. This allows us to arrive at a consensual urban solution in a relatively short time and that would be processed urbanistically by the Madrid City Council, by means of a specific modification of the PGOU.

The first meeting of the working group was held on December 19 and agreed, among other things, to create a Technical Subcommittee, which has been meeting regularly to this date.

Motivated by the new situation of urban development, DCN, ADIF and RENFE-Operadora subscribed, on December 28, 2016, an extension of the Basis Agreement, until August 31, 2018. DCN must pay to Public Entities for this reason an amount of 4,350,274 euros derived from the extension of the Basis Agreement until August 31, 2018. Of this amount, ADIF AV is due the amount of 444,380 euros fully charged in 2017 and 444,380 euros in 2018.

The aforementioned Technical Subcommittee was established on December 30, 2016 and after 7 months of work meetings a principle of agreement was reached between the parties, reflected in the document "Bases para la ordenación urbanística del área Estación de Chamartín - sur de Calle 30 / Fuencarral - norte de Calle 30, Acuerdo ADIF / DCN / Ayuntamiento de Madrid" was presented to the media at an event held at the Ministry of Development on July 27, 2017, calling the urban action whose bases are agreed, Madrid Nuevo Norte (MNN).

Notes to the Annual Accounts 31 December 2018

Also, in the framework of the work and tables held, the Ministry of Development, ADIF, ADIF Alta Velocidad and RENFE have requested the suspension of administrative appeals lodged against the Agreement of the Plenary Session of the Madrid City Council on May 25, 2016, because the solutions that arise in the bases could put an end to the controversy raised in it.

On December 28, 2018, the Boards of Directors of the ADIF and ADIF-ALTA VELOCIDAD have authorized a modification of the contract they have signed with the company DISTRITO CASTELLANA NORTE, S.A. (DCN), on the preferential adjudication of their rights in relation to the urban development of the Chamartín and Fuencarral rail precincts, in Madrid (the so-called "Chamartín Operation").

On 20 September, 2018 the Madrid City Council agreed to the Initial Approval of the Specific Modification of the Madrid General Plan (MPPGOUM) "Madrid Nuevo Norte". This document constitutes the new urban framework of reference for the parties to this Contract and, consequently, it has had to adapt the content thereof to the determinations of this new modification of the Plan.

The most relevant information in this contractual amendment is that, despite the fact that the area to be transferred to DCN by the railway entities has been reduced by 798,366 m² and that the net buildable area attributable to the railway spaces has been reduced by 575,246 m² t (31.02%), both the price established in the current contract and the agreed form of payment remain unchanged, a fixed canon of € 1,245,459,973 to be paid in 20 years plus the delivery of urbanized plots subject to some regime of public protection with a buildable area of 100,000 m².

This has been possible due to the interest and effort of DCN in continuing to bet on this ambitious and transformative urban development in Madrid, as well as the favorable evolution of the real estate market in the north of Madrid and because the buildability of the area has been transferred to the north from M30 to the south zone in the vicinity of Chamartín station (area with the highest real estate value). It has also contributed to this achievement for railway entities the configuration of a large business center (CBD, Central Business District) next to the station with a great real estate potential.

It should be noted, finally, that the Parties have agreed that, if the new urban framework that emerges from the Specific Modification of the Madrid General Plan (MPPGOUM) "Madrid Nuevo Norte" initially approved on 20/9/2018, is not approved definitively before 31/12/2021 (without substantial modifications with respect to such frame) the Contract subscribed with DCN will be solved.

In regard to the aforementioned Specific Modification, it is foreseen that it will be provisionally approved by the Madrid City Council during the first quarter of this year, after which it will have to undergo final approval by the Autonomous Community of Madrid.

Notes to the Annual Accounts
31 December 2018

(5) Investments in Group Companies and Associates

5.a) Non-current equity instruments in Group companies and associates

The movement for 2018 and 2017, expressed in thousands of euros, of the accounts that make up this section are detailed below:

	31/12/2018 Thousands of Euros			
	Investments in Group companies and associates	Uncalled equity holdings	Provisions	Total
Balance at 1 January 2018	9,462	-	(1,074)	8,388
Additions	-	-	-	-
Withdrawals	-	-	-	-
Balance at 31 December 2018	9,462	-	(1,074)	8,388

	31/12/2017 Thousands of Euros			
	Investments in Group companies and associates	Uncalled equity holdings	Provisions	Total
Balance at 1 January 2017	12,396	(2,925)	(1,074)	8,397
Additions	-	-	-	-
Withdrawals	(2,934)	2,925	-	(9)
Balance at 31 December 2017	9,462	-	(1,074)	8,388

Annex II shows a detail of the main investees that are domiciled in Spain, and the information related to them.

Among the holdings in associated companies, it is worth highlighting those corresponding to companies whose corporate purpose is the integration of railways in various cities, The aforementioned companies were created under the agreements signed between the Ministry of Public Works and Transport, the Public Business Entities attached to the same with competences in railway matters and the Public Administrations involved in each of the affected cities (Autonomous Community and City Council), distributing the participation in its capital at 50% between the General State Administration and the local and regional Administrations, This model aims to unite all parties with interests in the project by achieving the integration of the railroad in various cities with the partner contributions and with the putting on the market of the urban development derived from freed land for railway use resulting from the planned actions. As of 31 December 2018, several agreements subscribed in their day for the integration of the railroad in the cities are being revised in order to redefine both the actions to be undertaken and their form of financing, In this respect, the corresponding revision to the agreements relating to the cities of Alicante, Gijón, Valencia and Murcia have been initiated, which affect the integration companies Alta Velocidad Alicante Nodo de Transporte, SA, Gijón al Norte, SA, Valencia Parque Central and Murcia AV, SA respectively, The signing of such agreements is subject to negotiation between the signatories thereof to determine their content and final commitments, as well as various prior authorization acts.

Notes to the Annual Accounts
31 December 2018

Furthermore, at an extraordinary general meeting held on 4 December 2012, the shareholders of León Alta Velocidad 2003, S.A. agreed to dissolve the company so as to enable liquidation as quickly as possible. At this meeting, the shareholders also agreed that ADIF should acquire the railway infrastructure works carried out by the company. Entity management does not consider that ADIF-AV will assume significant liabilities and assets as a result of this process.

5.b) Non-current loans to Group companies and associates

Details of non-current loans to Group companies and associates at 31 December 2018 and 31 December 2017 are as follows:

Concept	Thousands of Euros	
	31/12/2018	31/12/2017
Zaragoza Alta Velocidad 2002, S.A.	113,256	113,256
Cartagena AVE, S.A.	1,080	1,080
Murcia AVE, S.A.	3,400	3,400
Logroño Integración del Ferrocarril 2002, S.A.	31,057	19,680
Gijón al Norte, S.A.	12,739	9,319
Barcelona Sagrera AV, S.A.	41,317	24,319
Valladolid Alta Velocidad, 2003, S.A.	259,774	246,865
Valencia Parque Central Alta Velocidad 2003, S.A.	26,576	17,363
Alta Velocidad Alicante Nodo del Transporte, S.A.	181	181
Palencia Alta Velocidad, S.A.	610	-
Total non current loans to Group companies and associates	489,990	435,463
Provision for impairment	(27,625)	(27,015)
	462,365	408,448

These amounts correspond to loans granted by the Entity from 1 January, 2013 and those that were assigned to it in the segregation process and that were not impaired as of 31 December, 2012. At that date, ADIF-AV was assigned loans granted by ADIF to the Integración Zaragoza Alta Velocidad 2002, S.A. for a nominal value of 30,279 thousand euros and to Palencia Alta Velocidad for a nominal value of 410 thousand euros. These were totally impaired and therefore in compliance with the accounting regulations and were allocated to ADIF-AV for its net amount, i.e. for zero euros. Therefore, they are not reflected in the above table. The impaired amount of 27,625 thousand euros as of 31 December, 2018 corresponds to loans granted to the company Zaragoza Alta Velocidad 2002, S.A. and Palencia Alta Velocidad, S.A.

The situation at 31 December 2018 and 31 December 2017 in relation to loans granted to its long-term investees at nominal value is shown in the table below:

Notes to the Annual Accounts
31 December 2018

Company	Thousands of Euros	
	31/12/2018	31/12/2017
Zaragoza Alta Velocidad 2002, S.A.	143,535	143,535
Cartagena Alta Velocidad, S.A.	1,080	1,080
Murcia Alta Velocidad, S.A.	3,400	3,400
Logroño Integración Ferrocarril 2002, S.A.	31,057	19,680
Gijón al Norte, S.A.	12,739	9,319
Barcelona Sagrera Alta Velocitat S.A.	41,317	24,319
Valladolid Alta Velocidad 2003 S.A.	259,774	246,865
Valencia Parque Central Alta Velocidad 2003, S.A.	26,576	17,363
Alta Velocidad Alicante Nodo del Transporte, S.A.	181	181
Palencia Alta Velocidad, S.A.	610	-
	<u>520,269</u>	<u>465,742</u>

The company Valladolid Alta Velocidad 2003, S,A, as a result of its financial situation, has not been able to meet its obligations with the creditors in the framework of the financing agreements signed, Consequently, on June 27, 2017, the Board of Directors of ADIF Alta Velocidad authorized the signing of the agreement for the cancellation of the syndicated line of credit agreement and the interest rate hedging agreements of the Participated Company Valladolid Alta Velocidad 2003, S,A, in the following terms:

The creditors will waive the collection of 11,760 thousand euros for the definitive cancellation of the credit and of the coverage and ADIF, ADIF- Alta Velocidad and RENFE Operadora would pay a maximum of 341,205 thousand euros.

Before June 30, 2017, the three mentioned EPEs are obliged to pay 145,172 thousand euros, of which 87,103 thousand euros correspond to ADIF-Alta Velocidad, the amount guaranteed in the comfort letter granted at the time.

Before 30 September, 2017, and whenever the modification of the "Agreement between the Ministry of Development, the Government of Castilla y León and the City Council of Valladolid for the development of the works derived from the transformation of the RAF of Valladolid is signed." On November 6, 2002 or a new agreement, the three SOEs are required to pay a total of 196,933 thousand euros, of which ADIF AV corresponds to an amount of 118,160 thousand euros.

As of June 30, 2017, ADIF AV has made the disbursement agreed by its Board of Directors on June 27, 2017, amounting to 87,103 thousand euros, having complied with the obligation acquired through the comfort letter granted.

On November 20, 2017, shareholders Valladolid Alta Velocidad 2003, S.A. they have signed a new agreement for the development of the works derived from the transformation of the Valladolid railway arterial network that replaces the one signed on November 6, 2002. As a result of this fact, the actions to be carried out to achieve the transformation goal have been redefined of the railway network in the aforementioned city and the financial commitments that the partners must make in the 2017-2033 horizon have been established to finance the works to be contracted based on the shareholding percentages of each partner. In this way

Notes to the Annual Accounts
31 December 2018

ADIF AV is committed to contributing to the company Valladolid Alta Velocidad S.A. a total of 89.7 million euros as participative loans, in the 2017-2033 horizon and, accordingly, with its shareholding in Valladolid Alta Velocidad 2003, S.A.

Additionally, and derived from the subscription of the aforementioned new agreement, ADIF AV has disbursed a total of 118.16 million euros on November 23, 2017 for the total cancellation of the Company's debt derived from the credit agreement with banking entities.

As established in the new agreement, the contributions already made by ADIF AV as well as those that it undertakes to make will be reimbursed by Valladolid Alta Velocidad with the capital gains generated in the land transfer process and according to the priority of collections established in the signed Agreement, The first amounts obtained were allocated to the cancellation of the debt acquired by the Company with the three EPEs assigned to the Ministry of Development as a result of the cancellation of the loan and of the hedge contracts subscribed by Valladolid Alta Velocidad 2003, SA.

Likewise, ADIF, ADIF AV and Renfe Operadora in order to guarantee the return of the amounts contributed for the cancellation of the credit agreement and the interest rate hedging contracts may expressly reserve ownership of the land freed from the railway use and that they could be contributed to the Company or constitute an explicit resolution condition thereon. In the case of having been land released for rail use contributed to Valladolid Alta Velocidad 2003, SA will be constituted by the Company a pledge of chattel mortgage, or if applicable, real estate in favor of the three SPEs on any Project assets included in the balance of that, being granted to ADIF, ADIF AV and RENFE Operadora irrevocable power for the constitution of mortgage or pledge on assets for a value equivalent to the total amount paid for the cancellation of the aforementioned contracts.

