

# **Grupo Empresarial San José, S.A. and Subsidiaries**

Consolidated Financial Statements for  
the year ended 31 December 2015  
and Consolidated Directors' Report,  
together with Independent Auditor's  
Report

*Translation of a report originally issued in Spanish  
based on our work performed in accordance with  
the audit regulations in force in Spain. In the event  
of a discrepancy, the Spanish-language version  
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## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Grupo Empresarial San José, S.A.:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Grupo Empresarial San José, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of recognized income and expenses, consolidated statement of changes in equity, consolidated cash flows statement and notes to the consolidated financial statements for the year then ended.

#### *Directors' Responsibility for the Consolidated Financial Statements*

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Grupo Empresarial San José, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2.1 to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

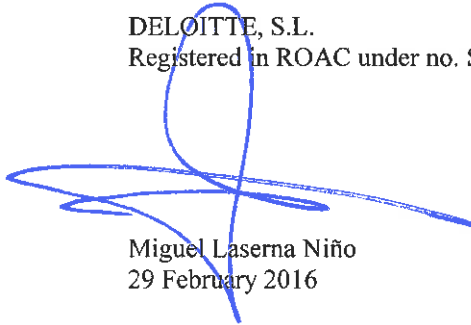
#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Grupo Empresarial San José, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

## **Report on Other Legal and Regulatory Requirements**

The accompanying consolidated directors' report for 2015 contains the explanations which the Parent's directors consider appropriate about the situation of Grupo Empresarial San José, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Grupo Empresarial San José, S.A. and Subsidiaries.

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



Miguel Laserna Niño  
29 February 2016

# **Grupo Empresarial San José, S.A. and Subsidiaries**

Consolidated Financial Statements  
for the year ended 31 December  
2015 and Consolidated Management  
Report, together with Independent  
Auditor's Report.

*Translation of financial statements originally issued in Spanish. In the  
event of a discrepancy, the Spanish-language version prevails.*

ESTEFANÍA CALVO IGLESIAS  
TRADUCTORA - INTERPRETE JURADA DE INGLÉS  
Nº 6499

## GRUPO EMPRESARIAL SAN JOSÉ, S.A. y Sociedades Dependientes

Balances de Situación consolidados al 31 de diciembre de 2015 y 2014

(Miles de Euros)

|   | 31-12-2015      | 31-12-2014       | 31-12-2015 | 31-12-2014 |
|---|-----------------|------------------|------------|------------|
| <b>NON-CURRENT ASSETS:</b>  |                 |                  |            |            |
| Property, plant and equipment (Note 7)                              | 45,917          | 51,955           |            |            |
| Investment property (Note 8)  | 5,664           | 3,892            |            |            |
| Goodwill on consolidation (Note 9)                                  | 9,984           | 9,984            |            |            |
| Intangible assets (Notes 10)  | 18,866          | 20,311           |            |            |
| Investments in associates and joint ventures (Note 14.)             | 57,247          | 59,552           |            |            |
| Equity investments in associates (Note 11)                          | 58,792          | 51,533           |            |            |
| Loans to related companies (Note 24)                                | 455             | 8,019            |            |            |
| Other non-current financial assets (Note 14.4)                      | 154,331         | 171,441          |            |            |
| Deferred tax assets (Note 21.4)                                     | 35,484          | 50,539           |            |            |
| <b>TOTAL NON-CURRENT ASSETS</b>                                     | <b>327,483</b>  | <b>367,664</b>   |            |            |
| <b>CURRENT ASSETS:</b>  |                 |                  |            |            |
| Non-current assets held for sale (Note 12.2)                        |                 | 1,432,728        |            |            |
| Inventories (Note 13)   | 92,178          | 77,402           |            |            |
| Trade and other receivables   | 271,415         | 241,311          |            |            |
| Trade receivables for sales and services (Note 14.1)                | 210,536         | 217,837          |            |            |
| Resale companies receivables (Note 24)                              |                 | 10               |            |            |
| Sundry accounts receivable  | 25,342          | 3,773            |            |            |
| Public administrations (Note 21)                                    | 29,646          | 14,861           |            |            |
| Other current assets  | 5,891           | 4,830            |            |            |
| Other current financial assets (Note 14.3)                          | 61,941          | 82,883           |            |            |
| Cash and cash equivalents (Note 14.2)                               | 231,834         | 203,260          |            |            |
| <b>TOTAL CURRENT ASSETS</b>   | <b>657,366</b>  | <b>2,037,584</b> |            |            |
| <b>TOTAL ASSETS</b>   | <b>984,849</b>  | <b>2,405,248</b> |            |            |
| <b>EQUITY:</b>  |                 |                  |            |            |
| Share capital   | 1,981           | 1,981            |            |            |
| Insurance premium   | 155,578         | 155,578          |            |            |
| Reserves  | (176,507)       | (55,339)         |            |            |
| Translation differences   | (45,268)        | (39,978)         |            |            |
| Equity-Valuation adjustments  | (428)           | (23,915)         |            |            |
| Profit of the year attributable to the parent company               | 8,653           | (120,054)        |            |            |
| Equity attributable to shareholders of the Parent                   | (56,021)        | (81,757)         |            |            |
| Minority interests  | 21,880          | 24,302           |            |            |
| <b>TOTAL EQUITY (Note 15)</b>                                       | <b>(34,341)</b> | <b>(57,455)</b>  |            |            |
| <b>NON-CURRENT LIABILITIES</b>                                      |                 |                  |            |            |
| Long-term provisions (Note 16)                                      | 19,223          | 20,799           |            |            |
| Non-current bank borrowings (Note 17)                               | 512,557         | 477,699          |            |            |
| Bonds and other securities  | 146,734         | -                |            |            |
| Bank loans and overdrafts   | 361,065         | 472,501          |            |            |
| Finance lease creditors   | 534             | 885              |            |            |
| Other financial liabilities   | 4,224           | 4,313            |            |            |
| Derivative financial instruments (Note 18)                          | 1,196           | 31,697           |            |            |
| Deferred tax liabilities (Note 21.4)                                | 14,460          | 28,982           |            |            |
| Long-term advances  | 854             | -                |            |            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                                | <b>548,380</b>  | <b>659,177</b>   |            |            |
| <b>CURRENT LIABILITIES:</b>   |                 |                  |            |            |
| Liabilities related to non current assets held for sale (Note 12.2) |                 | 1,432,728        |            |            |
| Short-term provisions (Note 23.10)                                  | 37,471          | 42,925           |            |            |
| Current bank borrowings (Note 17)                                   | 47,810          | 77,972           |            |            |
| Bonds and other securities  | 30,800          | -                |            |            |
| Bank loans and overdrafts   | 15,837          | 75,640           |            |            |
| Finance lease creditors   | 351             | 724              |            |            |
| Other financial liabilities   | 822             | 1,808            |            |            |
| Derivative financial instruments (Note 18)                          | 8               | -                |            |            |
| Payables to related companies (Note 24)                             | 1,748           | 1,766            |            |            |
| Trade and other payables  | 383,763         | 348,135          |            |            |
| Trade payables (Note 19.1)  | 343,455         | 314,187          |            |            |
| Tax Payable (Note 21)   | 24,437          | 14,236           |            |            |
| Other current liabilities (Note 19.2)                               | 15,871          | 19,712           |            |            |
| <b>TOTAL CURRENT LIABILITIES</b>                                    | <b>470,800</b>  | <b>1,903,526</b> |            |            |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                 | <b>984,849</b>  | <b>2,405,248</b> |            |            |

Notes 1 to 27 to the accompanying financial statements and Annex I, II and III form and integral part of the consolidated balance sheet at 31 December 2015

Translation into English of consolidated financial statements for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

## GRUPO EMPRESARIAL SAN JOSÉ, S.A. y and Subsidiaries

Consolidated Income Statement for the years ending

31 December 2015 and 2014

(Thousands of Euros)

|   | Year<br>2015    | Year<br>2014     |
|---|-----------------|------------------|
| <b>CONTINUING OPERATIONS</b>  |                 |                  |
| Revenue (Note 23.1)   | 536,099         | 465,082          |
| Other operating income  | 7,976           | 10,078           |
| Change in inventories of finished goods and work<br>in progress (Notes 13 and 23.11)    | (6,370)         | (1,781)          |
| Procurements (Note 23.2)  | (338,125)       | (282,414)        |
| Cost of raw materials and other consumables used  | (187,967)       | (142,005)        |
| Works performed by other companies  | (150,272)       | (141,352)        |
| Impairment of goods held for resale, raw materials and other supplies (Note 13)         | 114             | 943              |
| Staff costs (Note 23.3)   | (85,228)        | (81,411)         |
| Other operating expenses  | (80,265)        | (92,568)         |
| Losses on impairment and change in allowances for trade receivables                     | (9,923)         | (18,006)         |
| Other current operating expenses (Note 23.2)  | (70,342)        | (74,562)         |
| Depreciation and amortisation charge (Notes 7,8 and 10)                                 | (5,664)         | (6,374)          |
| Excessive provisions (Notes 16 and 23.10)   | 1,305           | 128              |
| Impairment and gains or losses on disposal of non-current assets (Note 23.9)            | 1,021           | 682              |
| <b>PROFIT FROM OPERATIONS</b>   | <b>30,749</b>   | <b>11,422</b>    |
| Finance income (Note 23.7)  | 30,149          | 22,220           |
| Finance costs (Note 23.8)   | (30,201)        | (18,297)         |
| Change in fair value of financial instruments (Note 18)                                 | (20,346)        | -                |
| Exchange differences  | 3,641           | 2,060            |
| Impairment and gains or losses on disposal of financial instruments (Note 23.12)        | (2,497)         | (9,418)          |
| <b>FINANCIAL PROFIT / (LOSS)</b>  | <b>(19,254)</b> | <b>(3,435)</b>   |
| Profit/ (loss) of companies accounted for using the equity method (Notes 11, 14.4 y 15) | (845)           | (864)            |
| <b>PROFIT (LOSS) BEFORE TAX</b>   | <b>10,650</b>   | <b>7,123</b>     |
| Income Tax (Note 21)  | (3,364)         | (49,603)         |
| <b>PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>                            | <b>7,286</b>    | <b>(42,480)</b>  |
| <b>NON-CONTINUING OPERATIONS</b>  |                 |                  |
| Profit for the year from discontinued operations (Note 12.1)                            | -               | (80,202)         |
| <b>PROFIT (LOSS) FOR THE YEAR</b>   | <b>7,286</b>    | <b>(122,682)</b> |
| PROFIT (LOSS) ATTRIBUTABLE TO EXTERNAL PARTNERS   | (1,367)         | (2,628)          |
| <b>PROFIT (LOSS) FOR THE YEAR</b>   | <b>8,653</b>    | <b>(120,054)</b> |
| <b>Earnings per share (Euros/share)</b>   |                 |                  |
| -Basic  | 0.13            | (1.85)           |
| -Diluted  | 0.13            | (1.85)           |

Accompanying notes 1 to 27 to the Annual Report and Annex I, II and III form an integral part of the Consolidated Income Statement at 31st December 2015

ESTEFANÍA CALVO IGLESIAS  
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Nº 6427

Translation into English of consolidated financial statements for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

**GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR YEARS 2015 AND 2014**

(Thousand of Euros)

|  | 31-12-2015    | 31-12-2014       |
|--|---------------|------------------|
| <b>CONSOLIDATED PROFITS / (LOSSES) OF THE YEAR</b>       | <b>7,286</b>  | <b>(122,682)</b> |
| <b>Income and expenses recognised directly in equity</b> |               |                  |
| -For cash flow hedges                                    | (122)         | (11,457)         |
| -Other   | 20            | 15               |
| -Tax effect  | 26            | 2,555            |
|  | <b>(76)</b>   | <b>(8,887)</b>   |
| <b>Transfer to income statement</b>                      |               |                  |
| -For cash flow hedges                                    | 30,682        | 5,440            |
| -Other   | (208)         | (322)            |
| -Tax effect  | (7,355)       | (475)            |
|  | <b>23,119</b> | <b>4,643</b>     |
| <b>TOTAL RECOGNISED INCOMES / (EXPENSES)</b>             | <b>30,329</b> | <b>(126,926)</b> |
| a) Attributable to Parent                                | 31,673        | (124,247)        |
| b) Attributable to minority interests                    | (1,344)       | (2,679)          |

Accompanying notes 1 to 27 to the Annual Report and Annex I, II and III form an integral part of  
of the consolidated statement of recognised income and expenses at 31 December 2015

ESTEFANÍA CALVO IGLESIAS  
 TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS  
 N° 6477

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## GRUPO EMPRESARIAL SAN JOSÉ, S.A. y and Subsidiaries

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2015 AND 2014 (Thousand of Euros)

|   | Share Capital | Insurance premium | Legal Reserve | Others reserves of the parent | Consolidated Reserves     |                         | Translation differences | Equity Adjustments | Profit of the year | Total Equity attributable to parent | Minority interests | Total Equity |
|---|---------------|-------------------|---------------|-------------------------------|---------------------------|-------------------------|-------------------------|--------------------|--------------------|-------------------------------------|--------------------|--------------|
|   |               |                   |               |                               | In consolidated companies | In associated companies |                         |                    |                    |                                     |                    |              |
| Balance at December 31, 2013                        | 1,951         | 155,578           | 263           | 6,892                         | 136,313                   | (38,579)                | (38,408)                | (19,888)           | (155,242)          | 50,880                              | 15,299             | 66,179       |
| Distribution of profit for year 2013:               |               |                   |               |                               |                           |                         |                         |                    |                    |                                     |                    |              |
| - To reserves                                       | -             | -                 | -             | (92,924)                      | (50,584)                  | (11,734)                | -                       | -                  | 155,242            | -                                   | -                  | -            |
| - Dividend payment                                  | -             | -                 | -             | -                             | -                         | -                       | -                       | -                  | -                  | -                                   | (2,902)            | (2,902)      |
| Translation differences                             | -             | -                 | -             | -                             | -                         | -                       | (1,149)                 | -                  | -                  | (1,149)                             | 3,983              | 2,834        |
| Variation of the consolidation perimeter (Note 2.4) | -             | -                 | -             | -                             | (4,318)                   | 265                     | (34)                    | -                  | -                  | (4,087)                             | 7,602              | 3,515        |
| Other equity movements                              | -             | -                 | -             | -                             | (2,933)                   | -                       | (387)                   | 166                | -                  | (3,154)                             | 2,999              | (155)        |
| Total recognized income/expenses year 2014          | -             | -                 | -             | -                             | -                         | -                       | -                       | (4,193)            | (120,054)          | (124,247)                           | (2,679)            | (126,926)    |
| Balance at December 31, 2014                        | 1,951         | 155,578           | 263           | (86,032)                      | 78,476                    | (48,048)                | (39,978)                | (23,915)           | (120,054)          | (81,757)                            | 24,302             | (57,455)     |
| Distribution of profit for year 2014:               |               |                   |               |                               |                           |                         |                         |                    |                    |                                     |                    |              |
| - To reserves                                       | -             | -                 | -             | (105,488)                     | (13,702)                  | (864)                   | -                       | -                  | 120,054            | -                                   | -                  | -            |
| - Dividend payment                                  | -             | -                 | -             | -                             | -                         | -                       | -                       | -                  | -                  | -                                   | (1,553)            | (1,553)      |
| Translation differences                             | -             | -                 | -             | -                             | -                         | -                       | (7,889)                 | -                  | -                  | (7,889)                             | 2,227              | (5,662)      |
| Variation of the consolidation perimeter (Note 2.4) | -             | -                 | -             | -                             | (51,399)                  | 51,218                  | -                       | -                  | -                  | (181)                               | 181                | -            |
| Other equity movements                              | -             | -                 | -             | -                             | (933)                     | -                       | 2,598                   | 467                | -                  | 2,133                               | (2,133)            | -            |
| Total recognized income/expenses year 2015          | -             | -                 | -             | -                             | -                         | -                       | -                       | 23,020             | 8,653              | 31,673                              | (1,344)            | 30,329       |
| Balance at December 31, 2015                        | 1,951         | 155,578           | 263           | (181,520)                     | 12,444                    | 2,306                   | (45,268)                | (428)              | 8,863              | (85,021)                            | 21,880             | (34,341)     |

Accompanying notes 1 to 27 to the Annual Report and Annex I, II and III form an integral part of the Consolidated Statement of Changes in Equity at 31st December 2015.

AMÁNIA CALVA IGLESIAS  
- INTERPRETE JURADA DE INGLÉS  
Nº 6427



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**GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries**  
**CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDING 31 DECEMBER**  
**2015 & 2014**  
(Thousand of Euros)

|   | Year 2015       | Year 2014       |
|---|-----------------|-----------------|
| <b>Cash flows from operating activities:</b>                      |                 |                 |
| (+) Profit (Loss) before tax                                      | 10,650          | 7,123           |
| a) Amortiz del inmovilizado intangible                            | 1,590           | 2,282           |
| b) Amortiz del inmovilizado material                              | 3,693           | 3,926           |
| c) Amortiz de inversiones inmobiliarias                           | 361             | 156             |
| (+) Depreciation and amortisation charge                          | 5,604           | 6,374           |
| a) Variac de la prov de existencias                               | (127)           | (955)           |
| b) Variac de la prov de otros incoables y otros                   | 8,618           | 17,856          |
| c) Variac de la prov de tráfico                                   |                 |                 |
| d) Variac de la prov de innov.                                    | 35              | 1,120           |
| (+/-) Changes in operating allowances                             | 8,526           | 18,021          |
| (-) Financial income  | (30,149)        | (22,220)        |
| (+) Financial costs   | 30,201          | 18,297          |
| (+/-) Exchange differences  | (3,641)         | (2,060)         |
| (+/-) Result of changes in value of financial instruments         | 20,346          | -               |
| (+/-) Result of companies accounted for using the equity method   | 845             | 864             |
| a) Asociado al Inmov.   | (1,057)         |                 |
| b) Asociado a Inv.Financ.   | 2,497           |                 |
| c) Subvenciones   | (46)            |                 |
| (+/-) Other gains or losses                                       | (4,618)         | 7,385           |
|   | (3,223)         |                 |
| <b>Total Cash Flows from operating activities</b>                 | <b>39,218</b>   | <b>33,785</b>   |
| <b>Other adjustments</b>  |                 |                 |
| (-) Tax benefits paid in the year                                 |                 |                 |
| (+)   | (14,785)        |                 |
| (+)   | 10,201          |                 |
| (-)   | (4,584)         |                 |
| (+/-) (Increase) / Decrease in working capital                    |                 |                 |
| a) (increase) / Decrease in inventories                           | 5,979           | (7,013)         |
| b) (increase) / Decrease in debtors and other receivables         | (16,631)        | 51,785          |
| c) (increase) / decrease in other current assets                  | (936)           | (3,475)         |
| d) (increase) / Decrease in trade payables                        | 28,514          | (17,405)        |
| e) (increase) / decrease in other current liabilities             | (3,835)         | 5,001           |
|   | (2,968)         |                 |
| (+/-) Other collections / (payments) due to operating activities  | (1,418)         | (5,659)         |
|   | (4,364)         |                 |
| <b>1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES</b>          | <b>43,342</b>   | <b>57,019</b>   |
| <b>Investments:</b>   |                 |                 |
| (-) Property, plant and equipment and investment property         | (2,407)         | (2,886)         |
| (-) Intangible assets   | (183)           | (1,042)         |
| (-) Shares and other financial assets                             | (369)           | (9,075)         |
| <b>Total Investments</b>  | <b>(2,959)</b>  | <b>(13,003)</b> |
| <b>Dividends received</b>   | <b>4,369</b>    | <b>-</b>        |
| <b>Disposals:</b>   |                 |                 |
| (+) Property, plant and equipment and investment property         | 759             | 7,156           |
| (+) Intangible assets   | 71              | 7               |
| (+) Shares and other financial assets                             | 8,019           | -               |
| <b>Total Disposals</b>  | <b>8,849</b>    | <b>7,163</b>    |
| (+/-) Changes in current financial investments                    | 29,629          |                 |
| Other collections / (payments) due to financing activities        | 29,628          | 47,819          |
| <b>2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES</b>          | <b>39,876</b>   | <b>41,879</b>   |
| Other collections / (payments) due to treasury share transactions | -               |                 |
| <b>Dividends paid</b>   | <b>(1,653)</b>  | <b>(2,902)</b>  |
| <b>Increase / (decrease) in borrowings</b>                        | <b>(26,187)</b> | <b>(33,748)</b> |
| 148,734   |                 |                 |
| (114,176)   |                 |                 |
| (31,465)  |                 |                 |
| (69)  |                 |                 |
| <b>Non current</b>  | <b>1,004</b>    | <b>(22,073)</b> |
| a) Deudas con entidades de cdto                                   | 30,800          |                 |
| b) Derivados financieros  | (55,482)        |                 |
| c) Otros activos financieros                                      | 8               |                 |
| Current   | (1,517)         |                 |
|   | (28,191)        | (11,675)        |
| <b>Net Interests:</b>   | <b>(17,824)</b> | <b>(11,365)</b> |
| Received  | 14,881          | 8,930           |
| a) Total Registrados  | (30,201)        |                 |
| b) Devengados no pagados  | (2,304)         |                 |
| Paid  | (32,505)        | (20,285)        |
|   | 7,677           |                 |
|   | (17,871)        |                 |
|   | (88)            |                 |
| Other collections / (payments) due to financial activities        | (10,282)        | (5,879)         |
| <b>3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES</b>          | <b>(54,648)</b> | <b>(53,884)</b> |
| <b>TOTAL CASH FLOWS FOR THE YEAR</b>                              | <b>28,574</b>   | <b>45,114</b>   |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>     | <b>203,260</b>  | <b>159,681</b>  |
| MoVm Changes in the year  | 28,574          | 45,114          |
| ActivMc Discontinued operation (Note 12.1)                        |                 | (1,435)         |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>           | <b>231,834</b>  | <b>203,260</b>  |

Accompanying notes 1 to 27 to the Annual Report and Annex I, II and III form an integral part of the Consolidated Cash Flow Statement for year 2015

## **Grupo Empresarial San José, S.A. and Subsidiaries**

Consolidated

Notes for the year ended 31 December 2015

### **1. Activities of the Group**

#### **Incorporation**

Grupo Empresarial San Jose, S.A. (hereinafter "the Parent"), formerly Udra S.A., was incorporated on 18 August 1987 for an unlimited period of time by virtue of a public deed executed in Pontevedra in the presence of Pontevedra notary, Rafael Sanmartin Losada, under number 1539 of his protocol.

At the Ordinary and Extraordinary General Shareholders Meeting of the Company held on 17 June 2008, it was agreed to change the corporate name into that of "Grupo Empresarial San Jose S.A.", which was duly formalised by means of a public deed dated 17 July 2009.

The Parent is registered in the Mercantile Register of Pontevedra on sheet 88 of the Companies book 586, entry no. 1 on page no. 8119. It holds tax identification number A-36.046.993.

Its registered office is located in Pontevedra, at calle Rosalia de Castro, 44.

The shares of the Parent are listed on the Spanish Stock Exchange since July 2009.

#### **Activities**

The activities carried on by the Parent and its investees (Grupo San Jose) are classified into the following business units:

1. Development of all forms of real estate construction.
2. Performance of all manner of public or private construction work, mainly buildings, road networks and hydraulic works.
3. Purchase and sale, administration, operation and any other similar activities in relation to all manner of rural or urban property.
4. Lease of all manner of assets.
5. Design, construction and management of electricity and renewable energy facilities.
6. Storage, distribution, purchase and sale and import of manufactured products.
7. Management and recruitment of personnel for all types of company, association and organisation.
8. Study, design, development and purchase and sale of all manner of electronic, computer, telecommunications and audiovisual components, products and systems.
9. Full maintenance of hospital facilities, maintenance of operating theatres and electro medical equipment, and manufacture and sale of integrated systems for operating theatres, ICUs and patient rooms.

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10. Study, design and installation of air conditioning, heating, industrial cooling and plumbing facilities; purchase and sale or manufacture of all kinds of related mechanisms; to sell and act as representative for third-party products.
  11. Healthcare: construction of hospital facilities and public and private healthcare maintenance services; electro medicine and gas facilities and maintenance.
12. Installation work and services: integral installation work, electrical, mechanical and hydraulic installation work, turnkey projects and special installation work, as well as the maintenance of all manner of other facilities not related to the healthcare industry such as industrial facilities, other properties, etc.
13. Infrastructure and transport: performance of infrastructure and transport studies, projects and installation work, including those relating to airports, ports, railways and other types of transport infrastructure.
14. Energy and environment: performance of studies and projects focused on the production and sale of energy and industrial maintenance, waste water treatment, installation of water treatment plants and other environmental activities.

Under no circumstances shall the company object be deemed to include activities the performance of which requires any type of administrative authorisation which the Company does not hold.

Also, the Parent may subscribe to, purchase or acquire by any other means shares and/or other equity interests in other public and private limited companies, even if their company object differs from that of Grupo Empresarial San Jose, S.A., and may form new public or private limited companies with other legal entities or individuals, whatever valid purpose or activity the newly formed companies may have.

Furthermore, Grupo Empresarial San Jose, S.A. is the Parent of the San Jose Group. Its main object is the management and control of all the business activities performed by the companies in which it has a material and lasting ownership interest.

The San Jose Group's activities are led by Grupo Empresarial San Jose, S.A. (a holding and real estate company), which in turns mainly participates in: Constructora San Jose, S.A. (construction), San Jose Concesiones y Servicios, S.A.U. (maintenance services), San Jose Energia y Medio Ambiente, S.A. (energy), and Desarrollos Urbanisticos Udra, S.A.U. (urban development).

The Group companies, whose business activities have to meet certain environmental requirements, have adopted the relevant environmental measures in order to comply with current legislation in this connection. Since the costs relating to these requirements are not considered to be material with respect to equity, financial position and results of these companies, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

The specific lines of business of each subsidiary, jointly controlled entity and associate are disclosed in Appendixes I, II and III.

#### **Transactions executed within the previous years:**

A list of the main trade/corporate transactions executed within the previous year in Grupo SANJOSE is provided. More details are included in the corresponding consolidated financial statements for the year of occurrence.

- Capital increase and reduction of "San José Desarrollos Inmobiliarios, S.A.": transaction approved and executed in year 2014.
- Spin-off of "Sanjose Tecnologias, S.A.U." in favour of "Constructora San Jose, S.A.", "Sanjose Energia y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U.": transaction approved and executed in year 2010.

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- Segregation of the real estate branch of activity of Grupo Empresarial San Jose, S.A. (formerly, Udra, S.A.) in favour of "San Jose Desarrollos Inmobiliarios, S.A." (formerly, Inmobiliaria Udra, S.A.) and capital increase of the beneficiary company: transaction approved and executed in year 2010.
- Merger of Parquesol Inmobiliaria y Proyectos, S.A. and its investees Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestion, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. and Parque Usera, S.L.: transaction approved and executed in year 2008.
- Merger of "Udra, S.A." (currently GRUPO EMPRESARIAL SAN JOSÉ, S.A.) and "Grupo Empresarial San José S.A.", "San José Infraestructuras y Servicios, S.A.", "Udramed, S.L.U.", "Parquesol Inmobiliaria y Proyectos, S.A." and "LHOTSE Desarrollos Inmobiliarios, S.L.": transaction approved and executed in year 2008.
- Merger of "Sanjose Tecnologías, S.A.U." and the investees: "Artel Ingenieros S.L.U.", "Sefri Ingenieros S.A.U.", "Instal 8 S.A.U." and "SM Klima S.A.U.": transaction approved and executed in year 2008.
- Spin-off of "Tecnocontrol, S.A.U." in favour of "Tecnocontrol Servicios, S.A.U.": transaction approved and executed in year 2009.
- Merger by absorption of "Sanjose Tecnologías, S.A.U." and "Tecnocontrol, S.A.U.": transaction approved and executed in year 2009.
- Merger of "Constructora San José, S.A." and the investees: "Alcava Mediterranea, S.A.U.", "Constructora Avalos, S.A.U.", "Balltagi Mediterrani, S.A.U." y "Construccion, Rehabilitacion y Conservacion, S.L.U.": transaction approved and executed in year 2008.

The aforementioned spin-off will qualify for taxation under the tax neutrality regime provided for Act 2005/19/CE and in Chapter VIII of Title VII on the Special regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 of 5 March approving the Consolidated Spanish Corporation Tax Law.

## **2. Basis of presentation of the consolidated financial statements and basis of consolidation**

### **2.1 Regulatory framework and accounting principles**

These consolidated financial statements for 2015 of Grupo Empresarial San Jose, S.A. and Subsidiaries ("Grupo San Jose" or "the Group") are formally prepared by the Parent's directors, in accordance with International Financial Reporting Standards as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council ("EU-IFRSs"), taking into account all the mandatory accounting principles and rules and measurement bases in IFRSs, and, accordingly, they present fairly the Grupo San Jose's consolidated equity and financial position at 31 December 2015 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Grupo San Jose's consolidated financial statements were prepared from the accounting records of the Company and of the other Group entities. Each company prepares its individual financial statements in accordance with the accounting principles and rules in force in the country in which it operates and, accordingly, the required adjustments and reclassifications were made on consolidation to unify the policies used and to make them compliant with IFRSs.

The consolidated financial statements of Grupo San Jose and Subsidiaries for 2014, prepared in accordance with EU-IFRSs, were approved by the shareholders at the Annual General Meeting of Grupo Empresarial San Jose, S.A. (formerly named Udra, S.A.) held on 24 June 2015. Also, 2015 consolidated financial statements of the Group and the individual financial statements of the Group companies for the year have not yet been approved by the shareholders at the respective Annual General Meetings. However, the Parent's directors consider that the aforementioned consolidated financial statements will be approved without any changes.

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### **Standards and interpretations applicable for the year**

During year 2015 the following standards and interpretations, compulsory as from year 2015 onwards and adopted by the European Union, became in force and have been applied by the Group for the elaboration of the accompanying consolidated financial statements for the year ended at 31 December 2015:

| <b>New standards and amendments:</b>  |   | <b>Compulsory application for the Group:</b> |
|---|---|--|
| <b>Adopted for use within the EU</b>  |   |  |
| Amendment of IAS 19 – Employees' contributions to funds (released in June 2013)                 | The deduction of this cost provided certain criteria are fulfilled.   | 1 February 2015 (1)                          |
| Improvement of IFRS years 2010-2012 (released in December 2013)                                 | Minor amendments of a series of standards   | 1 February 2015 (1)                          |
| Amendment IAS 16 and IAS 38 Impairment and amortisation methods (released in May 2014)          | It classifies the accepted impairment and amortisation methods of property, plant and equipment and intangible assets.  | 1 January 2016                               |
| Amendment IFRS 11 Accounting of stakes in joint ventures (released in May 2014)                 | It specifies how to record the acquisition of stakes in a joint transactions whose activity involves a business itself. | 1 January 2016                               |
| Amendment of IAS 16 and IAS 41 Production plants (released in June 2014)                        | Production plans shall be recorded under expense and not fair value.  | 1 January 2016                               |
| Improvement of IFRS years 2012-2014 (released in December 2014)                                 | Minor amendments of a series of standards   | 1 January 2016                               |
| Amendment IAS 27 Equivalence method for Separate Financial Statements (released in August 2014) | It allows the consolidation of independent financial statements of an investor.   | 1 January 2016                               |
| Amendment of IAS 1 Breakdown (December 2014)  | Specifications on breakdowns (materiality, incorporation, order of notes, etc.).  | 1 January 2016                               |

(1) The date of enforcement of these standards is 1 July 2014.

The enforcement date approved by the IASB is 01 January 2016.

The aforementioned standards have not had a significant impact on the consolidated financial statements of the Group.

### **Non applicable issued standards and interpretations**

As of the date of issue of these consolidated financial statements, the following standards had been published by the IASB, yet their application was not compulsory either because the effective date is subsequent to the date of issue of these statements or because they had not been adopted by the European Union:

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| Adopted for use in the EU  |   | Compulsory application as from: |
|--|---|---------------------------------|
| <b>New standards</b>   |   |                                 |
| IFRS 15 income from contracts with clients (released in May 2014)  | New income recognition standard (it replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).                      | 1 January 2018                  |
| IFRS 9 Financial instruments (released in May 2014)  | It replaces former classification requirements, evaluation of assets and liabilities, accounting hedges of IAS 39.          | 1 January 2018                  |
| IFRS 16 Leases (released in January 2016)  | New leasing standard which replaces IAS 17. Lessees shall include all leases under the balance sheet as financed purchases. | 1 January 2019                  |
| <b>Amendments and/or understanding</b>   |   |                                 |
| Amendment of IFRS 10, IFRS 12 and IAS 28 Investment companies (December 2014):   | It classifies the accepted impairment and amortisation methods of property, plant and equipment and intangible assets.      | 1 January 2016                  |
| Amendment IFRS 10 and IAS 28 on the sale or provision of assets between and investor and its joint associate business (released in September 2014) | It specifies how to record the acquisition of stakes in a joint transactions whose activity involves a business itself.     | Without a set date.             |

The Directors of the Parent are assessing the potential impact of applying these standards in the future and consider that their entry into force will not have a material effect on the consolidated financial statements.

## 2.2 Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the Directors of the Parent.

In the preparation of the accompanying consolidated financial statements estimates were occasionally made by management of the Group and of the consolidated companies to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The useful life of the property, plant and equipment and intangible assets (see Notes 4.3 and 4.4).
2. Measurement of goodwill arising on consolidation (see Note 4.2).
3. The budgetary estimates which are considered for the recognition of results on contracts to which the percentage of completion method is applied (construction and industrial areas, see Note 4.12).
4. The assessment of potential impairment losses of certain assets (see Notes 4.1, 4.2, 4.3, 4.4, 4.5, 4.7, 4.8 and 4.9).
5. The probability of occurrence and the amount of uncertain or contingent liabilities (see Note 4.17 and 4.18).
6. The fair value of certain financial instruments (see Note 4.9).
7. The fair value of assets and liabilities resulting from business combinations (see Note 2.4 and 9).
8. The probability of recovery of financial loans (see Note 4.16).
9. Management of financial risk (Note 20)

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Although these estimates were made on the basis of the best information available at 31 December 2015 on the events analysed, events that might take place in the future might make it necessary to significantly change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the consolidated income statements for the years affected.

### 2.3 Currency

These consolidated financial statements are presented in Euros, since this is the functional currency of the main economic environment in which the SANJOSE Group operates. Foreign operations are recognised in accordance with the policies established in Note 4.14.

The breakdown of the closing and average exchange rates of the period used to prepare the consolidated financial statements for 2015 is as follows:

| Country              | Currency             | Year-end exchange rate | Average exchange rate |
|----------------------|----------------------|------------------------|-----------------------|
| The United States    | US Dollar (USD)      | 1.0925                 | 1.1030                |
| Mexico               | Mexican Peso         | 18.8870                | 17.6484               |
| Argentina            | Argentine Peso (ARS) | 14.1894                | 10.3937               |
| Cape Verde           | Cape Verde Escudo    | 110.265                | 110.265               |
| Panama               | Panamanian Balboa    | 1.0925                 | 1.1030                |
| Uruguay              | Uruguayan Peso       | 32.0053                | 29.8227               |
| Paraguay             | Guaraní              | 6,217.69               | 5,688.67              |
| Peru                 | Peruvian Sol         | 3.6627                 | 3.4855                |
| Chile                | Chilean Peso (CLP)   | 773.9070               | 727.2766              |
| Brazil               | Brazilian Real       | 4.2586                 | 3.7340                |
| India                | Indian Rupee         | 72.3289                | 70.8071               |
| Morocco              | Morocco Dirham       | 10.7557                | 10.7154               |
| Colombia             | Colombian Peso       | 3,436.74               | 3,042.83              |
| Republic of Congo    | Congo Franco         | 655.957                | 655.957               |
| Nepal                | Nepalian Rupee       | 114.4480               | 111.8113              |
| Mozambique           | New Metical          | 51.22                  | 42.76                 |
| United Arab Emirates | UAE Dirham           | 4.0117                 | 4.0504                |
| Romania              | Romanian Leu         | 4.5279                 | 4.4383                |

None of these countries are considered to be hyperinflationary economies as defined by IAS 29.

Main balances and transactions in foreign currency correspond to those executed in Chile, Peru, Argentina, Cape Verde, Abu Dhabi, Nepal and Congo. Note 6.2 of the accompanying consolidated financial statements include total assets and revenue provided by companies with operating currency other than the Euro.

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## **2.4 Basis of Consolidation**

### **a) Subsidiaries**

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise control; this capacity is evidenced by the power to manage the financial and operating policies of an investee so as to obtain benefits from its activities. Control is presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, if this percentage is lower, when there are agreements with other shareholders of the investee that give the Parent control.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all balances and effects of the transactions between consolidated companies were eliminated on consolidation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are recognised at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised at acquisition date.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised. The minority's share of:

1. The equity of their investees: It is presented within the Group's consolidated equity under "Minority Interests" in the consolidated balance sheet..
2. Differences are recorded under "Exchange rate differences" in the accompanying income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Appendix I to the consolidated financial statements details the subsidiaries included in consolidation and significant information thereon.

### **b) Joint ventures**

"Joint ventures" are deemed to be ventures that are jointly controlled by two or more unrelated companies.

A joint venture is a contractual arrangement whereby two or more companies ("venturers") have interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

The financial statements of multi-group entities are fully consolidated with those of the Parent in compliance with the participation method according to IFRS 11.

The Group develops its activity through its participation in joint ventures in Spain and overseas (different types of joint ventures ), which are unincorporated entities without independent legal status, through which a partnership relationship is incorporated in order to develop a concrete service or project. In these cases, in which an individualised control of assets and liabilities is executed, as well as Similarly, interests in Spanish UTEs (unincorporated joint ventures), joint property entities and economic interest groupings were included in the accompanying consolidated financial statements in proportion to the Group's interest in the assets, liabilities, income and expenses arising from the transactions performed by these entities, and reciprocal asset and liability balances and income, expenses and profits or losses not realised with third parties were eliminated.

Assets and liabilities assigned by the Group to jointly controlled operations and the Group's share of the jointly controlled assets are recognised in the consolidated balance sheet classified according to their specific nature.



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Similarly, the Group's share of the income and expenses of joint ventures is recognised in the consolidated income statement on the basis of the nature of the related items.

Financial information provided by consolidated financial statements of the Group by multi-group companies, in aggregate, at 31 December 2015 and 2014 is as follows:

|                         | Million of Euros |            |
|-------------------------|------------------|------------|
|                         | 31.12.2015       | 31.12.2014 |
| Current assets          | 261.2            | 240.0      |
| Non-current assets      | 1.5              | 0.9        |
| Current liabilities     | 253.6            | 235.2      |
| Non-current liabilities | 0.9              | 0.8        |
| Total income            | 147.4            | 358.3      |
| Total expense           | 144.7            | 122.7      |

Appendix III to the consolidated financial statements details the subsidiaries included in consolidation and significant information thereon.

#### c) Associates

Associates are companies over which the Parent is in a position to exercise significant influence, but not effective control or joint management. It usually holds -directly or indirectly- 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received there from and other equity eliminations. In the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group's interest in the associate, less any impairment of the individual investment.

Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised at acquisition date as goodwill. Any defect of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised at acquisition date as profit or loss

If as a result of losses incurred by an associate its equity were negative, the investment should be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

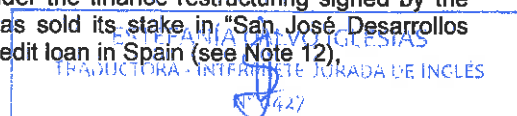
The financial statements of multi-group entities are accounted through the equity method, SANJOSE Group has followed the consolidation method for "Stakes in joint ventures" established by IAS 11 including the same under "Investments in associates and joint ventures" in the accompanying consolidated balance sheet.

Appendix II to the consolidated financial statements details the subsidiaries included in consolidation and significant information thereon.

#### d) Changes in the scope of consolidation

The main changes in the scope of consolidation in 2015 were as follows:

1. On 30 June 2015, pursuant to the commitments acquired under the finance restructuring signed by the Group on 30 December 2014 (see Note 17.3), the Group has sold its stake in "San José Desarrollos Inmobiliarios, S.A.U." to financial payables of the syndicated credit loan in Spain (see Note 12).



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2. On 30 June 2015, and as a result of improved commitments under the financial restructuring agreement (see Note 17.3), the Group's Company "Constructora San José, S.A." has acquired a 50% stake in the share capital of the company "Pinar de Villanueva SL", amounting to EUR 6,422 thousand (see Note 11).
3. On 16 June 2015 the Parent incorporated the company "GSJ Solutions, S.L.U.", devoted to the provisions of engineering services.
4. During 2015, the Group's company "Constructora San José, S.A." has attended a capital increase for EUR 3,292 thousand in its investee "Udra México S.A. de C.V."; by means of the partial capitalisation of the loan it had been granted.
5. During year 2015, the associated "Fotovoltaica El Gallo 10, S.L." has returned EUR 3,930 thousand to its shareholders due to the capital reduction and the reimbursement of the issuance fee.
6. During December 2015, the Company has incorporated in Abu Dhabi the company "San Jose Contracting L.L.C", where the Group Company "Constructora San Jose,S.A." (through its local branch office) holds an 85% interest though its branch office in the country. Said interest is represented through the direct ownership of 49% of total share capital plus a mutual agreement with the other shareholder for the 85% total control.
7. On 25 April 2015, the Group company "Constructora San José Brasil Limitada" increased its social capital in BRL 61,109 (nearly EUR 20 thousand), being said amount fully paid-up by "Constructora San José, S.A."
8. On 17 September 2015, the company "Sanjose Nuevos Proyectos Salud Limitada" has been incorporated in Santiago de Chile with a share capital amounting to one million Chilean Pesos (almost EUR 1 million), entirely property of the Group.