In relation to the loans granted by the Entity to various investees related in the previous tables, in addition to the loan impairments included in the first breakdown, the amounts have been recorded under Provisions for risks and expenses (see note 10) that the Entity estimates it will have to pay in the future derived from the comfort letters or letters of commitment assumed by ADIF AV or by the loans granted by the Entity to various companies and for which there is a probability of non-recovery based on current estimates of future cash flows expected by the investee as explained in notes 2,c, 3, and note 23.

5.c) Current investments in Group companies and associates

The balance of the heading "Loans to companies" at 31 December 2018 and 31 December 2017 is as follows:

Notes to the Annual Accounts
31 December 2018

Concept	Thousands of Euros	
	31/12/2018	31/12/2017
Short-term loans to group companies and associates	28,230	28,840
Loans for disposal of fixed assets	-	274
Other financial assets	18,184	11,077
Impairment of receivables	(20,160)	(13,664)
	26,254	26,527

The heading of short-term loans to group companies and associates corresponds to the loans granted to its investees, with maturity within one year, at nominal value and with the following breakdown:

Concept	Thousands of Euros	
	31/12/2018	31/12/2017
Palencia Alta Velocidad, S.A.	-	610
Alta Velocidad Alicante Nodo del Transporte, S.A.(AVANT)	26,254	26,254
León Alta Velocidad, 2003, S.A.	1,976	1,976
Total Short-term loans to Group companies and associates	28,230	28,840
Provision for impairment	(1,976)	(2,586)
	26,254	26,254

In 2017, the Entity granted financing to Alicante Alta Velocidad Nudo de Transporte, S.A. (AVANT) for a value of 26,435 thousand euros, with the aim that the Company can meet the obligations acquired against banks and other creditors.

On January 27, 2017, the Entity granted a loan of 1,282 thousand euros to the Company to pay the interest owed to a banking syndicate in relation to the syndicated loan policy that it had underwritten.

Subsequently, on July 20, 2017, ADIF's Board of Directors adopted a series of agreements to make the Company viable in the framework of the amendment process for the Agreement of May 7, 2003 signed between the Ministry of Public Works and Transport, the Generalitat Valenciana, the Valencia City Council, GIF and RENFE for the remodelling of the Alicante arterial network railway, Among these agreements are the following:

- a) ADIF and ADIF Alta Velocidad pledged to pay the amount of 29,595 thousand euros to creditors before August 4, 2017, to which they were committed based on the letters of commitment granted for the awarding of the syndicated credit policy, subrogating in the position of the banking syndicate against the Company, Of this amount, a total of 5,919 thousand euros corresponds to ADIF and the rest, for a total of 23,676 thousand euros, to ADIF AV.

These amounts were finally paid on July 31, 2017.

- b) Additionally, they would pay, before October 31, 2017, the remaining amount for the cancellation of the existing debt with the banking

Notes to the Annual Accounts
31 December 2018

syndicate for a total of 31,059 million euros, once the aforementioned amendment to the 2003 Agreement had been subscribed, subrogating ADIF and ADIF AV in the position of the banking entities against the Company.

Likewise, ADIF and ADIF AV will receive a part of the works corresponding to the Alicante access project executed by the Company, handling the asset received basically with the cancellation of the corporate debts of AVANT, The works to be received by ADIF AV amount to a total of 53,143 thousand euros and have been recorded as of 31 December, 2017 in the Balance Sheet of the Entity.

However, since the modification of the 2003 Agreement has not yet been signed, whose negotiation and processing is ongoing, on December 28, 2017, ADIF and ADIF Alta Velocidad granted a commercial loan to AVANT amounting to 31,252 thousand euros, of which 1,296 thousand euros corresponds to ADIF AV, This loan is destined to cancel the debt with the banking syndicate for 31,059 million euros and the rest, for a value of 193 thousand euros for payment to suppliers.

Finally, on August 8, 2017, ADIF AV paid, in proportion to its participation in the capital of the Company, 181 thousand euros to enable the Company to meet its operating expenses in the years 2017 and 2018.

(6) Other Financial Assets

The breakdown by category of financial assets, excluding investments in equity of group and associated companies (see note 5), except the balances with Public Administrations (see note 12), at 31 December 2018 and 31 December 2017, in thousands of Euros, is as follows:

	31/12/2018 Thousands of Euros		
	Equity instruments	Loans, derivatives and other	Total
Non-current financial assets			
Loans and receivables	-	1,413	1,413
Available-for-sale assets	2,166	-	2,166
Total non-current financial assets	2,166	1,413	3,579
Current financial assets			
Loans and receivables	14	233,054	233,068
Total current financial assets	14	233,054	233,068
	31/12/2017 Thousands of Euros		
	Equity instruments	Loans, derivatives and other	Total
Non-current financial assets			
Loans and receivables	-	1,482	1,482
Available-for-sale assets	2,026	-	2,026
Total non-current financial assets	2,026	1,482	3,508
Current financial assets			
Loans and receivables	35	259,774	259,809
Total current financial assets	35	259,774	259,809

Notes to the Annual Accounts
31 December 2018

These amounts are broken down into the following balance sheet items, as of 31 December, 2018 and 31 December, 2017:

	31/12/2018 Thousands of Euros		
	Equity instruments	Loans, derivatives and other	Total
Non-current financial assets			
Non-current financial investments	2,166	873	3,039
Non-current trade receivables	-	540	540
Total non-current financial assets	2,166	1,413	3,579
Current financial assets			
Current financial assets	14	-	14
Trade and other receivables	-	233,054	233,054
Total current financial assets	14	233,054	233,068

	31/12/2017 Thousands of Euros		
	Equity instruments	Loans, derivatives and other	Total
Non-current financial assets			
Non-current financial investments	2,026	866	2,892
Non-current trade receivables	-	616	616
Total non-current financial assets	2,026	1,482	3,508
Current financial assets			
Current financial assets	35	-	35
Trade and other receivables	-	259,774	259,774
Total current financial assets	35	259,774	259,809

The carrying amount of these financial assets does not differ significantly from their fair value.

6.a) Investments

The breakdown of financial investments at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Equity instruments (see Appendix II)	2,406	-	2,266	-
Impairment	(240)	-	(240)	-
Total equity instruments	2,166	-	2,026	-
Other financial assets (deposits, guarantees and other credits)	873	14	866	35
	3,039	14	2,892	35

Notes to the Annual Accounts
31 December 2018

6.a.1) Equity instruments

Equity instruments are the Entity's holdings in companies over whose management it does not have significant influence. The Entity's interest in each of these companies is less than 20%.

Annex II shows a detail of the main investees that are domiciled in Spain, and the information related to them.

6.b) Trade and other receivables

The breakdown of trade and other receivables at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Group companies and associates				
Receivables (Note 6.b.1))	-	596	-	5,701
Unrelated parties				
Trade receivables (Note 6.b.2))	-	100,888	-	103,055
Other receivables (Note 6.b.3))	540	131,558	616	151,000
Personnel	-	12	-	18
	540	233,054	616	259,774

6.b.1) Group Companies and Associates

The detail of the balances of these accounts of current assets in the accompanying balance sheet as of 31 December, 2018 and 31 December, 2017, is as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
	Current	Current
Alta Velocidad Alicante Nodo del Transporte, S.A.	-	798
Murcia Alta Velocidad S.A	505	45
Barcelona Sagrera Alta Velocitat, S.A.	91	
Valladolid Alta Velocidad 2003, S.A.	-	4,858
	596	5,701

6.b.2) Trade receivables

Trade receivables include the balance of rail fees settled and pending collection at 31 December 2018, for 59,385 thousand euros. Trade receivables also include accrued interest receivable of 41,500 thousand euros. It also

Notes to the Annual Accounts 31 December 2018

collects the value of 3 thousand euros from the liquidated and pending collection receipts by Railway Fees.

Trade receivables include the balance of rail fees settled and pending collection at 31 December 2017, for 57,421 thousand euros, Trade receivables also includes accrued interest receivable of 45,634 thousand euros.

6.b.3) Other receivables

The detail at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Agreements with rail operators	62,693	46,786
Fibre-optics rental	9,335	9,334
Amounts due to ADIF-AV from ADIF	18,559	14,947
Other rentals	4,125	6,857
Other items	7,214	4,848
Services rendered pending invoice		
Agreements with rail operators	20,644	20,363
Agreements with ADIF	18,583	56,913
Other	(491)	(1,975)
Impairment of trade receivables	(9,104)	(7,073)
Total other receivables	131,558	151,000

The agreements with railway operators correspond mainly to Renfe Operadora and its group.

The balance receivable from ADIF at 31 December, 2018 and at 31 December, 2017 corresponds to services rendered to ADIF billed up to that date and pending billing, based on the additions listed in note 1.

The movement of valuation adjustments for impairment of short and long-term receivables at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Balances at 1 January 2017	-	(7,073)	-	(2,209)
Provisions, reversals and/or applications during the year	-	(2,031)	-	(4,864)
Balances at 31 December 2018	-	(9,104)	-	(7,073)

(7) Cash and Cash Equivalents

The breakdown of cash and cash equivalents as of 31 December, 2018 and 31 December, 2017 is as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Cash on hand and at banks	150,325	267,225
Cash equivalents	-	5
	150,325	267,230

(8) Equity

Details of and movement in equity are shown in the statement of changes in equity.

8.a) Equity contribution

As of 31 December, 2018, the total amount consigned in the General State Budget for the year 2018 was received and amounted to 311,574 thousand euros. (see note 1.c)

As of 31 December, 2017, there have been changes in equity contributions, as a total of 229,100 thousand euros have been received from the 246,700 thousand euros entered in the General State Budget for 2017 in favor of ADIF- AV as contributions for the financing of the railway network of its ownership. The Entity does not expect to receive the remaining amount charged to the 2017 fiscal year due to the absence of authorization from the State Secretariat for Budget and Expenditure, Ministry of Economy and Finance and Public Service.

Since 2015, the Entity proceeded to delimit, evaluate and register those lands which, although they were owned, were not recorded in the accounts basically for acquisitions or very old expropriations, some of which were carried out by the old companies that were integrated into the Spanish National Network Railways. As a result of this process of updating the inventory, the Entity has recognized land in 2016 in the amount of 2,373 thousand euros, which in both cases have been accounted for as equity.

8.b) Reserves

The movement in the Reserves heading at 31 December 2018 and 31 December 2017 is as follows:

	31/12/2018 Thousands of Euros		
	Reserves for actuarial gains and losses	Other reserves	Total
Balance at 31 December 2017	(289)	47,184	46,895
Recognition of actuarial gains and losses and other adjustments	(7)	(8,557)	(8,564)
Balance at 31 December 2018	(296)	38,627	38,331

Notes to the Annual Accounts
31 December 2018

	31/12/2017 Thousands of Euros		
	Reserves for actuarial gains and losses	Other reserves	Total
Balance at 31 December 2016	(334)	42,405	42,071
Recognition of actuarial gains and losses and other adjustments	45	4,779	4,824
Balance at 31 December 2017	(289)	47,184	46,895

8.c) Proposed application of loss for the year

The Entity's Management proposes that the 199,997 thousand euros losses for 2017 be carried forward as prior years' losses, under the equity item "Retained earnings".

On March 23 2017, the Board of Directors of ADIF-AV approved the proposals of the Board of Directors mentioned above.

The Entity's Management proposes the application of the loss for the year 2018 for the amount of 223,410 thousand euros, under the equity item "Retained earnings".

8.d) Valuation adjustments

The amount recognised in equity during 31 December 2018 and year 2017, as well as the amounts reclassified from equity to finance expenses in the income statement in these years are disclosed in the statement of recognised income and expense, which forms part of the statement of changes in equity for each year,

The equity for the years ended 31 December 2018 and at 31 December 2017 reflects the variations in the fair value of the derivative arranged by the Entity. Due to the fluctuations in interest rates these show a loss in value (see Note 11.a.2).

(9) Grants, Donations and Bequests

The balance of this section of the accompanying balance sheet as of 31 December, 2018 and 31 December, 2017 includes the non-refundable capital grants pending attribution to income.

The movement registered on 31 December, 2018 and 31 December, 2017 is detailed in the attached tables:

Notes to the Annual Accounts
31 December 2018

31/12/2018 Thousands of Euros

	Cohesion Funds	ERDF funds	TEN-T funds	State grants for work performed (¹)	Other capital grants	Total capital grants
Balances at 31 December 2017	4,879,759	2,927,088	304,405	2,162,333	269,164	10,542,749
Additions	-	42,485	25,894	240,445	650	309,474
<i>European funds accrued in the year</i>	-	42,485	25,894	-	-	68,379
<i>Actions received by SEITTSA (note 4)</i>	-	-	-	7,481	-	7,481
<i>Agreement Council Ministers transfer León - La Robla section (note 1.c)</i>	-	-	-	232,964	-	232,964
<i>Other capital grants</i>	-	-	-	-	650	650
Withdrawals	(82,886)	(17,563)	-	-	-	(100,449)
Tax effect of capital grants accrued during the year (note 12)	20,722	(6,231)	(6,474)	(60,111)	(163)	(52,257)
Allocation to income of net capital grants tax effect (note 17)	(34,387)	(21,705)	(2,202)	(19,496)	(2,710)	(80,500)
Balances at 31 December 2018	4,783,208	2,924,074	321,623	2,323,171	266,941	10,619,017

⁽¹⁾ RD law 22/2012 and RD-law 4/2013

31/12/2017 Thousands of Euros

	Cohesion Funds	ERDF funds	TEN-T funds	State grants for work performed (¹)	Other capital grants	Total capital grants
Balances at 31 December 2016	4,913,155	2,926,330	280,270	2,111,503	273,474	10,504,732
Additions	-	32,195	34,352	124,374	1,248	192,169
<i>European funds accrued in the year</i>	-	32,195	34,352	-	-	66,547
<i>Actions received by SEITTSA (note 4)</i>	-	-	-	76,482	-	76,482
<i>Actions received by Fomento</i>	-	-	-	47,892	-	47,892
<i>Other capital grants</i>	-	-	-	-	1,248	1,248
Withdrawals	-	(4,381)	(669)	(35,548)	(601)	(41,199)
<i>Adjust value of delimited land, free delivery AGE (note 4)</i>	-	-	-	(35,548)	-	(35,548)
Tax effect of capital grants accrued during the year (note 12)	-	(6,954)	(8,421)	(22,208)	(162)	(37,745)
Allocation to income of net capital grants tax effect (note 17)	(33,380)	(20,065)	(1,129)	(15,219)	(5,277)	(75,070)
Adjustments Subsidy - Deferred tax	(16)	(37)	2	(569)	482	(138)
Balances at 31 December 2017	4,879,759	2,927,088	304,405	2,162,333	269,164	10,542,749

⁽¹⁾ RD law 22/2012 and RD-law 4/2013

State grants for work performed recognises the value of the works received without consideration of the Ministry of Public Works and SEITTSA, by Royal Decree Law 4/2013 of 22 February and Recast Convention from August 25, 2015 disenfranchised where appropriate, by the depreciation of goods received. (See notes 3.b, 3.g and 4).

Notes to the Annual Accounts
31 December 2018

9.a) Cohesion Funds

Details of Cohesion Funds at 31 December 2018 and 2017, without taking into account the tax effect and including the amounts accrued for payables convertible into grants, are as follows:

31/12/2018 Thousands of Euros

STRETCH	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
Madrid-Barcelona-Frontera francesa H.S.L.	3,342,953	3,342,953	-	3,342,953
Madrid-Lérida	2,112,357	2,112,357	-	2,112,357
Lérida-Martorell	790,698	790,698	-	790,698
Martorell-Barcelona	439,898	439,898	-	439,898
Madrid-Valladolid H.S.L.	1,553,670	1,553,670	-	1,553,670
Madrid-Levante H.S.L.	573,450	573,450	-	573,450
Cohesion Funds 2007-2013	1,414,342	1,390,319	-	1,399,537
TOTAL	6,884,415	6,860,392	-	6,869,610

31/12/2017 Thousands of Euros

STRETCH	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
Madrid-Barcelona-Frontera francesa H.S.L.	3,342,953	3,342,953	-	3,342,953
Madrid-Lérida	2,112,357	2,112,357	-	2,112,357
Lérida-Martorell	790,698	790,698	-	790,698
Martorell-Barcelona	439,898	439,898	-	439,898
Madrid-Valladolid H.S.L.	1,553,670	1,553,670	-	1,553,670
Madrid-Levante H.S.L.	573,450	573,450	-	573,450
Cohesion Funds 2007-2013	1,473,204	1,473,204	-	1,399,537
TOTAL	6,943,277	6,943,277	-	6,869,610

9.b) European Regional Development Fund (ERDF)

Details of European Regional Development Funds at 31 December 2018 and 31 December 2017, without taking into account the tax effect, including the amounts accrued for debts convertible into grants, are as follows:

Notes to the Annual Accounts
31 December 2018

31/12/2018 Thousands of Euros

OPERATING PROGRAMME	PROJECT	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
ANDALUCIA	Córdoba - Málaga	883,614	883,614	-	883,614
CASTILLA Y LEÓN	Segovia - Valladolid	193,256	193,256	-	193,256
MURCIA	Entrance to Murcia	28,412	28,412	-	28,412
CASTILLA LA MANCHA	Entrance to Toledo	67,127	67,127	-	67,127
VALENCIA	Entrance to Alicante	99,402	99,402	-	99,402
CASTILLA Y LEÓN	Pajares Tunnels	283,995	283,995	-	283,995
ASTURIAS	Pajares Tunnels	107,873	107,873	-	107,872
ERDF 2007-2013		2,264,456	2,256,428	-	2,256,399
ERDF 2014-2020		194,997	74,681	147,422	179,618
TOTAL		4,123,132	3,994,788	147,422	4,099,695

31/12/2017 Thousands of Euros

OPERATING PROGRAMME	PROJECT	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
ANDALUCIA	Córdoba - Málaga	883,614	883,614	-	883,614
CASTILLA Y LEÓN	Segovia - Valladolid	193,256	193,256	-	193,256
MURCIA	Entrance to Murcia	28,412	28,412	-	28,412
CASTILLA LA MANCHA	Entrance to Toledo	67,127	67,127	-	67,127
VALENCIA	Entrance to Alicante	99,402	99,402	-	99,402
CASTILLA Y LEÓN	Pajares Tunnels	283,995	283,995	-	283,995
ASTURIAS	Pajares Tunnels	107,873	107,873	-	107,872
ERDF 2007-2013		2,276,556	2,273,676	-	2,175,944
ERDF 2014-2020		32,695	32,196	43,676	43,676
TOTAL		3,972,930	3,969,551	43,676	3,883,298

9.c) Community financial aid to trans-European networks (TEN)

The situation as of 31 December, 2018 and 31 December, 2017 of the TEN funds, without considering the tax effect and including the amounts accrued for debts convertible into subsidies, is as follows:

Notes to the Annual Accounts
31 December 2018

31/12/2018 Thousands of Euros

STRETCH	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
Madrid-Barcelona-Frontera francesa H.S.L.	80,694	80,694	-	80,694
Madrid-Valladolid H.S.L.	20,603	20,603	-	20,603
Madrid-Levante H.S.L.	62,181	62,181	-	58,880
New Rail Access to Asturias	3,191	3,191	-	3,191
Vitoria-Bilbao-San Sebastián y Valladolid-Burgos-Vitoria H.S.L.	372,689	131,015	18,439	149,454
Madrid-Extremadura H.S.L.	35,881	35,881	-	35,881
Bobadilla-Granada H.S.L.	2,174	2,174	-	2,174
Mediterranean Corridor	110,388	100,924	-	91,383
Other High-Speed	6,539	4,754	164	3,617
TOTAL	694,340	441,417	18,603	445,877

31/12/2017 Thousands of Euros

STRETCH	ASSISTANCE GRANTED	GRANTS ACCRUED	PAYABLES CONVERTIBLE INTO GRANTS (Note 11,b)	COLLECTIONS MADE
Madrid-Barcelona-Frontera francesa H.S.L.	80,694	80,694	-	80,694
Madrid-Valladolid H.S.L.	20,603	20,603	-	20,603
Madrid-Levante H.S.L.	62,181	62,181	-	55,985
New Rail Access to Asturias	3,191	3,191	-	3,191
Vitoria-Bilbao-San Sebastián y Valladolid-Burgos-Vitoria H.S.L.	344,620	120,860	19,947	142,966
Madrid-Extremadura H.S.L.	35,881	35,881	-	49,279
Bobadilla-Granada H.S.L.	2,174	2,174	-	2,174
Mediterranean Corridor	110,388	86,564	-	75,747
Other High-Speed	6,539	3,268	215	3,328
TOTAL	666,271	415,416	20,162	433,967

As established by Community legislation, within the conditions established for its concession, the Major Projects of works co-financed by the Cohesion Fund and by the ERDF in the 2007-2013 period must be functional as of March 31, 2019. For this it will be necessary have a Reception Certificate, Certificate of Availability of the Infrastructure or equivalent document of all the works records included in the Grand Project.

In November 2018, the European Commission, for the first time, indicated to the Ministry of Finance its willingness to apply a proportionality criterion in the event that the Major Projects are not fully functional. In this way, the reduction of the assistance accrual would be made on the basis of those works records (and their

Notes to the Annual Accounts 31 December 2018

associated technical assistance) for which the required documentation is not available. This criterion has been subsequently transferred to the entity in tripartite meetings with the Commission and the Ministry of Finance.

Various measures have been taken by the Entity to be able to meet this objective, among which are the rescheduling of the work and the exhaustive monitoring of the pending actions.

It is expected that March 31, 2019 all the Major Projects meet the requirements demanded by the European Commission, however, there could be a slight delay in one work in Galicia and another in Pajares, which would force, if necessary, to return some of the assistance amounting to 30,005 thousand euros, this amount has been recorded as a short-term liability (see note 11.b).

(10) Provisions for Liabilities and Charges

The breakdown by item in the section of the balance sheet for provisions for current and non-current risks and expenses as of 31 December, 2018 and 31 December, 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Employee benefits	785	522	752	484
-Defined benefit plans	785	7	752	35
<i>Length-of-service bonuses</i>	<i>137</i>	<i>7</i>	<i>166</i>	<i>34</i>
<i>Provision for leisure travel, retired personnel</i>	<i>648</i>	-	<i>586</i>	<i>1</i>
-Other employee benefits	-	515	-	449
Other provisions	816,596	105,591	682,462	63,981
Provisions for legal proceedings	684,802	-	546,965	-
"1,5% for culture" provision	-	32,701	-	-
Other items (note 10.b.3 and note 23)	131,794	72,890	135,497	63,981
	817,381	106,113	683,214	64,465

The changes in the section "Provisions for long-term risks and expenses" at 31 December 2018 and 31 December 2017 are shown in the tables below:

Notes to the Annual Accounts
 31 December 2018

	31/12/2018 Thousands of Euros				
	Non-current provisions for liabilities and charges				
	Length-of-service bonuses	Provision for leisure travel, retired personnel	Provision for legal proceedings	Other items	TOTAL
Balances at 1/01/2018	166	586	546,965	135,497	683,214
Charges for the year recognised in profit and loss	11	51	645	(3,703)	(2,996)
Charges for the year recognised in investments	-	-	181,829	-	181,829
Financial effect of discount	2	9	-	-	11
Payments for the year	-	-	(43,235)	-	(43,235)
Transfers to current	(47)	-	(617)	-	(664)
Amounts taken to profit and loss	5	2	-	-	7
Other movements	-	-	(785)	-	(785)
Balances at 31/12/2018	137	648	684,802	131,794	817,381

	31/12/2017 Thousands of Euros					
	Non-current provisions for liabilities and charges					
	Length-of-service bonuses	Provision for leisure travel, retired personnel	Provision for environmental risks	Provision for legal proceedings	Other items	TOTAL
Balances at 1/01/2017	185	569	2,013	320,358	153,937	477,062
Charges for the year recognised in profit and loss	(13)	50	-	1,274	(18,440)	(17,129)
Charges for the year recognised in investments	-	-	-	267,712	-	267,712
Financial effect of discount	2	7	-	(3,110)	-	(3,101)
Payments for the year	-	-	-	(31,085)	-	(31,085)
Transfers to current	(2)	(1)	-	(863)	-	(866)
Amounts taken to profit and loss	-	-	227	(7,321)	-	(7,094)
Other movements	(6)	(39)	(2,240)	-	-	(2,285)
Balances at 31/12/2017	166	586	-	546,965	135,497	683,214

10.a) Provisions for liabilities and charges related to personnel

10.a.1) Length-of-service bonuses

Length-of-service bonuses reflect ADIF-AV's obligation, in compliance with employment regulations, to pay a bonus to employees based on the number of years' service. This bonus is receivable after 30, 35 and 40 years of service and the amount is stipulated in the applicable collective bargaining agreement signed on 5 May 2016 and now applicable. The amount recognised at 31 December 2018 is 144 thousand euros, of which 137 thousand euros are recognised as non-current provisions for liabilities and charges and 7 thousand euros as current provisions for liabilities and charges.