The main changes in the scope of consolidation in 2014 were as follows:

1. "San José Mozambique, Sociedade Limitada" was incorporated on 8 July 2014 by the Group companies "Constructora San José, S.A." and "Constructora Udra Limitada" in a ratio 60:40, respectively. The social capital amounts to MTn 10,000,000, equivalent to EUR 249 thousand, being only the 50.25% fully paid-up.
2. On 16 December 2014 took place a capital increase by "Constructora San José, S.A." in the Group company "Constructora San José Argentina, S.A." by the capitalisation of debt for a total value of ARS 1,340,304 (equivalent to EUR 126 thousand).
3. During 2014, as a result of customers' debt collection claims, and on the basis of a court decision, "Constructora San José, S.A." became the majority shareholder of the company "Fotovoltaica El Gallo 10, S.L.", holding 83% of its social capital by means of offset of a commercial debt amounting to EUR 14,542 thousand. The effect of this acquisition on the consolidated financial statements for year 2014 is not significant.
4. On 7 May 2014, the Group company "Constructora San José Brasil Limitada" increased its social capital in BRL 44,865 (nearly EUR 15 thousand), being said amount fully paid-up by "Constructora San José, S.A.". At 31 December 2014, "Constructora San José, S.A." holds 99.49% ownership and "Constructora Udra Ltda." holds the outstanding amount.
5. During 2014, the Group company "Constructora San José Panama, S.A." increased its social capital in USD 50,000 (nearly EUR 38 thousand), being said amount fully paid-up by "Constructora San José, S.A."
6. During year 2014, the Company "Udra Mexico, S.A. de C.V." attended a capital increase for a total amount of USD 2,150 (nearly EUR 1,559 thousand), by means of capitalisation of the loan granted to "Constructora San Jose, S.A." At 31 December 2014 the ownership percentage of "Constructora San José, S.A." in "Udra Mexico, S.A. de C.V." amounts to 99.9%.

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7. On 30 July 2014, the Group company "Green Inmuebles, S.L." attended a capital increase by its main shareholder "San José Desarrollos Inmobiliarios, S.A." of EUR 925 thousand by means of capitalisation of the outstanding balance of loans.
8. On 27 October 2014 the General Shareholders' Meeting of "Desarrollos Urbanísticos Chamartín, S.A." (formerly, "Desarrollos Urbanísticos Chamartín, S.A.") passed on a capital increase. The group company "Desarrollos Urbanísticos Udra, S.A." has not attended its pre-emptive right. This, the stake of "Desarrollos Urbanísticos Chamartín, S.A." was reduced from 25.336% to 24.459%.
9. On 22 July 2014 the Company "San José Desarrollos Inmobiliarios, S.A." sold its 50% stake of the company "Kantega Desarrollos Inmobiliarios, S.A.". Consequently, in 2014, the Company recorded an impairment loss amounting to EUR 1,617 thousand.
10. On 7 November 2014, the General Shareholders' Meeting of "San José Desarrollos Inmobiliarios, S.A." agreed to repay 100% of total shares, amounting to 11,852,479 shares of EUR 6.00 par value each, and to devote the issuance fee and the reserves of the company to offset loss of previous years. Simultaneously, a capital increase of the company by its main shareholder "Grupo Empresarial San José, S.A." took place by means of the subscription of shares for a total amount of EUR 30,000 thousand to offset loans granted. Pursuant to said transaction, at 31 December 2014 the Group holds an ownership interest of 100% of the company's share capital.
11. On 6 February 2014, the company "Udramedios Editora de Galicia, S.L.U." was dissolved by its sole shareholders, "Udramedios S.A.U.". The effect of this on the consolidated financial statements for year 2014 is not significant.

The consolidated financial statements do not include the tax effect, if any, that might arise from the inclusion of the reserves of the consolidated companies in the equity of the Parent, since it is considered that these reserves will be used as a source of self-financing at each consolidated company.

## **2.5 Comparison of information**

Information recorded on the consolidated financial statements for year 2014 is provided for comparison purposes only with that provided as of the year ended 31 December 2015.

As detailed in Note 12, on 30 December 2014 Grupo SANJOSE entered into a modifying novation agreement for its syndicated credit facilities in Spain pursuant to which the main commitment of the group is the sale of its investee "San José Desarrollos Inmobiliarios, S.A.U.", through which the Group develops the real estate business in Spain and Portugal.

Said sale transactions have been closed during the first half of year 2015 (see Note 2.4). With regards to the elaboration of the consolidated financial statements of the Group for year 2014, the sale was considered to be highly probable, along with the compliance with other requirements of IFRS 5, the stake in said investee has qualified as non-current assets held for sale and its consideration as a discontinued operation to the extent that a significant business line is stopped and separated from the other business lines.

Pursuant to IFRS 5, the Group has re-expressed the comparative figures of the consolidated income statement and the cash flow statement for year 2013, recording in a single amount the net profit/(loss) after taxes for the discontinued operation and detailing separate net cash flows for the operation, investment and financing of said activity.

## **2.6 Changes in the accounting criteria**

Accounting criteria applied during year 2015 is the same as that implemented in year 2014.

During year 2015, no significant changes have been applied compared to those applied in year 2014.

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### **3. Distribution of the Parent's profit**

The Directors of the Parent Company will propose the General Shareholders' Meeting the recognition of EUR 35,289 thousand as 2015 profit to offset any losses the Parent Company may generate in the future.

### **4. Accounting principles and policies and measurement bases**

The accounting principles and policies and measurement bases used in preparing the Group's consolidated financial statements for 2015 were as follows:

#### **4.1 Non-current assets classified as held for sale**

Non-current assets classified as held for sale relate to assets whose sale in their present condition is highly probable and whose sale is expected to be completed within one year from the reporting date. Therefore, the carrying amount of these items will be recovered through the proceeds from their disposal rather than through continuing use.

In general, non-current assets classified as held for sale are measured at the lower of carrying amount at the classification date and fair value less estimated costs to sell. Tangible and intangible assets that are amortisable because of their nature are not depreciated or amortised while they are classified as held for sale. Likewise, liabilities associated to said assets are also classified as held for sale as long as transferred in the disposal of property.

If the carrying amount of the assets exceeds their fair value less estimated costs to sell, the carrying amount of the assets is adjusted by the amount of the excess with a charge to the consolidated income statement. If the fair value of the assets subsequently increases, the losses previously recognised are reversed and the carrying amount of the assets is increased up to the limit of the carrying amount that would have been determined had no impairment loss been recognised, with a credit to the consolidated income statement.

Non current assets are classified as held for sale as long as the carrying amount is recovered by means of sale and not by means of use. This condition is satisfied only when the sale is highly probable and the assets are immediately available for sale. Sale shall be fulfilled within a year after the classification date.

Income and expense from non current assets held for sale that do not fulfil the requirements to be classified as discontinued operations are recorded under the income statement according to their nature.

As a consequence of the financing agreement signed by the Group on 30 December 2014 (see Note 17.3), the consolidated financial statements at 31 December 2014 include non current assets held for sale of the real estate division of the Group, since pursuant to said agreement there is a formal commitment to sell said division throughout year 2015 (see Note 12).

#### **4.2 Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Any excess of the cost of the investments in the consolidated companies and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.

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2. If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.
3. The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

See Note 9 for details on the allotment of gains on from business of the Group.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired company that are not capable of being individually identified and separately recognised.

Goodwill acquired on or after 01 January 2005 is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2004. In both cases, at the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to "Impairment or Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. Under IAS 36, Impairment of Assets, an impairment loss recognised for goodwill must not be reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill arising in the acquisition of companies with a functional currency other than the Euro is translated to Euros at the exchange rates prevailing at the date of the balance sheet.

Any deficiency of the cost of investments in consolidated companies and associates below the related underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is classified as negative goodwill and is allocated as follows:

1. If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
2. The remaining amount is presented under "Other Operating Income" in the consolidated statement for the year in which the share capital of the subsidiary or associate is acquired.

#### **4.3 Other intangible assets**

The other intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated companies. Only assets whose cost can be estimated reasonably objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

In both cases, the consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years is similar to those used for property, plant and equipment (see Note 4.5).



#### *Administrative concessions and patents*

Administrative concessions are recognised as assets when they have been acquired by the Group for consideration in the case of concessions that can be transferred or for the amount of the expenses incurred to directly obtain the concession from the related public agency.

This item included concessions within CINIIF 12 and that correspond, mainly, to energy and environmental infrastructure investment by subsidiaries of Grupo SANJOSE and "Project finance" funding (limited funding applied to projects), either whenever the group or the grantor assume related risks. Cash flows generated by the involved companies and assets act as hedge.

Main features to be taken into consideration are as follows:

- Assets object of concession regime are usually property of the Grantor.
- The Grantor controls or monitors the Concessionaire, as well as funding conditions and terms.
- Concessional Rights imply the monopoly exploitation of a service for a period of time according to concession terms. Upon completion of the concession period, real estate necessary for the provision of services becomes property of the concessional company
- Income derives from the provision of services can be received directly from customers or from the concessional company. Prices for services are usually established by the concessional company.

In general, there are two clearly marked stages, one in which the concessionaire provides construction or restoration services, according to level of the works pursuant to IAS 15 "Income from ordinary activities from contracts with clients for an intangible or financial asset, and a second stage in which maintenance and operation services of said infrastructure are provided in accordance with the given standard.

Intangible assets are recorded whenever risk is assumed by the concessionaire and financial assets are recorded if risk is assumed by the grantor, bearing the concessionaire the right to be paid for provided construction or improvement services. Royalties for awarding of concession regime are also recorded as assets.

The Group amortises these rights on a straight-line basis over the estimated term of the concession.

In the event of non-compliance, leading to the loss of the concession rights, the carrying amount of the concession is written off.

#### *Computer software*

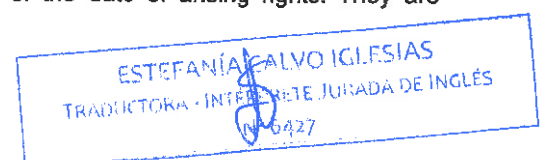
Computer software may be contained in a tangible asset or have physical substance and, therefore, incorporate both tangible and intangible elements. These assets are recognised as property, plant and equipment if they constitute an integral part of the related tangible asset, which cannot operate without that specific software.

Computer software is amortised on a straight-line basis over three years from the entry into service of each application.

Computer system maintenance costs are charged to the consolidated income statement for the year in which they are incurred.

#### *Issuance rights*

Issuance rights are recorded in the consolidated balance sheet as of the date of arising rights. They are recorded as follows:



*Initial recognition -*

Issuance rights shall be valued at acquisition price or production cost. In the case of rights available for free or for a price substantially below market value, said rights shall be recorded at acquisition market price thereof at the time of purchase.

Issuance rights arising from the National Allocation plan shall be recorded at the beginning of the natural year.

*Subsequent recognition -*

After their recognition as assets, issuance rights shall be valued at acquisition price or production cost and are not subject to depreciation.

Provisions for their lower value at the end of each year shall be recorded as long as recorded carrying value in book may not be recoverable.

Expenses related to the emission of greenhouse gases accrue as greenhouse gases are rendered. A provision for risks and related costs shall be recorded as liabilities in the consolidated balance sheets until settlement of the same by delivering relevant issuance rights.

#### **4.4 Property, plant and equipment and property investment**

*Property, plant and equipment*

Property, plant and equipment for own use is recognised at cost less any accumulated depreciation and any recognised impairment losses.

Replacements or renewals of complete items that lead to a lengthening of the useful life of the assets or to an increase in their economic capacity are recognised as additions to property, plant and equipment, and the items replaced or renewed are derecognised.

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

Borrowing costs are only capitalised when significant investments in qualifying assets are made, which are those that take a substantial period of time to get ready for their intended use (see Note 4.13). Borrowing costs incurred to acquire property, plant and equipment for own use are charged to the consolidated income statement on an accrual basis and are not capitalised.

The Group works on their own assets are entered at the accumulated cost (external costs plus in-house costs), determined on the basis of in-house materials consumption and manufacturing costs, calculated using absorption rates similar to those used for the valuation of inventories

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value; the land on which the buildings and other structures stand has an indefinite useful life and, therefore, is not depreciated.

The period property, plant and equipment depreciation charge is recognised in the consolidated income statement and is based on the application of the following depreciation rates, which are determined on the basis of the average years of estimated useful life of the various assets:

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|  | Annual Percentage |
|--|-------------------|
| Buildings                                    | 2                 |
| Technical facilities                         | 10                |
| Machinery                                    | 15                |
| Other fixtures, tools and furniture          | 12-33             |
| Other items of property, plant and equipment | 12-33             |

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

Assets held under finance leases are classified on the basis of their nature and are depreciated over their expected useful lives on the same basis as owned assets.

The consolidated companies assess at each reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If so, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life, if the useful life must be re-estimated.

Similarly, if there is an indication of a recovery in the value of an item of property, plant and equipment, the consolidated companies recognise the reversal of the impairment loss recognised in prior years and adjust the future depreciation charges accordingly. Under no circumstances may the reversal of an impairment loss on an asset raise its carrying amount to above that which it would have had had no impairment losses been recognised in prior years.

Property, plant and equipment for own use is recognised at cost less any accumulated depreciation and any recognised impairment losses.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

#### *Investments in concessions*

Concession agreements imply an agreement between a concessional entity, usual a public entity, and companies of the Group for providing public services though the operation of several assets necessary for the provision of services.

Concessional Rights imply the monopoly exploitation of a service for a period of time, after which, real estate necessary for the provision of services becomes property of the concessional company.

Income derives from the provision of services can be received directly from customers or from the concessional company. Prices for services are usually established by the concessional company.

This type of projects is usually financed with long-term borrowings; cash flows generated by the involved companies and assets as hedge. Since cash flow is the main hedge for returning borrowings, shareholders will not receive profits till certain annual conditions have been satisfied.

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### *Property investment*

"Investment Property" in the consolidated balance sheet reflects the net values of land, buildings and other structures (whether they are owned by the Group or are being used by the Group under a finance lease) held either to earn rentals or for capital appreciation. At 31 December 2015, the assets recognised under "Investment Property" related mainly to office buildings, hotels, leisure centres, land and parking spaces and the items of property, plant and equipment associated with them, such as machinery and furniture, whether owned by the Group or held under finance lease.

Hotels and leisure centres leased to third parties which the Group does not participate in management and has not retained the risks associated therewith are classified as "Investment Property". If the Group participates in management, these assets are classified as "Property, Plant and Equipment".

Investment property is presented at acquisition or production cost, where appropriate, pursuant to the applicable legislation. The same measurement basis, depreciation methods, estimated useful lives and recognition criteria are used for investment property (see Note 8).

Properties under construction or development for future use as investment property are classified under "Investment Property in Progress" in the consolidated balance sheet (see Note 8) until their construction or development has been completed, at which time they are transferred to "Investment Property".

However, those property investments that meet the criteria to be classified as "Assets held for sale" are measured according to the rules applicable to non-current assets held for sale and discontinued operations (see Note 4.1).

### *Borrowing Costs*

The accounting treatment of borrowing costs is described in Note 4.13.

In 2015 and 2014, the Group has not capitalised borrowing costs under "Property, plant and equipment" and "Investment Property" in the attached consolidated balance sheet.

## **4.5 Asset impairment**

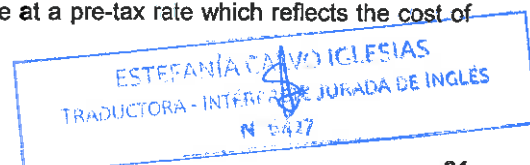
At the end of each year, or whenever it is deemed necessary, the value of assets is analysed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the required write-down (if any). Where an identifiable asset does not generate cash flows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of cash-generating units to which goodwill or intangible assets with an indefinite useful life have been allocated, recoverability is systematically analysed at the end of each reporting period or whenever it is deemed necessary to perform such an analysis on the basis of the existing circumstances.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. In calculating the recoverable amount of property, plant and equipment and goodwill, the Group uses value in use in practically all cases.

To estimate value in use, the Group prepares future pre-tax cash flow estimates based on the most recent budgets approved by Group management. These budgets include the best estimates available of income and costs of the cash-generating units based on industry projections, past experience and future expectations.

These projections cover the coming five years and cash flows for the following years are estimated by applying zero growth rates. These cash flows are discounted to present value at a pre-tax rate which reflects the cost of



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capital of the business and the geographical area in which it is carried on. In order to calculate the rate, the current time value of money and the risk premiums generally used by analysts for the business and the geographical area are taken into account..

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement.

The fair value of assets and liabilities resulting from business combinations (see Note 8 and 13).

#### **4.6 Leases**

##### **4.6.1 Finance Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Therefore, finance leases are deemed to be those in which substantially all the risks and rewards relating to the leased asset are transferred to the lessee.

When the consolidated companies act as the lessor of an asset, the aggregate present values of the lease payments receivable from the lessee plus the price of exercising the purchase option are classified as financing provided to third parties for the amount of the Group's net investment in the leases.

In this event, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated income statement so as to reflect a constant periodic rate of return over the term of the agreements.

##### **4.6.2 Operating Leases**

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased asset remain with the lessor.

When the consolidated companies act as the lessor, they present the acquisition cost of the leased asset under "Property, Plant and Equipment". These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items and lease income is recognised in the income statement on a straight-line basis.

When the companies of the Group act as the lessee, lease costs, including any incentives granted by the lessor, are recognised in the income statement on an accrual basis.

#### **4.7 Inventories**

"Inventories" in the consolidated balance sheet reflects the assets that the consolidated companies:

- Hold for sale in the ordinary course of business.
- Are in the process of constructing or developing for such sale.
- Expect to consume in the production process or in the provision of services.

Consequently, land and other property held for sale or for inclusion in a property development in the ordinary course of the Group's business and not for capital appreciation or to earn rentals are treated as inventories.

Inventories are stated at the lower of acquisition or production cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and production overheads, including the costs that

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have been incurred in bringing the inventories to their present location and condition at the point of sale. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

The cost of inventories is calculated by using the weighted average cost formula. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Land is stated at acquisition cost, plus the costs of demolishing buildings and other expenses related to the acquisition (non-recoverable taxes, registration expenses, etc.). The Group does not capitalise the borrowing costs incurred on the loans obtained to finance the purchase of land to the carrying amount thereof during the period between its acquisition and the date on which the construction begins, which is when they are transferred to "Developments under construction".

"Developments under construction" includes the land development costs incurred up to year-end and the costs of construction or acquisition of real estate developments, increased by the expenses directly allocable to them (costs of construction subcontracted to third parties, fees inherent to construction and project management fees), in addition to the reasonable portion of the costs indirectly allocable to the related assets, to the extent that these costs correspond to the development period, and the borrowing costs incurred during the construction period. During years 2015 and 2014, no borrowing costs have been capitalised to "Inventories".

The Group assesses the net realisable value of the inventories at the end of each period and recognises the appropriate loss if the inventories are overstated. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

Further, at 31 December 2015 and 2014, "Inventories" includes advances to suppliers for the purchase of inventories amounting to EUR 18,436 thousand and EUR 18,460 thousand, respectively (see Note 13).

#### **4.8 Trade receivables and customer advances**

Trade receivables do not earn interest and are recognised at the fair value of the consideration given, reduced by the estimated non-recoverable amounts

The amount of customer advances received prior to the recognition of the sale of the buildings is recognised under "Current Liabilities - Trade and Other Payables" in the consolidated balance sheet (see Notes 13.6 and 19.3).

#### **4.9 Financial Instruments**

##### **Definitions**

A "financial instrument" is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as a specified interest rate, foreign exchange rate, financial instrument price or market index), the initial investment in which is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and which is generally settled at a future date.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates.
- Rights and obligations under employee benefit plans.

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- The rights and obligations arising from insurance policies
- Contracts and obligations relating to share-based employee remuneration

#### *Initial recognition of financial instruments*

Financial instruments are initially recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Specifically, debt instruments are recognised from the date on which the legal right to receive or the legal obligation to pay arises. Derivative financial instruments are generally recognised from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net is recognised on the date from which the rewards, risks, rights and obligations attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date.

#### *Derecognition of financial instruments*

Financial assets are only derecognised when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all the risks and rewards of ownership are transferred or, even if they are not substantially transferred or retained, control over the financial asset is transferred.

Financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are repurchased, even if they are going to be placed on the market again in the future.

#### *Fair value of financial instruments*

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

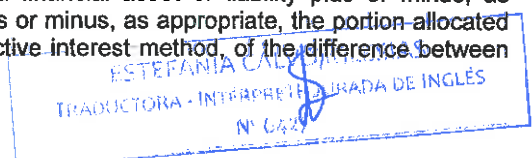
If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques sufficiently used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of financial derivatives traded on organised, transparent and deep markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure the derivatives not traded on organised markets.

The fair value of OTC derivatives or derivatives traded in scantily deep or transparent organised markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value") using valuation techniques commonly used by the financial markets ("net present value", option pricing models, etc.).

#### *Amortised cost of financial instruments*

"Amortised cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments, plus or minus, as appropriate, the portion allocated to the consolidated income statement, calculated using the effective interest method, of the difference between



the initial cost and the repayment value of the financial instruments. In the case of financial assets, amortised cost also includes any write-downs due to impairment.

The "effective interest rate" is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, by the fees and transaction costs that must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is estimated as for fixed rate instruments and is recalculated on each contractual reprising date on the basis of the changes in the future cash flows arising there from.

#### *Classification and measurement of financial assets and liabilities*

Financial instruments are classified in the consolidated balance sheet into the following categories:

##### *Financial Assets*

- **Held-for-trading financial assets:** financial assets acquired with the intention of realising them at short term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and derivatives not designated as hedging instruments.
- **Held-to-maturity investments:** financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity. They do not include loans and accounts receivable from third parties. These assets are measured at "amortised cost."
- **Originated loans and receivables:** financial assets originated by the Group in exchange for supplying cash, goods or services directly to a debtor, which are measured at amortised cost.
- **Available-for-sale financial assets:** these include securities acquired that are not held for trading purposes and are not classified as held-to-maturity investments, and equity instruments owned by the Group and issued by entities other than subsidiaries, joint ventures or associates.

Held-for-trading financial assets and available-for-sale financial assets are measured at fair value at subsequent measurement dates. In the case of marketable securities, the gains and losses from changes in fair value are recognised in net profit or loss for the year. In the case of available-for-sale financial assets, the gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

##### *Financial Liabilities*

Financial liabilities are classified in accordance with the content of the contractual arrangements. The main financial liabilities held by the Group are held-to-maturity financial liabilities, which are measured at amortised cost.

Interest-bearing bank loans and credit facilities are recognised at the proceeds received, net of direct issue costs. Borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables, which are not interest bearing, are stated at their face value.

Grupo SANJOSE recognises the derecognising of financial assets when they expire or whenever cash flow rights over the financial assets have been transferred together with the inherent risks and profits through sale of assets, factoring credit transfers, sale of assets with put option at fair value.

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On the other hand, Grupo San Jose will not recognise the derecognising of financial assets and records financial liabilities equal to the received consideration, in asset transferral transactions in which risks and profits are not transferred, such as bill discounting, recourse factoring, sale of financial assets with repurchase agreement at fair value or financial asset securities which the transferring company holds any subordinate financing nor any guarantee nor risk in.

#### *Net equity*

Capital instruments are classified in accordance with the content of the contractual arrangements. Equity instruments issued by the Parent are recognised in consolidated equity at the proceeds received, net of direct issue costs.

#### **4.10 Shares of the Parent**

Grupo SANJOSE did not hold any treasury shares at 31 December 2015 and 2014. Likewise, no transactions involving treasury shares were carried out during the year.

#### **4.11 Derivative financial instruments and hedge accounting**

The Group's activities expose it mainly to interest rate risk and, accordingly, the Group uses financial derivative instruments, basically interest rate swap (IRSs), as part of its strategy to reduce its exposure to interest rate risk. When these transactions meet certain requirements, they qualify for hedge accounting.

In order for a transaction to be classified as a hedge it must be carried out at the inception of the transactions or of the instruments included in the hedge, provided there is adequate documentation of the hedging relationship. The hedge accounting documentation must include adequate identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

Consequently, only hedges that are considered to be highly effective over their entire life are considered to qualify for hedge accounting. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument or instruments are offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument or instruments.

To measure the effectiveness of hedges, it is analysed whether, from inception to the end of the term defined for the hedge, it can be expected, prospectively, that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument(s) and, retrospectively, that the results of the hedge are within a range of 80% to 125% of the results of the hedged item.

Hedges are classified into the following categories

- **Fair value hedges.** These hedges hedge the exposure to changes in the fair value of financial assets or liabilities or unrecognised firm commitments, or of an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it could affect the consolidated income statement.
- **Cash flow hedges.** These hedges hedge the exposure to changes in cash flows that is attributable to a particular risk associated with a financial asset or liability or to a highly probable forecast transaction, provided that it could affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, when the hedge no longer qualifies for hedge accounting or the designation as a hedge is revoked.

When, pursuant to the foregoing paragraph, hedge accounting of a fair value hedge is discontinued, in the case of hedged items carried at amortised cost, the value adjustments made as a result of the hedge accounting

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discussed above are recognised in the consolidated income statement through maturity of the hedged items using the effective interest rate recalculated at the date of discontinuation of hedge accounting.

Also, when hedge accounting of a cash flow hedge is discontinued, the cumulative gain or loss on the hedging instrument recognised in consolidated equity is retained in equity until the forecast hedged transaction occurs, when it will be transferred to consolidated income statement or the cost of acquisition of the asset or liability to be recognised will be adjusted, if the hedged item is a forecast transaction which results in the recognition of a financial asset or a financial liability.

In the case of the derivative financial instruments arranged by the Group that meet the aforementioned requirements for classification as a cash flow hedge, the changes in the fair value in 2015 were recognised under "Equity - Valuation Adjustments" in the accompanying consolidated balance sheet (see Note 15.6).

Changes in the fair value of the derivative financial instruments arranged by the Group that do not fully meet the aforementioned requirements for classification as a hedge were recognised under "Changes in Fair Value of Financial Instruments" in the consolidated income statement (see Note 18).

To determine the fair value of the interest rate derivatives (IRSs), the Group uses an in-house IRS valuation model where the inputs are the Euribor market curves and long-term swap rates to establish the fair value of the interest rate derivative structures. In order to calculate the fair value of option-based derivatives (collars), the Group uses Black-Scholes option pricing models and variations thereon, taking as an input the implied volatility in the markets for the corresponding strikes and times to expiry.

IFRS 13, Measurement of Fair Value, became into force on 1 January 2013 and shall be mandatory for financial years commencing upon said date. Its applicability was approved by UE Regulation 1255/2012 as of 11 December, applicable to the Group because the Parent is a listed company.

The new accounting standard IFRS 13 considers credit risk in the measurement of fair value. Pursuant to IFRS 13, fair value is defined as the price to be charged for selling an assets or to be paid for transferring a liability at a market transaction at measurement date (for example, starting price) regardless said price has been estimated or corresponds to market conditions.

IFRS 13 indicates that fair value of assets and liabilities shall include credit risk of the entity itself and of its counterparty. This principle affects derivative financial instruments of Grupo SANJOSE.

For calculating fair value of derivative financial instruments, the Group has applied several methods which include current and future exposure, possibility of default and potential loss in the event of default. Consequently, CVA (Credit Value Adjustment) or credit risk of the counterparty and DVA (Debt Value Adjustment) or its own credit risk is defined.

Total exposure of derivatives is determined by the market, taking into consideration interest rate changes, exchange rate changes and any other changes subject to market conditions.

Possibility of default has been based on credit spread of financing of the Company, verifying it is similar to that of similar companies.

Further, for the adjustment of credit risk, total exposure of the Company to counterparties has been taken into consideration. In the event of counterparties with credit information, credit spreads are provided by CDS (Credit Default Swaps) listed on the stock exchange; companies lacking credit information use reference information available. At 31 December 2015 and 2014, the Group held interest rate swaps (IRSs and collars) for a total notional amount of EUR 17,034 thousand million and EUR 349,316 thousand, respectively, with maturity dates in 2016 and 2021. The negative impact on the consolidated net equity of the Group of the changes in fair value resulting from these arrangements at the end of 2015 and 2014 was EUR 844 thousand and EUR 24,385 thousand, respectively.

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#### **4.12 Revenue recognition**

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises:

1. Sales of goods are generally recognised when the goods have been delivered and title thereto has been transferred.
2. Specifically, revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.
3. Revenue from completed work or projects (in both the construction and industrial businesses) is recognised using the percentage of completion method, whereby revenue from completed work is recognised by reference to the stage of completion of the contract at year-end. Under this method, revenue is determined on the basis of the percentage of total revenue per the main contract or approved amendments or addenda thereto. This percentage is established on the basis of the proportion that costs incurred for work performed to date bear to the total contract costs.

An expected loss on the construction contract is recognised as an expense immediately.

Contract costs are recognised on an accrual basis, and costs actually incurred in completed construction units and costs which may be incurred in the future but must be charged to the construction units that have been currently completed are recognised as an expense.

The application of this method for the recognition of the outcome of construction contracts is combined with the preparation of a budget for each construction contract detailed by construction unit. This budget is used as a key management tool in order to closely follow up, for each construction unit, any variances between budgeted and actual figures.

In exceptional cases in which it is not possible to estimate the total contract profit, the total contract costs incurred are recognised and reasonably assured sales relating to completed construction work are recognised as contract revenue up to the limit of the aforementioned contract costs incurred.

As regards construction work or projects performed on an order basis and by contract, the revenue from work performed not included in the contract, such as additional refurbishment and construction modifications, is recognised using the same method as for the main construction project, provided that there are no doubts as to their subsequent approval and that they are technically justified.

Consequently, progress billings and the amounts to be billed for work performed are recognised in the related trade receivables account with a credit to sales.

The amount of progress billings for work not yet performed is recognised under "Advances Received on Orders" on the liability side of the balance sheet.

Income and expense relating to construction services or improvement of infrastructure are recorded in the consolidated financial statements as construction margin. Likewise, interest income from concessions are recorded as sales for qualify as common activities regarding overall action. Income providing from maintenance services or operations are recorded as common income.

4. The main activity carried out by the Real Estate Division is the sale of houses and land. Revenue from this activity is recognised when the risks and rewards of ownership of the goods have been transferred to the buyer which usually is the date on which the public deed is executed. In this regard:
  - a. Sales of properties and land, and related costs, are recognised in the consolidated income statement when substantially all the risks and rewards of ownership have been transferred, i.e., when the properties are delivered and the sale is executed in a public deed. The deliveries of cash by the



customers as payments on account, from the date of the signing of the private agreement to the date on which the sale is executed in a public deed, are recognised under "Trade Payables" on the liability side of the consolidated balance sheet..

- b. The sales of building plots on which the Group has acquired the obligation with the local authorities to carry out urban development work, which affects all the building plots under the urban development plan, and which cannot be considered to be carried out specifically for the owners of the parcels sold, are broken down into two items: the sale of the building plot and the sale of the urban development work associated therewith.

The revenue relating to the sale of the building plot is recognised when substantially all the risks and rewards of ownership have been transferred, usually when the property is delivered and the sale is executed in a public deed.

The revenue attributable to the sale of the urban development work (which is determined on the basis of the projected costs of the urban development work as a whole, calculated in proportion to the square metres of the building plot sold with respect to the total square meters of the urban development work plus the estimated profit margin on the sale) is recognised when the urban development work has been substantially completed, at which time a provision is recognised for the estimated costs to be incurred in completing the work.

- c. Rental income is recognised on an accrual basis and incentive-related income and the initial costs of lease agreements are allocated to income on a straight-line basis.
- d. Asset exchange transactions. An asset exchange transaction is an acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

The assets received in an exchange transaction are recognised at their fair value, provided that it can be considered that the exchange has commercial substance and that the fair value of the asset received, or otherwise of the asset given up, can be reliably measured. The fair value of the asset received is taken to be the fair value of the asset given up plus, where applicable, the fair value of any monetary consideration paid in exchange, unless there is clearer evidence of the fair value of the asset received.

Asset exchange transactions that do not meet the above-mentioned requirements, the asset received is recognised at the carrying amount of the asset given up plus the amount of any monetary consideration paid or committed on the acquisition.

Income relating to the derecognition of assets given up in an asset exchange transaction is recognised when substantially all the risks and rewards of ownership of the asset have been transferred to the counterparty in the exchange, with the value assigned to the asset received being recognised as the balancing entry.

Amounts collected or instrumented in notes and bills under contracts executed at the balance sheet date in relation to properties not yet delivered are recognised under "Trade Payables" or "Other Non-Current Liabilities" on the liability side of the accompanying consolidated balance sheet, depending on whether they fall due in less than or more than one year, respectively.

5. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset to that asset's carrying amount.
6. Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.
7. Government grants related to property, plant and equipment are recognised in the consolidated balance sheet as deferred income when the Group has satisfied the conditions established for their award and,

consequently, there are no reasonable doubts as to their collection. These grants are allocated to income, with a credit to "Other Operating Income" in the consolidated income statement, systematically over the years of useful life of the assets, for which the grants were provided.

Grants awarded for the purpose of covering or financing expenses incurred by the Group are recognised as income in the periods in which the related expenses are incurred once the conditions have been met.

An expense is recognised in the consolidated income statement when there is a decrease in the future economic benefit related to a reduction of an asset, or an increase in a liability, which can be measured reliably. This means that an expense is recognised simultaneously to the recording of the increase in a liability or the reduction of an asset.

An expense is recognised immediately when a disposal does not produce future economic benefits or meets accounting criteria to be recorded as an asset.

Likewise, an expense is recognised when a liability is incurred and no asset is recognised, as in the case of a liability relating to a guarantee

#### **4.13 Borrowing Costs**

Borrowing costs directly attributable to the construction or production of property developments or investment property, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. If borrowings have been obtained specifically for the construction of such assets, the interest and the other capitalised finance charges relate to the actual costs incurred in the year, less the income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets. To the extent that funds have been borrowed generally, the amount of borrowing costs eligible for capitalisation is determined by applying the capitalisation rate that relates to the weighted average of the borrowing costs applicable to the average borrowings outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

However, the capitalisation of borrowing costs is suspended during extended periods in which active development of a qualifying asset is suspended.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred, on an accrual basis, using the effective interest method.

#### **4.14 Currency**

The Group's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be "foreign currency balances and transactions".

On consolidation, the balances in the financial statements of the consolidated companies with a functional currency other than the Euro are translated to Euros as follows:

1. Assets and liabilities are translated to Euros at the exchange rates prevailing on the balance sheet date.
2. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly.
3. Equity is translated at the historical exchange rates.

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4. Any translation differences arising are classified separately in equity. Such translation differences are recognised as income or as expenses in the year in which the foreign operation is realised or disposed of.

Goodwill arising on the acquisition of a foreign company is treated as an asset of the foreign company and is translated at the closing rate. Goodwill and fair value adjustments arising on the acquisition of a foreign company qualify as assets and liabilities of said foreign company and are translated at the closing rate.

The detail of the main companies which contribute assets and liabilities denominated in currencies other than the Euro is as follows:

| Company  | Address                    | Activity                                 |
|--|----------------------------|--|
| Constructora San José Argentina, S.A.                                    | Buenos Aires (Argentina)   | Construction                             |
| CIMSA Argentina, S.A.  | San Luis (Argentina)       | Civil works                              |
| Tecnoartel Argentina, S.A.   | Buenos Aires (Argentina)   | Maintenance and facilities               |
| Centro Comercial Panamericano, S.A.                                      | Buenos Aires (Argentina)   | Real Estate Development                  |
| Argentimo, S.A.  | Buenos Aires (Argentina)   | Real Estate Development                  |
| Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.              | Buenos Aires (Argentina)   | Real Estate Development                  |
| Carlos Casado, S.A.  | Buenos Aires (Argentina)   | Property holding                         |
| Branch office Constructora San José, S.A. in Argentina                   | Buenos Aires (Argentina)   | Construction                             |
| Eskonel Company S.A.   | Uruguay                    | Energy                                   |
| San Jose Construction Group, Inc.  | Washington (USA)           | Construction                             |
| San José Real Estate Development, LLC                                    | Delaware (USA)             | Real Estate Development                  |
| 1681 West Avenue, LLC  | Miami(USA)                 | Real Estate Development                  |
| Branch office Constructora San José, S.A. in Panama                      | City of Panama (Panama)    | Construction                             |
| San José Panamá, S.A (former Constructora Panameña de Aeropuertos, S.A). | City of Panama (Panama)    | Construction                             |
| San José Perú Inmobiliaria, S.A.C.                                       | Lima (Peru)                | Construction                             |
| Inmobiliaria 2010, S.A.  | Lima (Peru)                | Construction and Real Estate Development |
| San José Perú Constructora, S.A.   | Lima (Peru)                | Construction                             |
| San José Tecnologías Perú, S.A.C   | Lima, Peru                 | Construction and Real Estate Development |
| Sanjose Maroc, S.A.R.L.A.U.  | Casablanca (Morocco)       | Construction                             |
| Sefri Ingenieros Maroc, S.A.R.L.   | Morocco                    | Engineering and installations            |
| Udra Mexico S.A. de C.V.   | Mexico                     | Holding company                          |
| San José India Infrastructure & Construction Private Limited             | New Delhi (India)          | Construction                             |
| Pontus Euxinus Tehnologii Renovabile, S.R.L.                             | Bucarest (Romania)         | Industrialisation and Trade              |
| Constructora Sanjose Brasil Ltda.  | Salvador de Bahía (Brazil) | Construction                             |
| Hospes Brasil Participaciones e Empreendimentos Lda.                     | Brazil                     | Construction and Real Estate Development |
| Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.                   | Brazil                     | Construction and Real Estate Development |
| Branch office Constructora San José, S.A. in Nepal                       | Kathmandu (Nepal)          | Construction                             |
| Constructora San José Cabo Verde, S.A.                                   | Cape Verde                 | Construction                             |
| Branch office Constructora San José, S.A. in Cape Verde                  | Praia (Cape Verde)         | Construction                             |
| San José Congo, S.A  | Congo                      | Construction and Real Estate             |

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|  |                           |                                   |
|--|---------------------------|-----------------------------------|
| Constructora San José Timor Unipessoal Lda             | Timor                     | Development                       |
| Branch office Constructora San José, S.A. in Timor     | Timor                     | Construction                      |
| Concesionaria San Jose Tecnocontrol, S.A.              | Santiago de Chile (Chile) | Construction                      |
| Branch office Constructora San José, S.A. in Chile     | Santiago de Chile (Chile) | Construction and Hotel Management |
| San José Tecnologías Chile Limitada                    | Chile                     | Construction                      |
| Tecnocontrol Chile Limitada                            | Chile                     | Construction                      |
| Inversiones San José Chile, Limitada                   | Santiago de Chile (Chile) | Investment and real estate        |
| Inversiones San José Andina, Limitada                  | Santiago de Chile (Chile) | Investment and real estate        |
| Inversiones Hospitalarias, Limitada                    | Santiago de Chile (Chile) | Capital investment                |
| Inversiones Viales Andina, Limitada                    | Santiago de Chile (Chile) | Capital investment                |
| São José Mozambique, Sociedade Limitada                | Mozambique                | Construction                      |
| San José Colombia, S.A.S.                              | Colombia                  | Construction                      |
| Sociedad Concesionaria Sanjose Rutas del Loa, S.A.     | Chile                     | Construction                      |
| San José Nuevos Proyectos Salud Limitada               | Chile                     | Construction                      |
| San Jose Contracting, L.L.C.                           | United Arab Emirates      | Construction                      |
| Branch office Constructora San José, S.A. in Abu Dhabi | United Arab Emirates      | Construction                      |

None of these countries are considered to be hyperinflationary economies as defined by IAS 29.

#### 4.15 Profit (Loss) from operations

"Profit (Loss) from Operations" in the consolidated income statement includes the profits and losses from the Group companies' ordinary operations, excluding the financial loss and the share of results in associates.

#### 4.16 Income tax

The income tax expense of the Spanish companies and the taxes of a similar nature applicable to the consolidated foreign companies are recognised in the consolidated income statement, except when they arise from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

The income tax expense represents the sum of the current tax expense and the changes in the deferred tax assets and liabilities recognised (see Note 21).

The difference, if any, between the taxable profit or tax loss and the tax income or expense recognised is treated as a deferred tax asset or liability, as applicable. A deferred tax liability is one that will generate a future obligation for the Group to make a payment to the related tax authorities. A deferred tax asset is one that will generate a right for the Group to a refund or to make a lower payment to the related tax authorities in the future.

The Group's liability for current income tax is calculated using tax rates which have been approved on the balance sheet date.

Tax assets relating to tax credits and tax relief and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not deducted for tax purposes in the

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related tax return until the conditions for doing so established in the related tax regulations are met. The Group considers it probable that they will be deducted in future periods.

Deferred tax assets and liabilities are taxes expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the related tax bases used in the calculation of the taxable profit or tax loss. Deferred tax assets and liabilities are accounted for using the balance sheet liability method and are measured by applying to the related temporary difference or tax asset the tax rate that is expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences. A deferred tax liability is recognised for taxable temporary differences arising from investments in subsidiaries and associates and from interests in joint ventures, except when the Group is able to control the reversal of the temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Notwithstanding the foregoing:

1. Deferred tax assets arising from temporary differences, tax credits, tax relief and tax loss carry forwards, if any, are recognised to the extent that it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised; and
2. No deferred tax liabilities are recognised for non-deductible goodwill arising on an acquisition.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

Since 1 January 2006, the Parent forms an integral part of the consolidated tax group. At 31 December 2015, the following SANJOSE group companies filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Comercial Udra, S.A.U.
- Udramedios, S.A.U.
- Cadena de Tiendas, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U. (antes, Ewan Connection, S.A.U.)
- Vision King, S.A.U. (antes, Fashion King S.A.U.)
- Running King, S.A.U.

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- Enerxías Renovables de Galicia, S.A.
- Xornal de Galicia, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneraciones parc de L'Alba, S.A.
- Xornal Galinet, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

Further, as from 1 January 2015, the associate "EBA, S.L." has become the Parent of a consolidation tax group under the tax regime of the Basque Country, which also includes the following company within its scope of consolidation: Alexin XXI, S.L.U.

#### 4.17 Provisions

When preparing its consolidated financial statements, the San Jose Group made a distinction between:

1. Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing; and
2. Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37.

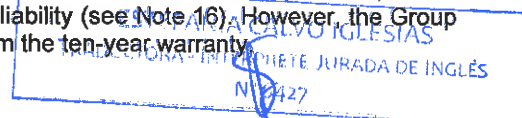
Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

##### 4.17.1 Provisions for urban development costs

These provisions relate to the estimated costs not yet incurred in the urban development of previously sold plots of land (basically in relation to the urban development Parques de la Huaca, in Peru), estimated on the basis of technical and economic studies carried out. The distribution among the various plots of the total costs to be incurred in the urban development work is made in proportion to the square metres of the previously sold plots with respect to the total urban development area.

##### 4.17.2 Provisions for completion of construction projects and warranty costs

Provisions for the completion of construction projects are recognised for the estimated amount required to meet the expenses necessary for the completion of the property developments in progress when these developments have been substantially completed, and the cost thereof is transferred to "Completed Buildings". Provisions for warranty costs, particularly after-sales expenses, other costs and the ten-year warranty required under Spanish regulations governing real estate companies, are recognised at the date of sale of the relevant products, based on the best estimate of the expenditure required to settle the Group's liability (see Note 16). However, the Group has taken out insurance policies to cover the potential risks arising from the ten-year warranty.