The provision at 31 December 2018 has been calculated using an actuarial study prepared applying the individual capitalisation method and using the

Notes to the Annual Accounts
31 December 2018

following inputs: annual interest rate of 1.137%, annual growth rate of 2.3% and table of expected length-of-service in ADIF based on the PERM/F-2000 actuarial table.

10.a.2) Provision for future commitments for staff leisure travel

The provision for staff leisure travel reflects the present value of commitments undertaken by ADIF-AV and accrued at 31 December 2018 for the entitlement of its personnel to rail travel at reduced prices upon retirement. This provision amounts to 648 thousand euros and is recognised under non-current provisions for liabilities and charges, of which a total of 647 thousand euros are presented in the chapter "Provisions for long-term risks and expenses" and 1 thousand euros in "Provisions for short-term risks and expenses".

The entitlement to travel at reduced prices is reflected in ADIF-AV's employment regulations for active and retired personnel and their beneficiaries. At 8 November 2006, with retrospective effect as of 1 January 2005, ADIF and RENFE Operadora signed an agreement regulating their relationship in this regard. Under the mentioned agreement, ADIF will pay RENFE Operadora the amount of fare reductions afforded to its currently-serving personnel and to personnel that retired or took pre-retirement prior to 1 January 2005.

The provision for 2018 has been determined through an actuarial study which used the following inputs:

- An average fare increase of 2% for 2018 and subsequent years.
- A technical interest of 1.435% for passive staff and 1.4432% for active annual staff.
- The actuarial table PERM/F 2000.
- Retirement age of 65.

10.b) Other provisions**10.b.1) Non-Current provisions for legal proceedings**

Included under "provisions for litigation" are the estimated risks arising from labour disputes and with third parties. The Entity considers that such litigation is likely to result in an outflow of future resources. At 31 December 2018 and 31 December 2017, ADIF A.V. has recorded the present value of the best estimate of the future costs corresponding to these disputes for a total of 684,802 thousand euros and of 546,965 thousand euros respectively.

The following is a detail of these estimates:

Notes to the Annual Accounts
31 December 2018

Concept	Thousands of Euros	
	31/12/2018	31/12/2017
Risks for investment works urged by contractors	656,867	504,410
Risks for investments in land expropriated	24,381	38,244
Other risks	3,554	4,311
	684,802	546,965

The amounts related to litigations filed by construction companies for the execution of construction contracts have been charged to the property, plant and equipment in the Balance Sheet and basically originated in claims for differences in measurements and in the determination of the price revisions. Also, for possible cost overrides caused by paralyzes and extensions of the execution time of the works. Likewise, the claims registered as a result of expropriation of land have also been recorded under the item of property, plant and equipment. The rest of the amounts reflected in the previous table were recognized in the corresponding year with a charge to the profit and loss account, according to their nature.

In addition, as of 31 December, 2018, the Entity is involved in a series of litigations related predominately to claims for liability and expropriations, with the maximum risk estimated, with the best information available, at 129,958 thousand euros. This is expected to be concluded shortly and for which it is considered that an exit of resources is not probable, the reason why ADIF AV has not provisioned any amount. At year-end 2017, the maximum risk estimated by the Entity for this same concept amounted to 164,025 thousand euros.

Furthermore, on 31 December, 2018, ADIF-AV acts as a claimant in a judicial process for diversion of funds through the alleged alteration of the prices of various projects for the replacement of hydraulic infrastructures affected by the execution of a high-speed line. The Entity is charged as a private accusation for being harmed by the diversion of funds and surcharges and estimates that the amount to claim could amount to 35,000 thousand euros. The Entity has considered this claim as a financial asset that has been fully impaired in 2016 under the heading "Impairment and result from disposal of financial instruments" in the accompanying income statement.

The Entity, additionally acts as a claimant at the closing of these financial statements in a legal proceeding against one of the contractors of works and services linked to railway infrastructure facilities owned by ADIF-AV due to a discrepancy in the interpretation of the relative clause to the quantification of the price revision, The amount claimed by the Entity amounts to 24,727 thousand euros and it considers that the outcome of this litigation will not significantly affect the Entity's net assets.

It is also worth highlighting the judicial proceedings filed by the Entity in various cases of execution of works in the La Sagrera area (Barcelona) for alleged credit note corresponding to non-justified extra costs. The Entity has carried out several external audits of works to be able to evaluate the damage that, at the date of closing of these annual accounts according to the

Notes to the Annual Accounts
31 December 2018

best available information, is valued at a maximum amount of 23 million euros for one case and 18 million for another case. Both processes are in the trial phase, so the amount of the damage is not fixed by a Judgment. Both amounts were recorded as investments of ADIF AV. To the extent that in one of cases the bidder is immersed in bankruptcy, the Entity has decided to impair the contingent asset valued at the best available estimate of 23 million euros against the heading "Impairment and results from disposals of financial instruments".

10.b.2) "1.5% for culture" provision

The heading "Provisions for short-term risks and expenses" includes, where appropriate, the provision for the amount pending payment for the contribution to the Spanish Historical Heritage, regulated by Law 16/1985, R.D. 111/1986 and Instruction number 43 of the Deputy Secretary of the Ministry of Public Works dated May 16, 2014. As of 31 December, 2018 the balance has a balance of 32,701 thousand euros.

10.b.3) Other items

In the heading "Other items" included in the provisions section for risks and expenses of non-current liabilities, a provision for the amount of 131,794 thousand euros and 135,947 thousand euros is included as of 31 December, 2018 and 31 December, 2017 respectively, corresponding to the best estimate of the risk assumed with certain railway integration companies as a result of the loans granted or the letters of commitment or comfort letter subscribed by the Entity to the extent that the investee is not capable of generating sufficient resources to repay bank loans or contributions from partners, Note 23 contains a breakdown of the aforementioned amount broken down by each of the affected companies.

In addition, the Entity included under the "Other Items" section, a provision for the estimated value of the interest on late payment of certificates of works and expropriations, in some cases claimed judicially, whose amount as of 31 December, 2018 amounted to 66,431 thousand euros and which at the end of the year 2017 amounted to 59,492 thousand euros.

(11) Financial Liabilities

Details of financial liabilities classified by category at 31 December 2018 and 31 December 2017 are as follows:

Notes to the Annual Accounts
31 December 2018

	31/12/2018 Thousands of Euros			
	Loans and borrowings	Bonds	Derivatives and other financial liabilities	Total
Non-current financial liabilities				
Non-current trade payables	10,536,584	4,383,814	320,220	15,240,618
Total non-current financial liabilities	-	-	53,911	53,911
Current financial liabilities	10,536,584	4,383,814	374,131	15,294,529
Current payables				
Payables to Group companies and associates	615,840	51,852	346,2372	1,013,929
Trade and other payables	-	-	15,394	15,394
Total current financial liabilities	-	-	167,602	167,602
Non-current financial liabilities	615,840	51,852	529,233	1,196,925

	31/12/2017 Thousands of Euros			
	Loans and borrowings	Bonds	Derivatives and other financial liabilities	Total
Non-current financial liabilities				
Non-current trade payables	10,926,672	3,788,425	223,625	14,938,722
Total non-current financial liabilities	-	-	-	-
Current financial liabilities	10,926,672	3,788,425	223,625	14,938,722
Current payables				
Payables to Group companies and associates	455,160	47,524	399,875	902,559
Trade and other payables	-	-	16,821	16,821
Total current financial liabilities	-	-	181,325	181,325
Non-current financial liabilities	455,160	47,524	598,021	1,100,705

11.a) Loans and borrowings and bonds and other marketable securities

11.a.1) Debts with credit institutions and obligations

Loans and borrowings primarily comprise debt arranged by ADIF and allocated to the Entity, subject to State approval, with the European Investment Bank and other financial institutions, including BBVA, Banco Sabadell, Banco Santander and the Spanish Official Credit Institute, to finance investments in property, plant and equipment foreseen in the Multi-Year Action Plan (MAP).

It is also worth mentioning the issues of Obligations made by the Entity from the end of May 2014 until today.

The detail of the financial liabilities of ADIF AV with credit institutions in the short and long term as of 31 December, 2018 and 31 December, 2017 is shown in the table below:

Notes to the Annual Accounts
31 December 2018

	Interest	31/12/2018 Thousands of Euros	
		Maturity	
		Current	Non-current
Loans in Euros (EIB)	0% to 4.415%	304,405	9,841,209
Accrued interest payable		83,767	-
Total loans and borrowings (EIB)		388,172	9,841,209
Loans in Euros (other entities)	0.531% to 3.795%	225,683	695,375
Accrued interest payable		1,985	-
Other loans and borrowings, for derivatives		63	5,429
Total loans and borrowings (other entities)		227,731	700,804
Bonds (Euros)	0.8% to 3.5%	217	4,383,814
Accrued interest payable on bonds		51,635	-
Total bonds		51,852	4,383,814
Total loans and borrowings and bonds and other marketable securities at 31 December 2018		667,755	14,925,827

	Interest	31/12/2017 Thousands of Euros	
		Maturity	
		Current	Non-current
Loans in Euros (EIB)	0% to 4.415%	185,174	10,005,614
Accrued interest payable		84,855	-
Total loans and borrowings (EIB)		270,029	10,005,614
Loans in Euros (other entities)	0.521% to 3.795%	182,827	921,058
Accrued interest payable		2,304	-
Other loans and borrowings, for derivatives		46	-
Total loans and borrowings (other entities)		185,177	921,058
Bonds (Euros)	1.875% to 3.5%	-	3,788,425
Accrued interest payable on bonds		47,524	-
Total bonds		47,524	3,788,425
Total loans and borrowings and bonds and other marketable securities at 31 December 2017		502,730	14,715,097

The financial amortization of long-term debt, valued at the closing exchange rate at 31 December 2018 and at 31 December 2017 and at amortized cost, are as follows according to the maturity:

Notes to the Annual Accounts
31 December 2018

	Maturity	Thousands of Euros	
		31/12/2018	31/12/2017
2018		-	368,001
2019		530,305	530,089
2020		593,523	593,307
2021		625,212	624,996
2022		1,794,931	1,808,297
2023		1,097,460	1,099,412
2024		1,451,676	1,447,466
2025		1,445,235	1,439,169
2026		1,051,322	445,235
2027		451,322	445,235
2028		451,322	445,235
Thereafter		5,958,395	5,836,656
		15,450,703	15,083,098

The average annual interest rate on ADIF-AV's borrowings at 31 December 2018 and 31 December 2017 is 1.88% and 1.91%, respectively.

At the 31 December 2018 and 31 December 2017, the total limit on credit facilities that ADIF-AV had received from financial institutions stood at 385,000 and 480,000 thousand euros respectively. At 31 December 2018 and 31 December 2017, no amounts had been drawn down on these credit facilities. These credit facilities mature in the short term, and certain policies may be tacitly renewed each year up to a specified number of years.

11.a.2). Derivatives

Details of derivatives held by the Entity at 31 December 2018 and at 31 December 2017 are as follows:

	31/12/2018 Expressed in thousands of Euros				
	Assets		Liabilities		Equity
	Non-current tax effect	Current	Non-current financial liability	Current	
Interest rate cash flow hedge	1,357	-	(5,429)	-	(4,072)
Collections / payments swap interest rate hedging	-	-	-	(63)	-

Notes to the Annual Accounts
31 December 2018

	31/12/2017 Expressed in thousands of Euros				
	Assets		Liabilities		Equity
	Non-current tax effect	Current	Non-current financial liability	Current	
Interest rate cash flow hedge	1,523	-	(6,090)	-	(4,567)
Collections / payments swap interest rate hedging	-	-	-	(46)	-

Interest rate swaps

The Entity uses interest rate swaps to manage its exposure to interest rate fluctuations on two bank loans with a total nominal amount of 441.68 million euros at 31 December 2018 and 522.11 million at 31 December 2017.