#### **4.17.3 Litigation and/or claims in process**

At the end of 2015 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and the Parent's directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

#### **4.18 Termination benefits**

Under the legislation in force in each case, the Spanish consolidated companies and certain Group companies located abroad are required to pay termination benefits to employees terminated without just cause. There are no redundancy plans making it necessary to recognise a provision in this connection.

Also, the Company has recognised sufficient provisions under "Other Current Liabilities" on the liability side of the accompanying consolidated balance sheet at 31 December 2015 to meet the contract termination costs of temporary employees in accordance with legal provisions.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

#### **4.19 Classification of current assets and liabilities**

In the consolidated balance sheet, assets and liabilities expected to be recovered, used or settled within twelve months from the balance sheet date are classified as current items, except for inventories, which are presented in full under "Current Assets" in the consolidated balance sheet, since it is expected that they will be realised in the normal course of the building plot and property sale business, and the liabilities associated with inventories (borrowing costs and customer advances), which are presented under "Current Liabilities" in the consolidated balance sheet, regardless of their maturity. Prior to year-end, if a liability does not give the Group an unconditional right to defer the settlement for at least twelve months from the balance sheet date, the liability is classified as a current item.

The Group holds financial liabilities which are classified as current liabilities in the consolidated balance sheet, since they are subject to the financing of current property assets (see Note 17).

#### **4.20 Transactions with associates**

Grupo San Jose executes all transactions with associates at market price. In addition, transfer prices are borne appropriately, and therefore, Company Directors believe there are any significant risks in this regard for any potential substantial liabilities arising in the future.

#### **4.21 Assets of natural environment**

Assets of natural environment are those which are used for the Group's business activity and whose main goal is to minimise environmental impact and protection of the environment, as well as the reduction and elimination of future pollution.

The Groups' business activity, due to its nature, does not have a significant impact on the environment.

#### **4.22 Consolidated cash flow statements**

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

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

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2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

#### 4.23 Profit/(Loss) from discontinued activities

Pursuant to IFRS 5, the income statement shall include a single figure including total profit/(loss) after taxes of discontinued activities. Discontinued activities refer to the income and expense associated to assets and/or liabilities of the Group transferred or classified as held for sale for being:

- a separate business line,
- for forming an integral part of a disposal plan,
- for being a subsidiary acquired for the sole purpose of selling it.

On 30 December 2014 Grupo SANJOSE entered into a modifying novation agreement for its syndicated credit facilities in Spain (see Note 17) pursuant to which the main commitment of the group at 31 December 2014 is the sale of its investee "San José Desarrollos Inmobiliarios, S.A.U.", through which the Group develops the real estate business in Spain and Portugal. Consequently, with regards to the consolidated financial statements of the Group for 2014, said activity was interrupted. During the first half of year 2015, and pursuant to prior negotiations, the Parent of the Group has completed the sale of said stake (see Note 12).

## 5. Earnings per share

### 5.1 Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (after tax and minority interests) by the weighted average number of shares outstanding during the year, excluding the average number of treasury shares held in the year. Accordingly:

|   | Year<br>2015 | Year<br>2014 | Changes |
|---|--------------|--------------|---------|
| Net profit/(loss) for the year attributable to the Parent (thousand of Euros) | 8,653        | (120,054)    | 128,707 |
| Weighted average number of shares (shares)                                    | 65,026,083   | 65,026,083   | -       |
| Basic profit/(loss) per share (Euros/Share)                                   | 0.13         | (1.85)       | 1.98    |

### 5.2 Diluted earnings per share

There was no potential dilutive effect arising from share options, warrants, convertible debt and other instruments at 31 December 2015 and, accordingly, the diluted earnings per share coincide with the basic earnings per share.

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## **6. Segment reporting**

### **6.1 Basis of segmentation**

Segment reporting is generally structured on a primary basis by business segment and on a secondary basis by geographical segment.

#### *Primary business segments*

The business lines described below were established on the basis of the organisational structure of Constructora San Jose, S.A and Subsidiaries at 2015 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In years 2015 and 2014, Constructora San Jose, S.A. and Subsidiaries engaged mainly in the following major lines of business, which were the basis for the Group's primary segment reporting:

1. Construction (civil engineering, building construction and industrial works).
2. Property and urban development.
3. Energy activity
4. Concessions and Services.

Likewise, income and expenses that cannot be specifically attributed to any operating line are recorded under "Other".

#### *Secondary business segments*

The Group's operations are located in Spain, the United States, Latin America (Argentina, Uruguay, Peru, Panama, Paraguay, Chile and Brazil), Africa (Cape Verde, Morocco and Congo), Asia (India, UAE, and Nepal) and other European countries (Portugal, France, Germany and Romania).

### **6.2 Basis and methodology for segment reporting**

Segment revenue is revenue that is directly attributable to the segment.

This revenue does not include interest or dividend income or gains arising from sale of investments or redemption or settlement of debts. The Group includes in segment revenue the share of results of associates and joint ventures accounted for using the equity method and the share of the revenue of proportionately consolidated joint ventures.

Segment expense is expense resulting from the segment's operating activities that are directly attributable to the segment. These expenses do not include interest or losses arising from the sale of investments or redemption or settlement of debts, income tax expense or general administrative expenses corresponding to the head office that are not related to the operating activities of the segments. Segment expense includes the share of the expenses of proportionately consolidated joint ventures..

The segment's results are presented before any adjustments relating to the consolidation process, which are included in the "Consolidation Adjustments" column.

Segment assets and liabilities are those directly related to the operations of the segments and include the proportional part relating to joint ventures. Segment liabilities do not include income tax liabilities.

Segment information about these businesses is presented below:

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Year 2015:

|   | Thousand of Euros |                                      |               |                          |                       |                |
|---|-------------------|--------------------------------------|---------------|--------------------------|-----------------------|----------------|
|   | Construction      | Real estate and property development | Energy        | Concessions and Services | Adjustments and other | TOTAL          |
| <b>Net Revenues:</b>                      |                   |                                      |               |                          |                       |                |
| External sales                            | 432,589           | 28,924                               | 12,691        | 46,283                   | 15,612                | 536,099        |
| Inter-segment sales                       | 9,528             | -                                    | -             | 306                      | (9,834)               | -              |
|   | <b>442,117</b>    | <b>28,924</b>                        | <b>12,691</b> | <b>46,589</b>            | <b>5,778</b>          | <b>536,099</b> |
| <b>EBITDA</b>                             | <b>20,984</b>     | <b>10,215</b>                        | <b>3,419</b>  | <b>9,232</b>             | <b>(15)</b>           | <b>43,835</b>  |
| Amortisation                              | (2,687)           | (472)                                | (2,009)       | (377)                    | (119)                 | (5,664)        |
| Provisions                                | (3,074)           | (3,141)                              | (115)         | (2,439)                  | 290                   | (8,479)        |
| Profit/(Loss) after sale                  | 2                 | -                                    | -             | -                        | 1,055                 | 1,057          |
| <b>Profit/(Loss) from operations</b>      | <b>15,225</b>     | <b>6,602</b>                         | <b>1,295</b>  | <b>6,416</b>             | <b>1,211</b>          | <b>30,749</b>  |
| Financial income                          | 12,070            | 1,963                                | 167           | 19,532                   | (3,583)               | 30,149         |
| Financial costs and similar expenses      | (15,652)          | (814)                                | (882)         | (13,178)                 | 325                   | (30,201)       |
| Changes in fair value of financial assets | -                 | -                                    | -             | (20,346)                 | -                     | (20,346)       |
| Translation differences and other         | (518)             | 805                                  | (18)          | (3,909)                  | 4,784                 | 1,144          |
| Profit/(loss) from associates             | (1,777)           | 2,675                                | 205           | -                        | (1,948)               | (845)          |
| <b>Profit/(Loss) before tax</b>           | <b>9,348</b>      | <b>11,231</b>                        | <b>767</b>    | <b>(11,485)</b>          | <b>789</b>            | <b>10,650</b>  |

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**Year 2014:**

|   | Thousand of Euros |                                      |                |                          |                       |                |
|---|-------------------|--------------------------------------|----------------|--------------------------|-----------------------|----------------|
|   | Construction      | Real estate and property development | Energy         | Concessions and Services | Adjustments and other | TOTAL          |
| <b>Net Revenues:</b>                      |                   |                                      |                |                          |                       |                |
| External sales                            | 363,609           | 32,229                               | 11,321         | 40,695                   | 17,228                | 465,082        |
| Inter-segment sales                       | 18,062            | -                                    | -              | 773                      | (18,835)              | -              |
|   | <b>381,671</b>    | <b>32,229</b>                        | <b>11,321</b>  | <b>41,468</b>            | <b>(1,607)</b>        | <b>465,082</b> |
|   |                   |                                      |                |                          |                       |                |
| <b>EBITDA</b>                             | <b>18,122</b>     | <b>10,485</b>                        | <b>2,816</b>   | <b>3,684</b>             | <b>(1,279)</b>        | <b>33,828</b>  |
| Amortisation                              | (1,973)           | 254                                  | (3,667)        | (380)                    | (607)                 | (6,373)        |
| Provisions                                | (7,747)           | 6                                    | 186            | (6,576)                  | (3,703)               | (17,834)       |
| Profit/(Loss) after sale                  | 46                | 3                                    | -              | -                        | 1,752                 | 1,801          |
| <b>Profit/(Loss) from operations</b>      | <b>8,448</b>      | <b>10,748</b>                        | <b>(665)</b>   | <b>(3,272)</b>           | <b>(3,837)</b>        | <b>11,422</b>  |
| Financial income                          | 6,895             | 1,645                                | 4              | 16,195                   | (2,519)               | 22,220         |
| Financial costs and similar expenses      | (7,764)           | (1,249)                              | (877)          | (10,123)                 | 1,716                 | (18,297)       |
| Changes in fair value of financial assets | -                 | -                                    | -              | -                        | -                     | -              |
| Translation differences and other         | (4,291)           | 119                                  | 346            | (3,187)                  | (345)                 | (7,358)        |
| Profit/(loss) from associates             | (1,401)           | 1,393                                | (283)          | -                        | (573)                 | (864)          |
| <b>Profit/(Loss) before tax</b>           | <b>1,887</b>      | <b>12,656</b>                        | <b>(1,475)</b> | <b>(387)</b>             | <b>(5,558)</b>        | <b>7,123</b>   |

Sales between segments take place at market prices and consist mainly in construction, real estate and urban development transactions.

Information regarding the amount of assets and liabilities contributed to the Group by the defined segments is as follows:

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**Year 2015:**

|                                   | Thousand of Euros |                                      |               |                          |                       |                  |
|-----------------------------------|-------------------|--------------------------------------|---------------|--------------------------|-----------------------|------------------|
|                                   | Construction      | Real estate and property development | Energy        | Concessions and Services | Adjustments and other | TOTAL            |
| <b>Balance sheet:</b>             |                   |                                      |               |                          |                       |                  |
| <b>Non-current assets:</b>        |                   |                                      |               |                          |                       |                  |
| Intangible property               | 1,449             | 3                                    | 17,888        | -                        | 9,500                 | 28,840           |
| Property, plant and equipment     | 13,300            | 128                                  | 10,987        | 1,609                    | 19,893                | 45,917           |
| Real estate investments           | 893               | 4,768                                | -             | -                        | 3                     | 5,664            |
| Deferred tax assets               | 20,132            | 3,910                                | 3,167         | 1,576                    | 6,699                 | 35,484           |
| Other                             | 9,471             | 32,995                               | 2,380         | 149,370                  | 17,362                | 211,578          |
| <b>Current assets:</b>            |                   |                                      |               |                          |                       |                  |
| Inventories                       | 63,877            | 22,490                               | 23            | 2,101                    | 3,685                 | 92,176           |
| Receivables                       | 242,123           | 2,300                                | 4,625         | 12,252                   | 4,224                 | 265,524          |
| Other current assets              | 3,007             | 60                                   | (336)         | 1,754                    | 1,406                 | 5,891            |
| Short-term financial investments  | 11,706            | -                                    | 1,804         | 36,322                   | 12,109                | 61,941           |
| Cash and cash equivalents         | 143,749           | 38,111                               | 3,358         | 34,251                   | 12,365                | 231,834          |
| <b>Total assets</b>               |                   |                                      |               |                          |                       |                  |
| In Spain                          | 225,163           | 33,095                               | 39,863        | 9,472                    | 33,243                | 340,836          |
| In foreign countries              | 284,544           | 71,670                               | 4,033         | 229,763                  | 54,003                | 644,013          |
|                                   | <b>509,707</b>    | <b>104,765</b>                       | <b>43,896</b> | <b>239,235</b>           | <b>87,246</b>         | <b>984,849</b>   |
| <b>Non-current liabilities:</b>   |                   |                                      |               |                          |                       |                  |
| Long-term payables                | 251,588           | 2,701                                | 9,041         | 146,734                  | 103,689               | 513,753          |
| Deferred tax liabilities          | 978               | 42                                   | 1,431         | 9,371                    | 2,638                 | 14,460           |
| Other non-current liabilities     | 12,391            | 1,514                                | 1,085         | 1,828                    | 3,359                 | 20,177           |
| <b>Current liabilities:</b>       |                   |                                      |               |                          |                       |                  |
| Short-term payables               | 8,847             | 5,480                                | 1,634         | 30,809                   | 1,048                 | 47,818           |
| Trade payables                    | 356,463           | 7,889                                | 2,823         | 6,616                    | 9,972                 | 383,763          |
| Other current liabilities         | 20,270            | 7,828                                | 360           | 9,909                    | 852                   | 39,219           |
| <b>Total liabilities</b>          |                   |                                      |               |                          |                       |                  |
| In Spain                          | 404,307           | 6,431                                | 16,042        | 4,119                    | 114,060               | 544,959          |
| In foreign countries              | 246,230           | 19,023                               | 332           | 201,148                  | 7,498                 | 474,231          |
|                                   | <b>650,537</b>    | <b>25,454</b>                        | <b>16,374</b> | <b>205,267</b>           | <b>121,558</b>        | <b>1,019,190</b> |
| <b>Additions to fixed assets:</b> |                   |                                      |               |                          |                       |                  |
| In Spain                          | 715               | -                                    | 101           | 11                       | 111                   | 938              |
| In foreign countries              | 1,588             | 9                                    | -             | 3                        | 52                    | 1,652            |
|                                   | <b>2,303</b>      | <b>9</b>                             | <b>101</b>    | <b>14</b>                | <b>163</b>            | <b>2,590</b>     |

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**Year 2014:**

|                                   | Thousand of Euros |                                      |               |                          |                       |                  |
|-----------------------------------|-------------------|--------------------------------------|---------------|--------------------------|-----------------------|------------------|
|                                   | Construction      | Real estate and property development | Energy        | Concessions and Services | Adjustments and other | TOTAL            |
| <b>Balance sheet:</b>             |                   |                                      |               |                          |                       |                  |
| <b>Non-current assets:</b>        |                   |                                      |               |                          |                       |                  |
| Intangible property               | 814               | 4                                    | 20,784        | -                        | 8,693                 | 30,295           |
| Property, plant and equipment     | 13,733            | 222                                  | 11,435        | 1,628                    | 24,937                | 51,955           |
| Real estate investments           | 854               | 3,027                                | -             | -                        | 1                     | 3,882            |
| Deferred tax assets               | 16,669            | 4,078                                | 3,467         | 9,094                    | 17,231                | 50,539           |
| Other                             | 4,222             | 37,829                               | 2,153         | 164,916                  | 21,873                | 230,993          |
| <b>Current assets:</b>            |                   |                                      |               |                          |                       |                  |
| Inventories                       | 38,628            | 28,764                               | -             | 2,555                    | 7,455                 | 77,402           |
| Receivables                       | 210,416           | 2,632                                | 4,705         | 11,965                   | 11,593                | 241,311          |
| Other current assets              | 3,662             | (617)                                | (186)         | 1,222                    | 1,428,647             | 1,432,728        |
| Short-term financial investments  | 7,661             | -                                    | 4,625         | 36,737                   | 33,860                | 82,883           |
| Cash and cash equivalents         | 134,978           | 28,609                               | 4,556         | 25,407                   | 9,710                 | 203,260          |
| <b>Total assets</b>               |                   |                                      |               |                          |                       |                  |
| In Spain                          | 200,655           | 35,047                               | 48,325        | 10,474                   | 1,509,110             | 1,803,611        |
| In foreign countries              | 230,982           | 69,501                               | 3,214         | 243,050                  | 54,890                | 601,637          |
|                                   | <b>431,637</b>    | <b>104,548</b>                       | <b>51,539</b> | <b>253,524</b>           | <b>1,564,000</b>      | <b>2,405,248</b> |
| <b>Non-current liabilities:</b>   |                   |                                      |               |                          |                       |                  |
| Long-term payables                | 251,381           | 2,533                                | 11,325        | 142,875                  | 69,585                | 477,699          |
| Deferred tax liabilities          | 2,641             | 2,105                                | 1,461         | 10,396                   | 12,379                | 28,982           |
| Other non-current liabilities     | 16,409            | 1,529                                | 914           | 4,390                    | 29,254                | 52,496           |
| <b>Current liabilities:</b>       |                   |                                      |               |                          |                       |                  |
| Short-term payables               | 25,290            | 5,696                                | 3,754         | 40,426                   | 2,806                 | 77,972           |
| Trade payables                    | 314,117           | 7,872                                | 2,874         | 6,851                    | 16,421                | 348,135          |
| Other current liabilities         | 20,025            | 5,362                                | 218           | 20,174                   | 1,431,640             | 1,477,419        |
| <b>Total liabilities</b>          |                   |                                      |               |                          |                       |                  |
| In Spain                          | 441,118           | 8,704                                | 20,516        | 3,989                    | 1,551,500             | 2,025,827        |
| In foreign countries              | 188,745           | 16,393                               | 30            | 221,123                  | 10,585                | 436,876          |
|                                   | <b>629,863</b>    | <b>25,097</b>                        | <b>20,546</b> | <b>225,112</b>           | <b>1,562,085</b>      | <b>2,462,703</b> |
| <b>Additions to fixed assets:</b> |                   |                                      |               |                          |                       |                  |
| In Spain                          | 988               | -                                    | 225           | 20                       | 73                    | 1,306            |
| In foreign countries              | 2,606             | 5                                    | 895           | 2                        | (886)                 | 2,622            |
|                                   | <b>3,594</b>      | <b>5</b>                             | <b>1,120</b>  | <b>22</b>                | <b>(813)</b>          | <b>3,928</b>     |

There are no significant non-operating assets

*Information on secondary segments:*

The following table provides breakdown on several consolidated balances of the Group according to geographical distribution of arising entities:

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|                   | Thousand of Euros |                |                |                  |  |              |
|-------------------|-------------------|----------------|----------------|------------------|--|--------------|
|                   | Net Revenue       |                | Total assets   |                  | Additions to property, plant and equipment and investment property |              |
|                   | 2015              | 2014           | 2015           | 2014             | 2015   | 2014         |
| Spain             | 222,956           | 201,987        | 340,836        | 1,731,210        | 938  | 1,436        |
| Portugal          | 58,954            | 57,992         | 28,367         | 65,271           | 21   | 12           |
| Cape Verde        | 25,836            | 31,511         | 34,400         | 34,081           | 508  | -            |
| The United States | -                 | -              | 1,384          | -                | -  | -            |
| Argentina         | 4,850             | 3,672          | 79,216         | 93,495           | 68   | 26           |
| Uruguay           | -                 | -              | 4,034          | 153              | -  | -            |
| Peru              | 44,395            | 57,061         | 61,577         | 75,311           | 24   | 9            |
| Panama            | -                 | -              | 199            | 197              | -  | -            |
| France            | -                 | -              | 598            | 1,546            | -  | -            |
| Germany           | -                 | -              | 9              | 164              | -  | -            |
| Brazil            | 2                 | -              | 7,835          | 9,767            | -  | -            |
| India             | 19,436            | 355            | 6,727          | 886              | 1  | 4            |
| Chile             | 26,774            | 21,313         | 300,858        | 282,400          | 109  | 2            |
| Morocco           | -                 | -              | 72             | 64               | -  | -            |
| Abu Dhabi         | 107,107           | 68,825         | 85,567         | 71,599           | 624  | 1,152        |
| Nepal             | 9,099             | 5,162          | 15,349         | 10,622           | 64   | 247          |
| Timor             | 9,400             | 3,762          | 8,108          | 4,143            | 23   | 145          |
| Republic of Congo | 7,290             | 13,442         | 8,330          | 16,791           | 210  | 895          |
| Mexico            | -                 | -              | 1,253          | 7,548            | -  | -            |
| Colombia          | -                 | -              | 31             | -                | -  | -            |
| Mozambique        | -                 | -              | 99             | -                | -  | -            |
| <b>TOTAL</b>      | <b>536,099</b>    | <b>465,082</b> | <b>984,849</b> | <b>2,405,248</b> | <b>2,590</b>   | <b>3,928</b> |

Note 2.3 of the accompanying consolidated Notes include a list of the main countries where the Group operates in a currency other than the Euro. From total assets at 31 December 2015 and 2014, EUR 615,039 thousand and EUR 599,509 thousand, respectively, correspond to assets in foreign currency. Likewise, from total revenue for years 2015 and 2014 the activity developed in said countries amounts to EUR 254,189 thousand and EUR 205,103 thousand, respectively.

## 7. Property, plant and equipment

Changes in 2015 and 2014 under "Property, Plant and Equipment" in the consolidated balance sheet were as follows:

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Year 2015:

|   | Thousand of Euros     |                        |                |                                     |                       |
|---|-----------------------|------------------------|----------------|-------------------------------------|-----------------------|
|   | Balance at 31/12/2014 | Additions / Provisions | Disposals      | Exchange rate differences and other | Balance at 31/12/2015 |
| <b>Cost:</b>                                    |                       |                        |                |                                     |                       |
| Land and buildings                              | 37,275                | 149                    | (4,954)        | (177)                               | 32,293                |
| Plant and machinery                             | 33,058                | 1,474                  | (328)          | 120                                 | 34,324                |
| Other items of property, plant and equipment    | 28,611                | 768                    | (119)          | (2)                                 | 29,258                |
| <b>Total cost</b>                               | <b>98,944</b>         | <b>2,391</b>           | <b>(5,401)</b> | <b>(59)</b>                         | <b>95,875</b>         |
| <b>Accumulated amortisation:</b>                |                       |                        |                |                                     |                       |
| Land and buildings                              | (3,980)               | (398)                  | 11             | 22                                  | (4,345)               |
| Plant and machinery                             | (17,011)              | (1,744)                | 377            | 23                                  | (18,355)              |
| Other items of property, plant and equipment    | (25,989)              | (1,553)                | 227            | 66                                  | (27,249)              |
| <b>Total Accumulated Amortisation</b>           | <b>(46,980)</b>       | <b>(3,695)</b>         | <b>615</b>     | <b>111</b>                          | <b>(49,949)</b>       |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(9)</b>            | <b>-</b>               | <b>-</b>       | <b>-</b>                            | <b>(9)</b>            |
| <b>Net carrying amount</b>                      | <b>51,955</b>         | <b>(1,304)</b>         | <b>(4,786)</b> | <b>52</b>                           | <b>45,917</b>         |

Year 2014:

|   | Thousand of Euros     |                                 |                        |                |            |                                       |                                     |                       |
|---|-----------------------|---------------------------------|------------------------|----------------|------------|---------------------------------------|-------------------------------------|-----------------------|
|   | Balance at 31/12/2013 | Activity Discontinued (Note 12) | Additions / Provisions | Disposals      | Transfers  | Changes in the scope of consolidation | Exchange rate differences and other | Balance at 31/12/2014 |
| <b>Cost:</b>                                    |                       |                                 |                        |                |            |                                       |                                     |                       |
| Land and buildings                              | 52,616                | (4,101)                         | 239                    | (9,716)        | -          | -                                     | (1,763)                             | 37,275                |
| Plant and machinery                             | 14,646                | (1,188)                         | 1,831                  | (167)          | (22)       | 17,693                                | 265                                 | 33,058                |
| Other items of property, plant and equipment    | 30,282                | (2,532)                         | 811                    | (31)           | 23         | 0                                     | 58                                  | 28,611                |
| <b>Total cost</b>                               | <b>97,544</b>         | <b>(7,821)</b>                  | <b>2,881</b>           | <b>(9,914)</b> | <b>1</b>   | <b>17,693</b>                         | <b>(1,440)</b>                      | <b>98,944</b>         |
| <b>Accumulated amortisation:</b>                |                       |                                 |                        |                |            |                                       |                                     |                       |
| Land and buildings                              | (4,328)               | 616                             | (273)                  | 8              | -          | -                                     | (3)                                 | (3,980)               |
| Plant and machinery                             | (11,020)              | 1,115                           | (2,368)                | 38             | -          | (4,714)                               | (62)                                | (17,011)              |
| Other items of property, plant and equipment    | (27,175)              | 2,424                           | (1,441)                | 25             | (1)        | -                                     | 179                                 | (25,988)              |
| <b>Total Accumulated Amortisation</b>           | <b>(42,523)</b>       | <b>4,155</b>                    | <b>(4,082)</b>         | <b>71</b>      | <b>(1)</b> | <b>(4,714)</b>                        | <b>114</b>                          | <b>(46,980)</b>       |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(173)</b>          | <b>168</b>                      | <b>(4)</b>             | <b>-</b>       | <b>-</b>   | <b>-</b>                              | <b>-</b>                            | <b>(9)</b>            |
| <b>Net carrying amount</b>                      | <b>54,848</b>         | <b>(3,498)</b>                  | <b>(1,204)</b>         | <b>(9,843)</b> | <b>-</b>   | <b>12,979</b>                         | <b>(1,335)</b>                      | <b>51,955</b>         |

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#### Year 2015:

Additions occurred in year 2015 correspond mainly to investment in machinery and technical facilities incurred into by the Group for developing construction activity abroad, mainly in Republic of Congo and Abu Dhabi, for EUR 212 thousand and EUR 607 thousand, respectively.

Further, an increase has been recorded for the purchase of new computing equipment and transport items for the proper development of the activity in Spain for a total amount of EUR 649 thousand.

Derecognitions recorded during 2015 under "Land and Buildings" refer mainly to those recorded under "Carlos Casado, S.A." regarding the sale and capital increase (see Note 11) with respect to the associate "Cresca, S.A.", for EUR 4,209 thousand. Sale profit amounts to EUR 1,057 thousand and has been recorded under "Impairment and disposal of property, plant and equipment" in the accompanying profit and loss account for year 2015 (see Note 23.9).

#### Year 2014:

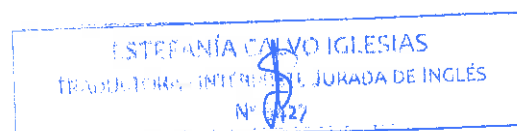
Additions occurred in year 2014 correspond mainly to investment in machinery and technical facilities incurred into by the Group for developing construction activity in Nepal, Republic of Congo and Abu Dhabi.

During year 2014, as a result of taking control of the Company "Fotovoltaica el Gallo 10, S.L." (see Note 2.4), the assets provided by the company, corresponding to the facilities of the PV power plant for a net amount of EUR 12,979 thousand are included within the scope of consolidation.

At 31 December 2015, investment hold in foreign countries by the Group, detailed by associate is as follows:

|   | Thousand of Euros |                |               |                |
|---|-------------------|----------------|---------------|----------------|
|   | 31-12-2015        |                | 31-12-2014    |                |
|   | Cost              | Accum. Amort.  | Cost          | Accum. Amort.  |
| Branch office Constructora San José, S.A. Portugal,     | 2,102             | (2,086)        | 2,084         | (2,076)        |
| Branch office Constructora San José, S.A. Argentina     | 122               | (111)          | 167           | (148)          |
| Constructora Udra Limitada                              | 130               | (125)          | 144           | (125)          |
| Constructora San José Cabo Verde, S.A.                  | 1,765             | (1,123)        | 1,274         | (889)          |
| Sociedad Concesionaria San José – Tecnocontrol, S.A.    | 59                | (43)           | 58            | (38)           |
| Constructora Sanjose Chile Ltda.                        | 189               | (72)           | 144           | (92)           |
| San Jose India Infrastr. & Construction Private Limited | 110               | (72)           | 103           | (37)           |
| Constructora San José Argentina, S.A.                   | 79                | (79)           | 108           | (107)          |
| San José Perú Inmobiliaria, S.A.                        | 794               | (669)          | 918           | (707)          |
| San José Constructora Perú, S.A.                        | 713               | (684)          | 721           | (585)          |
| Carlos Casado Group                                     | 18,161            | (20)           | 22,536        | (24)           |
| Constructora San José Congo, S.A.                       | 2,008             | (769)          | 1,796         | (395)          |
| Constructora San José Timor, Unipessoal Lda.            | 954               | (295)          | 857           | (103)          |
| Branch office Constructora San José, S.A. Abu Dhabi     | 2,106             | (863)          | 1,374         | (223)          |
| Branch office Constructora San José, S.A. Timor         | 414               | (133)          | 352           | (53)           |
| Branch office Constructora San José, S.A. Nepal         | 863               | (517)          | 746           | (247)          |
| Other companies   | 140               | (110)          | 146           | (135)          |
| <b>TOTAL</b>  | <b>30,709</b>     | <b>(7,771)</b> | <b>33,528</b> | <b>(5,984)</b> |

As stated on Note 17.1, at 2015 and 2014 the Group had many leasing operations in course. Breakdown at 31 December 2015 is as follows:





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|                                     | Thousand of Euros |
|-------------------------------------|-------------------|
| Term of contract (years)            | 5                 |
| Outstanding instalments (Note 17.1) |                   |
| Non-current                         | -                 |
| Current                             | 1                 |

Finance leasing agreements hold by the Company at year-end 2015 and 2014 is as follows:

- Rental of printing material of the Group company "Arserex, S.A"- Renting agreement started in July 2012 for a 5 year term. Purchase option for free. The rent paid in 2015 amounted to EUR 720 thousand, which included a finance charge of EUR 101 thousand.
- Pumps and pipes for the associate "Rexa Constructora, S.A.". The lease term commenced in April 2012 and ends in March 2015, with a total term of 3 years. The nominal amount of purchase option amounts to 1 Euro. The rent paid in 2015 amounted to EUR 9 thousand, which included a finance charge of EUR 65 thousand.

"Land and Buildings" includes mainly at 31 December 2015 EUR 18.1 million corresponding to land property of "Carlos Casado, S.A.", located in the Paraguayan Chaco, and real estate assets for own use valued at UR 8.6 million.

At year-end 2015, total items pending amortisation corresponding to finance leases amounted to EUR 885 thousand (see Note 17.1).

At 31 December 2015 and 2014, the cost of the land upon which property for own use is located amounted to EUR 1.6 and EUR 4.1 million, respectively (including items provided by Carlos Casado).

At 31 December 2015 and 2014 there are specific property acting, with a carrying amount of approximately EUR 8,558 thousand and EUR 8,767 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 23.4 and 32.9 million, respectively (see Note 17.3).

Fair value of own use buildings at 31 December 2015 and 2014 amounts to EUR 18.4 million and EUR 18.3 million, respectively, according to estimates carried by independent valuers (Savills España, S.A.). Carrying net cost at 31 December 2015 and 2014 amounts to EUR 8.6 million and EUR 8.8 million, respectively.

At year-end 2015 and 2014 there were fully amortised assets amounting to EUR 20 million and EUR 19.5 million, respectively.

At year-end 2015 the Group does not hold significant investment commitments in property, plant and equipment.

The Group takes out insurance policies to cover the possible risks to which its investment property is subject. The Parent's directors consider that the insurance coverage arranged is sufficient.

## **8. Investment property and investment property in progress**

### **8.1 Property investment**

The detail of "Investment Property" and changes therein in 2015 and 2014 is as follows:



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Year 2015:

|   | Thousand of Euros     |                        |           |              |                           |                       |
|---|-----------------------|------------------------|-----------|--------------|---------------------------|-----------------------|
|   | Balance at 31/12/2014 | Additions / Provisions | Disposals | Transfers    | Exchange rate differences | Balance at 31/12/2015 |
| <b>Cost:</b>                                    |                       |                        |           |              |                           |                       |
| Land and buildings                              | 6,221                 | 16                     | -         | 3,834        | (2,363)                   | 7,708                 |
| Plant and machinery                             | 1,424                 | -                      | -         | -            | (319)                     | 1,105                 |
| Furniture, tools and other items                | 154                   | -                      | -         | -            | (41)                      | 113                   |
| <b>Total cost</b>                               | <b>7,799</b>          | <b>16</b>              | <b>-</b>  | <b>3,834</b> | <b>(2,723)</b>            | <b>8,926</b>          |
| <b>Accumulated amortisation:</b>                |                       |                        |           |              |                           |                       |
| Buildings                                       | (2,560)               | (376)                  | -         | -            | 654                       | (2,282)               |
| Technical facilities                            | (1,130)               | (25)                   | -         | -            | 310                       | (845)                 |
| Furniture, tools and other items                | (150)                 | (1)                    | -         | -            | 41                        | (110)                 |
| <b>Total Accumulated Amortisation</b>           | <b>(3,840)</b>        | <b>(402)</b>           | <b>-</b>  | <b>-</b>     | <b>1,005</b>              | <b>(3,237)</b>        |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(77)</b>           | <b>-</b>               | <b>52</b> | <b>-</b>     | <b>-</b>                  | <b>(25)</b>           |
| <b>Net carrying amount</b>                      | <b>3,882</b>          | <b>(386)</b>           | <b>52</b> | <b>3,834</b> | <b>(1,718)</b>            | <b>5,664</b>          |

Year 2014:

|   | Thousand of Euros     |  |                        |              |                           |                       |
|---|-----------------------|--|------------------------|--------------|---------------------------|-----------------------|
|   | Balance at 31/12/2013 | Transfers non-current assets held for sale (Note 12) | Additions / Provisions | Transfers    | Exchange rate differences | Balance at 31/12/2014 |
| <b>Cost:</b>                                    |                       |  |                        |              |                           |                       |
| Land and buildings                              | 574,557               | (567,534)  | -                      | -            | (802)                     | 6,221                 |
| Plant and machinery                             | 17,115                | (15,505)   | 5                      | -            | (191)                     | 1,424                 |
| Furniture, tools and other items                | 3,852                 | (3,673)  | -                      | -            | (25)                      | 154                   |
| Assets under construction and advances          | 37,059                | (37,059)   | -                      | -            | -                         | -                     |
| <b>Total cost</b>                               | <b>632,583</b>        | <b>(623,771)</b>                                     | <b>5</b>               | <b>-</b>     | <b>(1,018)</b>            | <b>7,799</b>          |
| <b>Accumulated amortisation:</b>                |                       |  |                        |              |                           |                       |
| Buildings                                       | (62,557)              | 59,473   | (109)                  | 256          | 377                       | (2,560)               |
| Technical facilities                            | (12,508)              | 11,227   | (27)                   | -            | 178                       | (1,130)               |
| Furniture, tools and other items                | (3,618)               | 3,447  | (1)                    | -            | 22                        | (150)                 |
| <b>Total Accumulated Amortisation</b>           | <b>(78,683)</b>       | <b>74,147</b>  | <b>(137)</b>           | <b>256</b>   | <b>577</b>                | <b>(3,840)</b>        |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(66,551)</b>       | <b>66,424</b>  | <b>-</b>               | <b>(256)</b> | <b>306</b>                | <b>(77)</b>           |
| <b>Net carrying amount</b>                      | <b>487,349</b>        | <b>(483,200)</b>                                     | <b>(132)</b>           | <b>-</b>     | <b>(135)</b>              | <b>3,882</b>          |

The cost of the investment property at 31 December 2015 and 2014 includes approximately EUR 2.5 million and EUR 2.7 million, relating to the carrying amount of the land relating thereto.

During year 2015, pursuant to the assessment of investment assets committed by Grupo SANJOSE to independent valuers, no significant reduction in value of investment property was recorded (see Note 8.2)

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The main change in year 2015 is the transfer from inventories to this item, due to the reclassification of leased real estate assets, of the group company, "Argentimo, S.A." for EUR 3,834 thousand.

#### Use or nature of the investment property

Substantially all of the Group's investment property relates to properties earmarked for lease. The detail of the use or nature of the Group's investment property devoted to leasing purposes at 31 December 2015 and 2014 is as follows:

| Lease purpose           | 2015                   |             | 2014                   |             |
|-------------------------|------------------------|-------------|------------------------|-------------|
|                         | Surface for lease (m2) | Percentage  | Surface for lease (m2) | Percentage  |
| Administrative building | 651                    | 1%          | 3,837                  | 2%          |
| Shopping Centres        | 175,470                | 98%         | 171,006                | 97%         |
| Other                   | 1,869                  | 1%          | 1,849                  | 1%          |
|                         | <b>177,990</b>         | <b>100%</b> | <b>176,692</b>         | <b>100%</b> |

#### Mortgaged investment property

At 31 December 2015 the Group does not have real estate assets as collateral for mortgage investments.

At 31 December 2015 and 2014 there are specific property acting, with a carrying amount of approximately EUR 893 thousand and EUR 282 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 2,566 thousand and EUR 1,858 thousand, respectively (see Note 17.3).

#### Income and expenses from rental of investment property

At 31 December 2015 commercial premises, office building and car park spaces had been leased out to third parties under operating leases.

The detail, by maturity, of the lease payments payable to the Group under the operating leases and subleases contracted for by the Group with third parties (excluding potential costs charged to clients) at 31 December 2015 is as follows:

| Term                   | Thousand of Euros |              |
|------------------------|-------------------|--------------|
|                        | Year 2015         | Year 2014    |
| Up to a year           | 973               | 2,103        |
| From one to five years | 1,549             | 2,771        |
| More than five years   | 773               | 894          |
|                        | <b>3,295</b>      | <b>5,768</b> |

Calculation has not taken into consideration increase of CPI and, regarding variable rate contracts, amount for year 2015 has been considered.

Total investment property rental income of the Group for year 2015 excluding potential costs charged to clients, amounts to EUR 4,304 thousand recorded under "Provision of services" in the accompanying consolidated income statement for year 2015.

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## Insurance policy

The Group takes out insurance policies to cover the possible risks to which substantially all its inventories are subject. The Parent's Directors consider insurance coverage arranged to be sufficient.

## 8.2. Fair value of the investment property

Each year the Group commissions studies from independent valuers to determine the fair value of its investment property at year-end. At 31 December 2015 and 2014, the aforementioned studies were conducted mainly by Savills España, S.A. Such valuations were performed on the basis of the sale value and lease value of the property on the market (which consists of capitalising the net income from each property and discounting future flows), as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions. The fair value was calculated using the discount rates acceptable to a prospective investor and in line with those applied by the market for properties of similar characteristics in similar locations.

According to the above mentioned study, no change has been recorded under the real estate investments of the Group (see Notes 8.1 and 23.9).

At 31 December 2015, the fair value of the Company's inventories based on the aforementioned study amounted to EUR 70.6 million. Said amount, at 31 December 2015, includes EUR 33.4 million corresponding to real estate investments of the investees of the Group.

## 9. Goodwill

The detail of "Goodwill" in the consolidated balance sheet, based on the companies giving rise to the various items, is as follows:

|                                  | Thousand of Euros |              |
|----------------------------------|-------------------|--------------|
|                                  | 31.12.2015        | 31.12.2014   |
| Cartuja Inmobiliaria, S.A.U.     | 600               | 600          |
| San José Perú Inmobiliaria, S.A. | 1,601             | 1,601        |
| Constructora San José, S.A.      | 7,662             | 7,662        |
| Other                            | 121               | 121          |
| <b>Total net</b>                 | <b>9,984</b>      | <b>9,984</b> |

According to the estimates and projections available to the Directors of the Group, the estimated revenue attributable to the Group of these companies adequately supports the carrying amount of goodwill allocated to the relevant registered CGUs. Likewise, the sensitivity of executed impairment tests allows deviations of key hypothesis (increase of sales, operating margin and discount rates) within standardised margin, without identifying impairment.

The most important goodwill is that referring to the associate "Constructora San José, S.A", representing 77% total goodwill of the Group. At 31 December 2015, the key assumptions on which the Group's management has based its cash flow projections for the valuation of the cash generating unit (CGU) representing this society, are as follows:

- Consolidation of economic recovery in the target areas.
- Portfolio diversification regarding activities: significant increase in the weight of the non-residential construction in the coming years, in line with what happened in recent years.
- Sales: total construction revenue is distributed among countries where the Group operates, based on the current activity and contracted portfolio (short and medium term) and the guidelines established in the business plan Group (medium and long term), assuming a 10% annual growth of total construction activity (5% and 12% for domestic and international activity, respectively).

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- For the discount of the projected cash flows a rate based on the weighted average cost of capital (WACC) is calculated. The Group uses a risk-free rate taking as reference the 5-year bond, depending on the location, and a market premium based on recent studies of long-term premiums used by analysts for the business and geographical areas where it operates. At 31 December 2015, the discount rate used by the Group in the UGE of "Constructora San José, S.A." is 6.5%.
- A 0% growth rate envisaged in perpetuity is considered.
- A relatively margin EBITDA standing at 7%.
- Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

The projections used by the top management are in line with the Strategic Plan of Group SANJOSE, which was submitted to an Independent Business Review (IBR) in years 2013 and 2014 by an independent third party, having been updated according to recent trade projections, taking into account the historical evolution in recent years, and the financial stability achieved after the restructuring of the financial debt of the Group (see Note 17) completed in 2014.

Likewise, revenue and margin projections have been drafted using external resources from recognised international prestige, such as the International Monetary Fund, and information regarding plans for public investment in infrastructure in the coming years of the main countries where the Group operates.

The result of the impairment test of goodwill associated with CGU, conducted by the Group's management team at year-end 2015, shows a significant surplus of the recoverable amount over the carrying amount of the CGU, and basis said calculation in pessimistic scenarios that contemplate a reduction of 3 and 2.5 percentage points in growth and margin for the coming years, respectively, and an increase in the applied discount rate of 0.5 percentage points, without having to record any deterioration.

## 10. Intangible assets

This item includes the Group's concessions and licences.