Derivative liabilities at 31 December, 2018 include, on the one hand, the fair value of an interest rate swap agreement (IRS) signed in March 2015 with maturity in 2022, the fixed rate being set at 1.275% to be paid by the Entity and a variable rate of Euribor at 3 months to be paid by the financial institution with a notional amount of 441.68 million euros.

At year-end 2017, derivative liabilities included, on the one hand, the fair value of an interest rate swap contract signed in March. On the other hand, the fair value of an interest rate swap agreement (IRS) signed in March 2015 with maturity in 2022, the fixed rate being set at 1.275% to be paid by the Entity and a variable rate of Euribor at 3 months to be paid by the financial institution with a notional amount of 552.11 million euros.

The fair value of swaps is based on market values of equivalent derivative financial instruments at the date of the financial statements. This interest rate swap is effective as a cash flow hedge, so changes in the fair value of the hedge are recognized directly in equity as of 31 December, 2018 and 31 December, 2017.

11.b) Other financial liabilities

Details of other financial liabilities at 31 December 2018 and at 31 December 2017 are as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Payables convertible into grants	222,359	-	114,961	-
Suppliers of fixed assets	87,474	296,903	97,645	383,990
ERDF aid to be repaid (note 9)	-	49,271	-	15,839
Deposits and guarantees	4,958	-	4,929	-
	314,791	346,174	217,535	399,829

Notes to the Annual Accounts
31 December 2018

11.b.1) Payables convertible into grants

At 31 December 2018 and at 31 December 2017, this account comprises European funds or grants received from other entities to finance the railway infrastructure forming part of ADIF-AV, which will be reclassified to equity and deferred tax liabilities when the grant conditions have been met. Breakdown at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
European Funds		
ERDF	147,422	43,676
TEN-T	18,603	20,162
Other		
Ministry of Public Works (Addenda 21/12/2009 Barcelona Sagrera (Note 1(c)))	48,290	48,290
Other grants	8,044	2,833
	222,359	114,961

11.b.2) Suppliers of fixed assets

At 31 December 2018, non-current payables to suppliers of fixed assets amount to 84,474 thousand euros, of which 46,629 thousand euros relates to works carried out on the Madrid-Castilla la Mancha-Valencia Autonomous Community-Murcia Region line, and 27,333 thousand euros to works on the Olmedo-Orense stretch, under a public-private partnership. Also, it includes an amount of 13,512 thousand euros for the net present value of invoices to be paid to Renfe Operadora, with a long-term maturity as a result of the acquisition of the rights of use of spaces that ADIF AV has possessed since the segregation of Renfe in 2005 (see Note 4).

At 31 December 2017, non-current payables to suppliers of fixed assets amount to 97,645 thousand euros, of which 51,440 thousand euros relates to works carried out on the Madrid-Castilla la Mancha-Valencia Autonomous Community-Murcia Region line, and 30,696 thousand euros to works on the Olmedo-Orense stretch, under a public-private partnership. Also, it includes an amount of 15,509 thousand euros for the net present value of invoices to be paid to Renfe Operadora, with a long-term maturity as a result of the acquisition of the rights of use of spaces that ADIF AV has possessed since the segregation of Renfe in 2005 (see Note 4).

In addition, the balance as of 31 December, 2018 and 31 December, 2017, for fixed asset suppliers includes the debt for works for own assets and expropriations for the amount of 66,477 thousand euros and 99,393 thousand euros respectively. Also the amount of the invoices of fixed assets suppliers receivable for a total of 236,691 thousand euros at 31 December 2018 and 230,426 thousand euros at 31 December 2017.

11.c) Payables to Group companies and associates

Details of the balances of these current liabilities accounts in the accompanying balance sheets at 31 December 2018 and 31 December 2017 are as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Suppliers, Group companies and associates	Suppliers and payables, Group companies and associates	Suppliers, Group companies and associates	Suppliers and payables, Group companies and associates
Non Current Liabilities				
Valladolid Alta Velocidad	53,911	-	-	-
	53,911	-	-	-
Current Liabilities				
Ingeniería y Economía del Transporte, S.A. (INECO)	15,063	731	16,547	501
Zaragoza Alta Velocidad 2002, S.A.	-	-	274	-
Valladolid Alta Velocidad 2003, S.A.	331	-	-	-
	15,394	731	16,821	501

The account payable of non-current liabilities represents the obligation to deliver land to the company Valladolid Alta Velocidad S.A. in consideration of railway works received under the delivery certificate signed in 2018 as indicated in note 4.

In addition to these balances, as of 31 December, 2018 and 31 December, 2017, the Entity registered, as other current financial liabilities, the best estimate available at the closing date of the infrastructure works carried out by the suppliers of fixed assets to the participating companies Valencia Parque Central 2003, SA and Alta Velocidad Alicante Nodo de Transporte, S.A. valued at 71,859 thousand euros and 26,435 thousand euros respectively

These payables have arisen as a result of the different commercial and non-commercial transactions carried out between the Entity and these companies.

11.d) Trade and other payables

The breakdown of trade and other payables at 31 December 2018 and 31 December 2017, excluding balances with public administrations, is as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Other suppliers and payables	166,613	180,561
Suppliers and payables, Group companies and associates (Note 11,c)	731	501
Personnel	258	263
	167,602	181,325

The item "Suppliers and various creditors" includes debts for purchases or services rendered pending payment as of 31 December, 2018 and 31 December, 2017. It includes, among others, the amount pending payment to ADIF for services rendered according to detail attached. In addition, under the heading of fixed assets providers, the debts of ADIF AV with ADIF for this concept are included in

Notes to the Annual Accounts
31 December 2018

the respective dates indicated (17,651) thousand euros and (13,124) thousand euros.

	Thousands of Euros	
	31/12/2018	31/12/2017
Suppliers and creditors debt with ADIF	40,154	70,530
Agreements with ADIF for outstanding invoices	27,563	60,352
Agreements with ADIF for invoices pending processing	12,591	10,178
Suppliers of fixed assets with ADIF	(17,651)	(13,124)
By invoice processed	4,044	4,250
By invoicing pending processing	(21,695)	(17,374)
	22,503	57,406

The information relating to 2018 and 2017 on payments to suppliers as established by Additional Provision Three of Law 15/2010 of July 5 2010 and in accordance with the methodology established in the Resolution of the Institute of Accounting and Auditing Accounts of January 29, 2016, shown in the following table:

	31/12/2018	31/12/2017
	Days	
Average payment period to suppliers	55.53	50.15
Ratio paid operations	57.63	53.67
Ratio of outstanding payment transactions	27.38	25.86

	Thousands of Euros	
	31/12/2018	31/12/2017
Total payments	1,746,167	1,457,083
Total outstanding payments	130,573	210,714

This calculation includes both figures relating to other suppliers and payables as well as those relating to suppliers of fixed assets.

(12) Income Tax

The breakdown of the balances with Public Administrations as of 31 December, 2018 and 31 December, 2017 is as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Assets				
Receivables for awarded funds and grants	42,485	-	171,399	-
Deferred tax assets (Note 11)	1,357	-	1,522	-
Current tax assets	-	27	-	372
Public entities, other receivables	-	88,292	-	80,044
Total assets	43,842	88,319	172,921	80,416
Liabilities				
Deferred tax liabilities	3,539,673	-	3,514,250	-
Current tax liabilities	-	(23)	-	(23)
Public entities, other payables	-	579	-	580
Total liabilities	3,539,673	556	3,514,250	557

12.a) Public entities, receivables

The breakdown of the balances with debtor Public Administrations as of 31 December, 2018 and 31 December 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Receivables for awarded funds and grants	42,485	-	171,399	-
High-speed Cohesion Funds	-	-	73,667	-
High-speed ERDF	42,485	-	97,732	-
Deferred tax assets (Note 11)	1,357	-	1,522	-
Current tax assets	-	27	-	372
Public entities, other receivables	-	88,292	-	80,044
Current VAT receivable	-	26,598	-	27,716
Receivables for awarded funds and grants	-	61,694	-	52,328
High Speed Cohesion Funds	-	15,546	-	-
High-speed ERDF	-	24,536	-	32,196
High-speed TEN funds	-	13,787	-	17,095
Other items	-	7,825	-	3,037
Total assets	43,842	88,319	172,921	80,416

The entire balance of receivables for current and non-current awarded funds and grants relates to accrued amounts receivable at 31 December 2018 and 31 December 2017 for European Fund assistance granted. These funds were awarded to finance the construction of high-speed lines and for investments in own assets (see Note 9).

Current tax assets relate to withholdings and payments on account of income tax recoverable from the tax authorities.

Notes to the Annual Accounts
31 December 2018

12.b) Public entities, payables

The breakdown of the balances with the Receivable Public Administrations as of 31 December, 2018 and 31 December, 2017 is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Deferred tax liabilities	3,539,673	-	3,514,250	-
Current tax liabilities	-	(23)	-	(23)
Public entities, other payables	-	579	-	580
VAT	-	-	-	-
Social Security	-	285	-	283
Withholdings	-	294	-	297
Total liabilities	3,539,673	556	3,514,250	557

Deferred tax liabilities that are expected to be realised or reversed in periods exceeding 12 months are those deriving from capital grants and total 3,539,671 thousand euros at 31 December 2018 and at 31 December 2017 was 3,514,250 thousand euros

The movement registered in 2018, from 1 January, 2018 to 31 December, 2018 and in 2017, of the deferred tax liabilities, broken down by origin, is as follows:

	31/12/2018 Thousands of Euros					
	Cohesion Funds	ERDF Funds	TEN-T Funds	Execution of grants (1)	Other capital grants	Total
Balances at 31 December 2017	1,626,587	975,695	101,467	720,780	89,721	3,514,250
Additions in 2018	(20,722)	6,231	6,474	60,111	163	52,257
Capital grants taken to income (Note 19)	(11,461)	(7,235)	(735)	(6,499)	(904)	(26,834)
Other concepts						
Balances at 31 December 2018	1,594,404	974,691	107,206	774,392	88,980	3,539,673

	31/12/2017 Thousands of Euros					
	Cohesion Funds	ERDF Funds	TEN-T Funds	Execution of grants (1)	Other capital grants	Total
Balances at 31 December 2016	1,637,698	975,393	93,424	703,777	91,098	3,501,390
Additions in 2017	-	6,954	8,421	22,208	162	37,745
Capital grants taken to income (Note 19)	(11,127)	(6,689)	(376)	(5,072)	(1,759)	(25,023)
Other concepts	16	37	(2)	(133)	220	138
Balances at 31 December 2017	1,626,587	975,695	101,467	720,780	89,721	3,514,250

Notes to the Annual Accounts
31 December 2018

12.c) Income tax

The Entity taxes under the individual regime. The negative tax base amounts to 72,232 thousand euros at 31 December 2018.

The reconciliation between the accounting result for the year and the tax base is as follows:

	01/01/2018 to 31/12/2018 Thousands of Euros					
	Income statement			Income and expense taken directly to equity		
	Increases	Decreases	Total	Increases	Decreases	Total
Income and expenses for the period (1/01/2018 - 31/12/2018)			(223,410)			75,957
Income tax adjustments			-			25,589
Income and expenses before income tax			(223,410)			101,546
Permanent differences	558	(1,070)	(512)			
Temporary differences:						
- Originating in current year	184,362		184,362	145	(209,025)	(208,880)
- Originating in prior years		(32,672)	(32,672)			107,334
Prior taxable income of the Entity			(72,232)			-
Offset of prior years' tax loss carry forwards (Limit 25% of GDP)						
Taxable income						
Tax rate						
Tax payment						
Deductions for double taxation						
Adjusted tax payment						
Tax payable						
Withholdings and payments on account						26
Pre-payments						
Income tax recoverable			(26)			

The negative tax base in 2017 amounted to 50,503 thousand euros. The reconciliation between the accounting result for the year 2017 and the tax base is as follows:

Notes to the Annual Accounts
31 December 2018

	01/01/2017 to 31/12/2017 Thousands of Euros					
	Income statement			Income and expense taken directly to equity		
	Increases	Decreases	Total	Increases	Decreases	Total
Income and expenses for the period (1/01/2017 - 31/12/2017)			(199,997)			51,486
Income tax adjustments			-			15,558
Income and expenses before income tax			(199,997)			67,044
Permanent differences	19	(1,971)	(1,952)			
Temporary differences:						
- Originating in current year	198,775	-	198,775	(16,167)	(150,970)	(167,137)
- Originating in prior years		(47,329)	(47,329)			100,093
Prior taxable income of the Entity			(50,503)			-
Offset of prior years' tax loss carry forwards (Limit 25% of GDP)						
Taxable income						
Tax rate			25%			
Tax payment						
Deductions for double taxation						
Adjusted tax payment						
Tax payable						
Withholdings and payments on account			58			
Pre-payments						
Income tax recoverable			(58)			

The temporary differences mentioned above in the profit and loss account had been considered as permanent differences, since the Entity's Management does not consider that sufficient positive tax bases will be generated to allow the recognition of deferred tax assets.

The detail of the temporary differences in the recognition of expenses and income for accounting and fiscal purposes is as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros			
	Income statement			
	31/12/2018		31/12/2017	
	Increases	Decreases	Increases	Decreases
- Amortisation and depreciation				
- Impairment	26,915		27,021	-
- Pensions	73		59	-
- Net finance expense	165,131		171,695	-
Temporary differences originating in current year	192,119		198,775	-
- Amortisation and depreciation		(17,635)	-	(17,635)
- Impairment		(14,963)	-	(29,674)
- Pensions		(74)	-	(20)
- Net finance expense			-	-
Temporary differences originating in prior years		(32,672)	-	(47,329)

Temporary differences recorded in income and expenses and recognized directly in equity correspond to grants, donations and bequests.

The detail of the permanent differences corresponding to the financial years 31 December 2018 and 31 December, 2017 is as follows:

	Thousands of Euros			
	Income statement			
	31/12/2018		31/12/2017	
	Increases	Increases	Increases	Increases
- Other non-deductible expenses	558	-	19	-
- Exemption for double taxation of dividends	-	(1,070)	-	(1,971)

The negative tax bases of previous years to be offset, as well as their amounts, origin and terms are as follows:

Year	Limit	Originating in	Thousands of Euros		
			Pending from origin	Applied in the year	Pending
2014	N/A	ADIF-AV	19,092	-	19,092
2015	N/A	ADIF-AV	76,852	-	76,852
2016	N/A	ADIF-AV	119,130	-	119,130
2017	N/A	ADIF-AV	50,503	-	50,503
			<u>265,577</u>		<u>265,577</u>

Net finance costs pending deduction, including the amount, origin and deduction period, are as follows:

Notes to the Annual Accounts
31 December 2018

Year	Limit	Originating in	Thousands of Euros
2012	N/A	ADIF (*)	128,712
2013	N/A	ADIF-AV	110,832
2014	N/A	ADIF-AV	172,657
2015	N/A	ADIF-AV	223,576
2016	N/A	ADIF-AV	193,513
2017	N/A	ADIF-AV	171,695
2018	N/A	ADIF-AV	157,375
			<u>1,158,360</u>

(*) Transferred to ADIF-AV as of 1 January 2013.

Accounting amortization expenses not deductible up to the date of issuance of these annual accounts pursuant to article 7 of Law 16/2012 are as follows:

Year	Originating in	Thousands of Euros	Available until
2013	ADIF-AV	88,299	2015-2024
2014	ADIF-AV	88,050	2015-2024
		<u>176,349</u>	

These amounts will be deducted in a Straight-line method for an amount of 17,635 thousand euros during a period of 10 years from this financial year 2015 until the year 2024 as provided in that same article 7.

The Entity has the following deductions for reversal of temporary measures of transitional provision 37.1 of the Corporation Tax Law:

Thousands of Euros				
Year	Limit	Origin	Applied during year	Pending
2015	N/A	352	-	352
2016	N/A	882	-	882
2017	N/A	882	-	882
2018	N/A	882	-	882
		<u>2,998</u>		<u>2,998</u>

Also, the deductions pending to be applied to encourage the performance of certain activities, namely by Technological Innovation, which the Entity has, are the following:

Notes to the Annual Accounts
 31 December 2018

Year	Limit	Origin	Applied during year	Pending
2015	2033	42	-	42
2016	2034	68	-	68
2017	2035	70	-	70
2018	2036	71	-	71
		251	-	251

The following deductions are also pending for donations to non-profit entities of Law 49/2002:

Thousands of Euros				
Year	Limit	Origin	Applied during year	Pending
2017	2027	194	-	194
2018	2028	193	-	193
		387	-	387

The accompanying balance sheet does not reflect the possible tax impact of the offset of losses or of deductions pending application, as Entity management considers it unlikely that these will be recoverable within periods established on the accounting rules.

In application of Corporate Income Tax Law 27/2014, published in the Official State Gazette of 28 November 2014, the Entity adjusted the equity (see Note 9) and deferred taxes of ADIF in order to adapt them to the progressive reduction in the general corporate income tax rate from 30% to 25% (in particular, to 28% in 2015 and 25% in 2016), as determined by the mentioned legislation.

12.d) Value added tax

The Entity opted for the application of the special pro rata rule from 2014 and beyond. The tax charged on the purchase or importation of goods or services used exclusively in carrying out operations that cause the deductibility have been fully deducted.

12.e) Years open to inspection

As of 31 December, 2018, the Entity has open to inspection for the Value Added Tax for the years 2015 to 2018 and for the Corporation Tax for the years 2015 to 2018. The Entity's Management considers that there would be no significant liabilities as a result of future tax inspections.

(13) Revenue

The detail of revenue in the income statement for the years 2018 and 2017 is as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of euros	
	31/12/2018	31/12/2017
Revenue from use of rail facilities and other fees		
Use of the public service rail network	473,170	453,328
Use of stations and other rail installations	98,922	95,466
Passenger rail transport safety levy	31	3,209
	572,123	552,003

The distribution of revenue at 31 December 2018 and 31 December 2017 by business segment or activity carried out by the Entity is shown in the following table:

	31/12/2018 Thousands of Euros			
	Use of the public service rail network	Use of stations and other rail infrastructures	Passenger rail transport safety levy	Total
Construction and administration of high-performance network	473,170	15,000	-	488,170
Management of ADIF-AV-owned assets (passenger stations)	-	83,922	31	83,953
Total	473,170	98,922	31	572,123

	31/12/2017 Thousands of Euros			
	Use of the public service rail network	Use of stations and other rail infrastructures	Passenger rail transport safety levy	Total
Construction and administration of high-performance network	332,083	10,454	-	342,537
Management of ADIF-AV-owned assets (passenger stations)	-	61,021	3,207	64,228
Total	332,083	71,475	3,207	406,765

13.a) Revenue from use of rail facilities

The detail of the revenues from settlement of railway charges accrued at 31 December 2018 and 31 December 2017, broken down by the different modalities established in the Order of the Ministry of Public Works 39/2003 and 38/2015 of the Railway Sector, is as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Use of infrastructure	473,170	453,328
Law 39/2003 of the Railway Sector (until 30/06/2017)		
Access	-	12,181
Capacity reservation	-	56,420
Circulation	-	40,573
Traffic	-	112,780
Law 38/2015 of the Railway Sector (since 01/07/2017)		
Adjudication capacity	87,059	42,274
Use of railway lines	358,230	172,460
Use Transformation and distribution EET	34,482	16,640
Bonus Canon use RFIG lines	(6,601)	
Use of stations and other rail installations	98,922	95,466
Law 39/2003 of the Railway Sector (until 30/06/2017)		
Use of stations	-	40,294
Stopping and use of platforms	-	4,409
Use of sidings	-	36
Use of gauge-changing installations	-	1,790
Use of public rail domain	-	3
Law 38/2015 of the Railway Sector (since 01/07/2017)		
Use Passenger transport stations	83,806	41,902
Wide changers	4,596	2,304
Use Tracks with platform	10,520	4,703
Use Roads in other service facilities	-	25
Use freight points for goods	-	-
	572,092	548,794

Of this revenue, at 31 December 2018, 100,884 thousand euros was pending collection as revenue from use of rail facilities in the ADIF-AV-owned network (see Note 6.2.b)).

13.b) Revenue from rail rates

It is establish that the taxable event of the rate is the exclusive use or the special use of goods of public railway domain that are made by concessions and authorizations, as well as, the provision of the necessary services for the granting of homologations, certifications, issuance of titles to the railway personnel, issuance of railway company licenses, safety certificates for railway companies and safety authorizations for railway infrastructure managers, by the State Agency for Railway Safety.

Notes to the Annual Accounts
31 December 2018

(14) Other Operating Income

Details of this income statement heading at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Rentals and services	104,309	102,836
Utilities, basically relates to traction power	271,179	262,221
Services provided in Stations and Terminals	-	10
Investment actions for third parties	6,309	9,984
Services Administration Infrastructure	1,489	1,504
Other	28,608	27,740
	411,894	404,295

Included in this income are the derivatives of services rendered to ADIF at 31 December 2018 and 31 December 2017 under the management fees indicated in note 1, according to the following breakdown:

	Thousands of Euros	
	31/12/2018	31/12/2017
Revenue from intra-administration agreements		
NTU electricity	14,160	9,291
Maintenance of fibre optics and auxiliary installations	1,489	1,504
ADIF investment actions	5,490	9,926
Other intra-administrative services	3,073	2,932
	24,212	23,653

Revenues from leasing of real estate, premises and other properties amount to 63,828 thousand euros at 31 December 2018. These are generated by assets included under "Investments in real estate", including those derived from long-term lease agreements.

In addition, income from optical fibre leasing amounting to 39,602 thousand euros at 31 December 2018 and 39,342 thousand euros in 2017, is recorded under this heading in the income statement.

The amounts received in advance corresponding to long-term contracts and pending attribution to income are shown under the heading "long-term accruals", the amount of which at 31 December, 2018 and 31 December, 2017 amounted to 488,021 thousand euros and 514,758 thousand euros respectively. In addition, under "Short-term accruals", the amount that will be charged to income in the following year for an amount of 28,309 thousand euros is recorded at 31 December, 2018.

Also included in the section long-term accruals are the revenues collected in advance at 31 December, 2018 and pending allocation to results as of that date,

Notes to the Annual Accounts
31 December 2018

arising from the awarding of the "Lease and exploitation of car parks located at various stations" contract on December 20, 2013 awarded to Saba Park 3, SLU for an amount of 111,467 thousand euros once the amount corresponding to ADIF has been discounted for the parking of its ownership. The contract has a term of 10 years and was formalized on January 31, 2014.

Non-current accruals also comprise the amounts collected in advance and pending transfer to income, in connection with rentals derived from the "Concession of the Rights to Use and Manage the Operation of the fibre optic cable network and other related items owned by ADIF-AV, which are not used for the railway services" to Red Eléctrica Internacional S.A.U., hereinafter REI, for an amount of 462,000 thousand euros, excluding VAT, for a period of 20 years. This amount was awarded by the Board of Directors of ADIF-AV, at its meeting held on 25 April 2014, and was reduced by 28,300 thousand euros, as one of the clients did not accept the assignment (telecommunications operator). The remaining clients authorised the assignment of their contracts, and therefore the final award proposal was valued at 433,700 thousand euros. The agreement with REI was signed on 20 November 2014 having obtained once the approval of the Spanish National Markets and Competition Commission, the effective transaction date has been 21 November 2014. At 31 December 2014, ADIF-AV had received the entire amount relating to the assignment of the usage rights.

As of December 28, 2015 the Entity, as already mentioned in notes 10 and 16, signed an agreement with ADIF and Renfe Operadora to acquire the rights to use spaces in buildings owned by ADIF A.V. and were being used without any financial consideration by RENFE Operadora, as set out in the Order FOM 2909/2006 which allocates to that entity certain assets, rights and obligations of the National Network of Spanish Railways. Under this acquisition agreement, the Entity has leased Renfe Operadora and its subsidiaries a total of 15,887.49 m² at various stations and facilities for an annual rate of 2,406,491.64 euros and for a period of 10 years, with an option of renewing.