The detail in the consolidated balance sheets at 31 December 2014 and 2015 is as follows:

### Year 2015:

|   | Thousand of Euros     |                        |             |                           |                       |
|---|-----------------------|------------------------|-------------|---------------------------|-----------------------|
|   | Balance at 31/12/2014 | Additions / Provisions | Disposals   | Exchange rate differences | Balance at 31/12/2015 |
| Concessions                                     | 30,322                | 81                     | -           | -                         | 30,403                |
| Patents, licences and trade marks               | -                     | 82                     | -           | -                         | 82                    |
| Other intangible assets                         | 3,618                 | 20                     | (82)        | (1)                       | 3,555                 |
| <b>Total cost</b>                               | <b>33,940</b>         | <b>183</b>             | <b>(82)</b> | <b>(1)</b>                | <b>34,040</b>         |
| Concessions                                     | (12,902)              | (1,412)                | -           | -                         | (14,314)              |
| Patents, licences and trade marks               | -                     | (4)                    | -           | -                         | (4)                   |
| Other intangible assets                         | (575)                 | (151)                  | -           | 1                         | (725)                 |
| <b>Total Accumulated Amortisation</b>           | <b>(13,477)</b>       | <b>(1,567)</b>         | <b>-</b>    | <b>1</b>                  | <b>(15,043)</b>       |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(152)</b>          | <b>-</b>               | <b>11</b>   | <b>-</b>                  | <b>(141)</b>          |
| <b>Net carrying amount</b>                      | <b>20,311</b>         | <b>(1,384)</b>         | <b>(71)</b> | <b>-</b>                  | <b>18,856</b>         |

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**Year 2014:**

|   | Thousand of Euros     |  |                        |              |                                       |                       |
|---|-----------------------|--|------------------------|--------------|---------------------------------------|-----------------------|
|   | Balance at 31/12/2013 | Transfer to non-current assets held for sale (Note 12) | Additions / Provisions | Disposals    | Changes in the scope of consolidation | Balance at 31/12/2014 |
| Concessions                                     | 29,295                | -  | 1,027                  | -            | -                                     | 30,322                |
| Patents, licences and trade marks               | -                     | -  | -                      | -            | -                                     | -                     |
| Other intangible assets                         | 661                   | (251)  | 15                     | (100)        | 3,293                                 | 3,618                 |
| <b>Total cost</b>                               | <b>29,956</b>         | <b>(251)</b>   | <b>1,042</b>           | <b>(100)</b> | <b>3,293</b>                          | <b>33,940</b>         |
| Concessions                                     | (10,862)              | -  | (2,040)                | -            | -                                     | (12,902)              |
| Patents, licences and trade marks               | -                     | -  | -                      | -            | -                                     | -                     |
| Other intangible assets                         | (315)                 | 249  | (115)                  | -            | (394)                                 | (575)                 |
| <b>Total Accumulated Amortisation</b>           | <b>(11,177)</b>       | <b>249</b>   | <b>(2,155)</b>         | <b>-</b>     | <b>(394)</b>                          | <b>(13,477)</b>       |
| <b>Total Accumulated Impairment (Note 23.9)</b> | <b>(215)</b>          | <b>-</b>   | <b>-</b>               | <b>63</b>    | <b>-</b>                              | <b>(152)</b>          |
| <b>Net carrying amount</b>                      | <b>18,564</b>         | <b>(2)</b>   | <b>(1,113)</b>         | <b>(37)</b>  | <b>2,899</b>                          | <b>20,311</b>         |

During year 2015, no significant changes have been noted down. Main additions during year 2014 refer to counterparts received as legally claimed collections by the Group. The Group has received during this year:

- The company "Cartuja, S.A.U." has received the operation under concession regime of a car park in Olvera, valued for EUR 817 thousand.
- Additionally, arising from the stake of the Group in the company "Fotovoltaica el Gallo 10, S.L." (see Note 2.4), at 31 December 2014 leasing rights for a period of 25 years referred to the use of land where the PV plant is located are recorded for a total amount of EUR 3,293 thousand.

Further, during year 2015, the Group has recorded greenhouse gas emission issuance rights (CO2) of the company "Poligeneracion Parc de l'Alba ST-4, S.A." related to the activity during the year, amounting to EUR 20 thousand and recorded under "Received grants".

Additionally, as a result of new contracts with new clients during the year 2015, the Group company "Polygeneration Parc de l'Alba ST-4, SA" registered as a higher cost of the plant expenses incurred in pipes and adjustments made to providing power supply to new customers in year 2014 amounting to a total of EUR 81 thousand.

In year 2015, we proceeded to redemption against the Public Administration of the issuance rights corresponding to CO2 emissions for year 2014 amounting to EUR 82 thousand, being largely provisioned under "Short-term provisions" under current liabilities in the consolidated balance sheet of the Group at 31 December 2014.

"Concessions" at 31 December 2015 relates mainly to the construction and technical facilities of the polygeneration power plant heat and cold, of "Poligeneración Parc de l'Alba ST-4, SA" located in the Partial Plan "Directional Centre of Cerdanyola del Valles" (Barcelona), for a net cost of EUR 14,722 thousand.

At 31 December 2015 there are no significant investment commitments in intangible assets.

As stated on Note 17.1, at 2015 and 2014 the Group had many leasing operations in course. Breakdown at 31 December 2015 is as follows:

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|                                     | Thousand of Euros |
|-------------------------------------|-------------------|
| Term of contract (years)            | 8                 |
| Value in cash                       | 4,340             |
| Outstanding instalments (Note 17.1) |                   |
| Non-current                         | 534               |
| Current                             | 351               |

Finance leasing agreements held by the Company at year-end 2015 and 2014 is as follows:

- Thermal Power Installation at Puerto Real Hospital. The lease term commenced on 20 December 2005 and lasts for 9.5 years. Net value of the business activity branch amounts to EUR 65,942. Likewise, the amount of income paid during year 2015 amounted to EUR 384,500, including a financial fee of EUR 906, and the exercise of said option upon completion of the contract. As security against the bank, investments in concession contracts of the hospitals of Jaen and Puerto Real, as well as primary health care centres of EISSA were also included.
- Thermal Power Plant for Torrecardenas Hospital. The lease term commenced on 22 May 2008 and lasts for 10 years. Purchase option is set at EUR 32,794. The rent paid in 2015 amounted to EUR 393,534, including a finance charge of EUR 62,847.

#### 11. Investments accounted for using the equity method

The Group's most significant investments in associates at 31 December 2015 and 2014 were as follows:

|  | Thousand of Euros |               |
|--|-------------------|---------------|
|  | 31.12.2015        | 31.12.2014    |
| Distrito Castellana Norte, S.A. (DCN)  | 21,173            | 21,667        |
| Panamerican Mall, S.A. (PM)            | 11,783            | 16,156        |
| Fingano, S.A.                          | 2,635             | 1,148         |
| Vengano, S.A.                          | 1,539             | 631           |
| Corporación San Bernat, S.L. (Corsabe) | 1,777             | 2,803         |
| Cresca, S.A.                           | 12,214            | 8,999         |
| Pinar de Villanueva, S.L.              | 5,671             | -             |
| Other                                  | -                 | 129           |
| <b>Total net</b>                       | <b>56,792</b>     | <b>51,533</b> |

The associate "Distrito Castellana Norte, S.A." (formerly, "Desarrollos Urbanísticos Chamartín, S.A.") has as main business activity the urban development of the plot of land comprising the area of the "Extension of the Castellana" in Madrid. The company is currently modifying the project according to current market conditions and building restrictions, what leads to market value uncertainty. However, different potential future scenarios contemplate the feasibility of the project, so that the Group does not have doubts regarding recovering the investment made.

Changes in 2015 and 2014 under "Property, Plant and Equipment" in the consolidated balance sheet were as follows:

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|  | Thousand of Euros |               |
|--|-------------------|---------------|
|  | Year 2015         | Year 2014     |
| <b>Opening balance</b>                                     | <b>51,533</b>     | <b>63,165</b> |
| Profit/(Loss) for the year                                 | (845)             | (864)         |
| Changes in the scope of consolidation (Note 2.4)           | 6,426             | 860           |
| Additions  | 5,084             | 4,493         |
| Paid-up dividends  | (4,359)           | -             |
| Exchange rate differences                                  | (1,047)           | 1,219         |
| Transfer to Non-current assets classified as held for sale | -                 | (17,340)      |
| <b>Closing balance</b>                                     | <b>56,792</b>     | <b>51,533</b> |

Dividends received in year 2015 correspond to those received by the company of the group "Centro Comercial Panamericano, S.A.", for its stake in "Panamerican Mall, S.A." During year 2014, no dividends have been received.

Of the total additions, EUR 4,132 thousand corresponds to the capital increases made during year 2015 in the company "Cresca, S.A.," for 81.1 million Argentine pesos. The Group has fully subscribed the capital increase based on the percentage of share held, making a contribution in kind consisting of agricultural land which, at 31 December 2014, was recorded under property, plant and equipment (see Note 7).

Appendix II includes a list of the main ownership interests in associates, detailing name, country and participation percentage. The Group does not consider very relevant the impact on assets, profit or net equity of its participation in these companies. However, next is listed financial information of the main associates of the Group:

Balance at 31 December 2015:

|   | Million of Euros |             |             |
|---|------------------|-------------|-------------|
|   | DCN              | PM          | Cresca      |
| Non-current assets                      | 2.7              | 37.8        | 9.2         |
| Current assets                          | 105.7            | 33.4        | 49.2        |
| <b>Total assets</b>                     | <b>108.4</b>     | <b>71.2</b> | <b>58.4</b> |
| Non-current liabilities                 | 7.5              | 1.2         | 14.8        |
| Current liabilities                     | 14.4             | 11.2        | 9.7         |
| <b>Total liabilities</b>                | <b>21.9</b>      | <b>12.4</b> | <b>24.5</b> |
| Income from ordinary activities         | -                | 38.2        | 9.7         |
| Profit/(Loss) from continued operations | (1.8)            | 24.2        | (3.4)       |
| Profit/(Loss) for the year              | (1.8)            | 24.2        | (3.4)       |

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**Balance at 31 December 2014:**

|   | Million of Euros |             |             |
|---|------------------|-------------|-------------|
|   | DCN              | PM          | Cresca      |
| Non-current assets                      | 1.8              | 45.1        | 8.4         |
| Current assets                          | 101.4            | 44.2        | 38.6        |
| <b>Total assets</b>                     | <b>103.2</b>     | <b>89.3</b> | <b>47.0</b> |
| Non-current liabilities                 | 9.0              | 1.6         | 18.6        |
| Current liabilities                     | 5.7              | 9.4         | 2.4         |
| <b>Total liabilities</b>                | <b>14.7</b>      | <b>11.0</b> | <b>21.0</b> |
| Income from ordinary activities         | -                | 28.6        | 8.9         |
| Profit/(Loss) from continued operations | (1.1)            | 11.8        | 0.9         |
| Profit/(Loss) for the year              | (1.1)            | 11.8        | 0.9         |

A summary of the financial information of the main investees included within the accounting records of the Group is provided next:

**Balance at 31 December 2015:**

|  | Million of Euros |             |             |
|--|------------------|-------------|-------------|
|  | DCN              | PM          | Cresca      |
| Total net equity                       | 86.5             | 58.8        | 33.9        |
| % ownership of Grupo SANJOSE           | 24.459%          | 20.0%       | 50.0%       |
| Net carrying amount of the stake (NCV) | 21.2             | 11.8        | 17.0        |
| Amendments of the NCV and other        | -                | -           | (4.8)       |
| <b>Stake cost</b>                      | <b>21.2</b>      | <b>11.8</b> | <b>12.2</b> |

**Balance at 31 December 2014:**

|  | Million of Euros |             |            |
|--|------------------|-------------|------------|
|  | DCN              | PM          | Cresca     |
| Total net equity                       | 88.4             | 78.3        | 26.1       |
| % ownership of Grupo SANJOSE           | 24.459%          | 20.0%       | 50.0%      |
| Net carrying amount of the stake (NCV) | 21.6             | 15.7        | 13.0       |
| Amendments of the NCV and other        | -                | 0.5         | (4.0)      |
| <b>Stake cost</b>                      | <b>21.6</b>      | <b>16.2</b> | <b>9.0</b> |

**12. Non current assets held for sale, liabilities linked to non current assets held for sale and discontinued operations.**

**12.1. Discontinued operations**

On 30 December 2014 Grupo SANJOSE has entered into a modifying novation agreement of the syndicated credit facilities in Spain with a majority of creditor banking entities of the Group, including a commitment to sell the stake of the Group in the company "San José Desarrollos Inmobiliarios, S.A.U.", what involves the loss of control of this

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company and its subsidiaries. On 30 June 2015, said sale took place for EUR 1 upon completion of all preliminary conditions (see Note 17.3).

The consolidated income statement for 2014 includes separately the discontinued operations. The profit or loss arising from the divestment of assets, as well as that from the operation of the business until its effective sale shall be recorded under "Net profit/(loss) from discontinued operations" in the accompanying consolidated balance sheet.

Next is enclosed the consolidated balance sheet for discontinued operations:

|   | Thousand of Euros |                 |
|---|-------------------|-----------------|
|   | Year<br>2015      | Year<br>2014    |
| Net revenue   | 35,399            | 36,313          |
| Profit (Loss) from operations                                     | 1,724             | 3,583           |
| Provisions and changes in inventories                             | (27,031)          | (22,276)        |
| Staff costs   | (621)             | (1,174)         |
| Other operation expenses  | (8,758)           | (12,096)        |
| Amortisation  | (4,183)           | (8,565)         |
| Surplus of provisions   | -                 | 11              |
| Impairment and gains or losses on disposals of non-current assets | (20,473)          | (13,678)        |
| <b>Profit (Loss) from operations</b>                              | <b>(23,943)</b>   | <b>(17,882)</b> |
| Financial result  | (8,011)           | (48,556)        |
| Profit/(Loss) from companies accounting for the equity method     | 862               | (2,808)         |
| <b>Profit/(Loss) before tax</b>                                   | <b>(31,092)</b>   | <b>(69,246)</b> |
| Income tax income /(expense)                                      | (608)             | (10,956)        |
| <b>Profit/(Loss) for the year</b>                                 | <b>(31,700)</b>   | <b>(80,202)</b> |

Additionally, the item "Profit/(Loss) from discontinued operations" for year 2014 includes EUR 18,962 thousand corresponding to the negative result of fair value of assets once deducted linked liabilities held for sale (see Note 12.2).

Further, "Profit/(Loss) for the year from discontinued operations" in the accompanying income statement for 2015, and as a consequence of the price of the divestment established in the financial restructuring agreement signed in 2014 at EUR 1, included a derived profit from the sale amounting to EUR 31,700 thousand, equivalent to the loss contributed by the activity of the discontinued unit.

The cash flow detail for discontinued operations is as follows:

|                                     | Thousand of Euros |              |
|-------------------------------------|-------------------|--------------|
|                                     | Year<br>2015      | Year<br>2014 |
| Cash flow for operating activities  | 29,066            | 26,591       |
| Cash flow for investment activities | 11,871            | 42,925       |
| Cash flow for financing activities  | (38,005)          | (67,895)     |
| <b>Total</b>                        | <b>2,932</b>      | <b>1,621</b> |

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## 12.2. Non current assets held for sale and liabilities linked to non current assets held for sale

At 31 December 2014 non current assets held for sale are those net assets of the company "San José Desarrollos Inmobiliarios, S.A.U." and subsidiaries as a result of the agreement signed on 30 December 2014 pursuant to which Grupo SANJOSE assumed the commitment to sale the company due to the assumption of the EUR 350 million debt for EUR 1 (see Note 17.3).

Consequently, said assets meet the requirements set out by accounting standards to be classified as non current assets to be held for sale.

Within this item are recorded the assets of the real estate division of the Group, as well as the liabilities linked to the same. Activities developed by companies within the San José Desarrollos Inmobiliarios Group refer mainly to the development of any type of real estate property, devote to both sale and rental purposes.

## 13. Inventories

The detail in the consolidated balance sheets at 31 December 2014 and 2015 is as follows:

|   | Thousand of Euros |               |
|---|-------------------|---------------|
|   | 31.12.2015        | 31.12.2014    |
| Acquired property                             | 10,211            | 10,625        |
| Land and buildings                            | 52,474            | 33,782        |
| Raw materials and other supplies              | 6,463             | 3,513         |
| Developments under construction               |                   |               |
| - Long-cycle developments under construction  | -                 | 6,285         |
| - Short-cycle developments under construction | 1,433             | 6,150         |
| Completed construction works                  | 14,104            | 10,041        |
| Advances to suppliers                         | 18,436            | 18,460        |
| Impairment losses on inventories              | (10,945)          | (11,454)      |
|   | <b>92,176</b>     | <b>77,402</b> |

Borrowing costs for financing the development of property inventories incurred in the year are capitalised by the Company only when they are associated with those inventories whose production cycle is longer than a year. During years 2015 and 2014, no borrowing costs have been recorded under this item.

During year 2015, and based upon the assessment of real estate assets performed by the independent expert (see Note 13.7), the Group has recorded a reversal for impairment for real estate inventories for a total amount of EUR 127 thousand (see Notes 23.2 and 23.11), including in said amount the impairment of potential contingencies arising from the purchase commitment of land and plots of land.

### 13.1 Acquired property

Main changes recorded under this item correspond to deed of assignment in payment as collection of default rate. Main acquired property is as follows:

- Car park spaces, commercial premises and housing units located in Legazpi, Madrid, and valued at EUR 2,116 thousand, acting as mortgage collateral for a mortgage loan pending EUR 1,186 thousand amortisation (see Note 17.2).
- Further, also under this item are recorded the housing units of Promóplis in Seville, amounting to EUR 1,451 thousand.
- Car parking spaces and housing units in Puerto Llano, Ciudad Real, for a total value of EUR 1,286 thousand.

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- Car park spaces and housing units in "Mairena de Aljarafe" (Seville), for a total value of EUR 1,093 thousand.
- Car park spaces and storage rooms in Manilva, Malaga, for a total value of EUR 1,039 thousand.

During year 2015, no significant changes have been noted down under the same.

### 13.2. Land and buildings

This account balance corresponds to the acquisition price of several plots of land in their final phase or under urban management at 31 December 2015 basically for residential purposes (even though there are also institutional or industrial plots). The Group has planned to allocate them to direct sale or property development by Group companies.

At 31 December 2015 and 2014, the Group did not have lands acting as collateral of mortgage loans. In addition, several assets recorded under this item at 31 December 2015 and 2014 for a total net cost amounting to EUR 4,740 thousand and EUR 652 thousand act as collateral for part of the loan syndicated by the Group (see Note 17.3) for EUR 4,561 thousand and EUR 1,484 thousand, respectively.

At 2015 year-end the Group owned land with a total area of 1,350,974 m<sup>2</sup>, of which 85% amounting to 1,146,333 m<sup>2</sup> are qualified as buildable land at 31 December 2015. The detail, by location, of the Group's land is as follows:

|                   | Total m <sup>2</sup> |                  |
|-------------------|----------------------|------------------|
|                   | 31.12.2015           | 31.12.2014       |
| Spain             | 323,667              | 312,408          |
| The United States | -                    | -                |
| Portugal          | -                    | 3,429            |
| Argentina         | 1,012,101            | 1,011,501        |
| Brazil            | 15,206               | 15,206           |
| <b>TOTAL</b>      | <b>1,350,974</b>     | <b>1,342,544</b> |

During 2015, and as a result of improved commitments under the financial restructuring agreement (see Note 17.3), the Group's Company "Constructora San José, S.A." has acquired lands and plots of land amounting to EUR 24,464 thousand.

During the first half of 2015, EUR 5,470 thousand have been transferred from "Land and plots" to "Finished products" for the urban developments Portas de Lisboa (Lisbon) and Quinta do Moleao (Lagos), property of the branch office in Portugal of the Group company "Constructora San José, S.A.".

### 13.3 Land purchase commitments

At 31 December 2015 and 2014, the Group had entered into various memorandums of understanding or agreements with purchase options for land totalling approximately EUR 2.4 million, of which the Group had paid EUR 651 thousand, amount recognised under "Advance payments to suppliers" in the accompanying consolidated balance sheet. Land for which the Group has already made an advance payment is a plot of land in Vitoria, sector 19, devoted to the construction of 80 social housing units. Final purchase price shall depend upon final purpose of the same.

In connection with the advances associated with commitments or promises of sale, the Group has no obligation to buy any of them, may proceed with the execution or reject them at the option of the Group.

Remaining recorded payments in advance at 31 December 2015 are not related to real estate. Yet, they refer to payments in advance to suppliers for the acquisition of raw materials and other supplies.

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#### 13.4 Developments under construction

The balance of this account at 31 December 2015 corresponds to costs incurred from the beginning in different property developments under construction at said date.

The main element included under this item is the Feria Internacional del Pacífico, located in Lima, Peru, started in year 2008 by the H<sub>2</sub>Group company "San José Perú, S.A.C." (company registered in Peru). Said urban development consists of a total surface of 102 thousand m<sup>2</sup> which shall house over 3,000 homes. In year 2015 and 2014, 878 and 833 housing units have been completed and delivered for a total amount of EUR 22,298 thousand and EUR 28,808 thousand.

At 31 December 2015, the Group did not have urban development under construction acting as mortgage or syndicated credit facilities collateral.

#### 13.5 Completed construction works

The main property developments included under this item refer to not sold items of the following property developments:

- 111 housing units in Larrein" located in Vitoria- Gasteiz property of the Group company "Alexin XXI, S.L.U".
- "Promoción Inmobiliaria Borinbizcarra" property of the company "Eraikuntza, Birgaikuntza Artapena, S.L.U".
- Amount of property pending sale regarding urban development comprising "62 housing units in Mariturri", development by "Eraikuntza Birgaikuntza Artapena, S.L.U".

During year 2015, recorded decreases correspond to sale costs of handed over property and mainly refer to the urban development in Larrein (Vitoria) for a total of EUR 345 thousand.

At 31 December 2015 and 2014, certain real estate assets are recorded under "Completed Construction Work" in the accompany consolidated balance sheet for a total net cost amounting to EUR 7,878 thousand and EUR 8,191 thousand, respectively, which act as mortgage hedge for banking borrowings amounting to EUR 4,998 thousand and EUR 5,251 thousand (see Note 17.2).

At 31 December 2015 the Group hold completed developments for a total net cost amounting to EUR 5,543 thousand which guarantee the syndicated debt for EUR 4,523 (see Note 17.3).

#### 13.6 Commitments to sell property developments in progress and completed buildings

At 31 December 2015, the Group had entered into private agreements and reservation documents for the sale of property developments either under construction, or completed at that date, for a total amount of EUR 12,344 thousand, having received EUR 4,142 thousand at 2015 year-end as advances from the related customers (see Note 19.3).

#### 13.7 Impairment losses on inventories

Each year the Group commissions studies from independent valuers to determine the fair value of its investment property at year-end. At 31 December 2015 and 2014, said studies were conducted by "Instituto de Valoraciones, S.A.". Such valuations were performed on the basis of the sale value and lease value of the property on the market (which consists of capitalising the net income from each property and discounting future flows), as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions.

The comparison method (for finished products) and the static and dynamic residual method (basically for plots of land and developments under construction) were used to calculate the fair value. Under the Residual Method, the residual value of property is obtained by discounting the cash flows calculated on the basis of projected expenses and income at the established rate by taking into account the period until these flows are realised. The total cash

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receipts deemed to have been received prior to the valuation date are added to this amount in order to obtain the total value. The discount rate used is that which represents the average annual return on the project, without taking borrowings into account, that an average developer would obtain from a development similar to that analysed.

This discount rate is calculated by adding the risk premium (determined by evaluating the risk of the development, taking into account the property asset to be constructed, its location, liquidity, construction period and investment required) to the risk-free interest rate. When the determination of the cash flows takes into account borrowings, the aforementioned risk premium is increased in proportion to the percentage of the borrowings (degree of leverage) attributed to the project and the habitual interest rates in the mortgage market.

At 31 December 2015, the fair value of the Group's inventories based on the aforementioned study amounted to EUR 160.9 million.

### 13.8 Insurance policy

The Group takes out insurance policies to cover the possible risks to which substantially all its inventories are subject. The Parent's Directors consider insurance coverage arranged to be sufficient.

## 14. Financial Assets

### 14.1 Trade receivables and other receivables

This item of the accompanying consolidated balance sheet includes the present value of uncollected revenue, measured as indicated in Note 4.8, contributed by the Group's various lines of business and which form the basis of the profit or loss from operations.

The detail of "Trade receivables for sales and services" at 31 December 2015 and 2014 is as follows:

|  | Thousand of Euros |                |
|--|-------------------|----------------|
|  | 31.12.2015        | 31.12.2014     |
| Progress billings receivable and trade receivables for sales | 164,105           | 181,239        |
| Amounts to be billed for works performed                     | 49,505            | 41,099         |
| Retentions   | 13,208            | 7,122          |
| Customers, discounted instruments                            | 13,799            | 16,625         |
| Impairment (Note 23.10)                                      | (30,081)          | (28,248)       |
| <b>Total</b>   | <b>210,536</b>    | <b>217,837</b> |
| Advances (Note 19.3)   | (160,023)         | (131,300)      |
| <b>Total net accounts receivable</b>                         | <b>50,513</b>     | <b>86,537</b>  |

Group management considers that the carrying amount of trade and other receivables approximates their fair value.

"Amounts to be billed for work performed" includes the work performed during the year but not yet billed to customers, which is recognised as period revenue in accordance with the method of recognition of revenue for completed construction work (completion of the works), based on the percentage of completion method used by the Group detailed in Note 4.12. The current liabilities "Advances" item from the consolidated balance sheet at 31 December 2015 and 2014 include EUR 98,705 thousand and EUR 110,028 thousand corresponding to "Amounts to be billed for work performed", which is recognised as the Group's lowest period revenue in accordance with the method of recognition of revenue based on the percentage of completion method.

In some cases, Group companies sell trade receivables to banks, without the possibility of recourse against them in the event of default. The receivables sold at year-end, which were deducted from the balance of accounts receivable, totalled EUR 1,314 thousand and EUR 1,665 thousand at 31 December 2015 and 2014, respectively.

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This amount is fully derived from investments from Constructora San Jose, S.A. in joint ventures (see Appendix III). These transactions bear interest at normal market rates. Group companies continue to manage collection.

Substantially all the risks (bad debts and late payment) and rewards associated with the receivables, as well as control over the receivables, were transferred through the sale of the receivables, since no repurchase agreements have been entered into between the Group companies and the banks that have acquired the assets, and the banks may freely dispose of the acquired assets without the Group companies being able to limit this right in any way. Consequently, the balances receivable relating to the receivables sold under the aforementioned conditions were derecognised.

The Group does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Breakdown of trade receivables from Public Sector Customer and Private Sector Customers at 31 December 2015 and 2014 is as follows:

|                          | Thousand of Euros |                |
|--------------------------|-------------------|----------------|
|                          | 31.12.2015        | 31.12.2014     |
| Public Sector Customers  | 87,545            | 106,354        |
| Private Sector Customers | 122,991           | 111,483        |
|                          | <b>210,536</b>    | <b>217,837</b> |

A high percentage of trade receivables relate to transactions with Public Entities and, mainly, with the State Central Authority. Therefore, the Company considers credit risk is very low. Regarding private sector customers, the Company has strengthened during the last years the risk policy procedure from contracting (valuation and rating of potential customers, payment requirements, etc.) till regular revision and analysis of the global position and individual analysis of most customers. From this analysis late payment and default rate provision is established..

Average collection period for trade receivables is approximately 141 and 168 days for years 2015 and 2014 and no significant changes have been experimented during the same.

The Group has a credit risk management department responsible for mainly the following tasks:

- To analyse the creditworthiness of potential customers, and take part in the procurement process.
- To identify the level of commercial risk (credit) assumed with every client.
- To control deviations that may occur in the established limits.
- To manage any collection incidents reported by the Finance Department.

To focus on preventive measures. The aim of the Group is to identify situations of default. Faced with possible situations of default customers, the Risk Department analyses the client. In cases where nothing can be done, the deterioration of the net asset held with such client is suggested. Said analysis is performed on an individual basis.

Proper compliance with the internal risk control process means that the amount of financial assets in arrears at the end of the year 2015 and 2014 is very relevant.

#### **14.2 Cash and cash equivalents**

"Cash and Cash Equivalents" includes the Group's cash and short-term deposits with an original maturity of three months or less. The carrying value of these assets is its fair value (there are no limitations, apart from those arising from syndicated credit facilities of the Group - see Note 17.3).

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Breakdown at 31 December 2015 and 2014 is as follows:

|  | Thousand of Euros |                |
|--|-------------------|----------------|
|  | 31.12.2015        | 31.12.2014     |
| Other cash equivalents                 | 132,952           | 126,241        |
| Cash                                   | 241               | 285            |
| Banks and credit entities              | 98,641            | 76,734         |
| <b>Total cash and cash equivalents</b> | <b>231,834</b>    | <b>203,260</b> |

Out of the total balance of this item, EUR 27,593 thousand and EUR 23,575 thousand correspond to joint ventures (see Annexure III) for year 2015 and 2014, respectively.

#### 14.3 Other current financial assets

"Other current financial assets" includes deposits at banks, short-term deposits and other receivables maturing in over three months. At 31 December 2015, it mainly includes amounts arising from short-term loans amounting to EUR 10,640 thousand.

Further, it includes short-term payments to be collected from the Ministry of Public Works of Chile, for the certificates issued by the Group company "Sociedad Concesionaria San Jose-Tecnocontrol, S.A.", for a total value of EUR 36,166 thousand and EUR 36,524 thousand at 31 December 2015 and 2014, for the construction of the Hospitals of Maipu and La Florida, in Santiago de Chile.

#### 14.4 Non-current financial assets and loans to related companies

The detail of "Loans to related companies" and "Other financial assets" in the accompanying consolidated balance sheet at 31 December 2015 is as follows:

|  | Thousand of Euros  |                            |                                |                            |                 |                |
|--|--|----------------------------|--------------------------------|----------------------------|-----------------|----------------|
|  | Other financial assets, with changes in income statement (Note 11) | Loans to related companies | Investments available for sale | Investments until maturity | Impairment      | Total          |
| <b>Balance at 31 December 2013</b>               | <b>63,165</b>  | <b>43,238</b>              | <b>9,031</b>                   | <b>184,530</b>             | <b>(11,925)</b> | <b>288,039</b> |
| Discontinued activity (Note 12)                  | (17,340)   | (37,287)                   | (35)                           | (1,771)                    | 35              | (56,398)       |
| Entries or provisions                            | 5,353  | 2,892                      | -                              | 29,444                     | (6,280)         | 31,409         |
| Transfers  | -  | -                          | -                              | (30,669)                   | -               | (30,669)       |
| Exchange rate differences                        | 1,219  | (824)                      | 48                             | (1,107)                    | 140             | (524)          |
| Disposals, withdrawals or redundancies           | (864)  | -                          | -                              | -                          | -               | (864)          |
| <b>Balance at 31 December 2014</b>               | <b>51,533</b>  | <b>8,019</b>               | <b>9,044</b>                   | <b>180,427</b>             | <b>(18,030)</b> | <b>230,993</b> |
| Entries or provisions                            | 5,355  | -                          | 461                            | 20,347                     | (1,528)         | 24,635         |
| Changes in the scope of consolidation (Note 2.4) | 6,426  | 455                        | -                              | -                          | -               | 6,881          |
| Transfers  | -  | -                          | -                              | (34,624)                   | -               | (34,624)       |
| Exchange rate differences                        | (2,392)  | -                          | 322                            | (8,626)                    | 285             | (10,411)       |
| Disposals, withdrawals or redundancies           | (4,130)  | (8,019)                    | (175)                          | (1,174)                    | 7,602           | (5,896)        |
| <b>Balance at 31 December 2015</b>               | <b>56,792</b>  | <b>455</b>                 | <b>9,652</b>                   | <b>156,350</b>             | <b>(11,671)</b> | <b>211,578</b> |

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#### 14.4.1 Investments available for sale

The financial assets presented above basically represent investments in equity securities of unlisted entities. These ownership interests are stated at the underlying carrying amount. From total impairment recorded above, EUR 6,487 thousand and EUR 5,344 thousand refer to investment available for sale at 31 December 2015 and 2014, respectively (see Note 23.12).

Net cost at which interest ownership of the Group is recorded, by associate, at 31 December 2015 and 2014, is as follows:

| Company                   | Thousand of Euros |              |
|---------------------------|-------------------|--------------|
|                           | 31/12/2015        | 31/12/2014   |
| Bodegas Altanza, S.A.     | 994               | 994          |
| Unirisco S.C.R., S.A.     | 407               | 407          |
| Filmanova, S.A.           | 37                | 37           |
| Editorial Ecoprensa, S.A. | 741               | 1,564        |
| Other                     | 986               | 698          |
|                           | <b>3,165</b>      | <b>3,700</b> |

#### 14.4.2 Loans and receivables

This item includes mainly the participation loan of "Pinar de Villanueva, S.L." amounting to EUR 455 thousand.

#### 14.4.3. Other investments

This item includes mainly loans and receivables due to certifications issued by "Sociedad Concesionaria San José-Tecnocontrol, S.A.", for a total amount of EUR 149,287 thousand and EUR 164,666 thousand at 31 December 2015 and 2014, respectively, as payment of the execution works of the Hospitals of Maipu and La Florida, in compliance with IFRIC12 (see Note 2.1) for concessions with no demand risk. At 31 December 2015, said amount is arranged into six equal instalments, with maturity at 31 March on an annual basis, discounting the financial effect of the deferred payment.

On 10 and 15 November 2013, certifications for the implementation of El Carmen Hospital and La Florida Hospital in Santiago de Chile, opened on 7 and 28 December 2013 and with a total built surface of nearly 70 thousand sqm each, were received. Eventually, on 13 February 2015, definitive implementation certificates have been issued, expiring any risks from construction stage. Accordingly, the Group considered approved the quotas established for the remuneration of the construction phase, proceeding to perform a re-estimation of the flows under concession regime from such stage. According to IAS 39, the Group has recalculated the future cash flows, estimating a EUR 8,186 thousand increase of financial assets, recorded as higher revenue in 2015.

The company "Sociedad Concesionaria San José-Tecnocontrol, S.A." executed the design and construction of both hospitals and is responsible for their operation and maintenance under concession regime for a period of 15 years.

The payment of the Chilean Ministry of Public Works is arranged into 8 annual instalments of UF 1.1 million each, having collected the first instalment on 31 March 2014. The Group records said amount deducting the financial effect of the deferred payment. During years 2015 and 2014, finance income arising from the update of said items amounting to EUR 12,893 thousand and EUR 13,290 thousand, respectively, were recorded (see Note 23.7).

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## **15. Net equity**

### **15.1 Share capital**

At 31 December 2015 and 2014, share capital of the Parent was represented by 65,026,083 shares of EUR 0.03 par value each.

At 20 July 2009, Parent Company shares can be listed on the Continuous Market, with a market value of EUR 12.86 per share. The closing and mean quote for the last quarter of 2015 and 2014 has been EUR 0.92 and EUR 0.90 for year 2015 and EUR 0.82 and 0.78 for year 2014, respectively.

At 31 December 2015, the shareholder with a stake exceeding 10% in the share capital of the Parent Company was Mr. Jacinto Rey González, with a direct and effective participation of 24.952% and 48.292%, respectively

On 30 December 2014, the Group has entered into with a majority of the creditor banking entities a novation agreement of its syndicated credit loan in Spain, pursuant to which it commits to issue Warrants for 35% of its social capital, whose execution shall depend on the level of performance of the Group of the amortisation of the participating loan granted as on said date, for a total amount of EUR 100 million (see Note 17.3).

### **15.2 Issuance rights**

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase the capital of the entities at which it is recognised and does not establish any specific restrictions as to its use.

### **15.3 Legal reserve**

Under the Consolidated Spanish Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

In addition, and in compliance with the terms set forth in article 273 section of the Spanish Companies Act and wording of Law 16/2007 of 4 July, on the reform and adjustment of business law, the obligation to provide a restricted reserve equal to 5% of the goodwill registered at year end, with charge to the profit or loss of the year if any, and otherwise with charge to unrestricted reserves.

### **15.4 Restrictions on the distribution of dividends**

There are no significant restrictions on the distribution of dividends, apart from those established for the Group's syndicated banking funding system (see Note 17.3).

### **15.5 Consolidated reserves**

Breakdown at 31 December 2015 and 2014 is as follows:

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|                                       | Thousand of Euros |                 |
|---------------------------------------|-------------------|-----------------|
|                                       | 31.12.2015        | 31.12.2014      |
| Reserves of the Parent                | (191,257)         | (85,769)        |
| Consolidation reserves                |                   |                 |
| -From consolidated companies          | 12,444            | 78,478          |
| -From companies considered equivalent | 2,306             | (48,048)        |
| <b>TOTAL</b>                          | <b>(176,507)</b>  | <b>(55,339)</b> |

The breakdown, by company, of the balance of "Consolidated reserves" in the consolidated balance sheets, after taking into account the effect of consolidation adjustments, is as follows:

*Net profit/(loss) for the year attributable to the Parent by Subsidiaries*

|   | Thousand of Euros |                                |                |                                |
|---|-------------------|--------------------------------|----------------|--------------------------------|
|   | 2015              |                                | 2014           |                                |
|   | Reserves          | Profit/ (Loss)<br>for the year | Reserves       | Profit/ (Loss)<br>for the year |
| Grupo Empresarial San José, S.A.            | (218,656)         | 4,571                          | 129,890        | (18,010)                       |
| SJB Müllroser                               | (5,801)           | (7)                            | (5,795)        | (6)                            |
| Construction subgroup                       | 48,653            | 4,990                          | 199,208        | (7,137)                        |
| Trade subgroup                              | 9,911             | 304                            | 9,526          | 385                            |
| Udra Medios subgroup                        | (12,264)          | (637)                          | (11,220)       | (1,044)                        |
| San José Desarrollos Inmobiliarios Subgroup | -                 | -                              | (371,045)      | (93,521)                       |
| Urban Developments subgroup                 | -                 | -                              | 42,173         | 771                            |
| San José Concesiones y Servicios subgroup   | 2,004             | 235                            | 1,348          | 656                            |
| San José Energía y Medioambiente, S.A.U.    | (4,228)           | 37                             | (3,043)        | (1,185)                        |
| Cadena de Tiendas, S.A.U.                   | 1,568             | 7                              | 1,667          | (99)                           |
| GSI Solutions, S.L.U.                       | -                 | (2)                            | -              | -                              |
|   | <b>(178,813)</b>  | <b>9,498</b>                   | <b>(7,291)</b> | <b>(119,190)</b>               |

*Net profit/(loss) for the year and reserves attributable to the Parent by Subsidiaries*

The breakdown, by company, of the balance of this account in the consolidated balance sheets, after taking into account the effect of the valuation adjustments, and of the translation differences recognised in equity as a result of the valuation process, is as follows:

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| Company                                | Thousand of Euros |                                   |                 |                                   |
|--|-------------------|-----------------------------------|-----------------|-----------------------------------|
|  | 2015              |                                   | 2014            |                                   |
|  | Reserves          | Profit/<br>(Loss) for<br>the year | Reserves        | Profit/<br>(Loss) for<br>the year |
| Dístrito Castellana Norte, S.A.        | (36)              | (495)                             | 178             | (214)                             |
| Panamerian Mall, S.A.                  | 4,501             | 3,169                             | 2,894           | 1,607                             |
| Pontegrán, S.L.                        | -                 | -                                 | (389)           | -                                 |
| Pinar de Villanueva, S.L.              | -                 | (751)                             | (5,454)         | -                                 |
| Antigua Rehabitalia, S.A.              | -                 | -                                 | (38,763)        | -                                 |
| Makalu Desarrollos Inmobiliarios, S.L. | -                 | -                                 | (6,612)         | -                                 |
| Corsabe, S.L.                          | (1,401)           | (1,026)                           | -               | (1,401)                           |
| Cresca, S.A.                           | (572)             | (1,948)                           | -               | (572)                             |
| Other                                  | (186)             | 206                               | 98              | (284)                             |
|  | <b>2,306</b>      | <b>(845)</b>                      | <b>(48,048)</b> | <b>(864)</b>                      |

#### 15.6 Valuation adjustments

"Valuation adjustments" in the consolidated balance sheet includes the net amount of fair value adjustments of certain derivative instruments (see Notes 4.9, 4.11 and 18) due to the application of IAS 32 and 39.

#### 15.7 Shares of the Parent

At 31 December 2015 and 2014, the Group did not hold any treasury shares.

In year 2015, no transactions with treasury shares took place.

#### 15.8 Minority interests

At 31 December 2015 the of "Minority Interests" and "Profit (Loss) Attributable to Minority Interests" of consolidated companies is as follows:

| Company                                  | Thousand of Euros              |  |
|--|--------------------------------|--|
|  | Total<br>Interest<br>Interests | Profit/<br>(Loss) for<br>the year<br>attributed<br>to minority |
| Construction subgroup                    | 20,489                         | (1,297)  |
| Comercial Udra subgroup                  | (183)                          | (95)   |
| Udra Medios subgroup                     | (209)                          | 2  |
| San José Energía y Medioambiente, S.A.U. | 1,583                          | 23   |
|  | <b>21,680</b>                  | <b>(1,367)</b>   |

Breakdown of this item for years 2015 and 2014 is as follows:

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|  | Thousand of Euros |               |
|--|-------------------|---------------|
|  | 2015              | 2014          |
| <b>Opening balance</b>                                   | <b>24,302</b>     | <b>15,299</b> |
| Changes in the scope of consolidation (Note 2.4)         | 181               | 7,602         |
| Profit/(Loss) for the year                               | (1,344)           | (2,628)       |
| Exchange rate differences                                | 2,227             | 3,983         |
| Dividends  | (1,553)           | (2,902)       |
| Adjustments attributable to minority interests and other | (2,133)           | 2,948         |
| <b>Closing balance</b>                                   | <b>21,680</b>     | <b>24,302</b> |

### 15.9 Capital management

The Group's capital management focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy reconciles the creation of value for the shareholder with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business.

As an indicator for capital management, the Directors of the Group consider the level of leverage, taking into account this ratio as the quotient of net financial debt and equity (corrected by the deterioration of the net real estate, and taking into consideration the participatory loan).