(15) Personnel Expenses

Details of this income statement heading at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Salaries and wages	11,101	11,655
Employee benefits expense	2,946	2,947
Provisions	61	37
	14,108	14,639

Details of employee benefits expense are as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Social Security payable by the Entity	2,821	2,834
Other employee benefits	125	113
	2,946	2,947

The distribution of the Entity's employees by gender and category at 31 December 2018 and 31 December 2017 is as follows:

Category	Headcount 31/12/2018		
	Male	Female	Total
Administrative staff	128	48	176
Middle management	16	6	22
Operating personnel	2	6	8
	146	60	206

Category	Headcount 31/12/2017		
	Male	Female	Total
Administrative staff	132	48	180
Middle management	12	4	16
Operating personnel	2	7	9
	146	59	205

The average number of employees at each year end is shown in the following chart:

Category	Average number of	
	31/12/2018	31/12/2017
Administrative staff	178	187
Middle management	19	16
Operating personnel	9	9
	206	212

The breakdown by sex and categories of Entity staff at 31 December 2018 and 31 December 2017, with disability greater than 33% is shown in the following tables:

Category	Average number of employees at 31 December 2018		
	Male	Female	Total
Administrative staff	1	-	1
Middle management	-	-	-
Operating personnel	-	-	-
	1	-	1

Category	Average number of employees at 31 December 2017		
	Male	Female	Total
Administrative staff	1	-	1
Middle management	-	-	-
Operating personnel	-	-	-
	1	-	1

Notes to the Annual Accounts
31 December 2018

(16) Other Operating Expenses

Details of this income statement heading at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Infrastructure repairs and maintenance	282,519	278,915
Traction power	246,678	242,927
Traffic and passenger service-related services	58,354	54,289
Other supplies	36,811	30,142
Rentals and fees	10,141	10,162
Advertising and public relations	4,845	4,729
Other maintenance and repairs	2,823	2,718
Investment actions on behalf of third parties	5,490	9,926
Other	28,347	30,959
Total external services	676,008	664,767
Taxes other than income tax	3,900	3,473
Losses, impairment and changes in trade provisions	2,128	4,907
	682,036	673,147

The signature by ADIF and ADIF-AV of the service arrangements indicated in Note 1.b, which took place in 2013, led ADIF-AV to recognize expenses for accrued services rendered by ADIF in the amount of 352,256 thousand euros at 31 December 2018 and 347,488 thousand euros at 31 December 2017, and formalised in addenda to the service arrangements, as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Infrastructure repairs and maintenance	209,833	209,393
Fibre optic network maintenance, right of way services and right of use	13,361	13,488
Comprehensive management of safety and protection	29,879	28,368
Comprehensive management of stations	46,075	42,996
Traffic safety	1,974	1,974
Award of capacity and traffic management	26,502	23,947
Comprehensive communication services	4,521	4,521
Other agreements	20,111	22,801
	352,256	347,488

The work to carry out the audit of the annual accounts for the 2018 and 2017 financial years has been contracted by the IGAE. Additionally, Grant Thornton S.L.P. sole proprietorship has performed verification services linked to the annual accounts for 2017, as well as other works in 2018 and 2017 for a value of 295 thousand euros and 277 thousand euros, respectively. For its part PKF, Attest, S.L. current IGAE collaborator for the audit of accounts for 2018, has not made transactions with the Entity throughout 2018.

Notes to the Annual Accounts
31 December 2018

(17) Recognition of Grants for Fixed Assets and Other

The breakdown of income from capital grants generated at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of Euros	
	Total income	
	31/12/2018	31/12/2017
Cohesion Funds	45,848	44,507
ERDF	28,940	26,754
TEN-T	2,937	1,505
Other grants	29,609	27,327
	107,334	100,093

(18) Finance Costs

Details of this income statement heading at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
On loans with third parties	358,600	371,056
Interest on loans and bonds	<u>299,295</u>	<u>305,005</u>
Late payment interest for works contracts	<u>19,930</u>	<u>23,124</u>
Late payment interest for expropriations	<u>12,995</u>	<u>15,491</u>
Other finance costs	<u>26,380</u>	<u>27,436</u>
Provision adjustments	11	(3,101)
	358,611	367,955

(19) Finance Income

Details of this income statement heading at 31 December 2018 and 31 December 2017 are as follows:

Notes to the Annual Accounts
31 December 2018

	Thousands of Euros	
	31/12/2018	31/12/2017
Capitalised finance costs (note 4,c)	104,022	111,211
From marketable securities and other financial instruments	7,572	3,840
<i>Interest on current investments</i>	7,278	2,356
<i>Interest on current accounts</i>	134	298
<i>Other</i>	160	1,186
Other finance income	3,799	3,733
From participations in equity instruments	1,071	1,971
<i>Group companies and associates</i>	957	1,832
<i>Other investments</i>	114	139
	116,464	120,755

(20) Environmental Information

At 31 December 2018 and 31 December 2017, ADIF-AV's fixed assets included specific environmental works with a net book value of 1,189,927 and 1,184,465 thousand euros respectively, used in order to minimise environmental impacts and to protect and improve the environment, as per the following breakdown:

	31 December 2018 - Thousands of Euros		
	Cost	Accumulated depreciation	Net book value
Tunnels and cut-and-cover tunnels; environmental works	469,167	(9,288)	459,879
Environmental integration works	568,410	(9,449)	558,961
Other environmental works	111,857	(23,169)	88,688
Total property, plant and equipment in operation	1,149,434	(41,906)	1,107,528
Work in progress	82,399	-	82,399
Total at 31 December 2018	1,231,833	(41,906)	1,189,927

	31 December 2017 - Thousands of Euros		
	Cost	Accumulated depreciation	Net book value
Tunnels and cut-and-cover tunnels; environmental works	469,162	(8,193)	460,969
Environmental integration works	564,784	(8,226)	556,558
Other environmental works	112,135	(19,832)	92,303
Total property, plant and equipment in operation	1,146,081	(36,251)	1,109,830
Work in progress	74,635	-	74,635
Total at 31 December 2017	1,220,716	(36,251)	1,184,465

Additions at 31 December 2018 and 31 December 2017 amount to 3,353 and 27,882 thousand euros respectively and predominately correspond to preventive and corrective actions.

Notes to the Annual Accounts
31 December 2018**(21) Information on Directors and Senior Management of the Entity**

At 31 December 2018, the Board of Directors comprises eleven members, the Chairman, Secretary and nine regular directors. Five of the Board members are female and six are male.

At 30 December 2017, the Board of Directors comprises twelve members, the Chairman, Secretary and ten regular directors. Four of the Board members are female and eight are male.

Pursuant to article 21 of the Royal Decree 1044/2013 of 27 December 2013, which establishes ADIF-AV's statutes, no members of the Board of Directors will accrue any remuneration for attending Board meetings.

In accordance with to article 26 of mentioned Royal Decree 1044/2013, the Entity's senior management will not accrue any remuneration. (Neither senior management personnel have received advances or credits, nor has any commitment been made in terms of pensions or life insurance).

(22) Financial Risk Management

ADIF-AV is exposed to various financial risks due to its activity and the debt contracted to finance construction of the new high-speed lines. The most significant risks, which primarily affect the Entity, are as follows:

22.a) Credit risk

Credit risk arises primarily in relation to trade and non-trade receivables, current investments and cash equivalents.

The Entity assesses the credit ratings of its trade debtors, considering their financial position, history and other economic factors to determine individual credit limits.

With regard to current investments and cash equivalents, the Entity carries out transactions using instruments to guarantee recovery of the entire capital investment and assesses the credit rating of the financial institutions, considering the credit rating awarded by rating agencies, based on the term of the investment and calculating individual credit limits in line with specific factors (total volume of assets, return, etc.).

22.b) Interest rate risk

Interest rate risk arises from the variation in borrowing costs with credit institutions.

Borrowings have been arranged under several different interest rate regimes, namely fixed interest rates for bond issues and EIB loans.

The Entity has 80.51% of its outstanding debt at 31 December, 2018 as a fixed rate until maturity and 8.89% at a fixed rate revisable. 80.35% of the Entity's outstanding debt, as of 31 December, 2017, was at a fixed rate until maturity and 8.19% was at a fixed rate revisable.

Notes to the Annual Accounts
31 December 2018

The breakdown and quantification of financial guarantees extended to associates are provided in Note 23.

Loan transactions contracted by the Entity generally consider the possibility of changing the type of interest rate at different times over the term of the loan.

22.c) Liquidity risk

Liquidity risk arises from possible imbalances between cash flow requirements and sources of cash flows.

The Entity applies a prudent policy to cover its liquidity risks based on having sufficient financing through credit facilities with financial institutions.

Entity management monitors ADIF-AV's liquidity forecasts based on expected cash flows.

As of 31 December, 2018, the result of the Entity is negative in (223,410) thousand euros and its working capital, of negative sign, amounted to (833,937) thousand euros. This situation does not generate liquidity stress for the Entity given that the extension of the General State Budget for the year 2018 for the year 2019 guarantees the collection of the anticipated capital contributions and the possibility of having external financing in accordance with the indebtedness limit authorized. In addition, it should be taken into account that the Entity, in accordance with a policy to optimize its financial costs, reduced the appeal to external credit to the maximum in 2018, so that, although it was authorized to increase its long-term indebtedness, term in nominal terms in a total amount of 1,890 million euros, only increased this debt by 371.5 million euros.

As of 31 December, 2017, Entity presented a negative result of (199,997) thousand euros and has a negative working capital of (559,196) thousand euros.

On April 23, 2018, the fifth issuance of ADIF-Alta Velocidad bonds was made, second under the "green bond" format, for an amount of 600,000 thousand euros, with a disbursement date of May 4, 2018.

Additionally, on April 30, 2018 ADIF AV carried out the contracting of a line of credit not committed to SOCIÉTÉ GÉNÉRALE, for an amount of 125,000 thousand euros, for a one-year term and without any type of commissions. 31 December, 2018, as reported in note 11.a.1, The Entity has unpaid lines of credit for a total amount of 385,000 thousand euros.

On November 13, 2017, the EMTN Program on the Irish Stock Exchange and its passport to the National Securities Market Commission have been renewed. The Company plans to issue a public bond issue during the first half of the year 2019.

On December 20, 2018, a disposition of a EIB loan for an amount of 140,000 thousand euros was made, corresponding to the project " Ave Y Vasca Extensión Tramo A".

Notes to the Annual Accounts
31 December 2018**(23) Commitments and contingencies**

The guarantees granted to third parties by the Entity at 31 December 2018 and 31 December 2017 amounted to 583 and 590 thousand euros respectively. The Entity's Management does not expect significant liabilities to arise, such as Consequence of the said guarantees.

The Entity has also assumed comfort letters guaranteeing financing transactions entered into by various investees, which have the statutory activity of railway integration in cities. Given current property market conditions, the financial scale and technical complexity of the works to be undertaken in the coming years, and the difficulty of determining the future value of land received or to be received in exchange for these works, these companies may be unable to recover all the costs they ultimately incur. In view of the current state of the property market, ADIF-AV management is working together with the different shareholders of each of the companies to streamline their future investments based on the actual progress made in the works, to ensure their financial sustainability. ADIF-AV has assumed the obligations guaranteed by ADIF through comfort letters issued on behalf of several of these investees in proportion to the interest held in these companies as assigned by virtue of Order PRE/2443/2013.

During 2017, the Entity cancelled the existing risk as of 31 December, 2016 derived from the subscription of comfort letters with the companies Zaragoza Alta Velocidad 2002, S.A., Valladolid Alta Velocidad 2003, S.A, and Alta Velocidad Alicante Nodo Transporte, S.A, To this end, ADIF Alta Velocidad has paid before 31 December, 2017 the amounts necessary to cancel the comfort letter subscribed in its day, In this way, the aforementioned companies have been able to partially or totally cancel the loans with the banking entities, ADIF AV becoming the creditor of the aforesaid companies when they have taken charge of the payments in the name and on behalf of the same.

The risk assumed by the Entity at 31 December, 2018 and 31 December, 2017 derived from the subscription of letters of commitment or comfort letters amounting to 76,955 thousand euros and 113,192 thousand euros respectively, in accordance with the balances provided by the cited companies at said dates and with the participation of ADIF-AV in its capital (see note 5,b).

The following is a breakdown by company of the aforementioned guarantees granted at 31 December, 2018 and 31 December, 2017, as well as the provisions for risks and expenses recognized by the Entity (see notes 2,c, 3,i, 5,b and 5,) ,c):

Notes to the Annual Accounts
31 December 2018

Expressed in thousands of Euros

Company	Share capital % 31/12/2018	Risk assumed by ADIF-AV (comfort letter)			
		Risk amount at 31/12/2018	Risk amount at 31/12/2017	Provisions at 31/12/2018	Provisions at 31/12/2017
		Zaragoza Alta Velocidad 2002, S.A.	30.00%	-	-
Valencia Parque Central Alta Velocidad 2003, S.A.	30.00%	24,000	32,000	24,217	25,989
Logroño Integración del Ferrocarril 2002, S.A.	30.00%	24,000	33,600	-	-
Gijón Integración del Ferrocarril, S.A. Gijón al Norte	30.00%	-	2,953	-	1,091
Barcelona-Sagrera Alta Velocitat, S.A.	30.00%	28,955	44,639	5,368	14,810
Cartagena Alta Velocidad S.A.	40.00%	-	-	1,080	1,080
Murcia Alta Velocidad, S.A.	40.00%	-	-	3,400	3,400
Valladolid Alta Velocidad 2003, S.A.	30.00%	-	-	65,253	57,876
Total railway integration companies		76,955	113,192	131,794	135,497

APPENDIX

ENTIDAD PÚBLICA EMPRESARIAL
 ADIF - Alta Velocidad

Property, Plant and Equipment and Investment Property for 2018

Expressed in thousands of Euros

	Balance at 1.1.2018	Additions	Transfers	Derecognitions	Reclassifications	Balance at 31.12.2018
Buildings and other constructions	1,601,728	25	9,088	(1,849)	-	1,608,992
Land and natural resources	2,474,982	33,823	70	(72)	-	2,508,803
Total land and buildings	4,076,710	33,848	9,158	(1,921)	-	4,117,795
Accumulated depreciation of buildings and other constructions	(321,170)	(24,706)	-	735	-	(345,141)
Provision for depreciation of buildings and other structures	(4,875)	-	-	-	-	(4,875)
Total carrying amount of buildings and other constructions	3,750,665	9,142	9,158	(1,186)	-	3,767,779
Track installations	29,918,735	335,437	235,910	(6,831)	-	30,483,251
Accumulated depreciation of track installations and other installations	(3,599,741)	(437,431)	-	3,085	-	(4,034,087)
Impairment of track installations	(17,370)	(7,656)	-	-	-	(25,026)
Total carrying amount of track installation and other installations	26,301,624	(109,650)	235,910	(3,746)	-	26,424,138
Other Property, Plant and equipment	34,449	-	8,277	-	-	42,726
Accumulated depreciation of other property, plant and equipment	(31,824)	(1,160)	-	-	-	(32,984)
Total carrying amount of other property, plant and equipment	2,625	(1,160)	8,277	-	-	9,742
Total carrying amount of track installations and other property, plant and equipment	26,304,249	(110,810)	244,187	(3,746)	-	26,433,880
Work in progress	13,688,221	1,130,320	(253,345)	(322)	(23,106)	14,541,768
Total net property, plant and equipment	43,743,135	1,028,652	-	(5,254)	(23,106)	44,743,427
Investment property	242,112	20	-	-	-	242,132
Accumulated depreciation of investment property	(46,779)	(4,085)	-	-	-	(50,864)
Investment property in progress	403	-	-	-	-	403
Total net investment property	195,736	(4,065)	-	-	-	191,671
Intangible assets	74,150	-	340	-	-	74,490
Accumulated depreciation intangible assets	(17,589)	(1,570)	-	-	-	(19,159)
Intangible assets in progress	238	198	(340)	-	-	96
Total net intangible assets	56,799	(1,372)	-	-	-	55,427

This appendix forms an integral part of Note 4 to the Annual Accounts for 2018, in conjunction with which it should be read.

ENTIDAD PÚBLICA EMPRESARIAL
ADIF - Alta Velocidad

Property, Plant and Equipment and Investment Property of period ended on 31 December 2017

Expressed in thousands of Euros

	Balance at 1.1.2017	Additions	Transfers	Derecognitions	Reclassifications	Balance at 31.12.2017
Buildings and other constructions	1,633,449	280	14,895	(2,009)	(44,887)	1,601,728
Land and natural resources	2,449,764	26,414	612	(115)	(1,693)	2,474,982
Total land and buildings	4,083,213	26,694	15,507	(2,124)	(46,580)	4,076,710
Accumulated depreciation of buildings and other constructions	(294,975)	(26,195)	-	-	-	(321,170)
Provision for depreciation of buildings and other structures	(4,875)	-	-	-	-	(4,875)
Total carrying amount of buildings and other	3,783,363	499	15,507	(2,124)	(46,580)	3,750,665
Track installations	29,408,066	64,783	408,342	(6,702)	44,246	29,918,735
Accumulated depreciation of track installations and other	(3,279,434)	(324,995)	-	4,688	-	(3,599,741)
Impairment of track installations	(9,537)	(7,833)	-	-	-	(17,370)
Total carrying amount of track installation and other installations	26,119,095	(268,045)	408,342	(2,014)	44,246	26,301,624
Transport elements	32,661	-	1,685	(522)	625	34,449
Accumulated depreciation of transport elements	(31,118)	(1,209)	-	503	-	(31,824)
Total carrying amount of transport elements	1,543	(1,209)	1,685	(19)	625	2,625
Other property, plant and equipment	12,951,858	1,161,897	(425,534)	-	-	13,688,221
Accumulated depreciation of other property, plant and equipment	(1,161,897)	-	-	-	-	(1,161,897)
Total carrying amount of other property, plant and equipment	26,120,638	(269,254)	410,027	(2,033)	44,871	26,304,249
Total carrying amount of track installations and other property, plant and equipment	42,855,859	893,1	-	(4,157)	(1,709)	43,743,135
Work in progress	240,419	-	-	-	1,693	242,112
Total net property, plant and equipment	198,072	(4,029)	-	-	1,693	195,736
Investment property	403	-	-	-	-	403
Accumulated depreciation of investment property	(42,750)	(4,029)	-	-	-	(46,779)
Investment property in progress	73,395	-	741	(2)	16	74,150
Total net investment property	198,072	(4,029)	-	-	1,693	195,736
Intangible assets	73,395	-	741	(2)	16	74,150
Accumulated depreciation intangible assets	(16,155)	(1,436)	-	2	-	(17,589)
Intangible assets in progress	882	97	(741)	-	-	238
Total net intangible assets	58,122	(1,339)	-	-	16	56,799

This appendix forms an integral part of Note 4 to the Annual Accounts for 2018, in conjunction with which it should be read.

ENTIDAD PÚBLICA EMPRESARIAL
 ADIF - Alta Velocidad

Detail of associated companies as of December 31, 2018

Name	Activity	% ownership	Cost of the investment	Not disbursed	Equity	Other equity items	Profit/(loss) for 2018	Operating profit/(loss) for 2018	Dividends received
Cartagena AVE, S.A (b).	High-speed integration in Cartagena	40.00%	-	-	604	-	-	-	-
Murcia AVE, S.A.(b)	High-speed integration in Murcia	40.00%	-	-	625	-	-	-	-
Palencia Alta Velocidad, S.A.(b)	High-speed integration in Palencia	40.00%	-	-	506	-	(28)	(28)	-
Ingeniería y Economía del Transporte, S.A. (INECO)(b)	Preparation of civil and industrial railway engineering projects. Consultancy services	20.68%	7,977	-	85,115	32	7,418	8,813	957
León Alta Velocidad 2003, S.A.(b)	High-speed integration in León	37.50%	-	-	784	998	5,553	390	-
Logroño Integración Ferrocarril 2002, S.A.(b)	Management of high-speed rail in Logroño	30.00%	-	-	711	-	-	-	-
Valencia Parque Central Alta Velocidad 2003, S.A.(b)	High-speed integration in Valencia	30.00%	-	-	(20,666)	22,817	941	941	-
Valladolid Alta Velocidad 2003 S.A.(b)	Management of high-speed rail in Valladolid	30.00%	-	-	(46,824)	2,910	(1,922)	1,679	-
Gijón al Norte, S.A.(b)	High-speed integration in Gijón	30.00%	-	-	536	-	-	307	-
Zaragoza Alta Velocidad 2002, S.A.(b)	High-speed integration in Zaragoza	30.00%	-	-	(282,728)	8,122	(2,342)	2,154	-
Alta Velocidad Alicante Nodo Transportes, S.A.(b)	High-speed integration in Alicante	30.00%	-	-	(787)	1,620	14	12	-
Barcelona Sagrera Alta Velocitat S.A.(b)	High-speed integration in Barcelona	30.00%	-	-	600	-	-	-	-
Almería Alta Velocidad, S.A.(b)	High-speed integration in Almería	30.00%	176	-	581	7,590	(5)	(5)	-
A.V. Vitoria-Gasteizko Abiadura Handia, S.A.(b)	High-speed integration in Vitoria	40.00%	235	-	588	-	(5)	(5)	-
Total shares in group companies and associates			8,388	-				14,258	957
Albali Señalización, S.A.(b)		10.00%	1,326	-	14,915	-	1,263	4,426	114
Energía Olmedo Orense Fase I (b)		10.00%	508	-	5,754	-	9	1,622	-
Vía Olmedo- Pedralba (b)		10.00%	517	(240)	2,775	-	114	687	-
HIT RAIL B.V (b)		4.35%	55		3,150	-	128	174	
Total others (see note 6.a)			2,406	(240)				6,909	114
TOTAL			10,794	(240)				21,167	1,071

- a) Audited annual financial statements at 31 December 2018
 b) Provisional financial statements at 31 December 2018
 c) Annual financial statements at 31 December 2018, pending audit
 d) Interim financial statements with draft audit report at 31 December 2018

In the column of Equity is included the result for the year 2018.

ENTIDAD PÚBLICA EMPRESARIAL
 ADIF - Alta Velocidad

Detail of associated companies as of December 31, 2017

Name	Activity	% ownership	Cost of the investment	Not disbursed	Equity	Other equity items	Profit/(loss) for 2017	Operating profit/(loss) for 2017	Dividends received
Cartagena AVE, S.A. (a)	High-speed integration in Cartagena	40.00%	-	-	604	-	-	-	-
Murcia AVE, S.A. (a)	High-speed integration in Murcia	40.00%	-	-	625	-	1	-	-
Palencia Alta Velocidad, S.A. (a)	High-speed integration in Palencia	40.00%	-	-	506	-	(28)	(28)	-
Ingeniería y Economía del Transporte, S.A. (INECO)(a)	Preparation of civil and industrial railway engineering projects. Consultancy services	20.68%	7,977	-	82,324	40	4,626	10,750	1,832
León Alta Velocidad 2003, S.A. (a)	High-speed integration in León	37.50%	-	-	784	998	5,553	390	-
Logroño Integración Ferrocarril 2002, S.A. (a)	Management of high-speed rail in Logroño	30.00%	-	-	711	-	-	-	-
Valencia Parque Central Alta Velocidad 2003, S.A. (a)	High-speed integration in Valencia	30.00%	-	-	(21,608)	22,817	(22,195)	(22,195)	-
Valladolid Alta Velocidad 2003 S.A. (a)	Management of high-speed rail in Valladolid	30.00%	-	-	(41,693)	4,812	(3,589)	(9,000)	-
Gijón al Norte, S.A. (a)	High-speed integration in Gijón	30.00%	-	-	536	-	-	307	-
Zaragoza Alta Velocidad 2002, S.A. (a)	High-speed integration in Zaragoza	30.00%	-	-	(280,387)	8,122	(8,920)	(1,126)	-
Alta Velocidad Alicante Nodo Transportes, S.A. (a)	High-speed integration in Alicante	30.00%	-	-	(801)	1,620	971	1,765	-
Barcelona Sagrera Alta Velocitat S.A. (a)	High-speed integration in Barcelona	30.00%	-	-	600	-	-	-	-
Almería Alta Velocidad, S.A. (a)	High-speed integration in Almería	30.00%	176	-	586	-	(7)	(7)	-
A.V. Vitoria-Gasteizko Abiadura Handia, S.A. (a)	High-speed integration in Vitoria	40.00%	235	-	588	-	(5)	(5)	-
Total shares in group companies and associates			8,388	-				(19,149)	1,832
Albali Señalización, S.A. (a)		10.00%	1,326	-	14,915	-	1,263	4,426	129
Energía Olmedo Orense Fase I (a)		10.00%	368	-	5,754	-	9	1,622	-
Vía Olmedo- Pedralba (a)		10.00%	517	(240)	2,775	-	114	687	-
HIT RAIL B.V (a)		4.35%	55		3,150	-	128	174	10
Total others (see note 6.a)			2,266	(240)				6,909	139
TOTAL			10,654	(240)				(12,240)	1,971

a) Audited annual financial statements at 31 December 2017
 b) Provisional financial statements at 31 December 2017
 c) Annual financial statements at 31 December 2017, pending audit
 d) Interim financial statements with draft audit report at 31 December 2017

In the column of Equity is included the result for the year 2017.