At 31 December 2015 and 2014, the Group was achieving this parameter, as shown below:

|   | Thousand of Euros |                |
|---|-------------------|----------------|
|   | 31.12.2015        | 31.12.2014     |
| Non-current bank borrowings and other financial liabilities (Note 17) | 410,188           | 377,699        |
| Current bank borrowings and other financial liabilities (Note 17)     | 47,810            | 77,972         |
| Cash and cash equivalents (Note 14.2)                                 | (231,834)         | (203,260)      |
| <b>Total net</b>  | <b>226,164</b>    | <b>252,411</b> |
| <b>Corrected net equity</b>   | <b>76,280</b>     | <b>51,200</b>  |
| <b>Leverage (%)</b>   | <b>296%</b>       | <b>492%</b>    |

### 15.10 Equity of the Parent

According to Article 363 of the Companies Act (LSC), companies must be dissolved whenever losses have reduced its equity to less than the half, except whether the same is increased or is reduced to a sufficient extent, and provided it is not precedent to request the bankruptcy declaration. As stated in Article 36 of the Commercial Code, net equity for such purposes is the amount that qualifies as such in the financial statements, plus the amount of the non required subscribed capital, as well as the nominal amount and issuance premiums or the assumption of the subscribed capital that is accounted as liabilities. Likewise, adjustments due to changes in cash flow hedges shall not be classified as net equity.

On the other hand, according to article 20 of Royal Decree 7/1996, as of 7 June, participating loans qualify as net equity for capital decrease and settlement of companies pursuant to trade regulations.

At 31 December 2015, the parent records a positive net equity amounting to EUR 1,561 thousand, representing 80% of the subscribed and paid up capital. Therefore, there is no equity unbalance according to provisions of Art. 327 of the Companies Act. Further, the Parent Company has a participatory loan at 31 December 2015 amounting to EUR 102,389 thousand (see Note 17.3), received from creditor financial institutions, that comes to strengthen its financial position

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## 16. Long-term provisions

Breakdown of this item in the accompanying consolidated balance sheet for years 2015 and 2014 is as follows:

|                                    | Thousand of Euros |
|------------------------------------|-------------------|
| <b>Balance at 31 December 2013</b> | <b>58,787</b>     |
| Reclassifications held-for-trading | (45,805)          |
| Provisions                         | 8,191             |
| Applications                       | (30)              |
| Reversals                          | (88)              |
| Reclassifications and other        | (256)             |
| <b>Balance at 31 December 2014</b> | <b>20,799</b>     |
| Provisions                         | 3,676             |
| Applications                       | (842)             |
| Reversals                          | (3,447)           |
| Reclassifications and other        | (963)             |
| <b>Balance at 31 December 2015</b> | <b>19,223</b>     |

At 31 December 2015 this item includes mainly provisions for legal proceedings.

The Directors of the Parent consider that the probability of an outcome of litigation and claims to occur are insignificant to justify the registration of additional provisions. The Directors of the Parent consider that the probability of an outcome of litigation and claims to occur are insignificant to justify the registration of additional provisions. The directors of the different companies within Grupo SANJOSE consider that present provisions are enough to deal with the current processes of litigation and claims or will not have a material effect on the consolidated financial statements.

## 17. Bank borrowings and debt instruments and other marketable securities

The breakdown of said items in the consolidated balance sheets is as follows:

Year 2015:

|  | Thousand of Euros          |                                  |                |
|--|----------------------------|----------------------------------|----------------|
|  | Debts and accounts payable | Derivative financial instruments | Total          |
| <b>Non-current financial liabilities:</b>    |                            |                                  |                |
| Obligations and other securities (Note 17.4) | 146,734                    | -                                | 146,734        |
| Bank borrowings (Note 17.1)                  | 361,599                    | -                                | 361,599        |
| Derivatives (Note 18)                        | -                          | 1,196                            | 1,196          |
| Other financial liabilities                  | 4,224                      | -                                | 4,224          |
| <b>Total non-current</b>                     | <b>512,557</b>             | <b>1,196</b>                     | <b>513,753</b> |
| <b>Current financial liabilities:</b>        |                            |                                  |                |
| Obligations and other securities (Note 17.4) | 30,800                     | -                                | 30,800         |
| Bank borrowings (Note 17.1)                  | 16,188                     | -                                | 16,188         |
| Derivatives (Note 18)                        | -                          | 8                                | 8              |
| Other financial liabilities                  | 822                        | -                                | 822            |
| <b>Total current</b>                         | <b>47,810</b>              | <b>8</b>                         | <b>47,818</b>  |

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Year 2014:

|   | Thousand of Euros          |                                  |                |
|---|----------------------------|----------------------------------|----------------|
|   | Debts and accounts payable | Derivative financial instruments | Total          |
| <b>Non-current financial liabilities:</b> |                            |                                  |                |
| Bank borrowings (Note 17.1)               | 473,386                    | -                                | 473,386        |
| Derivatives (Note 18)                     | -                          | 31,697                           | 31,697         |
| Other financial liabilities               | 4,313                      | -                                | 4,313          |
| <b>Total non-current</b>                  | <b>477,699</b>             | <b>31,697</b>                    | <b>509,396</b> |
| <b>Current financial liabilities:</b>     |                            |                                  |                |
| Bank borrowings (Note 17.1)               | 76,364                     | -                                | 76,364         |
| Other financial liabilities               | 1,608                      | -                                | 1,608          |
| <b>Total current</b>                      | <b>77,972</b>              | <b>-</b>                         | <b>77,972</b>  |

"Other current financial liabilities" and "Other non-current financial liabilities" include mainly EUR 197 thousand and EUR 50 thousand, respectively, in relation to long term borrowings with associates. Likewise, the non-current portion includes the balance of current accounts with shareholders accruing market interest rate tied to Euribor and with no defined maturity.

**17.1 Bank borrowings**

The breakdown of said items in the consolidated balance sheets is as follows:

|  | Thousand of Euros |                |
|--|-------------------|----------------|
|  | 31.12.2015        | 31.12.2014     |
| <b>Non-current:</b>                                      |                   |                |
| Finance leasing (Notes 7 and 10)                         | 534               | 884            |
| Bank loans and credit facilities                         | 15,676            | 9,795          |
| Syndicated credit facilities(Spain) (see Note 17.3)      | 345,389           | 350,000        |
| Syndicated credit facilities (Chile) (Note 17.3)         | -                 | 112,707        |
| <b>Total non-current</b>                                 | <b>361,599</b>    | <b>473,386</b> |
| <b>Current:</b>  |                   |                |
| Finance leasing (Notes 7 and 10)                         | 351               | 723            |
| Syndicated credit facilities (Chile) (Note 17.3)         | -                 | 16,836         |
| Payables from discounted notes and bills                 | 4,249             | 16,014         |
| Bank loans and credit facilities                         | 5,404             | 36,355         |
| Mortgage loans secured by inventories (Note 13 and 17.2) | 6,184             | 6,436          |
| <b>Total current</b>                                     | <b>16,188</b>     | <b>76,364</b>  |
| <b>TOTAL</b>   | <b>377,787</b>    | <b>549,750</b> |

All these loans bear interest at a rate tied to EURIBOR plus a market spread.

Bank loans and credit facilities" from non-current liabilities includes at 31 December 2015 the following:

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- A balance for EUR 7,119 thousand corresponding to Project finance, granted for the construction, commissioning and operation of the Plant and the facilities of the Group company Poligeneracio Parc de LAIba ST-4, S.A.'s Policy Project (see Notes 10 and 2.6). Said plant acts as collateral for credit facilities.
- EUR 7,337 thousand for credit facilities granted by Banco Popular, with maturity in 2019 and for a variable interest rate according to three-month Euribor plus 0.8 %.

"Bank loans and credit facilities" from current liabilities of the attached consolidated balance sheet at 31 December 2015 and 2014 includes EUR 1,342 thousand and EUR 6,063 thousand, respectively, for financial expenses pending settlement at year-end close.

### 17.2 Mortgage loans

The Group provides as collateral for mortgage loans real estate assets for a total net cost amounting to EUR 9,995 thousand.

#### *Mortgage loans secured by investment property*

The Group does not hedge mortgage loan on real estate investments at 31 December 2015.

#### *Mortgage loans secured by inventories*

As indicated in Note 4.19, all the bank borrowings associated with "Inventories" (regardless of the maturity thereof) are presented in the consolidated balance sheet under "Current Liabilities". Mortgage loans secured by inventories at 31 December 2015 have a long-term maturity and concern entirely on subsidiaries.

These mortgage loans bear annual floating interest at a market rate, which in 2015 ranged from 2.75% to 3%.

The outstanding principal of these loans at 31 December 2015 matures approximately as follows:

| Thousand of Euros |           |           |                         |       |
|-------------------|-----------|-----------|-------------------------|-------|
| Year 2016         | Year 2017 | Year 2018 | Year 2019 and following | TOTAL |
| -                 | 137       | 1,426     | 4,621                   | 6,184 |

### 17.3 Syndicated credit facilities

#### *Syndicated credit facilities un Spain*

The SANJOSE Group concluded in year 2009 the renegotiation of the bank borrowings for a total amount of EUR 2,210 million in order to adapt the related obligations to the new business plan based on the global economic situation and taking into consideration cash requirements set out on Business Plan for 2009-2013, under a framework of stability

On 30 December 2014, Group SANJOSE and its main subsidiaries have entered into modifying novation agreements for its financial debt with a large majority of its creditor banks, which represent a percentage greater than 75% of the financial liabilities and 80% of collaterals affected by such agreements.

Said agreements have involved the novation of the syndicated credit agreement signed in April 2009, as well as a series of bilateral funding agreements. The terms and conditions of the new financing are detailed pursuant to the following three separate financing agreements:

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a) **Contract "Constructora San José, S.A."**

Syndicated credit contract assumed by "Constructora San José, S.A." and arranged into the following stretches:

Stretch A: for a total amount of EUR 250 million and having a maturity of five years, renewable for another year (provided certain terms are satisfied), with a progressive payment schedule. At 31 December 2015, the outstanding amount is EUR 243 million, since the Company has repaid EUR 7 million on a voluntary basis during the first semester of 2015. Maturity of the outstanding amount shall be paid as follows:

| Thousand of Euros |           |           |           |         |
|-------------------|-----------|-----------|-----------|---------|
| Year 2016         | Year 2017 | Year 2018 | Year 2019 | TOTAL   |
| -                 | 16,100    | 20,700    | 206,200   | 243,000 |

A set of working capital credit facilities: a set of working capital credit facilities, including discounts, confirming and guarantees, available to Constructora San José, S.A and companies within its scope of consolidation:

- Trade and financial discount tranche amounting to EUR 49 million
- Confirming stretch amounting to EUR 28.8 million
- Tender and performance guarantees amounting to EUR 241.4 million
- Financial bank guarantees amounting to EUR 98 million for recurrent financial bank guarantees and USD 8 million for non-recurrent financial bank guarantees.
- Stretch B: an additional funding credit facilities for the execution of guarantees amounting to EUR 10 million.

As a consequence of the debt, "Constructora San José, S.A." is released from the sole guarantees granted to financial creditors of "San José Desarrollos Inmobiliarios, S.A.U.". Likewise, it is subject to the fulfilment of compulsory minimum financial ratios regarding EBITDA and the debt status as from 31 December 2015.

- EBITDA: referring to "Constructora San Jose, S.A. and Subsidiaries" Annual requirements are set out.
- Debt coverage ratio: referring to "Constructora San Jose, S.A. and Subsidiaries" It shall be calculated quarterly on a year-on-year basis.

The Directors of the Parent deem at 31 December 2015 that the Group meets all the requirements.

b) **Contract "Grupo Empresarial San José, S.A."**

Pursuant to the modifying novation agreement of the debt of Grupo SANJOSE, the Company assumed a EUR 100 million participating loan on a 2% fixed interest rate to be increased during the last year and a variable term according to the Groups results, with a 5-year bullet maturity, while being released from the guarantees granted pursuant to the previous financing agreement.

Early repayment of the amount of this agreement includes certain descending repayment charges or discounts of nominal value according to early repayment instalments.

The part of this contract not attended at maturity shall be converted into shares of Grupo San José with a limit of 35% of total social capital of the company. This transaction has been materialised through the emissions of warrants approved at the Shareholders' Meeting of "Grupo Empresarial San José, S.A" held on 24 June 2015.

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Said warrants entitle holders the right to subscribe newly issued shares of Grupo San José by offsetting credit claims which were pending repayment at maturity date (including capitalised interest).

Conversion shall take place at market price of shares of Grupo San José by reference to the weighted average price of the previous 20 sessions prior to the maturity date (see Note 17.4). The commitment of the issuance of the warrants has been formalized in an agreement that reflects the conditions and terms for issuance and the rules for their eventual conversion into shares of Grupo San José.

Warrants will not be listed on any secondary markets and shall only be transferable with debt of Grupo San José.

Additionally, in the context of the above mentioned financial restructuring operation, and by mutual agreement between the parties, "Grupo Empresarial San José, SA" has acquired a payment obligation to the Company amounting to EUR 75 million, receiving in return a receivable from "San José Desarrollos Inmobiliarios, SAU", that was recorded as an increase in equity of the investee, before its transmission. On 30 June 2015, payment obligation with "Constructora San José, S.A." was settled by handing over the stake of the Parent in "Desarrollos Urbanísticos Udra, S.A.U." (see Note 2.4).

The novation agreements were subject to sundry subsequent terms and conditions, highlighting among other, to be granted court approval of those agreements in accordance with the provisions of the Additional Fourth Provision of the Bankruptcy Act, several certificates and supplementary reports, the renewal and cancellation of certain personal and real guarantees and the granting of new collaterals and the issuance of warrants. On 31 December 2015, all requirements had been fully satisfied.

Although Notes 7, 8 and 13 refer to Group assets that guarantee syndicated debt as a result of novation agreement, the companies alien the Real Estate Division Group are released from the guarantees provided within the framework of the syndicated loan of 2009, being only borne by new sections of syndicated debt assumed by them. At 31 December 2015, the Group has real estate assets amounting to EUR 19,734 thousand, which guarantee the syndicated credit for EUR 35,016 thousand.

#### **Syndicated credit facilities in Chile**

At 10 February 2011, the group company "Concesionaria San Jose-Tecnocontrol S.A." entered into a syndicated credit funding agreement in Chilean pesos with a total of eight banking entities, acting "Banco Bilbao Vizcaya Argentaria, Chile" as leader arranger, for a total amount of EUR 185 million.

Object of said funding agreement is the execution under concession regime of a health care project in Chile "Programa de Concesiones en Infraestructura Hospitalaria, Hospital de Maipu, Hospital de la Florida", awarded to Grupo SANJOSE by the Ministry of Public Works of Chile. At 31 December 2014, the amount recorded amounts to EUR 132,805 thousand.

On 24 March 2015 the Group re-leveraged the operation through the emission of bonds in Chile, successfully underwriting the syndicated loan (see Note 17.4).

#### **17.4 Obligations and other securities**

On 24 March 2015 the Group issued bond in the capital market of Chile, through its associate "Sociedad Concesionaria San José-Tecnocontrol, S.A." relying on Banco Itaú Chile as finance advisor. Total emission amounted to EUR 6,302 thousand UF (nearly EUR 223,684 thousand). Said bonds were used for the early repayment of the syndicated loan granted to the Group in Chile in 2011 for the financing of the construction of the hospitals of Maipú and La Florida in Chile. Further, the surplus has been used to partially settle the syndicated loan of "Constructora San José, S.A." amounting to EUR 7 million, as well as to settle the financial derivatives in effect at 31 December 2014 under the property of "Sociedad Concesionaria San José-Tecnocontrol S.A." (see Note 18).

It is repaid on an annual basis by equal instalments of 1,014 thousand UF, with maturity on 30 June 2021, with an average interest rate amounting to 3.1%. Said transaction had been guaranteed, with an average annual rate of 4.0%.

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There are no other additional guarantees from said financing transaction.

Syndicated loan amortisation shall be executed in seven annual payments due as of 30 June from 2015 to 2021. The outstanding principal of these loans at 31 December 2015 matures approximately as follows:

| Thousands of Euros (*) |           |           |           |                   |         |
|------------------------|-----------|-----------|-----------|-------------------|---------|
| Year 2016              | Year 2017 | Year 2018 | Year 2019 | Outstanding years | Total   |
| 30,800                 | 27,555    | 28,400    | 29,271    | 61,508            | 177,534 |

(\*) Net amount after deducting borrowing costs, amounting to EUR 6,757 thousand at 31 December 2015.

## 18. Derivative Financial Instruments

The Group contracts OTC derivative financial instruments with national and international high credit rating banks.

To determine the fair value of interest rate derivatives (Fixed Rate Swaps or structures with options), the Group uses cash flow discounts based on assumptions established by the Euro interest rate curve according to market conditions at the date of measurement.

At 31 December 2015, derivative financial instruments of Grupo SANJOSE are mainly Interest Rate Swaps and cross-currency swaps.

For determining the fair value of interest rate derivatives and currency swaps, the Group applies an assessment method based on the discount of flows under implicit forward curve rates.

Interest rate derivatives contracted by the Group and effective at 31 December 2015 and 2014, together with their fair values at said date, are the following:

### Year 2015:

| Company                                 | Financial Instrum. | Maturity   | Thousand of Euros |                                   |                                   |
|---|--------------------|------------|-------------------|-----------------------------------|-----------------------------------|
|   |                    |            | Initial par value | Remaining par value at 31.12.2015 | Balance at 31.12.2015 (Note 17.1) |
| <b>Efficient Hedges:</b>                |                    |            |                   |                                   |                                   |
| Outdoor King, S.A.U.                    | CCS-usd            | 15/07/2016 | 400               | 400                               | 1                                 |
| Outdoor King, S.A.U.                    | CCS-usd            | 10/06/2016 | 400               | 400                               | 10                                |
| Trendy King, S.A.U.                     | CCS-gbp            | 10/02/2016 | 403               | 403                               | 5                                 |
| Trendy King, S.A.U.                     | CCS-gbp            | 15/09/2016 | 380               | 380                               | (8)                               |
| Poligeneració Parc de l'Alba ST-4, S.A. | IR Swap            | 15/12/2021 | 15,451            | 8,686                             | (1,196)                           |
| <b>TOTAL</b>                            |                    |            | <b>17,034</b>     | <b>10,269</b>                     | <b>(1,188)</b>                    |

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**Year 2014:**

| Company  | Financial Instrum. | Maturity   | Thousand of Euros |                                   |                                   |
|--|--------------------|------------|-------------------|-----------------------------------|-----------------------------------|
|  |                    |            | Initial par value | Remaining par value at 31.12.2014 | Balance at 31.12.2014 (Note 17.1) |
| <b>Efficient Hedges:</b>                             |                    |            |                   |                                   |                                   |
| Sociedad Concesionaria San José – Tecnocontrol, S.A  | CCS-uf             | 30/06/2021 | 169,621           | 133,222                           | (11,634)                          |
| Comercial Udra subgroup                              | CCS-usd            | 10/07/2013 | 774               | 774                               | 109                               |
| Poligeneració Parc de l'Álba ST-4, S.A.              | IR Swap            | 15/12/2021 | 15,451            | 9,138                             | (1,529)                           |
| Sociedad Concesionaria San José – Tecnocontrol, S.A. | IR Swap            | 30/06/2021 | 163,470           | 133,222                           | (18,534)                          |
| <b>TOTAL</b>   |                    |            | <b>349,316</b>    | <b>276,356</b>                    | <b>(31,588)</b>                   |

Assets and liabilities as hedge financial instruments include the changes in the measurement of fair value of hedge financial instruments. At 31 December 2015, instruments hold by the Group company "Poligeneració Parc De L'Alba, S.A. (ST4)" and the commercial subgroup are Interest Rate Swaps and cross-currency swaps linked to assets and liabilities of the consolidated balance sheet, as well as to potential transactions in compliance with requirements established by IAS 39 so as to be classified as hedge accounting.

During 2015, in the frame of the financing granted to Sociedad Concesionaria San Jose-Tecnocontrol, S.A." in Chile, derivatives contracted by this company have been settled, recording a loss amounting to EUR 20,346 thousand under "Changes in the fair value of financial instruments" in the accompanying consolidated income balance for 2015.

Assets and liabilities as non hedge financial instruments include the measurement of fair value of non hedge financial instruments.

The Group records as equity the change in fair value of hedge accounting financial instruments. At 31 December 2015 and 2014 the change in fair value of Derivative Financial Instruments allocated as Hedge Elements for their effective portion accumulated in Equity amounts to EUR 844 thousand and EUR 24,385 thousand, respectively

During 2015 and 2014, EUR 27,570 thousand and EUR 5,440 thousand before tax have been recycled from Equity to Interests costs as financial liabilities' interests being hedged pursuant to allocated Hedging Relationships were registered. The amount for year 2015 refers mainly to the amortisation of financial derivatives in Chile, as said previously.

**Measurement of efficiency of financial instruments**

According to IAS 39, the Group has decided to adopt hedge accounting policy. Therefore, certain formal requirements shall be implemented and tests shall be carried put in order to ensure the efficiency of hedge accounting relationships. A hedging relationship is considered efficient as long as efficiency ratios reach 80-125% (application guide 105 of IAS 39) and meet the previous drafting requirements. A hedging relationship is considered efficient as long as efficiency ratios reach 80-125% (application guide 105 of IAS 39) and meet the previous drafting requirements.

Effectiveness of financial instruments is measured according to the hypothetical derivative method. Hypothetical derivative method, risks are identified as derivatives with the same features as the risk.

This method consists of comparing the changes in fair value or cash flows of the derivative acting as collateral with the changes in fair value or cash flows of the hypothetical derivative. The hypothetical derivative method is described as "Method B" at section F5.5. of the Implementation Guide of IAS 39. A retrospective effectiveness test and a prospective test shall be executed in order to determine whether the hedging relationships shall be effective in the future.

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At the date of issue of the financial statements, the hypothetical derivative and the real derivative shall be measured using the same techniques and information resources. According to section 96 of IAS 39, the surplus of the real derivative compared with the value of the hypothetical derivative shall be recorded as loss or gain, recording under the net equity the value of the lower value of the real or hypothetical - considered as change in value of hedged flows.

For the consideration of fair value, credit risk shall be included in the measurement of the real derivative while not credit risk shall be allocated to hypothetical derivative.

### **Classification of financial instruments**

Regarding assets and liabilities measured at fair value, the Group follows hierarchy set out by IFRS 13 for their classification pursuant to input used for their measurement and market conditions:

Level 1: inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

According to IFRS 13, the hierarchy categorises the inputs used in valuation techniques of assets and liabilities into three levels. (Level 1, Level 2, Level 3). The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs

Derivatives of the Group are classified as Level 2.

No transfers from Level 1 to Level 2 have taken place during year 2015. Neither had taken place inputs or outputs of Level 3 at 31 December 2014.

### **Sensitivity analysis of interest rate and exchange rate**

Changes in the fair value of interest rate derivatives arranged by the Group depend on :

- a) Changes in the long-term Euro interest rate and Swaps curve and CLP interest rate curve.
- b) Changes in currency swaps depend on the average exchange rate of Unidades de Fomento (UF) and Chilena Pesos (CLP).

At 31 December 2015, changes in the value of financial instruments due to changes in interest rates are not significant.

### **Fair value of financial instruments**

#### **Fair value of financial instruments at amortised cost**

There are no significant differences between "accounting value" and "fair value" measuring of financial instruments at amortised cost.

#### **Applicable pricing techniques and hypothesis to measure fair value:**

Fair value of financial assets and liabilities will be established as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded in active and liquid markets will be established tied to market quoted prices.

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- The fair value of other financial assets and liabilities (excluding derivatives) will be established according to generally accepted pricing models based on cash flow discounts using market trading prices and quotes from contributors for similar instruments.
- To determine the fair value of interest rate derivatives, cash flow discount based on assumptions established by the interest rate curve according to market conditions is used. To determine the fair value of the interest rate derivatives (IRSs), the Group uses an in-house IRS valuation model where the inputs are the Euribor market curves and long-term swap rates to establish the fair value of the interest rate derivative structures.

Financial instruments can be grouped in levels ranging from 1 to 3 according to the level in which the fair value can be observed:

- Level 1: Those tied to quoted prices (without adjustment) in active markets for identical assets or liabilities.
- Level 2: Those tied to other inputs (excluding quoted prices included in level 1) observed for assets and liabilities, either directly (i.e., prices) or indirectly (i.e., derived from prices).
- Level 3: Those tied to pricing techniques, including inputs for assets and liabilities not based on observable market data (non-observable inputs).

The Group's derivative financial instruments at 31 December 2015 are classified under Level 2.

## **19 Trade payables and other payables**

### **19.1 Trade payables**

"Trade and other payables" includes mainly the amounts outstanding for trade purchases and related costs.

The Directors of the Group consider that the carrying amount of trade and other receivables approximates their fair value.

**Information on deferred payments to suppliers. Third supplementary provision. "Information duties" of Act 15/2010 on 5 July.**

Regarding information required by the supplementary third provision of Act 15/2010 on 5 July, detailed below is the average payment term to suppliers of the Parent Company and its domestic subsidiaries during year 2015, as well as the balance of payments to suppliers at 31 December 2015:

|  | <b>Year 2015</b>         |
|--|--------------------------|
|  | <b>Days</b>              |
| <b>Average payment term to suppliers</b> | 52                       |
| <b>Ratio of paid transactions</b>        | 49                       |
| <b>Ratio of outstanding payments</b>     | 57                       |
|  | <b>Thousand of Euros</b> |
| <b>Total made payments</b>               | 226,951                  |
| <b>Total outstanding payments</b>        | 68,011                   |

According to Act 15/2010 as of 5 July, amendment of Act 3/2004 on 29 December, amendment of Act 11/2013 on 26 July, on default payment measures, maximum payment time in 2012 is 60 days.

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Finance costs arising from such deferment will be assumed by the Group as stated on the agreements reached with suppliers.

A significant part of the Group's transactions are with public sector customers, such as States, Autonomous Communities, City Halls, Local Agencies and other public authorities, which usually pay in longer periods than the established by Law. Due to this, the Group sometimes has payment deadlines which exceed the payment periods set out by law. However, the Group follows the overall practices within the sector, following common sense and not abusing their powers pursuant to Article 3 Act 3/2004.

### **19.2 Other current liabilities**

"Other current liabilities" includes mainly the accounts payable relating to joint ventures and advances to customers (see Note 19.3). It also includes the provisions totalling EUR 5,592 thousand and EUR 4,721 thousand, at 31 December 2015 and 2014, respectively, for remuneration payable.

### **19.3 Customer advances**

This item relates fundamentally to the advances received from the buyers of the properties relating to the developments in progress or advances for the sale of real estate assets.

Real estate advances at 31 December 2015 and 2014 amount to EUR 4,143 thousand and EUR 5,639 thousand, respectively, and relate fundamentally to the advances received from the buyers for the properties relating to the developments in progress or completed developments at year-end, the completion and/or delivery of which are scheduled for subsequent years (see Note 13). Most of the advances received from customers had been guaranteed by financial guarantees.

At 31 December 2015 and 2014 this item includes "Amounts Billed in Advance for Construction Work" totalling EUR 98,705 thousand and EUR 110,028 thousand, respectively, (see Note 14.1) which relates to progress billings issued during the year for construction work yet to be performed and which are not recognised as revenue for the period in accordance with the method of recognition of revenue for completed construction work, based on the percentage of completion method used by the Group, described in Note 4.12.

## **20. Risk exposure**

### **20.1 Credit risk exposure**

The Group is not exposed to significant credit risk, since its customers and the institutions in which cash placements are made or with which derivatives are arranged are highly solvent entities, in which counterparty risk is not significant.

The Group's main financial assets are cash and cash equivalents, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is mainly attributable to trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts, estimated by Group management based on past experience and its assessment of the current economic climate. The amount of financial assets recognised in the consolidated financial statements, net of possible impairment losses, represents the Group's maximum exposure to credit risk, excluding guarantees or other credit improvements provided.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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The Group, depending on the business sector, took out credit insurance enabling it to reduce commercial credit risk arising from transactions with debtors.

The Group monitors credit management and has specific procedures in place in this connection, setting terms and conditions for the acceptance of orders and regularly monitoring orders.

## 20.2 Interest rate risk exposure

Interest rate risks arises from changes in the future cash flows from variable rate borrowings (or with current maturity) as a result of changes in market interest rates.

The objective of interest rate risk management is to mitigate the impact on borrowing costs arising from fluctuations in interest rates. Financial derivatives which guarantee fixed interest rates or rates with caps and floors are for a substantial portion of the borrowings that may be affected by this risk (see Notes 17 and 18).

The sensitivity of profit and equity of the Group to changes in the interest rate at 31 December 2015, considering the existing hedging instruments and financing fixed rate is as follows (considering fluctuations of fifty basic points in applicable interest rates):

| (Million of Euros)                             | Variation scenarios |         |
|--|---------------------|---------|
|  | - 50 pb             | - 50 pb |
| Impact on the total profit/(loss) for the year | 0.1                 | -0.1    |
| Impact on Equity                               | -2.1                | 2.2     |

## 20.3 Exchange rate risk exposure

The policy of the Group is to use its own currency for activity developed abroad. However, whenever this may not be possible, the Group hedges exchange rate risk with financial derivatives.

Its foreign currency risk exposure relates to its investments in the companies detailed in Note 4.14, and which are financed in local currency.

Exchange rate and equity sensitivity at 31 December 2015, considering the existing hedging instruments and a fixed interest rate, is as follows (considering fluctuations of fifty basic points in applicable interest rates):

| (Million of Euros) |          | Impact of the profit/(loss) for the year |             | Impact on Equity |            |
|--------------------|----------|--|-------------|------------------|------------|
| Country            | Currency | -5%                                      | +5%         | -5%              | +5%        |
| Chile              | CLP      | 0.6                                      | -0.7        | -1.6             | 1.7        |
| Argentina          | ARS      | -0.1                                     | 0.1         | -3.3             | 3.6        |
| Peru               | PEN      | -0.4                                     | 0.4         | -1.7             | 1.9        |
| Abu Dhabi          | AED      | 0.7                                      | -0.7        | -0.2             | 0.2        |
| Repub.Congo        | CFA      | 0  | 0           | 0                | 0          |
| <b>TOTAL</b>       |          | <b>0.8</b>                               | <b>-0.8</b> | <b>-6.8</b>      | <b>7.5</b> |

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#### **20.4 Liquidity risk exposure**

The Group pursues the prudent management of the liquidity risk based on the maintenance of sufficient cash and marketable securities, availability of financing through a sufficient level of committed credit facilities and sufficient capacity to settle market positions. The Company calculates its cash requirements through a 12-month cash budget.

On 30 December 2014 the Group has entered into the modifying novation agreement of the syndicated credit facilities, as well as bilateral liabilities with a large majority of its financial creditors. Due to this transaction, the Group has a stable financing status in the medium and long term, since it does not have to face significant amortisation commitments until year 2019. Maturity dates of the remaining financial liabilities are listed in Note 17.

At 31 December 2015, the Group records a positive working capital amounting to EUR 186.6 million, what guarantees its feasibility regarding all current financial liabilities included within the accompanying consolidated balance sheet.

#### **21. Taxation**

The Group companies file individual tax returns in accordance with the tax legislation in force in each country. With regard to Spain, the San Jose Group, composed of Grupo Empresarial San Jose, S.A. as the Parent and all the Spanish subsidiaries in which it holds a direct or indirect ownership interest of at least 75%, files income tax statements under the special taxation regime with number 002/06 (See Note 4.16).

For each of the consolidated companies, income tax is calculated on the basis of the accounting profit or loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit or tax loss.

At 31 December 2015, the following SANJOSE group companies filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- Tecnocontrol Instalaciones, S.L.U. (formerly, Udra Mantenimiento, S.L.U.)
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- Comercial Udra, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U. (formerly, Ewan Connection, S.A.U.)
- Vision King, S.A.U. (formerly, Fashion King S.A.U.)
- Running King, S.A.U.

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- Udramedios, S.A.U.
- Xornal de Galicia, S.A.U.
- Xornal Galinet, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneraciones parc de L'Alba, S.A.
- Enerxías Renovables de Galicia, S.A.
- Cadena de Tiendas, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

Further, as from 1 January 2015, the associate "EBA, S.L." has become the Parent of a consolidation tax group under the tax regime of the Basque Country, which also includes the following company within its scope of consolidation: Alexin XXI, S.A.U.

#### **21.1 Years open for review by the tax authorities**

Grupo Empresarial San Jose, S.A. and the subsidiaries forming the consolidated tax group have the last four years and 2010 open for review.

Except for these companies and periods, the other Group companies have the last four years open for review for all the main taxes applicable to them.

With regard to corporation tax, according to the new regulations the right of the Spanish administration to initiate the verification procedure of the paid, offset or outstanding quotas or any deductions applied or to be applied in future is extended to ten years as from the day following that on which the statutory deadline for filing them or for the year or taxable period in which the right was generated to offset such quotas or apply such deductions, being therefore only subject to review deductions and tax losses generated since 2005.

With respect to the other subsidiaries that are either not domiciled in Spain or do not form part of the consolidated tax group, the years open for review are in accordance with the maximum periods established in the legislation applicable in each country of residence, not having undergone tax inspections during 2015.

Pursuant to available information, the Parent's Directors consider that no additional material liabilities will arise as a result of future audits of the years open for review.

#### **21.2 Income tax**

Income tax is calculated for each unit integrating the Group, in compliance with tax regulations for each country. Applicable tax rates for each country where the Group operates are as follows:

| Country           | Applicable tax rate |
|-------------------|---------------------|
| Spain             | 28%                 |
| Peru              | 28%                 |
| Cape Verde        | 25.5%               |
| Portugal          | 26%                 |
| Chile             | 22.5%               |
| Abu Dhabi         | 0%                  |
| Republic of Congo | 0%                  |
| Argentina         | 35%                 |

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The balance of "Income Tax" in the accompanying consolidated income statement for 2015 and 2014 was determined as follows:

|   | Thousand of Euros |                 |
|---|-------------------|-----------------|
|   | 2015              | 2014            |
| <b>Profit/(Loss) before tax</b>                         | <b>10,649</b>     | <b>7,123</b>    |
| Increases at individual companies                       | 161,890           | 10,989          |
| Decreases at individual companies                       | (323,100)         | (4,645)         |
| Elimination trade consolidation                         | 55,149            | (59,024)        |
| Non recorded losses tax credit                          | 3,467             | -               |
| Equity method   | 2,814             | -               |
| Offset of prior years' tax losses                       | (524)             | (543)           |
| <b>Taxable profit</b>                                   | <b>(89,655)</b>   | <b>(46,100)</b> |
| Less taxable profit of companies not resident in Spain  | (14,426)          | (23,151)        |
| Less taxable profit excluded from accounting records    | (141,976)         | -               |
| <b>Tax loss of consolidated group resident in Spain</b> | <b>(104,081)</b>  | <b>(69,251)</b> |
| <b>Prior setting (30%)</b>                              | <b>(10,611)</b>   | <b>20,775</b>   |
| Plus - deductions                                       | 1,651             | -               |
| <b>Accrued tax expense</b>                              | <b>(9,093)</b>    | <b>20,775</b>   |
| Regularisation previous year and change of tax rate     | 10,681            | (52,263)        |
| Non resident tax expense                                | (4,952)           | (18,115)        |
| <b>Tax expense</b>                                      | <b>(3,364)</b>    | <b>(49,603)</b> |

### 21.3 Tax loss carry forwards

At 31 December 2015 total tax loss carry forwards pending Offset amounts to EUR 617,400 thousand, approximately. The Group records under "Deferred tax assets" in the accompanying consolidated balance sheet at 31 December 2015 a tax credit arising from said tax loss carry forwards amounting to EUR 12,966 thousand.

The Directors of the Group have assessed the recovery of assets for deferred taxes based on the activities developed by the Group for the term 2016-2025, including the applicable Tax Plan.

The projections used by the top management are in line with the Strategic Plan of Group SANJOSE, which was submitted to an Independent Business Review (IBR) in years 2013 and 2014 by an independent third party, having been updated according to recent trade projections, taking into account the historical evolution in recent years, and the financial stability achieved after the restructuring of the financial debt of the Group completed in 2014. Likewise, revenue and margin projections have been drafted using external resources from recognised international prestige, such as the International Monetary Fund, and information regarding plans for public investment in infrastructure in the coming years of the main countries where the Group operates.

Forecasts are based on profits, which have, in fact, already been obtained in 2015. The most significant assumptions used to effect such Tax Plan at 31 December 2015, regarding construction activity, are as follows:

- Regarding construction activity:

- Sales: total construction revenue is distributed among countries where the Group operates, based on the current activity and contracted portfolio (short and medium term) and the guidelines established in the

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business plan Group (medium and long term), assuming a 10% annual growth of total construction activity for the period 2016-2025.

- A relatively margin EBITDA standing at 7%.
- Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

Regarding the other activities: energy, commercial, services and maintenance. They are secondary with regards to the main construction business,

- Sales: overall growth in line with inflation rate for the period (1.6%).
- EBITDA margin: it keeps in line with the average margins of the last years.

As a result of the Tax Plan made, it is concluded that the Group generates sufficient taxable income to offset the amount of deferred tax assets recorded at 31 December 2015, in a given period of approximately nine years.

The detail of the tax loss carry forwards of the consolidated companies at 31 December 2015 is as follows:

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| Company   | Year of inclusion | Thousand of Euros |
|---|-------------------|-------------------|
|   |                   | Tax losses        |
| Grupo Empresarial San José, S.A. and Subsidiaries<br>Without real estate activity | From 1997 to 1999 | 0                 |
|   | 2000              | 0                 |
|   | 2001              | 0                 |
|   | 2002              | 349               |
|   | 2003              | 66                |
|   | 2004              | 914               |
|   | 2005              | 415               |
|   | 2006              | 588               |
|   | 2007              | 6,695             |
|   | 2008              | 53,728            |
|   | 2009              | 46,979            |
|   | 2010              | 8,326             |
|   | 2011              | 6,424             |
|   | 2012              | 3,580             |
|   | 2013              | 3,669             |
| 2014  | 0                 |                   |
| 2015  | 406,211           |                   |
| <b>Total tax group</b>  |                   | <b>537,945</b>    |
| Spanish companies not included in the consolidated tax<br>group                   | From 1997 to 1999 | 59                |
|   | 2000              | 60                |
|   | 2001              | 75                |
|   | 2002              | 47                |
|   | 2003              | 725               |
|   | 2004              | 29                |
|   | 2005              | 535               |
|   | 2006              | 192               |
|   | 2007              | 1,066             |
|   | 2008              | 340               |
|   | 2009              | 218               |
|   | 2010              | 420               |
|   | 2011              | 194               |
|   | 2012              | 753               |
|   | 2013              | 845               |
| 2014  | 458               |                   |
| 2015  | 0                 |                   |
| <b>Total Spanish companies not included in the tax group</b>                      |                   | <b>6,018</b>      |
| Foreign companies   | From 1997 to 1999 | 545               |
|   | 2000              | 513               |
|   | 2001              | 0                 |
|   | 2002              | 861               |
|   | 2003              | 3,930             |
|   | 2004              | 5,754             |
|   | 2005              | 1,241             |
|   | 2006              | 1,664             |
|   | 2007              | 6,634             |
|   | 2008              | 498               |
|   | 2009              | 349               |
|   | 2010              | 675               |
|   | 2011              | 1,906             |
|   | 2012              | 3,345             |
|   | 2013              | 8,444             |
| 2014  | 9,144             |                   |
| 2015  | 27,931            |                   |
| <b>Total non resident companies</b>   |                   | <b>73,437</b>     |
| <b>TOTAL</b>  |                   | <b>617,400</b>    |

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In the case of the Spanish companies and under current legislation, the tax losses of a given year can be carried forward for tax purposes for offset against the taxable profits of the following 18 years. Tax loss carry forwards of companies for offset when becoming an integral part of the group, may be forwarded for the parent with the limit of the individual company. However the final amount of the tax losses to be offset may be modified as a result of the review by the tax authorities of the years in which the losses were incurred into.

The Directors of the Parent consider that the tax Group, pursuant to current Business Plan, and based on the success of current negotiations with financial entities comprising the bank syndicate in Spain (see Note 17.3), will be able to offset tax loss carry forwards

#### 21.4 Deferred tax assets and liabilities

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2015 and 2014 arose as a result of the following:

|  | Thousand of Euros |  |                    |                          |            |
|--|-------------------|--|--------------------|--------------------------|------------|
|  | 31.12.2014        | Changes affecting profit/(loss) for the year | Equity adjustments | Regularisation and other | 31.12.2015 |
| <b>Assets from deductible temporary differences:</b> |                   |  |                    |                          |            |
| Non deductible financial profit /(loss)              | 511               | (511)  | -                  | -                        | -          |
| Concessions and projects in progress                 | 13,392            | 2,845  | (6,277)            | -                        | 9,960      |
| Non deductible amortisation                          | 414               | (239)  | -                  | 210                      | 385        |
| Impairment of financial stakes                       | 2,152             | (1,680)                                      | -                  | -                        | 472        |
| Loans and receivables                                | 4,453             | 397  | -                  | (675)                    | 4,175      |
| Other items  | 1,439             | -  | -                  | (612)                    | 827        |
| Tax credit carry forwards                            | 4,431             | 1,651  | -                  | 617                      | 6,699      |
| Tax loss carry forwards (Note 21.3)                  | 23,749            | (9,688)                                      | -                  | (1,095)                  | 12,966     |
|  | 50,539            | (7,225)                                      | (6,277)            | (1,155)                  | 35,484     |

The balance of "Deferred tax liabilities" at 31 December 2014 relates basically to the following items:

1. Acknowledgement of tax credits arising from negative tax bases declared by companies of the Group.
2. Outstanding deductions
3. Difference between concessions and projects in progress in certain countries.
4. The differences between accounting and fiscal criteria within the Spanish regulation regarding receivables, financial profit/(loss) and amortisations.

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2015 and 2014 arose as a result of the following:

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|  | Thousand of Euros |  |                    |                          |               |
|--|-------------------|--|--------------------|--------------------------|---------------|
|  | 31.12.2014        | Changes affecting profit/(loss) for the year | Equity adjustments | Regularisation and other | 31.12.2015    |
| Different criteria projects in progress          | 10,395            | 397  | -                  | (1,155)                  | 9,637         |
| Deferral for reinvestment of extraordinary gains | 1,147             | (14)   | -                  | (690)                    | 443           |
| Backlog provisions                               | 457               | (62)   | -                  | -                        | 395           |
| Deferred consolidation profit and other          | 11,969            | (2,944)                                      | -                  | (7,983)                  | 1,042         |
| Accelerated amortisation                         | 1,581             | -  | -                  | (290)                    | 1,291         |
| Other adjustments                                | 3,433             | -  | -                  | (1,781)                  | 1,652         |
|  | <b>28,982</b>     | <b>(2,623)</b>                               | <b>-</b>           | <b>(11,899)</b>          | <b>14,460</b> |

The balance of "Deferred tax liabilities" at 31 December 2015 relates basically to the following items:

1. Different criteria of projects in progress in different regulations.
2. Elimination of the outcome of intergroup transactions within the consolidable tax Group pending incorporation.
3. Different accounting and tax criteria for the amortisation of assets.
4. Investment commitments of deferred income arising from property, plant and equipment sales made in the period from 1997 to 2001, inclusive, was reinvested in full before 31 December 2006.

#### 21.5 Tax credits

The tax credits earned in the year in excess of the applicable legal limits may be deducted from the income tax payable in the coming years, subject to the limits and deadlines established in this connection by the related tax legislation. The Group availed itself of the tax benefits provided for in the aforementioned legislation and recognised EUR 1,547 thousand as an increase in the income tax asset accrued in 2015, as follows:

| Item  | Year of inclusion | Thousand of Euros |
|---|-------------------|-------------------|
| Earned by the consolidated tax group Grupo Empresarial San Jose S.A.        |                   |                   |
| Double taxation tax credit  | 2015              | 1,535             |
| Deduction for reversible amortisation on temporary basis DT 37 <sup>a</sup> | 2015              | 10                |
| Deductions for donations  | 2015              | 2                 |
|   |                   | <b>1,547</b>      |

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At 31 December 2015 the following tax credits remain outstanding:

| Certified by the consolidated tax group Grupo Empresarial San Jose S.A. | Year of inclusion | Thousand of Euros |
|---|-------------------|-------------------|
| Double taxation tax credit  | 2015              | 1,535             |
| Deductions for donations  | 2015              | 2                 |
| Deduction for reversible amortisation on temporary basis DT 37*         | 2015              | 10                |
| Double taxation tax credit  | 2014              | 580               |
| Deductions for donations  | 2014              | 73                |
| Double taxation tax credit  | 2013              | 11                |
| Deductions for donations  | 2013              | 4                 |
| Double taxation tax credit  | 2012              | 5                 |
| Deductions for donations  | 2012              | 10                |
| Deduction for R&D   | 2012              | 14                |
| Deduction for R&D   | 2011              | 379               |
| Double taxation tax credit  | 2011              | 18                |
| Tax credit for training activities                                      | 2011              | 0.4               |
| Deductions for donations  | 2011              | 82                |
| Double taxation tax credit  | 2010              | 164               |
| Deductions for donations  | 2010              | 45                |
| Tax credit for training activities                                      | 2010              | 0.3               |
| Deduction for R&D   | 2010              | 92                |
| Tax credit for environmental actions                                    | 2010              | 354               |
| Double taxation tax credit  | 2009              | 657               |
| Deductions for donations  | 2009              | 42                |
| Tax credit for training activities                                      | 2009              | 1                 |
| Double taxation tax credit  | 2008              | 2,184             |
| Deduction for R&D   | 2008              | 329               |
| Deductions for donations  | 2008              | 193               |
| Tax credit for training activities                                      | 2008              | 4                 |
| Deductions for fairs  | 2008              | 27                |
| Deductions for reinvestment   | 2008              | 104               |
| Tax credit for training activities                                      | 2007              | 0.2               |
| Double taxation tax credit  | 2007              | 4                 |
| Deductions for fairs  | 2007              | 12                |
| <b>Total</b>  |                   | <b>6,935.6</b>    |

The tax credit carry forwards for the year were recognised as tax assets.

Reinvestment requirements relating to the full amount of the tax credits for the reinvestment of extraordinary gains earned by the Group during the period 2003 to 2008, inclusive, had been met in full by 31 December 2013 within the periods established by current tax legislation

#### 21.6 Tax receivables and payables

The detail of the Group's tax receivables and payables at 31 December 2015 is as follows:

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|                              | Thousand of Euros |               |               |               |
|------------------------------|-------------------|---------------|---------------|---------------|
|                              | 31.12.2015        |               | 31.12.2014    |               |
|                              | Current           | Non-current:  | Current       | Non-current:  |
| <b>Tax assets:</b>           |                   |               |               |               |
| Deferred tax assets          | 4,688             | 35,484        | 658           | 50,539        |
| Tax receivables              |                   |               |               |               |
| VAT receivables              | 24,376            | -             | 13,580        | -             |
| Sundry receivables           | 582               | -             | 623           | -             |
|                              | 24,958            | -             | 14,203        | -             |
| <b>Total tax assets</b>      | <b>29,646</b>     | <b>35,484</b> | <b>14,861</b> | <b>50,539</b> |
| <b>Tax liabilities</b>       |                   |               |               |               |
| Deferred tax liabilities     | 5,802             | 14,460        | 1,797         | 28,982        |
| Tax payables                 |                   |               |               |               |
| VAT payables                 | 13,235            | -             | 9,157         | -             |
| Personal income tax payable  | 1,648             | -             | 1,394         | -             |
| Sundry payables              | 79                | -             | 585           | -             |
| Social Security payables     | 1,423             | -             | 1,303         | -             |
|                              | 16,385            | -             | 12,439        | -             |
| <b>Total tax liabilities</b> | <b>24,437</b>     | <b>14,460</b> | <b>14,236</b> | <b>28,982</b> |

## 21.6 Restructuring transactions

The aforementioned spin-off will qualify for taxation under the tax neutrality regime provided for Act3/2009 on Structural Amendments of Companies and in Chapter VIII of Title VII on the Special regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 of 5 March approving the Consolidated Spanish Corporation Tax Law.

### Transaction executed within 2013.

On 3 December 2013 took place the merger trough absorption of the company Inmobiliaría Europea de Desarrollos Urbanísticos S.A. of the companies Inversiones Patrimoniales Guadaiza S.L, Iniciativas Galebal S.L. and San pablo Plaza S.L. Merger has accounting effects as of 1 January 2013.

### Transactions executed within the previous years:

1.- The company Parquesol Inmobiliaria y proyecto S.L. was incorporated on 3 February 2000 by the absorption of several companies (Parquesol Alquileres S.L., Parquesol Inmuebles S.L., Parquesol Inmobiliaria MMM SA and Parquesol Residencial y Desasarrollo S.L.) and the incorporation of two new companies, one of them Grupo Parquesol MM SL. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2000 of Grupo Parquesol MM S.L.

2.- Merger trough absorption of the company Parquesol Inmobiliaria y Proyectos S.L. (former Miralepa Cartera) as absorbing company and Parquesol Inmobiliaria y Proyectos S.L. and Miralepa Cartera S.L. as absorbed companies on 2 March 2006, with full effect as of 31 October 2005. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December, 2006 of Parquesol Inmobiliaria y Proyectos S.L.

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- 3.- As of 29 December 2008 Constructora San José S.A. absorbed the subsidiaries Alcava Mediterranea S.A., Constructora Avalos S.A., Balltagi Meditterriani SA and Construcción, Rehabilitación y Conservación S.A. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2008 of Constructora San José S.A.
- 4.- As of 30 January 2009 Sanjose Tecnologias S.A. absorbed the subsidiaries Artel Ingenieros S.L., Sefri Ingenieros S.A. Instal 8 S.A. y S.M.Klima S.A. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Sanjose Tecnologias S.A.
- 5.- On 16 June 2009 took place the merger trough absorption of Parquesol Inmobiliaria y Proyectos, S.A. as absorbing company of the associates Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestión, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. and Parque Usera, S.L. . More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Grupo Empresarial Sanjose S.A..
- 6.- On 16 June 2009 took place the merger trough absorption of "Udra, S.A." (currently GRUPO EMPRESARIAL SAN JOSÉ, S.A.) with "Grupo Empresarial San José, S.A.", "San José Infraestructuras y Servicios, S.A.", "Udramed, S.L.U.", "Parquesol Inmobiliaria y Proyectos, S.A." and "LHOTSE Desarrollos Inmobiliarios, S.L." . More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Grupo Empresarial Sanjose S.A..
- 7.- On 28 December 2009 took place the merger trough absorption of Sanjose Tecnologías S.A. as absorbing company and Tecnocontrol S.A.U. as absorbed company. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Sanjose Tecnologías S.A.
- 8.- On 28 December 2009 Tecnocontrol transferred its branch of activity of maintenance of mechanical facilities in favour of Tecnocontrol Servicios SA. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Tecnocontrol Servicios SA.
- 9.- As of the 30 July 2010, segregation of the real estate branch of activity of Grupo Empresarial San Jose, S.A. (formerly, Udra, S.A.) in favour of "San Jose Desarrollos Inmobiliarios, S.A." (formerly, Inmobiliaria Udra, S.A.) and capital increase of the beneficiary company. *Segregation of the real estate branch of activity* More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of San José Desarrollos Inmobiliarios, S.A.
- 10.- Spin-off of "Sanjose Tecnologias, S.A.U." in favour of "Constructora San Jose, S.A.", "Sanjose Energia y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U." on 27 December 2010. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of Constructora San José, S.A., "Sanjose Energía y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U

## **22. Guarantee commitments to third parties**

At 31 December 2015 and 2014, the Group had received from banks and insurance companies guarantees provided to third parties amounting to EUR 348 million and EUR 353 million, respectively (mainly project and definite tender and performance bonds to public and private bodies), EUR 0.04 million and EUR 0.2 million of which correspond to the parent company and the rest to the subsidiaries.

Of the total of guarantees provided to third parties by the Group, EUR 213 million (approximately 61%) relate to the international activity of the Group, mainly in Abu Dhabi and India, amounting to EUR 114 million and EUR 34 million, respectively.

In addition, some associates have guarantee commitments to third parties, related to the corresponding business for EUR 12,298 thousand, which correspond to a guarantee registered by "Desarrollo Urbanístico Chamartín, S.A." before the Community of Madrid Tax Department to guarantee the suspension of the collection proceeding in order to file a claim before the Regional Tax Appeal Board in Madrid against the liquidation derived from the payment

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record and receipt received on 23 December 1998 for Estate and Property Transfer Tax for the tender agreement for the urban development of the RENFE rights at the Chamartín railroad building.

Parent Company and subsidiaries Directors do not consider there will be any liability in connection to the committed guarantees.

## **23. Income and expenditure**

### **23.1 Income**

The detail of "Revenue" in the accompanying consolidated income statements for 2015 and 2014 is as follows (in thousands of Euros):

|                                     | Thousand of Euros |                |
|-------------------------------------|-------------------|----------------|
|                                     | 2015              | 2014           |
| Construction:                       |                   |                |
| -Civil works                        | 54,471            | 35,708         |
| - Residential                       | 22,390            | 34,937         |
| -Non Residential                    | 340,011           | 286,189        |
| - Industrial                        | 15,717            | 6,775          |
|                                     | <b>432,589</b>    | <b>363,609</b> |
| -Real Estate                        | 28,924            | 32,229         |
| Concessions and Services            | 46,283            | 40,695         |
| Energy                              | 12,691            | 11,321         |
| Consolidation adjustments and other | 15,612            | 17,228         |
| <b>Net revenue</b>                  | <b>536,099</b>    | <b>465,082</b> |

52.4% and 51.9% of construction revenues refer to sales to the public sector in years 2015 and 2014, respectively.

In year 2015, EUR 21.7 million of the more than EUR 536 million of net revenue relate to joint ventures (see Annex II).

Virtually all the work was performed as prime contractor.

Contracted backlog pending execution at 31 December 2015 and 2014 amounts to EUR 1,835.2 million and EUR 1,868.5 million, respectively.

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|                                      | Million of Euros |                |
|--------------------------------------|------------------|----------------|
|                                      | 2015             | 2014           |
| Construction:                        |                  |                |
| Civil works                          | 229.7            | 201.2          |
| Residential                          | 53.0             | 33.6           |
| Non Residential                      | 731.8            | 635.8          |
| Industrial                           | 5.1              | 5.9            |
| <b>Subtotal construction</b>         | <b>1,019.6</b>   | <b>876.6</b>   |
| Concessions and Services (**)        | 262.8            | 321.7          |
| Energy (*)                           | 552.8            | 670.3          |
| <b>Total Backlog</b>                 | <b>1,835.2</b>   | <b>1,868.5</b> |
| <u>Details by type of client:</u>    |                  |                |
| -Public-sector                       | 35.72%           | 63.41%         |
| -Private-sector                      | 64.28%           | 36.59%         |
| <u>Details by geographical area:</u> |                  |                |
| -Domestic market                     | 48.61%           | 48.38%         |
| -International market                | 51.39%           | 51.62%         |

(\*) It does not include portfolio resulting from wind farm tenders called out by the Xunta de Galicia resolved as 26 December 2008 for the awarding of 142 MW.

(\*\*) Pursuant to concession financial method.

### 23.2 Procurements and other external expenses

The detail of "Procurement" in the accompanying consolidated income statements for 2015 and 2014 is as follows:

|  | Thousand of Euros |                |
|--|-------------------|----------------|
|  | 2015              | 2014           |
| Procurement of raw materials and other supplies    | 187,967           | 142,005        |
| Changes in the impairment of inventories (Note 13) | (114)             | (943)          |
| Works performed by other companies                 | 150,272           | 141,352        |
| <b>Total procurement</b>                           | <b>338,125</b>    | <b>282,414</b> |

"Works performed by Other Companies" includes work that forms part of the Group's own production process but is commissioned from subcontractors or other companies.

The detail of "Other current management expenses" in the accompanying consolidated income statements for 2015 and 2014 is as follows:

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|   | Thousand of Euros |               |
|---|-------------------|---------------|
|   | 2015              | 2014          |
| Deduction for R&D                       | 3                 | 23            |
| Utilities                               | 6,615             | 5,842         |
| Repair and maintenance services         | 1,133             | 103           |
| Transport and freight costs             | 775               | 803           |
| Insurance premiums and banking services | 4,096             | 3,102         |
| Independent professional services       | 13,748            | 19,203        |
| Leases                                  | 13,121            | 9,354         |
| Advertising and publicity               | 2,254             | 2,610         |
| Other Services                          | 17,071            | 19,981        |
| Taxes and income tax                    | 5,568             | 5,320         |
| Other operation expenses                | 5,958             | 8,221         |
| <b>Total</b>                            | <b>70,342</b>     | <b>74,562</b> |

### 23.3 Staff costs

The detail of "Staff Costs" is as follows:

|                                | Thousand of Euros |               |
|--------------------------------|-------------------|---------------|
|                                | 2015              | 2014          |
| Wages and salaries             | 64,548            | 61,810        |
| Termination benefits           | 4,411             | 4,772         |
| Employer social security costs | 11,956            | 12,811        |
| Other social costs             | 4,313             | 2,018         |
| <b>Total</b>                   | <b>85,228</b>     | <b>81,411</b> |

The average workforce by professional category is as follows:

| Category                               | 2015         |            | 2014         |            |
|--|--------------|------------|--------------|------------|
|  | Men          | Female     | Men          | Female     |
| University graduates                   | 356          | 89         | 289          | 94         |
| University three-year degree graduates | 265          | 62         | 302          | 74         |
| Clerical staff                         | 83           | 105        | 66           | 108        |
| Officers and technical personnel       | 1,563        | 42         | 1,234        | 45         |
|  | <b>2,267</b> | <b>298</b> | <b>1,891</b> | <b>321</b> |

The average workforce at 31 December 2015 amounted to 2,723 of which 2,406 were men and 317 women

### 23.4 Compensation in kind

At 31 December 2015 there was no significant compensation in kind.

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### 23.5 Share-based payment

There are no share-based payment systems.

### 23.6 Leases

#### Operating Leases

At the reporting date the Group did not have any operating leases of a material amount and had not assumed any future minimum lease payment obligations.

#### Finance Leases

At 31 December 2015, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 1,607 thousand, most of which will be amortised in the following six years. Said balance is included under "Bank borrowings" (see Note 17.1).

### 23.7 Finance Income

The detail of "Finance income" in the consolidated income statement is as follows:

|                                | Thousand of Euros |               |
|--------------------------------|-------------------|---------------|
|                                | 2015              | 2014          |
| Interest on receivables        | 30,142            | 21,569        |
| Income from equity investments | 7                 | 651           |
| Other Finance Income           | -                 | -             |
|                                | <b>30,149</b>     | <b>22,220</b> |

"Interests on receivables" for years 2015 and 2014 includes mainly the financial revenues from updating the accounts receivable from the Chilean Ministry of Public Works as a result of the deferral of payment for the construction of hospitals in Chile, amounting approximately to EUR 12,893 thousand and EUR 13,290 thousand, respectively (see Note 14.4.3).

"Interests on receivables" for year 2015 and 2014 includes approximately EUR 7.2 million and EUR 2.6 million corresponding to late interest for deferral of collection of customers. The outstanding amount corresponds mainly to late interest for deferral of collection to customers and settlement of exchange rate hedge instruments.

### 23.8 Finance expense

Breakdown is as follows.

|                         | Thousand of Euros |               |
|-------------------------|-------------------|---------------|
|                         | 2015              | 2014          |
| Interest on receivables | 30,201            | 18,297        |
| Other finance expense   | -                 | -             |
|                         | <b>30,201</b>     | <b>18,297</b> |

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At 31 December 2015, under this item there are EUR 9,973 thousand arising from the settlement of interests of the syndicated credit (see note 17.3).

### 23.9 Impairment and gains or losses on disposals of non-current assets

The detail is as follows:

|   | Thousand of Euros |            |
|---|-------------------|------------|
|   | 2015              | 2014       |
| Gains/Losses on write-offs of fixed assets (Note 7) | 1,057             | 1,755      |
| Impairment of fixed assets (Note 7)                 | -                 | (4)        |
| Goodwill impairment (Note 9)                        | -                 | (739)      |
| Intangible assets impairment (Note 10)              | 11                | 63         |
| Impairment of real estate investments (Note 8.1)    | 52                | -          |
| Other   | (99)              | (393)      |
|   | <b>1,021</b>      | <b>682</b> |

### 23.10 Changes in operating provisions

Breakdown of this item in the accompanying consolidated balance sheet for years 2015 and 2012 is as follows:

Year 2015:

|                                    | Thousand of Euros                |                            |               |
|------------------------------------|----------------------------------|----------------------------|---------------|
|                                    | Operating insolvencies (Note 14) | Other operation provisions | Total         |
| <b>Balance at 31 December 2014</b> | <b>28,248</b>                    | <b>42,925</b>              | <b>71,173</b> |
| Provisions                         | 5,897                            | 6,636                      | 12,553        |
| Applications                       | (1,095)                          | (10,982)                   | (12,077)      |
| Reversals                          | (2,890)                          | (1,254)                    | (4,144)       |
| Transfers and other                | (79)                             | 146                        | 67            |
| <b>Balance at 31 December 2015</b> | <b>30,081</b>                    | <b>37,471</b>              | <b>67,552</b> |

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Year 2014:

|                                    | Thousand of Euros                |                            |               |
|------------------------------------|----------------------------------|----------------------------|---------------|
|                                    | Operating insolvencies (Note 14) | Other operation provisions | Total         |
| <b>Balance at 31 December 2013</b> | <b>29,269</b>                    | <b>37,696</b>              | <b>66,965</b> |
| Reclassifications held-for-trading | (3,759)                          | (4,541)                    | (8,300)       |
| Provisions                         | 5,855                            | 16,556                     | 22,411        |
| Applications                       | (910)                            | (1,112)                    | (2,022)       |
| Reversals                          | (2,121)                          | (5,338)                    | (7,459)       |
| Transfers and other                | (86)                             | (336)                      | (422)         |
| <b>Balance at 31 December 2014</b> | <b>28,248</b>                    | <b>42,925</b>              | <b>71,173</b> |

Current provisions classified under "Short-term provisions" include estimated amounts to face possible business contingencies. During 2015 and 2014, EUR 614 thousand and EUR 816 thousand, respectively, linked to provisions for conclusion of property developments, was reversed as they no longer apply

At 31 December 2015 and 2014, "Provisions for traffic insolvencies" includes an accumulated impairment amounting to EUR 355 thousand and EUR 609 thousand associated to "Other receivables" under assets in the accompanying consolidated balance sheet.

**23.11 Change in inventories of finished goods and in progress**

Breakdown of the item "Changes in inventories" is as follows:

|   | Thousand of Euros |              |
|---|-------------------|--------------|
|   | 2015              | 2014         |
| Changes in inventories for recorded expenses /sales | 6,383             | 2,216        |
| Changes in Inventories due to impairment (Note 13)  | (13)              | (12)         |
| In-house work on assets                             | -                 | (423)        |
| <b>Total</b>  | <b>6,370</b>      | <b>1,781</b> |

**23.12 Impairment and gains or losses on disposals of financial investments**

Further, recorded impairment for year 2015 amounts to EUR 1,159 thousand and refers mainly to financial investments recorded by the Group as "Investments hold for sale" (see Note 14.4.1).

Likewise, impairment and gains and losses on the disposal of other current and non-current financial investments amounting to EUR 969 thousand and EUR 369 thousand is recorded under this item.

**23.13 Audit fees**

In 2015 and 2014 the expense corresponding to the financial audit services and other services provided to the Group by Deloitte, S.L. and companies associated of the same, as well as fees for audit services for independent financial statements of associated and related companies was as follows:

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Year 2015:

| Description                                      | Thousand of Euros                     |   |
|--|---------------------------------------|---|
|  | Services provided by the main auditor | Services provided by other auditing firms |
| Audit services                                   | 231                                   | 126                                       |
| Other verification services                      | 111                                   | 45  |
| <b>Total audit services and related services</b> | <b>342</b>                            | <b>171</b>                                |
| Tax and fiscal advice services                   | -                                     | -   |
| Other Services                                   | -                                     | -   |
| <b>Total</b>                                     | <b>342</b>                            | <b>171</b>                                |

Year 2014:

| Description                                      | Thousand of Euros                     |   |
|--|---------------------------------------|---|
|  | Services provided by the main auditor | Services provided by other auditing firms |
| Audit services                                   | 299                                   | 108                                       |
| Other verification services                      | 147                                   | -   |
| <b>Total audit services and related services</b> | <b>446</b>                            | <b>108</b>                                |
| Tax and fiscal advice services                   | -                                     | -   |
| Other Services                                   | -                                     | -   |
| <b>Total</b>                                     | <b>446</b>                            | <b>108</b>                                |

**24. Balances and transactions with non-consolidated associates and joint ventures**

All the material balances at year-end between the consolidated companies and the effect of the transactions performed between them during the year were eliminated on consolidation. The detail of the most significant balances between the Group and the non-consolidated associates and joint ventures and the effect of the transactions performed with them on the consolidated income statements are as follows:

|   | Thousand of Euros |       |
|---|-------------------|-------|
|   | 2015              | 2014  |
| <b>Assets:</b>                          |                   |       |
| Cresca, S.A. (Note 14.4.2)              | -                 | 8,019 |
| Pinar de Villanueva, S.L. (Note 14.4.2) | 455               | -     |
| Other                                   | -                 | 10    |
| <b>Liabilities:</b>                     |                   |       |
| Panamerican Mall, S.A                   | 1,405             | 698   |
| Other                                   | 343               | 1,068 |
| <b>Transactions:</b>                    |                   |       |
| Income                                  | -                 | 253   |
| Expenses                                | 2,568             | 2,806 |

The item "Other" recorded under liabilities at 31 December 2015 corresponds mainly to current bank accounts at financial entities and people linked to the Group through joint ventures.

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Expenses correspond mainly to expenses incurred into by the JVs of the Group in Abu Dhabi for a total amount of EUR 2,070 thousand.

## 25. Remuneration

### 25.1 Remuneration of Directors

The detail of the remuneration of all kinds earned in 2015 and 2014 by the Directors of Grupo Empresarial San José, S.A., 8 men and 1 women, and of the Group company, jointly controlled entity or associated obliged to pay such remuneration are as follows:

| Type of Directors            | Thousand of Euros |              |
|------------------------------|-------------------|--------------|
|                              | 2015              | 2014         |
| Executive board members      | 2,680             | 2,592        |
| Independent board members    | 156               | 183          |
| Other external board members | 15                | 12           |
| <b>Total</b>                 | <b>2,851</b>      | <b>2,787</b> |

Breakdown at 31 December 2015 is as follows:

| Type of compensation | Thousand of Euros |              |
|----------------------|-------------------|--------------|
|                      | 2015              | 2014         |
| Salary               | 2,525             | 2,470        |
| Allowance            | 251               | 237          |
| Other items          | 75                | 80           |
| <b>Total</b>         | <b>2,851</b>      | <b>2,787</b> |

The amount for 2015 and 2014 includes Directors' remunerations for the furtherance of their duties as Senior Management for EUR 2,525 thousand and EUR 2,470 thousand, respectively.

At 31 December 2015 and 2014, no advances, loans or other types of guarantees had been granted to the former or current directors and there were no additional pension or life insurance obligations to them. In addition, the Group does not have any other kind of transactions with related parties.

#### Breakdown of ownership interest in companies with similar activities and activities and functions of Directors and associates.

In connection with the participation of the Directors of the Company or persons linked to them, in the share capital of companies alien to the same; or if they perform the same business activity or any other similar activity on their own account; or if the same in their own name or any third parties acting on their behalf have performed with the Company or any Group company transactions other than those in the normal course of business or under non usual market conditions must indicate that the Directors or any other persons linked to them:

- Have not performed on their own account or for any other third parties the same business activity or any other similar activity.
- Do not hold stake on their own account or for any other third parties con companies with the same business activity or any other similar activity.
- Have not performed with the Company or any Group company transactions other than those in the normal course of business or under non usual market conditions.

At year-end 2015 neither the members of the Board of Directors of the Company or any third parties related to them, as defined in the Companies Act, have reported to the other members of the Board of Directors any conflict of interests, either direct or indirect, with the interests of the Company.

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## 25.2 Remuneration and other benefits of senior executives

The total remuneration of all kinds of the Parent's General Managers and persons discharging similar duties, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), is summarised in 2015 and 2014 as follows:

| Number of people  | Thousand of Euros |
|-------------------|-------------------|
| <b>Year 2015:</b> |                   |
| 13 Executives     | 1,772             |
| <b>Year 2014:</b> |                   |
| 14 Executives     | 1,955             |

Additionally, the Company does not have any pension or life insurance obligations to these executives.

## 26. Information on the environment

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

## 27. Events after the reporting period

On 20 January 2016 took place the Extraordinary Shareholders Meeting of the associate "Distrito Castellana Norte, S.A." (formerly, "Desarrollos Urbanísticos Chamartín, S.A."), which the capital was increased in EUR 23,246 thousand in. The Group, through its associate "Desarrollos Urbanísticos Udra, S.A.U.", attended said capital increase subscribing and paying up 18,921 shares, representing 24.46% of the share capital, for a total value of EUR 5,686 thousand.

There are no other significant events occurred after 31 December 2015 which may have impacted on the accompanying financial statements

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## Appendix I

### Consolidated subsidiaries

| Company  | Company Auditor    | Address                    | Activity  | % of voting rights controlled by Parent companies |          | Ownership cost (Thousand of Euros) |
|--|--------------------|----------------------------|---|---|----------|------------------------------------|
|  |                    |                            |   | Direct  | Indirect |                                    |
| 1681 West Avenue, LLC  | Dixon Hughes       | Miami(USA)                 | Real Estate Development                           | -   | 100      | 791                                |
| Alexin XXI, S.L.U.   | Not audited        | Bilbao (Vizcaya).          | Real Estate Development                           | -   | 100      | 3                                  |
| Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.                   |                    | Brazil                     | Construction and Real Estate Development          | -   | 100      | 4,090                              |
| Argentimo, S.A.  | Deloitte, S.L.     | Buenos Aires (Argentina)   | Real Estate Development                           | -   | 100      | 20,932                             |
| Arserex, S.A.U.  | Not audited        | Madrid                     | Trade and distribution of sport items             | -   | 100      | 2,844                              |
| Basket King, S.A.U.  | Not audited        | Madrid                     | Trade and distribution of sport items             | -   | 100      | 977                                |
| Cadena de Tiendas, S.A.U.  | Not audited        | Pontevedra                 | Trade, distribution, import and export of clothes | 100   | -        | 60                                 |
| Carlos Casado, S.A.  | Auren              | Buenos Aires (Argentina)   | Real Estate Development                           | -   | 52.19    | 25,393                             |
| Cartuja Inmobiliaria, S.A.U.   | Deloitte, S.L.     | Seville                    | Construction                                      | -   | 100      | 3,884                              |
| Centro Comercial Panamericano, S.A                                       | Deloitte Argentina | Buenos Aires (Argentina)   | Real Estate Development                           | -   | 100      | 10,202                             |
| CIMSA Argentina, S.A.  | Deloitte Argentina | San Luis (Argentina)       | Civil works                                       | -   | 100      | (764)                              |
| Comercial Udra, S.A.U.   | Deloitte, S.L.     | Pontevedra                 | Trade   | 100   | -        | 1,748                              |
| San José Panamá, S.A (former Constructora Panameña de Aeropuertos, S.A). | BDO Audit, S.A.    | City of Panama (Panama)    | Construction                                      | -   | 100      | 228                                |
| Constructora San José Argentina, S.A.                                    | Deloitte Argentina | Buenos Aires (Argentina)   | Construction                                      | -   | 96.947   | 3,232                              |
| Constructora San José Brasil Limitada                                    | Not audited        | Salvador de Bahía (Brazil) | Construction and Real Estate Development          | -   | 100      | 433                                |
| Constructora San José Cabo Verde, S.A.                                   | Not audited        | Cape Verde                 | Construction                                      | -   | 100      | 453                                |
| Constructora San José, S.A.  | Deloitte, S.L.     | Pontevedra                 | Construction                                      | 99.79   | -        | 92,510                             |
| Constructora San José Timor, Unipessoal Lda.                             |                    | Timor                      | Construction                                      | 75  | -        | 3                                  |
| Constructora Udra Limitada   | Deloitte, S.L.     | Monaco (Portugal)          | Construction, maintenance and repair              | 7   | 70       | 270                                |
| Desarrollos Urbanísticos Udra, S.A.U.                                    | Not audited        | Pontevedra                 | Real Estate Development                           | -   | 100      | 75,000                             |

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| Company   | Company Auditor   | Address                   | Activity   | % of voting rights controlled by Parent companies |          | Ownership cost (Thousand of Euros) |
|---|-------------------|---------------------------|--|---|----------|------------------------------------|
|   |                   |                           |  | Direct  | Indirect |                                    |
| Eraikuntza Birgaikuntza Artapena, S.L.U.                    | Deloitte, S.L.    | Vitoria Gasteiz           | Construction   | -   | 100      | 435                                |
| Eskonel Company, S.A.                                       | Not audited       | Uruguay                   | Energy   | -   | 100      | 1,597                              |
| Enerxías Renovables de Galicia, S.A.                        | Not audited       | Pontevedra                | Energy   | -   | 100      | 2,648                              |
| Athletic King S.A.U. (former Ewan Connection, S.A.U.)       | Not audited       | Madrid                    | Manufacturing, storage and distribution of goods   | -   | 100      | 60                                 |
| Fotovoltaica el Gallo 10, S.L.                              | Not audited       | Burgos                    | Energy   | -   | 82.97    | 11,283                             |
| Gestión de servicios de la Salud S.L.                       | Not audited       | -                         | Hospital services  | -   | 100      | 90                                 |
| GSJ Solutions, S.L.U.                                       | Not audited       | Madrid                    | Engineering services   | 100   | -        | 3                                  |
| Hospes Brasil Participaciones e Empreendimientos Lda.       | -                 | Brazil                    | Construction and Urban Development   | -   | 100      | 423                                |
| Inmobiliaria 2010, S.L.                                     | Deloitte Perú     | Lima (Peru)               | Construction and Urban Development   | -   | 100      | 1,294                              |
| Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.  | Not audited       | Pontevedra                | Real Estate Development  | -   | 100      | 60                                 |
| Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U.    | Not audited       | Pontevedra                | Real Estate Development  | -   | 100      | 9,184                              |
| Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A. | Deloitte, S.L.    | Buenos Aires (Argentina)  | Real Estate Development  | -   | 100      | 680                                |
| Inversión SanJose Chile Limitada                            | Not audited       | Santiago de Chile (Chile) | Investment and real estate   | -   | 100      | 22                                 |
| Inversiones San Jose Andina Ltda.                           | Deloitte Chile    | Santiago de Chile (Chile) | Investment and real estate   | -   | 100      | 14,969                             |
| Inversiones Hospitalarias Ltda.                             | -                 | Santiago de Chile (Chile) | Capital investment   | -   | 100      | 1                                  |
| Inversiones Viales Andina Ltda.                             | -                 | Santiago de Chile (Chile) | Capital investment   | -   | 100      | 1                                  |
| Outdoor King, S.A.U.  | Not audited       | Madrid                    | Manufacturing, storage and distribution of goods   | -   | 100      | 60                                 |
| O&M Parc de L'Alba ST-4, S.A.                               | Not audited       | Barcelona                 | Construction, remodelling and maintenance of facilities  | -   | 65       | 39                                 |
| Parsipanny Corp. S.A.                                       | -                 | Uruguay                   | Real estate and agriculture and livestock  | -   | 51.72    | 722                                |
| Poligeneraciones parc de L'Alba ST-4                        | Deloitte, S.L.    | Barcelona                 | Construction, implementation and maintenance of electric energy power stations                 | -   | 76       | 4,560                              |
| Pontus Euxinus Tehnologii Renovabile, S.R.L.                | Not audited       | Bucarest (Romania)        | Production and trade of electric energy by renewable energy resources                          | -   | 75       | 8                                  |
| Puerta de Segura, S.A.                                      | -                 | Uruguay                   | Industrial, Trade  | -   | 51.72    | 5,086                              |
| Rexa Constructora S.A.                                      | Deloitte Perú.    | Lima (Peru)               | Construction   | -   | 100      | 484                                |
| Rincon S.A.G.   | -                 | Paraguay                  | Development of a tourist project in Alto Paraguay and agriculture activities in the same area. | -   | 51.72    | 239                                |
| Running King, S.A.U.  | Not audited       | Pontevedra                | Trade, distribution, import and export of clothes  | -   | 100      | 1                                  |
| Sociedad Concesionaria Rutas del Loa, S.A.                  | Not audited       | Santiago de Chile (Chile) | Construction   | -   | 100      | 7,106                              |
| José BAU GmbH   | Wisbert & Partner | Berlin (Germany)          | Construction   | -   | 84       | 435                                |

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| Company  | Company Auditor      | Address                   | Activity  | % of voting rights controlled by Parent companies |          | Ownership cost (Thousand of Euros) |
|--|----------------------|---------------------------|---|---|----------|------------------------------------|
|  |                      |                           |   | Direct  | Indirect |                                    |
| San José Concesiones y Servicios, S.A.U.                     | Not audited          | Pontevedra                | Provisions of health care and social services   | 100   | -        | 2,446                              |
| San Jose Construction Group, Inc.                            | Dixon Hughes Goodman | Washington (USA)          | Construction  | -   | 100      | 24,654                             |
| San José France, S.A.S.                                      | Not audited          | Le Haillan (France)       | Holding company   | -   | 100      | 982                                |
| San José Maroc, S.A.R.L.A.U.                                 | -                    | Rabat (Morocco)           | Construction  | -   | 100      | 5                                  |
| San José Perú, S.A.C.  | Deloitte, S.L.       | Lima (Peru)               | Construction  | -   | 100      | 9,075                              |
| San José Congo, S.A.   | -                    | Republic of Congo         | Construction  | -   | 100      | 10                                 |
| São José Mozambique, Sociedade Limitada                      | Not audited          | Mozambique                | Construction  | -   | 70       | 142                                |
| San José Tecnologías Chile Ltda.                             | -                    | Santiago de Chile (Chile) | Construction  | 99.9  | -        | 1                                  |
| San José India Infrastructure & Construction Private Limited | Not audited          | New Delhi (India)         | Development, construction and operation of Infrastructure                               | -   | 99.99    | 2,420                              |
| Sanjose Mahavir Supreme Building One Private Limited         | Not audited          | New Delhi (India)         | Construction  | -   | 51       | -                                  |
| San José Real Estate Development, LLC                        | Dixon Hughes         | Delaware (USA)            | Real Estate Development   | -   | 100      | 394                                |
| San José Energía y Medio Ambiente, S.A.U.                    | Not audited          | Pontevedra                | Energy production   | 99.99   | 0.01     | 4,039                              |
| SanJosé Nuevos Proyectos Salud, Limitada                     | Not audited          | Chile                     | Construction  | -   | 100      | 1                                  |
| SanJosé Contracting, L.L.C.                                  | Not audited          | Abu Dhabi (UAE)           | Construction  | -   | 85%      | 8,013                              |
| Sefri Ingenieros Maroc, S.A.R.L.                             | Not audited          | Morocco                   | Engineering and installations   | -   | 75       | 258                                |
| Sociedad Concesionaria Chile Tecnocontrol                    | Not audited          | Santiago de Chile (Chile) | Infrastructure Concessions  | -   | 100      | 14,414                             |
| San José Constructora Chile Ltda                             | Deloitte Chile       | Santiago de Chile (Chile) | Construction  | -   | 100      | 20                                 |
| San José Colombia, S.A.                                      | Not audited          | Bogota, Colombia          | Construction  | -   | 100      | 399                                |
| SJB Mullroser  | Wisbert & Partner    | Mullroser (Germany)       | Construction  | 100   | -        | 730                                |
| Tecnoartel Argentina, S.A.                                   | Deloitte Argentina   | Buenos Aires (Argentina)  | Maintenance and facilities  | -   | 100      | 23,465                             |
| Tecnocontrol Mantenimiento, S.L.U.                           | Not audited          | Tres Cantos (Madrid)      | Maintenance and collection of public telephone services                                 | -   | 100      | 3                                  |
| Tecnocontrol Servicios, S.A.U.                               | Deloitte, S.L.       | Tres Cantos (Madrid)      | Maintenance services  | -   | 100      | 1,668                              |
| Tecnocontrol Sistemas de Seguridad, S.A.U.                   | Not audited          | Tres Cantos (Madrid)      | Maintenance of security systems   | -   | 100      | 120                                |
| Tecnocontrol Chile Ltda.                                     | -                    | Santiago de Chile (Chile) | Construction  | 99.9  | -        | 1                                  |
| Top Brands, S.A.   | Not audited          | Argentina                 | Trade   | -   | 65       | 195                                |
| Trendy Kirg, S.A.U.  | Not audited          | Madrid                    | Trade and distribution of sport items   | -   | 100      | 1,515                              |
| Udra Medios, S.A.U.  | Not audited          | Pontevedra                | Edition, production, reproduction and release of books, newspapers, magazines and video | 100   | -        | 1,500                              |
| Udra Mexico S.A. de C.V.                                     | Not audited          | Mexico                    | Construction  | -   | 100      | 12,482                             |
| Vision King S.A.U. (formerly King, S.A.U.)                   | Not audited          | Madrid                    | Trade, distribution, import and export of clothes                                       | -   | 100      | 60                                 |
| Xornal de Galicia, S.A.                                      | Not audited          | Galicia                   | Press   | -   | 92.73    | 5,653                              |
| Xornal Galinet, S.A.U.                                       | Not audited          | A Coruña.                 | Press   | -   | 100      | 1,100                              |
| Zivar, investimentos imobiliarios C.                         | Not audited          | Portugal                  | -Real Estate  | -   | 52.5     | 2,609                              |

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## Appendix II

### Consolidated subsidiaries

| Company   | Audit company  | Address  | Activity  | % of voting rights controlled by Parent companies |          | Ownership cost<br>(Thousand of Euros) |
|---|----------------|--|---|---|----------|---------------------------------------|
|   |                |  |   | Direct  | Indirect |                                       |
| Corporación San Bernat, S.L.<br>Distrito Castellana Norte, S.A. | Audihispana    | Barcelona  | Shareholding  | -   | 28       | 4,205                                 |
| Fíngano, S.A.   | Deloitte, S.L. | Madrid   | Real Estate Development   | -   | 24.459   | 23,341                                |
| Drilpen, S.A.   | -              | Uruguay  | Real Estate Development   | -   | 10       | -                                     |
| Vengano, S.A.   | -              | Uruguay  | Real Estate Development   | -   | 10       | -                                     |
| Panamerican Mal, S.A.   | KPMG           | Buenos Aires (Argentina)                         | Real Estate Development   | -   | 20       | 17,914                                |
| Cresca S.A.   | EY             | Misiones esquina Perú No 593, Asunción, Paraguay | Sale of any type of mix farming product and sale, rental and construction of urban and rural property | -   | 50       | 3,698                                 |
| Pinar de Villanueva, S.L.                                       | -              | Valladolid                                       | Real Estate Development   | -   | 50       | 6,422                                 |

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### Appendix III

#### 1. Joint ventures:

| Joint ventures                | Ownership % | Thousand of Euros<br>Certificates issued/income<br>(100% JV) | Status      |
|-------------------------------|-------------|--|-------------|
| CAMINO                        | 100%        | -  | In progress |
| UTE ELECTROTECNO              | 90%         | -  | In progress |
| UTE EUGENIA MONTIJO           | 90%         | -  | In progress |
| QUIROGA                       | 50%         | -  | In progress |
| PEDRIZAS                      | 95%         | -  | In progress |
| BOÑAR                         | 10%         | -  | In progress |
| UZQUIZA                       | 90%         | -  | In progress |
| UTE SANTA MARTA MAGASCA       | 60%         | -  | In progress |
| PINOFRANQUEADO                | 60%         | -  | In progress |
| GUADALORCE                    | 100%        | -  | In progress |
| ING. FORESTAL                 | 60%         | -  | In progress |
| UTE IES BARRIO BAJO           | 80%         | -  | In progress |
| UTE CRUZ ROJA                 | 100%        | -  | In progress |
| UTE CEJOYSA                   | 60%         | -  | In progress |
| UTE TORRELAGUNA               | 50%         | -  | In progress |
| UTE HOSPITAL DE LUGO          | 50%         | -  | In progress |
| UTE VIVIENDAS DEHESA VIEJA    | 50%         | -  | In progress |
| UTE HOSPITAL ALMANSA          | 100%        | -  | In progress |
| UTE DIPUTACION MALAGA         | 50%         | -  | In progress |
| UTE ALMANJAYAR                | 75%         | -  | In progress |
| UTE CASA DE NIÑOS             | 100%        | -  | In progress |
| UTE A.I. LA NAVA              | 100%        | -  | In progress |
| UTE AEROPUERTO MENORCA        | 50%         | -  | In progress |
| UTE PROLONG AVDA ALVARO DOMEQ | 100%        | -  | In progress |
| UTE ESTACION PINAR DEL REY    | 100%        | -  | In progress |
| UTE AVDA EUROPA JEREZ         | 100%        | -  | In progress |
| UTE LA GRANJA JEREZ           | 100%        | -  | In progress |
| UTE PISCINA PARLA             | 100%        | -  | In progress |
| UTE VIVIENDAS ALCOSA          | 100%        | -  | In progress |
| UTE PABELLON CABANES          | 100%        | -  | In progress |
| UTE UMBRETE                   | 100%        | -  | In progress |
| UTE CCB MALLORCA              | 55%         | -  | In progress |
| UTE EL PUERTO DE SANTA MARIA  | 100%        | -  | In progress |
| UTE AUTOVIA A-50 SALAMANCA    | 100%        | -  | In progress |
| UTE PUERTO DE LA ATUNARA      | 80%         | -  | In progress |
| UTE CEIP BEETHOVEN            | 100%        | -  | In progress |
| UTE ESCOLA BRESSOL            | 100%        | -  | In progress |

TRADUCTORA - INTERPRETE JURADA DE INGLÉS

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Translation into English of consolidated notes for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevail.

|   |        |       |             |
|---|--------|-------|-------------|
| UTE EJIDILLO VIVEROS INTEGRALES CSJ             | 60%    | -     | In progress |
| UTE AUTOVIA 45 ENCINAS REALES                   | 70%    | -     | In progress |
| UTE ESTADI MUNICIPAL MONTCADA                   | 100%   | -     | In progress |
| UTE EMBALSE CONTRERAS                           | 50%    | -     | In progress |
| UTE CEIP SAN JOSE CALASANZ-BIGASTRO             | 100%   | -     | In progress |
| UTE CENTRO DE SALUD LUCERO EN MADRID            | 100%   | -     | In progress |
| UTE INGENIERIA INDUSTRIAL                       | 50%    | -     | In progress |
| UTE HOSPITAL DEL VALLE DEL GUADIATO             | 100%   | -     | In progress |
| UTE HOSPITAL VALLE DE LOS PEDROCHES             | 100%   | 215   | In progress |
| UTE URBANIZACION HOSPITAL GUADIX                | 100%   | -     | In progress |
| UTE ESPEJO DE LA PARTICIPACION DE ALDAIA        | 100%   | -     | In progress |
| UTE PLATAFORMA AVE OCAÑA                        | 70%    | -     | In progress |
| UTE ZONA COMERCIAL AEROPUERTO MENORCA           | 50%    | -     | In progress |
| UTE COLEGIO ALAMEDA DE OSUNA                    | 65%    | -     | In progress |
| UTE AUTOVIA VERIN FRONTERA PORTUGUESA           | 50%    | -     | In progress |
| UTE RONDA SUROESTE                              | 50%    | -     | In progress |
| UTE EL TEJAR                                    | 70%    | -     | In progress |
| UTE ESCUELA UNIVERSITARIA DE MAGISTERIO         | 100%   | -     | In progress |
| UTE ESCUELA TECNICA SUPERIOR DE INGENIERIA - UV | 100%   | -     | In progress |
| UTE HOTEL COLON SEVILLA                         | 70%    | -     | In progress |
| UTE SAN JOSÉ EJIDILLO ZONA E                    | 60%    | -     | In progress |
| UTE NAVE INDUSTRIAL VICALVARO                   | 60%    | -     | In progress |
| UTE HOSPITAL DE GANDIA                          | 70%    | 2     | In progress |
| UTE HOSPITAL JUAN CANALEJO FASE 2               | 50%    | -     | In progress |
| UTE PALACIO JUSTICIA PATERNA                    | 60%    | -     | In progress |
| UTE SAN JOSE EL EJIDILLO IFEMA                  | 60%    | -     | In progress |
| UTE ZONAS VERDES FERROL SAN JOSÉ EJIDILLO       | 60%    | -     | In progress |
| UTE REHABILITACION DEL TEATRO SAN FERNANDO      | 100%   | -     | In progress |
| CASTELL DE CASTELLS                             | 70%    | -     | In progress |
| UTE ENCAUZAMIENTOS ARROYOS MALAGA               | 60%    | -     | In progress |
| UTE REHABILITACIÓN POBOADO MINEIRO DE FONTAO    | 100%   | -     | In progress |
| UTE CASCO HISTORICO CARTAGENA                   | 60%    | -     | In progress |
| UTE SAN JOSE EL EJIDILLO PASEO DE EUROPA        | 70%    | -     | In progress |
| UTE KULTUR ETXEA HONDARRIBIA                    | 100%   | 211   | In progress |
| UTE FACULTAD DE CIENCIAS                        | 100%   | -     | In progress |
| UTE RADIODIAGNOSTICO H.U.V.R.                   | 50%    | -     | In progress |
| UTE PASEO MARITIMO ALGECIRAS                    | 70%    | -     | In progress |
| UTE SAN JOSE-EBA CLINICA IMQ                    | 100%   | 737   | In progress |
| UTE SAN JOSE EL EJIDILLO PLAZA CASTILLA         | 60%    | -     | In progress |
| UTE MIAMAN PONTE AMBIA                          | 70%    | 618   | In progress |
| UTE SAN JOSE EL EJIDILLO VALLADOLID             | 60%    | 1,525 | In progress |
| UTE EDIFIC AERONAUTIC SUPPLIERS VILLAGE         | 80%    | -     | In progress |
| UTE GUARD Y PABELLON CUBIERTO                   | 75%    | -     | In progress |
| UTE HOSPITAL ALBACETE                           | 37.50% | -     | In progress |

TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS

Translation into English of consolidated notes for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

|  |        |       |             |
|--|--------|-------|-------------|
| EDIFICIO IKEA TELDE                                    | 55%    | -     | In progress |
| W88 UTE ETAP MONFORTE DE LEMOS                         | 50%    | -     | In progress |
| W89 UTE VILLANUEVA DE LA JARA                          | 50%    | -     | In progress |
| UTE EDIFICIO BINTER TENERIFE                           | 45%    | -     | In progress |
| UTE SAN JOSE CARTUJA NUEVO AMATE                       | 100%   | -     | In progress |
| UTE HOSPITAL CRUZ ROJA BILBAO                          | 100%   | -     | In progress |
| UTE ESTACIÓN INTERMODAL VITORIA                        | 100%   | -     | In progress |
| UTE EDIFICIO INTERDEPARTAMENTAL II UIB                 | 50%    | -     | In progress |
| UTE HUERTA DEL PRADO                                   | 60%    | -     | In progress |
| UTE JARDIN DE LAS PALABRAS                             | 60%    | -     | In progress |
| UTE CAMPUS CIENTIFICO DE LINARES                       | 80%    | -     | In progress |
| UTE CONST SAN JOSE Y CYM YAÑEZ SA (Edificio Lanzadera) | 100%   | -     | In progress |
| UTE DESTRIANA  | 60%    | -     | In progress |
| UTE SAN JOSE EJIDILLO D                                | 60%    | 78    | In progress |
| UTE SAN JOSE EL EJIDILLO DASOTEC                       | 57.50% | -     | In progress |
| UTE MOB Y EQUIP EDIF TERMINAL AEROP GRAN CANARIA       | 60%    | -     | In progress |
| UTE RESIDENCIAS REAL MADRID                            | 50%    | 568   | In progress |
| UTE SAN JOSE EL EJIDILLO IFEMA 2                       | 60%    | -     | In progress |
| UTE BADAIA   | 70%    | -     | In progress |
| UTE EDAR GANDARIO                                      | 50%    | 2,007 | In progress |
| UTE BENIGANIM  | 50%    | -     | In progress |
| UTE SAN JOSE EL EJIDILLO XARDINS FERROL                | 60%    | 979   | In progress |
| UTE REFORMA IES SANTA TERESA                           | 85%    | -     | In progress |
| UTE INSTALACIONES TERMICAS HOSPITAL CABRA              | 100%   | 351   | In progress |
| UTE ACCESO IRCIO ACTIVIDADES                           | 50%    | -     | In progress |
| UTE FEDERACION FUTBOL CEUTA                            | 90%    | 650   | In progress |
| UTE PARQUE NORTE                                       | 60%    | -     | In progress |
| UTE SAN JOSE EL EJIDILLO ALCOBENDAS                    | 60%    | 361   | In progress |
| UTE PATRIMONIO JARDINES                                | 40%    | 1,881 | In progress |
| UTE CONSERVACION RENEDO DE ESGUEVA                     | 55%    | 64    | In progress |
| UTE ABASTECIMIENTO BURGOS                              | 55%    | 8,631 | In progress |
| UTE PONTESUR   | 50%    | 476   | In progress |
| UTE EL EJIDILLO SS.REYES                               | 60%    | 1,186 | In progress |
| UTE EL EJIDILLO ARROYO DE LA VEGA                      | 60%    | 55    | In progress |
| UTE CANAL OCTUBRE 2015                                 | 60%    | 15    | In progress |
| UTE EL PRADO   | 50%    | -     | In progress |
| UTE CIUDAD CULTURA EDIFICACIÓN                         | 50%    | -     | In progress |
| WORLD TRADE CENTER                                     | 20%    | -     | In progress |
| UTE CIUDAD DE LA LUZ                                   | 20%    | -     | In progress |
| UTE METRO LIGERO MADRID                                | 30%    | -     | In progress |
| UTE HOSPITAL ASTURIAS                                  | 43%    | -     | In progress |
| UTE VALDEBEVAS LOTE 6                                  | 50%    | -     | In progress |
| W43 UTE PROYECTO Y OBRAS DE LA EDAR DE ARANJUEZ NORTE  | 50%    | -     | In progress |
| UTE EL REGUERON  | 33.34% | 4,519 | In progress |

COMPAÑIA SALVO IGLESIAS  
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|   |        |               |             |
|---|--------|---------------|-------------|
| UTE W92 externa VARIANTE PAJARES LOTE SUR               | 60%    | 9,480         | In progress |
| X07 UTE COLEGIOS DOS HERMANAS                           | 50%    | 31            | In progress |
| UTE REGADIO PARAMO BAJO                                 | 50%    | -             | In progress |
| UTE PASARELA PUENTE DE LOS FRANCESES                    | 50%    | -             | In progress |
| UTE ANILLO NORTE ESTACION DELICIAS                      | 62.50% | -             | In progress |
| UTE ENSANCHE BARAJAS                                    | 50%    | -             | In progress |
| UTE HOSPITAL VIRGEN PUERTO PLASENCIA                    | 81.82% | -             | In progress |
| UTE PARQUE DE BOMBEROS                                  | 51%    | -             | In progress |
| UTE CENTRO LUDICO-ACUATICO EN MONTECERRAO               | 50%    | -             | In progress |
| UTE CENTRO INVESTIGACION MIERES                         | 60%    | -             | In progress |
| UTE AMPLIACION AEROPUERTO DE VIGO                       | 50%    | -             | In progress |
| UTE EDIFICIO MULTUSOS TELDE                             | 60%    | -             | In progress |
| UTE RECREC. AEROP. ALICANTE                             | 50%    | -             | In progress |
| EMTE SERVICE SAU Y TECNOC. SERV. UTE 18/1982 M. P S MAR | 50%    | -             | In progress |
| UTE INST.ELECTRICAS NOVO HOSP.LUGO                      | 34%    | -             | In progress |
| UTE INST.COMUNICAC. NOVO HOSP.LUGO                      | 50%    | -             | In progress |
| UTE HOSP.VERGE CINTA                                    | 100%   | -             | In progress |
| UTE TRAUMA V.HEBRON                                     | 100%   | -             | In progress |
| UTE UNIVERSIDAD DE SANTIAGO                             | 80%    | -             | In progress |
| UTE DESALADORA EL MOJON                                 | 25%    | -             | In progress |
| UTE GSC-TECNOCONTROL PLANTA COLMENAR                    | 50%    | -             | In progress |
| UTE TECNO-ELECNOR CABILDO INSULAR                       | 50%    | -             | In progress |
| UTE TECNO-MOELCA AE.FUERTEVENTURA                       | 55%    | -             | In progress |
| UTE IMHUCA HOSPITAL DE OVIEDO                           | 36.67% | 15            | In progress |
| UTE TERMINAL SUD CLIMA                                  | 50%    | -             | In progress |
| TORRE IBERDROLA   | 30%    | -             | In progress |
| UTE CENTRAL ELECTRICA AE. SANTIAGO                      | 60%    | -             | In progress |
| UTE MOV.TIERRAS, IKEA GC FASE II                        | 55%    | -             | In progress |
| UTE CYMITEC SERV.CENTRALES CIUDAD CULTURA SANTIAGO      | 50%    | -             | In progress |
| UTE O/ PARQUE LINEAL RIVAS                              | 75%    | -             | In progress |
| UTE CONSERVACION MURCIA                                 | -      | 2,252         | In progress |
| UTE CONSERVACION LORCA                                  | -      | -             | In progress |
| UTE ARROYO DE LA VEGA AMPLIACION EDAR                   | 50%    | -             | In progress |
| UTE NUEVA TERMINAL AEROP.DE BARCELONA (CEN)             | 33.33% | -             | In progress |
| <b>Total</b>  |        | <b>36,907</b> |             |

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## GRUPO EMPRESARIAL SAN JOSE, S.A. AND SUBSIDIARIES

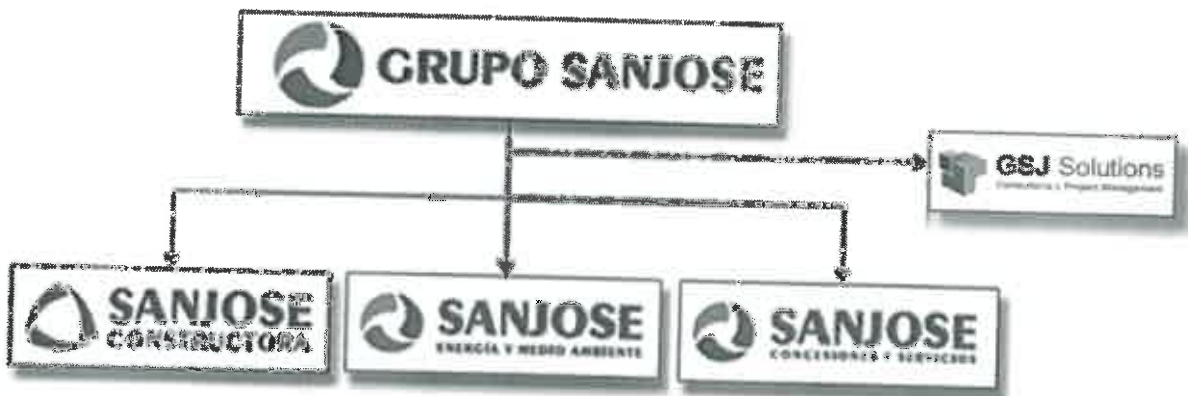
### Directors' Report for year 2015

#### 1. Situation of the Company

##### 1.1. Organisational Structure

Grupo SANJOSE is arranged as a group of companies operating in different sectors. Since its foundation, the main business activity of the Group is construction, becoming even more important during this year as a consequence of the sale of the company San José Desarrollos Inmobiliarios, S.A.U., main holder of real estate assets.

The Group has the following business lines.



Likewise, due to the diversification policy of the Group, the Group is present in other lines of activity, such as real estate, trade, stockbreeding and agriculture..

##### 1.2. Performance

The business model of the Group is to create a diversified group regarding both, geographic distribution and lines of activity as a way of being less exposed to the risk inherent to a single activity. The Group has a clear international vocation, becoming increasingly important activities developed overseas, with a higher significance in the turnover of the Group. In 2015, 58.4% total revenue of the Group comes from overseas (56.6% in 2014).

The Group is present in more than 20 countries all around the world, especially in the Middle East and Latin America.

The basic strategies which characterise the Group can be summarised as follows:

- Industry diversification and internationalisation as the cornerstones of stability and growth.
- Integrated project management, offering a global service.
- Maintenance of the level of shareholder independence.
- Investment in human capital formation and cutting-edge technology to drive development.
- Priority to solvency and profitability over growth policies

The Group has the following objectives by type of activity:

**Construction:** To continue to increase geographic diversification in order to improve cost efficiency. The goal of the company is to become a global company while staying still to its identifying signs of quality and deadlines while increasing its presence in international profitable markets with interesting business opportunities. Likewise, as the

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ESPECIALISTA EN INGLÉS

national economy improves and due to expected macroeconomic improvements, the GROUP tries to focus on national opportunities.

**Concessions:** Grupo SANJOSE has moved this branch of activity at an international level. Highlighting the commissioning and operation for the following 15 years of the Hospitals of Chile since the second half of year 2013.

**Energy:** in addition to the operation of the power plant of Cerdanyola del Vallés, highlight two wind farms in Uruguay with a total power of 90 MW. The execution of the first wind farm in Uruguay, which is about to be commissioned, was started on the second half of 2013, while the second was started on the second half of the year and is expected to be completed by the end of the first half of 2015. These projects ensure long-term recurrent income.

**Real estate:** upon the sale of the company "San José Desarrollos Inmobiliarios, S.A.U." within the frame of the finance restructuring agreement signed by the Group on 30 December 2014, real estate activity was moved to a secondary level. The Group faces this activity as a complementary activity to construction.

Most real estate assets, at year end 2014 were included in the real estate division of the Group and have exit the Group after the sale of San José Desarrollos Inmobiliarios, S.A.U., during the first half of the year, as part of the refinancing agreement signed on 30 December 2014. At 31 December 2014 they were recorded under noncurrent assets held for sale. This transaction has not affected the outcome of the year.

It is noted, that the main goal of the Group is to balance the revenue with greater importance of international activities – focusing on countries where it operates and those where the Group plans to be present in short-term, - as well as increasing the importance of concessions, energy and services.

## 2. Evolution of the market

### 2.1. Market performance

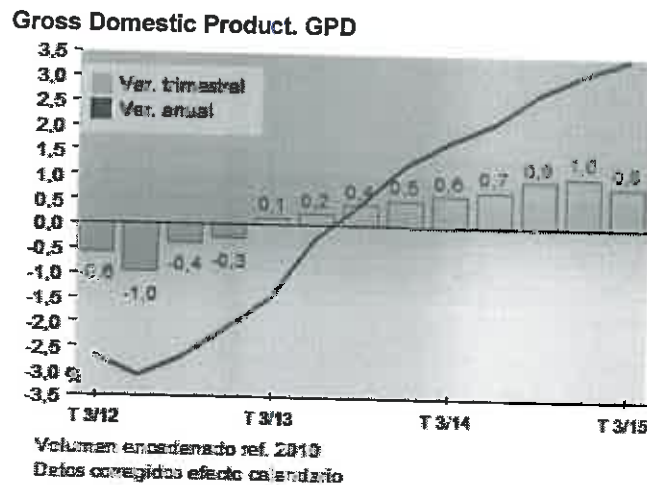
The following table reflects the main features of the construction sector before and after the current economic situation, which was started at the end of 2007, and the mortgage crisis of international financial markets:

| From 1998<br>to the first semester 2007   | From the second semester 2007<br>to present   |
|---|---|
| <ul style="list-style-type: none"><li>• Economic boom</li><li>• Economic stability within the UE</li><li>• Availability of cash and credits: fast growth due to heavy cheap ineptness</li><li>• High demand</li><li>• Low interest rates</li><li>• High level of public expenditure</li></ul> | <ul style="list-style-type: none"><li>• Change: slowdown in GDP growth and employment.</li><li>• Instability within the UE</li><li>• Restrictions to credit. Lack of liquidity .</li><li>• High offer.</li><li>• Increased cost of banking financing. High interest rates</li><li>• Limited public expenditure. Significant reduction of invitations to tender by Public Administrations.</li></ul> |

All this has resulted in a significant reduction of activity since 2007 up to now, not only in Spain but in Europe in general.



2013 represents a turning point for the national economy, technically coming out of the recession. Likewise, during the four quarters of 2014, an increase was recorded in all four quarters, what keeps the upward trend, reaching 2% GDP, above forecasts of the Bank of Spain. For 2015, the Spanish economy stepped on again the growth accelerator to achieve the most intense advance since late 2007. According to the National Institute of statistics (INE), the gross domestic product (GDP) increased 0.8% with respect to the second quarter of 2015 and records two years of expanding, after two subsequent recessions in the previous five years, reaching 3.4%. According to the latest forecasts from the International Monetary Fund (IMF) Spain will be, among the major advanced economies, the one to grow more this year 2016 with respect to the 16 countries analysed. Now, the IMF predicts for Spain a 2.7% growth this year and 2.3% in 2017, two and one tenth more than that estimated in the latest estimate of 2015.



Source: INE

The main causes of growth have been the increase in visits to the tourist sector, the moderate increase in domestic consumption and the progressive debt relief of Spanish families (supported by the remarkable improvement of expectations and financial conditions, as well as the decline in prices in the last year) as basic recovery engine. Likewise, public expenditure has been increased boosting GDP growth.

The International Monetary Fund (IMF) has revised downwards its projections of global growth for the next two years. In 2016 and 2017 the world economy will grow, according to estimates from the IMF a 3.4% and 3.6%.

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 3

respectively. In both cases, it represents a growth of 0.2 percentage points less than that projected by the IMF in October of the last year, since the rise of emerging economies is expected now to be more subdued than predicted initially. The Fund maintained its calculations over China, that will keep slowing down (in 2016 it is expected to grow 6.3%), and strongly reduces the prognosis of other countries such as Brazil and Russia.

The growth forecast for year 2016 according to the IMF is 3.6% for Middle East; -0.3% for Latin America (which is expected to rise to 1.6% in 2017), 7.5% for the India and 4.8% for the area of Indonesia and Southeast Asia (ASEAN). These projections highlight the success of the international changing trend of the Grupo SANJOSE.

Likewise, recent indicators, compiled by the Organisation for Economic Co-operation and Development (OECD), back up the growth. Experts of this international organisation, which groups 34 industrialised countries, synthesise data to anticipate short-term pace of economic activity in a country, in the next six to nine months. In the case of Spain, indicators refer to the utilization of industrial capacity, production in the construction sector, service sector prices, stock prices and the registration of vehicles.

OECD indicators stood 99.8 in October, suggesting a slowdown in global growth. When the synthetic indicator is above 100, and also grows, it clearly anticipates an expansion stage; long-term potential growth is attributed to the economy.

The OECD has presented its monthly indicators which refer to the stabilisation of the economic situation in China and stable growth in the Eurozone.

According to the data from October, distributed by OECD, growth prospects of the Spanish economy continue to accelerate. The indicator for November rose one cent, up to 101.53 points, while the figure is 16 hundredths below the level of the previous year. However, the situation in Spain remains to be above the average of the Eurozone, which reached 100.62 points.

The changing trend of the Spanish economy is well valued abroad. The risk premium (the differential of the Spanish bono to ten years with the German title in the same term, the most popular indicator to quantify the risk premium), which had already fallen to 220 points at the end of 2013, and in 2014 it had crossed the psychological barrier of 200 points standing at end of that year at 107 points, with a 52% drop, reaching on 14 May 2010 108.4 basic points. Towards the end of the first half of 2015, the Greek crisis increased the risk premium of countries within the Euro zone, especially those in the peripheral (Italy and Portugal also suffer the 'spread' of the Greek situation reaching 162 and 235 basis points, respectively). As a result, the Spanish risk premium scale to 150 basic points at the end of the first half of the year, becoming stable again at end of 2015 at around 115 points.

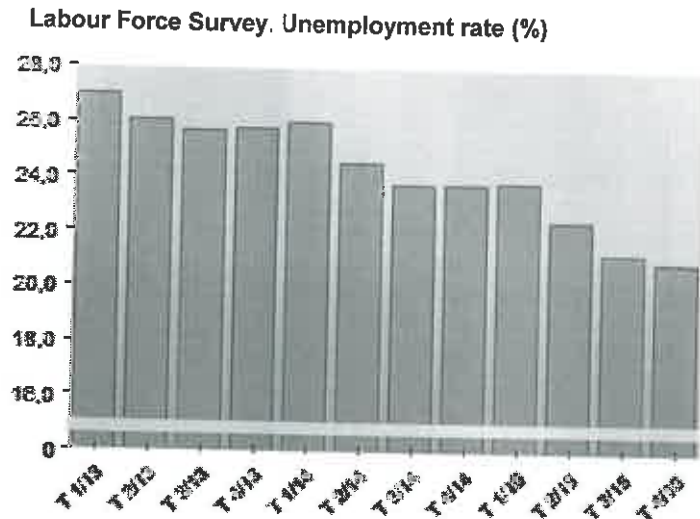
Instability in the Spanish political framework, could affect investor confidence through 2016.

Therefore, the economic activity shows signs of recovery since the second half of last year, yet these indications are not enough for the country to abandon the critically status for the time being. In any case, Spain is beginning to pop out of the crisis, with an increasing recovery, but it does not get rid of something like a depression in the labour market, with unemployment rates over of 20% until at least late next year.

Aspects such as employment, public debt and public deficit should be improved in order to consolidate the shift occurred within the national economy.

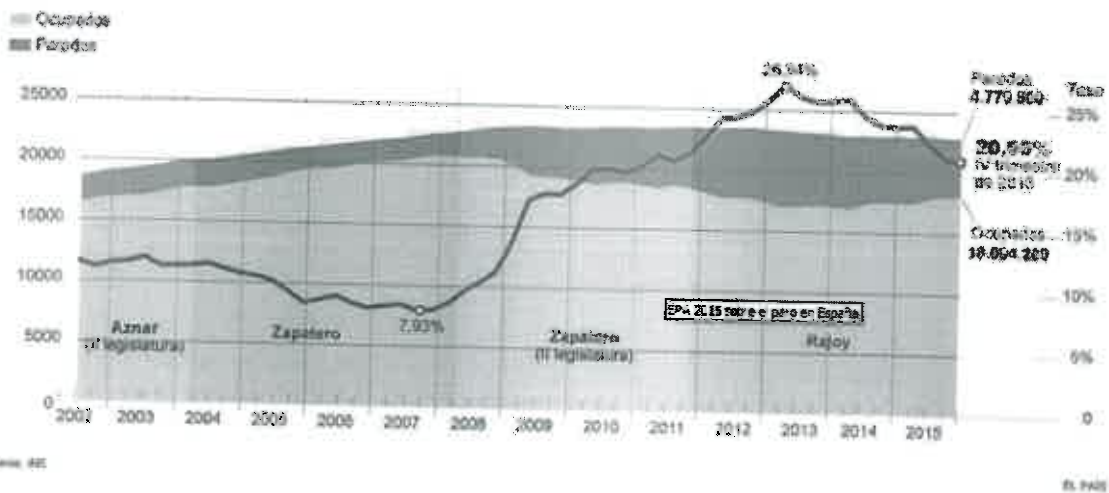
With regards to employment, the decline in the unemployment rate that began in 2013 was solid during 2014, standing at 23.70%. The positive development has been maintained throughout the first half of 2015:

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Source: INE

### Labor market in the fourth quarter of 2015



2015 has been a good year for employment. Unemployment fell and employment grew in parallel. The number of unemployed fell by 678,200 people in 2015, the largest drop, according to the Labour Force Survey (LFS) released. Occupation, meanwhile, grew by 525,100 jobs, a figure not seen since the bubble years, particularly since 2006.

With the fall of December, the total number of unemployed registered at the Public Employment Services (former INEM) stands at 4,779,500. A figure still high and that will mean one of the major challenges to be faced by the new government.

This decline has been largely in the hands of an improvement of the construction activity. In one year, this sector has recovered 118,500 jobs. And it has done, especially public works, such as new jobs, almost 75,000 are closely linked to this activity, according to data released by the National Statistics Institute. The rest comes from occupied housing construction, more linked to private civil works. Unemployment fell into one of the hardest hit by the crisis: the construction with 3,835 fewer unemployed.

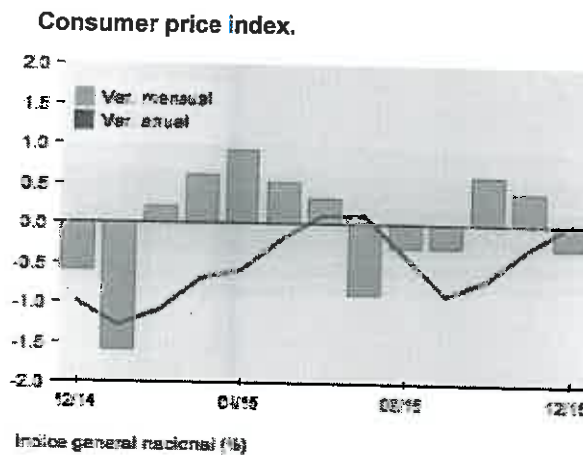
In November public debt had grown by EUR 11,103 million with regards to October, increasing from EUR 1,056,749 million to EUR 1,067,852 million. Thus, the debt in November has been 99.82% of GDP, rising 2.8 per cent compared to 2014.

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As for the deficit, the figure for 2014 stood at 5.7% (5.8% considering aid to banking), fulfilling the goal placed by the European Commission, 5.8%. In the third quarter of 2015 it amounted to 3.12%. Governments addressed the final stretch of the last year trying to balance the objective of a public deficit of 4.2 percent of GDP according to Brussels. State, autonomous communities and Social Security reached in November a deviation between revenue and expenditure equivalent to 3.87% of GDP, scarce three-tenths of the annual limit, even though it accounts for 11% less than it had in the same period of 2014. In the absence of knowing the final year-end data, it seems that Spain will close 2015 with a lower percentage than that fixed by the European Commission. Even though, the ultimate goal set by the European Commission, that is 3% by the year 2016, should not be forgotten. Spain shall maintain the trend so as to reach this goal.

The CPI of Spain in 2014 stood at - 1.4%, representing the lowest annual rate of the historical series. The decline in prices was due to the fall of oil, as well as a several years with low consumption level, although on the rise since the second half of 2014. Yet businesses in many sectors are reacting with contained prices to gain share. During 2015, the slight rise in prices has kept on, placing the CPI at 0.0%, due to the performance of the prices of the fuels, diesel fuel for heating, housing and some food.



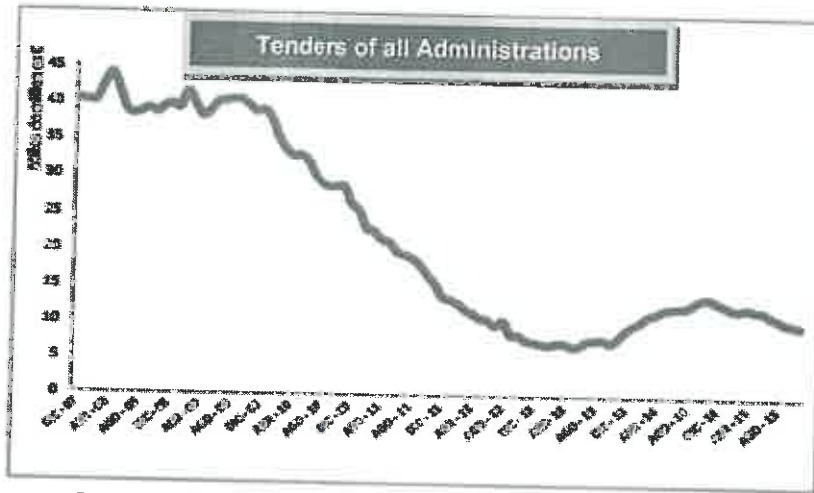
Source: INE

After this three tenths rise, that places the annual CPI at 0.0% at the end of 2015, prices returned to a positive trend after four consecutive in negative values, with rates of -0.4% in August, -0.9% in September, -0.7% in October and -0.3% in November. Throughout 2015, the CPI has only recorded positive annual rates in three months: June and July (0.1% in both cases) and now December, with 0.0%.

The influence that the construction sector has on the cycle of global economic activity in Spain is very significant. Over recent years, its role has been reduced by the current situation. Its importance lies in the drag effect that has the construction sector on the whole economy, so the impact on suppliers of intermediate products activates the economic infrastructure, thereby contributing to increase productivity and capacity for long-term growth of the economy in general.

Given this macroeconomic situation, the Company has as basic lines of activity the strive for the improvement in profitability, being flexible in adapting its structure to the reality of Spain today, and also its strength to create a diversified company and increase internationalisation.

The main national market where the group operates is the construction sector, which continues to be very affected by the crisis, although there is evidence of economic recovery. In 2014, public tenders amounted to EUR 13,111 million (SEOPAN), what means a 43.4% increase compared to year 2013 (EUR 9,142 million). During 2015, it has suffered a 26% decrease, as a result of the reduction of the investment so as to reach the deficit targets imposed by the European Commission (data at November 2015 and 2014 - SEOPAN). Yet, the annual figure is expected to be somewhat above that of 2013.



Source.: SEOPAN

Grupo SANJOSE operates in sectors, countries and socio-economic and legal environments which involve the assumption of different risk levels caused by these conditions. Thus, it controls these risks in order to avoid a loss of profitability or the creation of problem for its customers. For this task control, it has instruments to identify risks early enough to avoid or minimize them.

The Group holds a EUR 1,835 million portfolio, ensuring its future in the medium and long term regarding the construction sector and the provision of services under concession regime and energy projects.

## 2.2. Main figures of the GROUP

Main consolidated figures of Grupo SANJOSE for year 2015 are as follows:

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## Consolidated Balance Sheet

Thousands of Euros

|  | Group SANJOSE  |               |                  |               |               |
|--|----------------|---------------|------------------|---------------|---------------|
|  | Dic. 15        |               | Dic. 14          |               | Var.          |
|  | Amount         | %             | Amount           | %             |               |
| Intangible assets                      | 18,856         | 1.9%          | 20,311           | 0.8%          | -7.2%         |
| Property, plant and equipment          | 45,917         | 4.7%          | 51,955           | 2.2%          | -11.6%        |
| Real state investments                 | 5,664          | 0.6%          | 3,882            | 0.2%          | 45.9%         |
| Investments accounted                  | 57,247         | 5.8%          | 59,552           | 2.5%          | -3.9%         |
| Long term financial investments        | 154,331        | 15.7%         | 171,441          | 7.1%          | -10.0%        |
| Deferred taxes assets                  | 35,484         | 3.6%          | 50,539           | 2.1%          | -29.8%        |
| Consolidation Goodwill                 | 9,984          |               | 9,984            |               |               |
| <b>TOTAL NON-CURRENT ASSETS</b>        | <b>327,483</b> | <b>33.3%</b>  | <b>367,664</b>   | <b>15.3%</b>  | <b>-10.9%</b> |
| Non-current assets held for sale       | 0              | 0.0%          | 1,432,728        | 59.6%         |               |
| Inventories                            | 92,176         | 9.4%          | 77,402           | 3.2%          | 19.1%         |
| Trade and other receivables            | 271,415        | 27.6%         | 241,311          | 10.0%         | 12.5%         |
| Other short term financial investments | 61,941         | 6.3%          | 82,883           | 3.4%          | -25.3%        |
| Cash and cash equivalents              | 231,834        | 23.5%         | 203,260          | 8.5%          | 14.1%         |
| <b>TOTAL CURRENT ASSETS</b>            | <b>657,366</b> | <b>66.7%</b>  | <b>2,037,584</b> | <b>84.7%</b>  | <b>-67.7%</b> |
| <b>TOTAL ASSETS</b>                    | <b>984,849</b> | <b>100.0%</b> | <b>2,405,248</b> | <b>100.0%</b> | <b>-59.1%</b> |

Thousands of Euros

|   | Group SANJOSE  |               |                  |               |               |
|---|----------------|---------------|------------------|---------------|---------------|
|   | Dic. 15        |               | Dic. 14          |               | Var.          |
|   | Amount         | %             | Amount           | %             |               |
| Equity attributable to shareholders of the parent       | -46,368        | 4.7%          | 18,243           | 0.8%          | 154.2%        |
| Minority Interests                                      | 21,680         | 2.2%          | 24,302           | 1.0%          | -10.8%        |
| <b>TOTAL EQUITY</b>                                     | <b>68,048</b>  | <b>6.9%</b>   | <b>42,646</b>    | <b>1.8%</b>   | <b>69.9%</b>  |
| Long term provisions                                    | 19,223         | 2.0%          | 20,799           | 0.9%          | -7.6%         |
| Long term financial liabilities                         | 405,944        | 41.2%         | 373,386          | 15.5%         | 8.7%          |
| Derivative financial instruments                        | 1,196          | 0.1%          | 31,697           | 1.3%          | -96.2%        |
| Deferred taxes liabilities                              | 14,460         | 1.5%          | 28,982           | 1.2%          | -50.1%        |
| Other non current assets                                | 5,178          | 0.5%          | 4,313            | 0.2%          | 20.1%         |
| <b>TOTAL NON CURRENT LIABILITIES</b>                    | <b>446,001</b> | <b>45.3%</b>  | <b>458,177</b>   | <b>19.1%</b>  | <b>2.9%</b>   |
| Liabilities related to non current assets held for sale | 0              | 0.0%          | 1,432,728        | 59.6%         | -100.0%       |
| Short term provisions                                   | 37,471         | 3.8%          | 42,925           | 1.8%          | -12.7%        |
| Short term financial liabilities                        | 46,996         | 4.8%          | 76,364           | 3.2%          | -38.5%        |
| Payables to related companies                           | 1,748          | 0.2%          | 1,766            | 0.1%          | -1.0%         |
| Trade accounts and other current payables               | 384,585        | 39.1%         | 349,743          | 14.5%         | 10.0%         |
| <b>TOTAL CURRENT LIABILITIES</b>                        | <b>470,800</b> | <b>47.8%</b>  | <b>1,903,526</b> | <b>79.2%</b>  | <b>-75.3%</b> |
| <b>TOTAL EQUITY &amp; LIABILITIES</b>                   | <b>974,849</b> | <b>100.0%</b> | <b>2,404,349</b> | <b>100.0%</b> | <b>-59.1%</b> |

Following the exit of the real estate subgroup San José Desarrollos Inmobiliarios, SAU and subsidiaries, the consolidation scope of SANJOSE Group has proceeded to deregister the consolidated balance sheet assets and liabilities recorded under "Non-current assets and liabilities held for sale".

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Net Equity: EUR 102.4 million as shareholder loan have been recorded under this item, being this reclassification the only difference between this consolidated balance sheet and the balance sheet under the financial statements of Grupo SANJOSE.

## Consolidated Income Statement

Thousands of Euros

|  | Grupo SANJOSE  |               |                 |               |               |
|--|----------------|---------------|-----------------|---------------|---------------|
|  | Dic. 15        |               | Dic. 14         |               | Variac.       |
|  | Amount         | %             | Amount          | %             |               |
| <b>Revenue</b>                                   | <b>536,099</b> | <b>100.0%</b> | <b>465,082</b>  | <b>100.0%</b> | <b>15.3%</b>  |
| Other operating income                           | 7,931          | 1.5%          | 9,869           | 2.1%          | -19.6%        |
| Change in inventories                            | -6,384         | -1.2%         | -1,793          | -0.4%         | 256.1%        |
| Procurements                                     | -338,239       | -63.1%        | -283,357        | -60.9%        | 19.4%         |
| Staff costs                                      | -85,228        | -15.9%        | -81,411         | -17.5%        | 4.7%          |
| Other operating expenses                         | -70,342        | -13.1%        | -74,562         | -16.0%        | -5.7%         |
| <b>OPERATING CASH FLOW (EBITDA)</b>              | <b>43,835</b>  | <b>8.2%</b>   | <b>33,828</b>   | <b>7.3%</b>   | <b>29.6%</b>  |
| Amortisation charge                              | -5,664         | -1.1%         | -6,374          | -1.4%         | -11.1%        |
| Impairment on inventories                        | 127            | 0.0%          | 955             | 0.2%          | -86.7%        |
| Changes in trade provisions and other impairment | -7,549         | -1.4%         | -16,987         | -3.7%         | -55.6%        |
| <b>OPERATING PROFIT</b>                          | <b>30,749</b>  | <b>5.7%</b>   | <b>11,422</b>   | <b>2.5%</b>   | <b>169.2%</b> |
| Ordinary financial results                       | -52            | 0.0%          | 3,924           | 0.8%          | -101.3%       |
| Changes in fair value for financial instruments  | -20,346        | -3.8%         | 0               | 0.0%          | 16866351.1%   |
| Foreign exchange results and others              | 1,144          | 0.2%          | -7,358          | -1.6%         | -115.5%       |
| <b>NET FINANCIAL RESULT</b>                      | <b>-19,254</b> | <b>-3.6%</b>  | <b>-3,435</b>   | <b>-0.7%</b>  | <b>460.5%</b> |
| Results on equity method                         | -845           | -0.2%         | -864            | -0.2%         | -2.2%         |
| <b>PBT OF CONTINUED OPERATIONS</b>               | <b>10,650</b>  | <b>2.0%</b>   | <b>7,123</b>    | <b>1.5%</b>   | <b>49.5%</b>  |
| Income tax                                       | -3,364         | -0.6%         | -49,603         | -10.7%        | -93.2%        |
| <b>CONSOLIDATED PROFIT</b>                       | <b>7,286</b>   | <b>1.4%</b>   | <b>-42,480</b>  | <b>-9.1%</b>  |               |
| Non - Continuing Operations                      | 0              | 0.0%          | -80,202         | -17.2%        |               |
| <b>CONSOLIDATED PROFIT</b>                       | <b>7,286</b>   | <b>1.4%</b>   | <b>-122,682</b> | <b>-26.4%</b> |               |

## Revenue

Revenue of Grupo SANJOSE for year 2015 stands at EUR 536.1 million, an 11.6% decreased compared to the previous year.

| Revenues by activity                 | Grupo SANJOSE  |     |                |     |              |
|--------------------------------------|----------------|-----|----------------|-----|--------------|
|                                      | Dic. 15        |     | Dic. 14        |     | Var.(%)      |
|                                      | Amount         | %   | Amount         | %   |              |
| Construction                         | 442,117        | 82% | 381,671        | 82% | 15.8%        |
| Real estate and property development | 28,924         | 5%  | 32,229         | 7%  | -10.3%       |
| Energy                               | 12,691         | 2%  | 11,321         | 2%  | 12.1%        |
| Concessions and services             | 46,589         | 9%  | 41,468         | 9%  | 12.3%        |
| Adjustment and other                 | 5,778          | 1%  | -1,607         | 0%  |              |
| <b>TOTAL</b>                         | <b>536,099</b> |     | <b>465,082</b> |     | <b>15.3%</b> |

Once again, the smooth running of the international market is clear, contributing 58% of the turnover of Grupo SANJOSE and with an increase in turnover of 19% over the same period of the previous year

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| Thousands of Euros    |                |     |                |     |              |
|-----------------------|----------------|-----|----------------|-----|--------------|
| Revenues by geography | Grupo SANJOSE  |     |                |     |              |
|                       | Dic. 15        |     | Dic. 14        |     | Var.(%)      |
| National              | 222,956        | 42% | 201,987        | 43% | 10.4%        |
| International         | 313,143        | 58% | 263,095        | 57% | 19.0%        |
| <b>TOTAL</b>          | <b>536,099</b> |     | <b>465,082</b> |     | <b>15.3%</b> |

## Results

Gross operating profit (EBITDA) of Grupo SANJOSE for 2015 amounted to EUR 43.8 million, with a margin of 8.2 % on the net amount of the turnover, and representing a 29.6 % growth compared to previous year.

An improvement in the return on sales is clear. This increase in EBITDA is justified by the overall improvement in all activities of SANJOSE Group, mainly the increase in the Construction, Concessions and Services and Energy lines of activity.

The breakdown of EBITDA for 2015 by type of activity is as follows:

| Thousands of Euros                   |               |     |               |     |              |
|--------------------------------------|---------------|-----|---------------|-----|--------------|
| EBITDA by activity                   | Grupo SANJOSE |     |               |     |              |
|                                      | Dic. 15       |     | Dic. 14       |     | Var.(%)      |
| Construction                         | 20,984        | 48% | 18,122        | 54% | 15.8%        |
| Real estate and property development | 10,215        | 23% | 10,485        | 3%  | -2.8%        |
| Energy                               | 3,419         | 8%  | 2,816         | 8%  | 21.4%        |
| Concessions and services             | 9,232         | 21% | 3,684         | 1%  | 150.6%       |
| Adjustment and other                 | -15           | 0%  | -1,279        | -4% |              |
| <b>TOTAL</b>                         | <b>43,835</b> |     | <b>33,828</b> |     | <b>29.6%</b> |

EBIT of Grupo SANJOSE for year 2015 stands at EUR 30.7 million, representing 5.7% margin. This result almost tripled in amount that obtained in 2014, what involves having doubled the % of operating profit of Grupo SANJOSE.

Profit before tax for Grupo SANJOSE for this period records EUR 10.6 million, profit after tax amounts to EUR 7.3 million.

## Net equity

Net equity of Grupo SANJOSE at 31 December 2015 stands at EUR -33.3 million, being this the most significant change with regards to December 2014.

At 31 December 2015, Net Equity of the Group consists of 65.0 million of shares, what involves a EUR -0.51 per share.

Stock Exchange performance and any information on shares shall be included under section 9.



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## Cash flow statement

Thousands of Euros

| CASH FLOW                           | Grupo SANJOSE  |                |
|-------------------------------------|----------------|----------------|
|                                     | Dic. 15        | Dic. 14        |
| Cash flow from operating activities | 39,218         | 33,785         |
| Working capital                     | 8,507          | 28,893         |
| Others adjustments                  | -4,384         | -5,659         |
| <b>Operating cash flow</b>          | <b>43,342</b>  | <b>57,019</b>  |
| Divestments / (Investments)         | 5,890          | -5,840         |
| Others adjustments                  | 33,988         | 47,819         |
| <b>Investment cash flow</b>         | <b>39,878</b>  | <b>41,979</b>  |
| <b>Free cash flow</b>               | <b>83,220</b>  | <b>98,998</b>  |
| Capital flow & Minorities           | -1,553         | -2,902         |
| Increase / (Decrease) in borrowings | -25,187        | -33,748        |
| Net interest                        | -17,624        | -11,355        |
| Others adjustments                  | -10,282        | -5,879         |
| <b>Financing cash flow</b>          | <b>-54,646</b> | <b>-53,884</b> |
| <b>Total cash flow</b>              | <b>28,574</b>  | <b>45,114</b>  |

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## Backlog

The Group's future backlog at 31 December 2015 amounts to EUR 1,835 million, which represents a 4.3% decrease regarding year 2014 (EUR 1,918 million).

Millions of Euros

| BACKLOG by segment              | Group SANJOSE |             |              |             |               |
|---------------------------------|---------------|-------------|--------------|-------------|---------------|
|                                 | Dic. 15       |             | Dic. 14      |             | Var.(%)       |
| <b>Construction</b>             | <b>1,020</b>  | <b>56%</b>  | <b>878</b>   | <b>46%</b>  | <b>16.2%</b>  |
| Civil works                     | 230           | 13%         | 203          | 11%         | 13.3%         |
| Non residential building        | 731           | 40%         | 638          | 33%         | 14.6%         |
| Residential building            | 53            | 3%          | 31           | 2%          | 71.0%         |
| Industrial                      | 5             | 0%          | 6            | 0%          | -16.7%        |
| <b>Energy</b>                   | <b>553</b>    | <b>30%</b>  | <b>718</b>   | <b>37%</b>  | <b>-23.0%</b> |
| <b>Concessions and services</b> | <b>262</b>    | <b>14%</b>  | <b>322</b>   | <b>17%</b>  | <b>-18.5%</b> |
| Maintenance                     | 39            | 2%          | 33           | 2%          | 19.0%         |
| Concessions                     | 223           | 15%         | 289          | 15%         | -22.8%        |
| <b>TOTAL BACKLOG</b>            | <b>1,835</b>  | <b>100%</b> | <b>1,918</b> | <b>100%</b> | <b>-4.3%</b>  |

Millions of Euros

| BACKLOG by geography | Group SANJOSE |            |              |            |              |
|----------------------|---------------|------------|--------------|------------|--------------|
|                      | Dic. 15       |            | Dic. 14      |            | Var.(%)      |
| <b>National</b>      | <b>892</b>    | <b>49%</b> | <b>904</b>   | <b>47%</b> | <b>-1.3%</b> |
| <b>International</b> | <b>943</b>    | <b>51%</b> | <b>1,014</b> | <b>53%</b> | <b>-7.0%</b> |
| <b>TOTAL BACKLOG</b> | <b>1,835</b>  |            | <b>1,918</b> |            | <b>-4.3%</b> |

Millions of Euros

| BACKLOG by client     | Group SANJOSE |            |              |            |              |
|-----------------------|---------------|------------|--------------|------------|--------------|
|                       | Dic. 15       |            | Dic. 14      |            | Var.(%)      |
| <b>Public client</b>  | <b>1,180</b>  | <b>64%</b> | <b>1,323</b> | <b>69%</b> | <b>-4.3%</b> |
| <b>Private client</b> | <b>655</b>    | <b>36%</b> | <b>686</b>   | <b>36%</b> | <b>-4.3%</b> |
| <b>TOTAL BACKLOG</b>  | <b>1,835</b>  |            | <b>1,918</b> |            | <b>-4.3%</b> |

The portfolio is stable both in volume and distribution by type of activity, geographic area and type of customer.

The Construction portfolio, the Group's core business, improved by 16.1 %, the Energy portfolio corrects contracts in 23.0% for the periodic re-estimation made by SANJOSE Group of expected cash flows and Concessions and Services is reduced due to the normal operation of contracts.

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### 2.3. Performance of the Group by type of activity

#### Construction

This business line generated revenues of EUR 442.1 million during year 2015, representing an increase of 15.8 % regarding the same period of the previous year .

EBITDA for the period stood at EUR 20.9 million compared to EUR 18.1 million for the same period of the previous year, representing a significant improvement of 15.8 %, representing 4.7 % of total sales.

At the end of the period, the Group's portfolio in this business line amounted to EUR 1,020 million, with a significant growth of 16.1 % over the previous year.

| Thousands of Euros                            |         | Grupo SANJOSE |         |   |
|---|---------|---------------|---------|---|
| CONSTRUCTION                                  | Dic. 15 | Dic. 14       | Var.(%) |   |
| Revenue                                       | 442,117 | 381,671       | 15.8%   |   |
| Earnings before interest, taxes, D&A (EBITDA) | 20,984  | 18,122        | 15.8%   |   |
| EBITDA margin                                 | 4.7%    | 4.7%          |         |   |
| Earnings before interest and taxes (EBIT)     | 15,225  | 8,448         | 80.2%   |   |
| EBIT margin                                   | 3.4%    | 2.2%          |         |   |
| Earnings before tax of continued operations   | 9,348   | 1,887         | 395.5%  | * |
| Backlog (millions of euros)                   | 1,020   | 878           | 16.1%   | * |

El detalle de la cifra de negocios de esta línea de actividad del Grupo SANJOSE, atendiendo a las principales tipologías de negocio que la integran, así como al área geográfica, es el siguiente:

| Thousands of Euros       |                | DETAIL OF CONSTRUCTION REVENUES |                |            |                |     |  |
|--------------------------|----------------|---------------------------------|----------------|------------|----------------|-----|--|
|                          | National       |                                 | Internac.      |            | Total          |     |  |
| Civil works              | 23,517         | 15%                             | 37,934         | 14%        | 61,451         | 14% |  |
| Non residential building | 134,073        | 76%                             | 215,857        | 87%        | 349,930        | 79% |  |
| Residential building     | 5,831          | 3%                              | 13,361         | 5%         | 19,192         | 4%  |  |
| Industrial               | 11,545         | 8%                              | 0              | 0%         | 11,545         | 3%  |  |
| <b>TOTAL</b>             | <b>174,956</b> | <b>40%</b>                      | <b>267,152</b> | <b>60%</b> | <b>442,117</b> |     |  |

Construction revenue at international level for the period stood at EUR 267.2 million, recording an 18.1% increase with regards to the same period of the previous year, and accounts for 60% of this line of activity.

Similarly, sales at domestic level recorded an increase up to EUR 175.0 million compared to EUR 155.5 million in 2014, representing an increase of 12.5%.

It is anticipated that this trend will continue in the coming years due to the strong international component of the contracted portfolio, together with significant international tenders in relevant projects which SANJOSE is involved in through its branches and subsidiaries in more than twenty countries and in the final stretch of the year 2015 it has started to operate in two new countries, Malta and Mexico, what reinforces the strategy of internationalisation of Grupo SANJOSE.

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## Real estate

The turnover corresponding to the 2015 for the real estate and urban development activity (mainly in Peru) of Grupo SANJOSE stood at EUR 28.9 million.

Yet, a 10.3% reduction in sales of this line of activity is recorded, EBITDA amounted to EUR 10.2 million, similar to that obtained in 2014, representing 35.3 % of total turnover (32.5% in the previous year).

| Thousands of Euros                            |               |         |         |
|---|---------------|---------|---------|
| REAL ESTATE AND PROPERTY DEVELOPMENT          | Grupo SANJOSE |         |         |
|   | Dic. 15       | Dic. 14 | Var.(%) |
| Revenue                                       | 28,924        | 32,229  | -10.3%  |
| Earnings before interest, taxes, D&A (EBITDA) | 10,215        | 10,485  | -2.6%   |
| EBITDA margin                                 | 35.3%         | 32.5%   |         |
| Earnings before interest and taxes (EBIT)     | 6,602         | 10,748  | -38.6%  |
| EBIT margin                                   | 22.8%         | 33.3%   |         |
| Earnings before tax of continued operations   | 11,231        | 12,656  | -11.3%  |

Grupo SANJOSE has performed a new valuation of its real estate assets at year-end 2015 by an independent expert.

Gross Asset Value (GAV) from the aforementioned valuation for SANJOSE Group's real estate assets amounts to EUR 261.1 million, with is detailed as follows:

| Thousands of Euros           |                |       |                |       |              |
|------------------------------|----------------|-------|----------------|-------|--------------|
| GAV adjust at %participation | Dic. 15        |       | Dic. 14        |       | Var.(%)      |
| Lands                        | 126,385        | 48.4% | 130,914        | 46.1% | -3.5%        |
| Buildings under construction | 13,615         | 5.2%  | 8,826          | 3.1%  | 54.3%        |
| Buildings                    | 32,111         | 12.3% | 44,744         | 15.7% | -28.2%       |
| Real state investments       | 70,669         | 27.1% | 81,589         | 28.7% | -13.4%       |
| Inmovilizado                 | 18,324         | 7.0%  | 18,179         | 6.4%  | 0.8%         |
| <b>TOTAL</b>                 | <b>261,104</b> |       | <b>284,252</b> |       | <b>-8.1%</b> |

The change in value in the year 2015 is explained by:

- i) Land and plots and Investment properties: GAV variation is mainly explained by the depreciation of the Argentine peso and the Brazilian real. Disregarding the effect of exchange rates, the real estate assets of the Group have been appreciated during year 2015.
- ii) For buildings under construction and built Buildings, variations come mainly from property development activities carried out by the Group in Peru (the amount of sales for the year is greater than the new construction performed).

## Energy

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Net revenue for 2015 stood at EUR 12.7 million.

The percentage of EBITDA on sales of this business activity for the period stood at 26.9 %, improving the figure for the same period of 2014, representing stability and recurrence in the activity of this business line.

| Thousands of Euros                            |               |            |               |
|---|---------------|------------|---------------|
| ENERGY  | Grupo SANJOSE |            |               |
|   | Dic. 15       | Dic. 14    | Var.(%)       |
| Revenue                                       | 12,691        | 11,321     |               |
| Earnings before interest, taxes, D&A (EBITDA) | 3,419         | 2,816      | 12.1%         |
| EBITDA margin                                 | 26.9%         | 24.9%      | 21.4%         |
| Earnings before interest and taxes (EBIT)     | 1,295         | 665        | --            |
| EBIT margin                                   | 10.2%         | 5.9%       |               |
| Earnings before tax of continued operations   | 767           | -1,475     |               |
| <b>Backlog (millions of euros)</b>            | <b>553</b>    | <b>718</b> | <b>-23.0%</b> |

Grupo SANJOSE has in this line of activity a contracted portfolio of EUR 553 million, which will materialise as increased activity of the group in a period of approximately 20 years.

The reduction given in 2015 is due to the production realized and the adjustment resulting as a result of the periodic review carried out by the Group of the main variables that make up the backlog figure: the impact of recent regulatory changes and occupancy levels.

#### Concessions and Services

Net revenue for 2015 stood at EUR 46.6 million.

EBITDA positively influenced in part by the final commissioning of hospitals in Chile, and the beginning of their operation, stood at EUR 9.2 million, assuming a margin of 19.8 %.

The negative result before tax is mainly driven by costs associated with the change in the structure of financing of concession projects in Chile, including the cancellation of the derivatives of the initial syndicated financing. This is a temporary situation, which will be offset via financial cost savings throughout the operational phase of the concession.

At 2015-year end, the Group's portfolio in this business line amounted to EUR 263 million.

| Thousands of Euros                            |               |            |               |
|---|---------------|------------|---------------|
| CONCESSIONS AND SERVICES                      | Grupo SANJOSE |            |               |
|   | Dic. 15       | Dic. 14    | Var.(%)       |
| Revenue                                       | 46,589        | 41,468     | 12.3%         |
| Earnings before interest, taxes, D&A (EBITDA) | 9,232         | 3,684      | 150.6%        |
| EBITDA margin                                 | 19.8%         | 8.9%       |               |
| Earnings before interest and taxes (EBIT)     | 6,416         | -3,272     | --            |
| EBIT margin                                   | 13.8%         | -7.9%      |               |
| Earnings before tax of continued operations   | -11,485       | -387       | 2867.7%       |
| <b>Backlog (millions of euros)</b>            | <b>263</b>    | <b>322</b> | <b>-18.3%</b> |

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## 2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2015 with an average payment term of 52 days. This figure is within the average legal period established by law 15/2010 which is 60 days.

A significant number of the Group's operations are with public-sector clients, such as States, autonomous communities, municipalities, local governments and other public bodies, which settle payment obligations in longer term than those established by law. Due to these circumstances, there are one-off payments to suppliers which would exceed the legal limits. However, the group applies standard practices in the industry, and any one-off payments out of term can be considered an objective reason and non-abusive character in accordance with article 3 of the law 3/2004.

## 2.5. Information on events relating to the environment and to human capital

In view of the business activities carried on by the Group companies, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to their equity, financial position and results.

The Group's human resources policy consists basically of maintaining and hiring committed and knowledgeable teams with a high degree of specialisation, capable of generating new business opportunities and offering the best customer service.

In addition, specialised training in each business has been strengthened in order to improve the Group's processes and safety levels.

## 3. Liquidity and capital resources

### Liquidity

The Group pursues the prudent management of the liquidity risk based on the maintenance of sufficient cash and marketable securities, availability of financing through a sufficient level of committed credit facilities and sufficient capacity to settle market positions. The Company calculates its cash requirements through a 12-month cash budget.

Treasury is administered centrally in order to optimise resources through a "cash pooling" system. In the event of cash surplus, short-term investments are held in safe highly liquid deposits.

During 2015, net financial debt is as follows:

| Thousands of Euros  |                |             |                  |             |               |
|---|----------------|-------------|------------------|-------------|---------------|
| NET CASH POSITION   | Dic. 15        |             | Dic. 14          |             | Var.          |
|   | Amount         | %           | Amount           | %           |               |
| Other short term financial investments                            | 61,941         | 2%          | 82,883           | 29%         | -25.3%        |
| Cash and cash equivalents   | 231,834        | 79%         | 203,260          | 71%         | 14.1%         |
| <b>Total cash</b>   | <b>293,775</b> | <b>100%</b> | <b>286,143</b>   | <b>100%</b> | <b>2.7%</b>   |
| Long term financial liabilities (*)                               | 405,944        | 89%         | 373,386          | 77%         | 8.7%          |
| Derivative financial instruments non current liabilities          | 1,196          | 0%          | 31,697           | 7%          | -96.2%        |
| Short term financial liabilities                                  | 48,743         | 1%          | 78,130           | 5%          | -37.8%        |
| <b>Total debt</b>   | <b>455,883</b> | <b>100%</b> | <b>483,213</b>   | <b>100%</b> | <b>-5.7%</b>  |
| Financial liabilities related to non current assets held for sale | 0              |             | 1,277,287        | 100%        |               |
|   | 0              |             | 1,277,287        |             |               |
| <b>TOTAL NCP</b>  | <b>162,107</b> |             | <b>1,474,357</b> |             | <b>-89.0%</b> |

(\*) Regardless of the actual date of repayment, accounting financial debt that is affecting the financing of goods or assets classified in the consolidated balance sheet also as "current" (real estate developments) is classified as "current".

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Net financial debt at 2015 year end stands at EUR 162.1 million compared to the EUR 1,474.4 million at December 2014, as a consequence of the exit of San Jose Desarrollos Inmobiliarios, S.A.U. and subsidiaries from the Group.

Assets and liabilities improve in 2.7% and 5.7%, respectively, despite the settlement of financial derivatives amounting to EUR 30.5 million at 31 December 2014.

The decline in passive positions is mainly due to financing transactions that occurred in Chile during the year. In March 2015, the Group carried out a bond issue in the Chilean capital market. This issue has enabled the group to optimise the financial structure since it replaced bank debt; debt was reduced with group resources and a surplus was used to make an early repayment of corporate debt in Spain reducing indebtedness and financial cost.

The total value of bonds was UF 6,302,000 (EUR 226.9 million) with maturity in June 2021.

The issue of bonds was structured in two series. A series amounting to UF 5,597,000, and at a nominal rate of 2.95% and the B series amounting to UF 705,000 and a 4% nominal interest rate.

Maturity and first instalment were settled on 30 June 2015 amounting to EUR 35 million.

With the issuance of bonds the Group has achieved a triple objective:

- i) To get a proper rating of the bonds by means of the endorsement of emission draft accounts with the proceeds of the bonds and to help the concessionaire replace Bank financial debt with recourse with non-bank debt without recourse.
- ii) To improve the financing situation of the concessionaire in Chile, reducing borrowing costs for the company and improving the future dividend flow. Part of the proceeds of the bonds will be used to pay in advance the Chilean syndicated credit facilities and the advance payment of the derivative (SWAP) of the syndicated credit facilities of the concessionaire, as well as the payment of the subordinated bank debt.
- iii) To pay in advance on behalf of Constructora San Jose, S.A. the corporate debt due to the syndicated credit facilities of Constructora, signed just 3 months ago, on 29 December 2014, reinforcing and confirming the commitment of Constructora San Jose, S.A. to creditors, and allowing the company to improve its financial structure and lower its costs.

Likewise, debt financial debt includes details for the funding of non-recourse projects to Grupo SANJOSE amounting to EUR 185.9 million at 31 December 2015.

#### **Capital Resources**

The Group does not expect any material change in its structure, including equity and debt, or the relative cost of capital resources during year 2015. On the other hand, since the objective of the entity goes through trying to reduce debt this will mean a decrease in the proportion of the same on equity.

#### **Future contractual obligations**

Within the line of real estate activity, there are commitments to purchase land amounting to EUR 650.1 thousand.

#### **4. Main risks**

The Group operates in sectors, countries and socio-economic and legal environments that involve the assumption of different levels of risk caused by these conditions. The Company manages these risks in order to avoid involving a loss of profitability for its shareholders or cause trouble to customers. In order to exercise this control, the company has tools which allow the identification of risks in advance in order to prevent or minimize the same.

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### **Operational risks**

Main risks arising from the activities of the Group are assuming operations (whether construction, concessions or maintenance) which shall not involve the sufficient return for investments, international diversity where the Company operates or cause a decrease in value of real estate assets.

To avoid accepting unprofitable projects, an individual study of each project is carried out ensuring profitability of the same.

Additionally, the Group holds an International Legal Department, which analyses the potential impact of different regulatory frameworks in the activity of the company.

To adjust the price of its real estate assets to market value, the company commissions to independent experts the assessment of property of the Group, ensuring that value reflected thereof is suitable to market prices.

### **Financial risks**

Due to its activity, the Group faces the following risks arising from payment and collection rights of business transactions:

**Interest rate risk:** This is the main risk to which the Group is exposed as a result of the bank borrowings described in the notes to the consolidated financial statements. In order to minimise exposure to this risk. The Group's financial management has arranged cash flow hedges to protect the Company against foreseeable interest rate increases in the future.

**Foreign currency risk:** The Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, there is currently no significant foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the Euro. In view of the Group's geographical expansion over the last few years, exposure to foreign currency risk may arise in the future. Should this risk arise, the best solution will be analysed in order to minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

**Credit risk:** risk which arises from customer defaults, is managed by means of the preventive assessment of the solvency rating of the Group's potential customers at the beginning of the relationship and throughout the duration of the contract, evaluating the credit rating of the outstanding amounts receivable and reviewing and segregating the estimated recoverable receivables from doubtful receivables.

**Liquidity risk:** Dealt with in detail in section 3 of this report.

### **5. Events occurred after the reporting period**

On 20 January 2016 took place the Extraordinary Shareholders Meeting of the associate "Distrito Castellana Norte, S.A." (formerly, "Desarrollos Urbanísticos Chamartín, S.A."), the capital was increased in EUR 23,246 thousand. The Group, through its associate "Desarrollos Urbanísticos Udra, S.A.U.", attended said capital increase subscribing and paying up 18,921 shares, representing 24.46% of the share capital, for a total value of EUR 5,686 thousand.

There are no other significant events occurred after 31 December 2015 which may have impacted on the accompanying financial statements

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## 6. Future outlook

The changing trend in the business cycle of Spain during the last years, together with growth forecasts for the years 2016 and 2017 and the GDP improvement, suggest that domestic economy will continue the improvement trend of the last year within a framework of global content growth.

The Group has focused its activity on the construction sector and the provision of services, without neglecting real estate opportunities, related to real estate assets owned.

The main lines of action of the Group's business plan are:

- To keep the procurement level in the domestic market.
- To continue with the international activity, through a geographic diversification, and by business line:
  - o Taking advantage of the value acquired in countries where it is present (Abu Dhabi, Chile, Timor, etc.) to increase its presence.
  - o Taking advantage of new opportunities for expansion.

In this sense, in the last quarter of 2015, it has been awarded the construction of two hospitals in Chile, amounting to more than EUR 100 million, to be executed in two years. The Health Service of Coquimbo, under the Chilean Ministry of Health, has awarded Constructora San José the construction works of the new health infrastructure for EUR 85.88 million. The new hospital, designed to enhance energy savings, will feature more than 40,000 square meters of building area, with 340 beds.

Additionally, in 2015 the Group has added to its areas of activity, Malta and Mexico, with two construction contracts amounting to EUR 11.5 million and EUR 12 million, respectively, involving the use of two opportunities to venture into new countries.

As part of the expansion policy, in 2015 the Central Africa Development Bank has awarded SANJOSE the rehabilitation and renovation of its headquarters in Brazzaville, capital city of Republic of Congo. This award reinforces the Group's growth in the country, which is currently building the new Ministry of the Interior. The headquarters will be located on the main street of Brazzaville, covering a total surface of approximately 8,000 sqm. The project includes the restoration and modernization of the facades, update of all technical facilities, various interior upgrades that will transform the current office into an "open space". The works will involve an investment of USD 22.2 million and have an execution term of 30 months.

In line with this trend, after the commissioning and implementation of the Hospitals Chile already built by the Group in previous years, takes places the operation of non- health services for a period of 15 years, which will provide recurring income during the same. Likewise, Grupo SANJOSE will continues with the work started abroad, as the new hospital in Al Ain in UAE, awarded by Abu Dhabi, the rehabilitation and maintenance of the 133 kilometer-long stretch of Raebarely - Band national highway of India or the enlargement of the national airport of Nepal.

With regards to the domestic market, Grupo SANJOSE was awarded the implementation of the new Faculty of Health Sciences and the new Veterinary Hospital of Pets and Large Animals of the CEU University Cardenal Herrera, to be built in the Campus Alfara del Patriarca (Valencia). Both projects will involve an investment of EUR25 million. The deadline for the implementation of the new building of the Faculty of Health Sciences is 16 months, while work on the new Veterinary Hospital shall be completed in 8 months. The new buildings will mean a quantum leap for the University, providing more suitable academic and research spaces.

Similarly, the Ministry of Development has awarded, in the first half of 2015, the Joint Venture formed by SANJOSE and "PROBISA Vías y Obras", the maintenance and operation of sundry stretches of Lorca and Murcia national roads. The contract includes an amount of EUR 18.66 million for 4 years, extendable 2 years.

Similarly, works on the future headquarters of the courts of Guadalajara have been started with the laying of the first stone. The new building will add 12,400 sqm arranged into six floors to the 16 existing courts in Guadalajara. The project to be implemented by Constructora San José will involve an investment of EUR 10.97 million and shall be completed by 2019.

The Group will seek to maintain excellent quality standards in carrying out all activities. In this line, Grupo SANJOSE has risen to position 164 in the world ranking of the specialized publication "Engineering News-Record" (ENR) "Top 250 International Contractors" ranking of the leading groups of engineering and construction at international level, prepared annually by ENR. This classification of the American magazine is a global benchmark in the construction sector, and is accepted by government authorities in several countries as a sine qua non to be shortlisted in many tenders.

Also during 2015, the building Lanzadera Universitaria de Centros de Investigación Aplicada (LUCIA) of the University of Valencia (UV), built by SANJOSE, has been certified as the most sustainable building in Europe and the second worldwide. The UVA LUCIA building, erected in the Campus Miguel Delibes, has obtained the highest score for the Leed Platinum certification of a new building.

Another example of this performance is the Louvre Abu Dhabi Museum (United Arab Emirates) which was granted in 2015 the "Project of the Future 2015", a prize awarded in the first edition of the "Identity Design Award" held in Dubai and organised by Identity, a leading magazine devoted to design, architecture and contemporary real estate in the region. It comes to recognise construction projects that establish the UAE as a center of architecture.

An increase in public tenders is not expected in the short term at domestic level, however, the international market, especially in emerging countries, presents business opportunities for the Group, which in its expansion policy, seeks to exploit these opportunities. It also will continue to work to further consolidate its national presence, also relying on the provision of better behavior in the private sector. All this, supported by macroeconomic prospects for improving the economy, both nationally and internationally, are positive arguments for the future of construction, main line of activity of the Group. It is also expected to increase its international weight in turnover.

Considering the portfolio of EUR 1,835 million, its organic stability is ensured, foreseeing to maintain the average size of projects, trying to seize new opportunities, both in Spain and in foreign countries, especially in those where it is present.

The Group is not estimated, based on information available to date, to face risk and / or uncertainty substantially different from those already taken place in year 2015.

## **7. R&D Activities**

Grupo SANJOSE, aware of the importance that represent the activities of Research, Development and Innovation for competitiveness and business success, develops and collaborates in R &D&I trying to offer innovative technical solutions that meet the demands and needs of its customers .

In order to facilitate the detection of opportunities, generating innovative ideas and the development of R&D activities, a R&D Management System following the guidelines set out in the standard UNE 166002 and having obtained the AENOR recognition through certification in the following companies has been implemented:

| Company                                | Type of certificate | Certificate # |
|--|---------------------|---------------|
| CONSTRUCTORA SAN JOSE S.A.             | R&D&i Management    | IDI-0056/2010 |
| SANJOSE ENERGIA Y MEDIO AMBIENTE, S.A. | R&D&i Management    | IDI-0056/2010 |

The R&D system of Grupo SANJOSE addresses the application of new construction technologies, the optimisation of procedures and services, the usage of innovation as main searching tool for the implementation of new improvement opportunities, the promotion of new technologies and the cared protection of the environment. The company has implemented a working method based upon guidelines set out by UNE 166002. This method allows the optimisation of activities and R&D&i Project, as well as defining documentation and management.

Among the main strategic technology areas for the development of R&D&i projects, highlight, among others, technology applicable to building and civil works, renewable energy and energy efficiency, new materials and construction processes, development of tools for the improvement in the provision of maintenance and services.

Among the main strategic technology areas for the development of R&R&i projects, highlight, among others, technology applicable to building and civil works, renewable energy and energy efficiency, new materials and construction processes, development of tools for the improvement in the provision of maintenance and services. During 2014, the Group has completed several projects started in 2013. During 2015 the Group is undergoing projects under the frame of the "Modernisation project of the hydraulic infrastructure in the main Canal of the irrigation area of Genil, in the municipal district of Genil (Córdoba)", which come to clean the sludge of the canal by Molecular Sonic Structured Teams, which improve the hydration of the sludge allowing their pumping, with lower consumption of water.

Likewise, in 2015, technology projects within the international expansion framework of the Group have been developed due to the domestic increase in research activities. Further, projects are expected to be increased also in 2016.

Cooperation between companies has become a determining factor for the Group. The scope of collaboration extends to regional, national, and international areas, as well as different frames of collaboration, either at company, college, or intermediate organisation or association level.

In the field of management, we have consulting services specialized in innovation. Their objective is to boost the improve of the R&R&i management of the organization through the optimization of its innovation process in order to improve efficiency; as well as in the provision of advice and support services for R&D&i management, seeking partnerships, grants, tax benefits and deductions.

Within the framework of collaboration with public entities or institutions, special attention should be paid to the close cooperation with the "Construction Technology Civil Engineering Department of the Polytechnic University of Madrid." Other collaboration agreements have also be signed with other universities.

## **8. Treasury share transactions**

The Company hand not carried out transactions involving treasury shares at 31 December 2015 and 2014.

## **9. Other relevant information**

### **Stock exchange information**

The shares of Grupo SANJOSE trade on the Madrid Stock Exchange. The main indicators and the evolution of the shares are as follows:



Translation into English of consolidated Director's report for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

|  | 2015   | 2014   |
|--|--------|--------|
| Capitalization *<br>(Thousands euros)  | 59,824 | 53,321 |
| Nº of shares<br>(x 1.000)              | 65,026 | 65,026 |
| Last price of the period<br>(euros)    | 0.92   | 0.82   |
| Highest price of the period<br>(euros) | 1.38   | 1.49   |
| Lower price of the period<br>(euros)   | 0.74   | 0.66   |
| Volume<br>(Thousands of shares)        | 28,206 | 24,338 |
| Actual<br>(Thousands euros)            | 29,323 | 27,544 |

\* Capitalization is calculated with listed shares and does not include shares from capital increases which have not been listed yet.

#### Dividend Policy

As a result of the terms and conditions of the contractual financing framework the syndicated loan in Spain, there are restrictions on the distribution of dividends.

#### Proposed distribution of profit

The directors of the parent company will propose the General Meeting of Shareholders not to distribute the profit for 2015, amounting to EUR 35,289 thousand, so as to offset "Negative results from previous years".

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**Appendix I to the Directors' Report  
ANNUAL CORPORATE GOVERNANCE REPORT**

**APPENDIX I MODEL**

**ANNUAL CORPORATE GOVERNANCE REPORT  
OF LISTED COMPANIES**

PARTICULARS OF ISSUER

END OF FISCAL YEAR

31/12/2015

TAX ID. .A-  
36046993

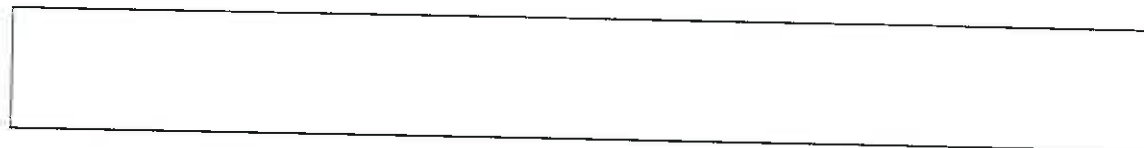
Company name:

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

Registered office:

ROSALIA DE CASTRO 44 36001 PONTEVEDRA

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**MODEL OF ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

A.1 Complete the following table on the Company's capital:

| Date of last change | Social capital (€) | Number of shares | Number of voting rights |
|---------------------|--------------------|------------------|-------------------------|
| 27/06/2008          | 1,950,782.49       | 65,026,083       | 65,026,083              |

State whether there are multiple classes of shares with different related rights:

Yes

No

A.2 List the direct and indirect owners of significant holdings in the Company at year-end, excluding Directors:

| Name of shareholder               | Number of direct voting rights | Number of Indirect voting rights | % of voting rights |
|-----------------------------------|--------------------------------|----------------------------------|--------------------|
| Ms. MARIA VIRTUDES SANCHEZ AVALOS | 5,084,455                      |                                  | 7.82%              |
| Ms. JULIA SANCHEZ AVALOS          | 5,091,103                      |                                  | 7.83%              |
| LIBERBANK,S.A.                    | 0                              | 3,079,978                        | 4.74%              |
| Ms. MARIA JOSE SANCHEZ            | 0                              | 3,509,319                        | 5.40%              |

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|        |  |  |  |
|--------|--|--|--|
| AVALOS |  |  |  |
|--------|--|--|--|

| Name of shareholder       |                                |                         |
|---------------------------|--------------------------------|-------------------------|
|                           | Name of direct shareholder     | Number of voting rights |
| LIBERBANK,S.A.            | BANCO CASTILLA LA MANCHA       | 3,079,978               |
| MARIA JOSE SANCHEZ AVALOS | VALJOYVAL HOLDING ESPAÑA, S.L. | 3,509,319               |

Indicate the most significant movements in the shareholder structure during the year:

A.3 Complete the following tables on the members of the Company's Board of Directors who own Company shares:

| Name or Corporate Name of the Member | Number of direct voting rights | Number of indirect voting rights | % total voting rights |
|--------------------------------------|--------------------------------|----------------------------------|-----------------------|
| MR JACINTO REY GONZALEZ              | 16,224,999                     | 15,176,795                       | 48,29%                |
| MY JACINTO REY LAREDO                | 213,140                        | 0                                | 0.33%                 |
| MR ENRIQUE MARTIN REY                | 102                            | 0                                | 0.00%                 |
| MR ROBERTO ALVAREZ ALVAREZ           | 180,000                        | 0                                | 0.28%                 |
| MR RAMON BARRAL ANDRADE              | 348,000                        | 0                                | 0.54%                 |
| MR JOSE OTERO NOVAS                  | 17,523                         | 0                                | 0.03%                 |

| Name or Corporate Name of the Member | Through: name or corporate name of the direct holder | Number of voting rights |
|--------------------------------------|--|-------------------------|
| MR JACINTO REY GONZALEZ              | PINOS ALTOS XR, SL                                   | 15,176,795              |

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|   |               |
|---|---------------|
| <b>% total of voting rights in possession of the Board of Directors</b> | <b>49.44%</b> |
|---|---------------|

Complete the following tables on the members of the Company's Board of Directors who hold Company share options:

- A.4 Give details of any relationships of a family, commercial, contractual or corporate nature existing between the owners of significant holdings, insofar as they are known to the Company, unless they have scant relevance or arise from the ordinary course of business:**

|                             |
|-----------------------------|
| <b>Name of relationship</b> |
| Ms. JULIA SANCHEZ AVALOS-   |

**Type of relationship:** Parenthood

**Brief description:**

The three holders of stakes are sisters: Maria José is holder through her indirect stake on the company Caroval Holding S.A.

- A.5 Give details of any relationships of a commercial, contractual or corporate nature existing between the owners of significant holdings and the Company, unless they have scant relevance or arise from the ordinary course of business:**

- A.6 Indicate whether any side agreements affecting the Company have been disclosed to the Company as provided in Article 112 of the Securities Market Law. If so, provide a brief description and list the shareholders bound by the agreement:**

Yes    x    No

|  |
|--|
| <b>Members of the agreement</b>                              |
| GRUPO EMPRESARIAL SAN JOSE, S.A.<br>MR. JACITNO REY GONZÁLEZ |

**% of capital affected:** 48.29%

**Brief description of the agreement:**

On 29 December 2014, within the finance restructuring of the company, GESJ and other companies of the Group entered certain financial agreement with creditors, among which is a syndicated credit loan

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assumed by GESJ as debtor Said agreement consider that part of the debt may not be attended within maturity dates and shall be converted into shares of GESJ in a new emission of shares.

The right of conversion of debt into shares is based on a commitment agreement of warrants pursuant to provisions contained un Article 530 of the Companies Act, which sets put the voting terms at the General meeting for the approval of said warrants and limits the free transfer of share of GESJ by Mr. Jacinto Rey Gonzalez and establish the preemptive right of shareholders of said warrants.

Indicate whether there are any concerted actions. If applicable, provide a brief description of the same:  
 Indicate whether there are any concerted actions. If applicable, provide a brief description of the same:  
 Yes No X

In the event of having recorded a breach of agreement or concerted actions during the year, please provide details:

The Company is not aware of any concerted actions with shareholders.

**A.7** Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company, in accordance with Article 4 of the Securities Market Law: If applicable, provide a brief description of the same:

Yes x No

| Name                     |
|--------------------------|
| Mr. JACINTO REY GONZALEZ |

| Remarks                       |
|-------------------------------|
| 48.292% of the social capital |

**A.8** Complete the following tables on the Company's treasury stock:

At year-end:

| Number of direct shares | Number of indirect shares | % total social capital |
|-------------------------|---------------------------|------------------------|
| 0                       | 0                         | 0.00%                  |

(\*) Through:

Give details of any significant variations during the year, in accordance with Royal Decree 1362/2007:

|                                    |
|------------------------------------|
| Explain any significant variations |
|------------------------------------|

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**A.9 State the conditions and term of the current authority conferred by the Shareholders' Meeting on the Board of Directors for acquisitions or transfers of treasury stock.**

There are currently no applicable agreements on the same.

**A.9. (2) Estimated floating capital:**

|                            |       |
|----------------------------|-------|
|                            | %     |
| Estimated floating capital | 24.80 |

**A.10 Indicate, as appropriate, any statutory or bylaw restrictions on the exercise of voting rights. And specially, any statutory restrictions on the acquisition of holdings in the capital.**

Yes      x                      No

| Description of restrictions  |
|--|
| <p>The transfer of warrants issued as a consequence of the finance restructuring agreement signed on 29.12.2014 is subject to two terms:</p> <p>i) the warrants shall be transferred together with the creditor's loan represented by the same.</p> <p>ii) GESJ shareholders hold preemptive right of said warrants.</p> |

**A.11 Indicate whether the Shareholders' Meeting has resolved to adopt countermeasures in the event of a tender offer pursuant to the provisions of Law 6/2007.**

Yes                                      No x

If so, explain the measures approved and the circumstances in which the restrictions would be ineffective:

**A.12 Indicate whether the company has issued securities not negotiated on the community regulated market.**

Yes      x                      No

If so, indicate types of securities and all rights and obligations inherent to the same.

Warrants issued provide their holders the right to transform them into GESJ shares if said warrants are not attended within maturity dates.

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**B GENERAL MEETING**

**B.1 Indicate and detail the differences, if any, between the required quorum and that set forth in the Spanish Companies Act (LSC) for convening the General Shareholders' Meeting.**

Yes No x

**B.2 Indicate and detail the differences, if any, with regards to the system contemplated in the LSC for signing corporate agreements:**

Yes No x

Describe differences with regards to the established system by the LSC.

**B.3 Indicate the rules applicable to the amendment of the company's bylaws. In particular, the majority required in order for the bylaws to be amended and, as the case may be, stipulate the legal provisions for the protection of the rights of the partners in the amendment of the bylaws.**

According to Article 17 of the By-Laws, the Ordinary or Extraordinary General Meeting can validly resolve increase or reduce capital and any other modification of bylaws, issuance of bonds (in cases where legally appropriate) as well the transformation, merger, spin-off or transfer of assets and liabilities and the transfer of residence abroad, when fifty percent (50%) of the share capital with voting rights. is present or represented at first call, or, at second call, when twenty five percent (25%) of the capital is present. Although when shareholders attending the meeting represent less than fifty percent (50%) of the subscribed capital with voting rights, the agreements referred to by this section can be adopted with the affirmative vote of two thirds of capital present or represented at the meeting.

3. Absences occurring after the General Meeting will not affect the validity of the meeting, nor alter the voting quorum.

Article 21 - Deliberation and adoption of resolutions. By-Laws.

5. For the adoption of agreements in terms of Article 194 of the Companies Act, if the capital present or represented exceeds fifty percent, agreements shall be adopted by an absolute majority. However, the favourable vote of two thirds of the capital present or represented is required at second call when twenty five percent (25%) or more, yet not the 50%, of the capital is present.

Article 14. Constitution of the General Meeting Regulation of the Board

1. For ordinary or extraordinary General Meetings to validly resolve to increase or reduce capital and any other modification of bylaws, issuance of bonds (in cases where legally appropriate) as well the transformation, merger, spin-off or transfer of assets and liabilities and the transfer of residence abroad, the shareholders present or represented shall hold at least at first call the fifty percent of share capital with voting rights. On second call, the attendance of twenty five percent of said capital will be sufficient.

Article 21. Adoption of agreements and announcing the result. Regulation of the Board

2 For the adoption of special agreements under Article 14, if the capital present or represented exceeds fifty percent it is sufficient for that agreement to be adopted by an absolute majority. However, the favourable vote of two thirds of the capital present or represented at the meeting at second call is required when shareholders present or represented amount to twenty five percent or more of the share capital with voting rights without reaching fifty percent will be required.

Article 15 . Call of the general meeting.

4. Shareholders representing. at least three percent (3%) of the share capital may request a supplement to the call for a general meeting including one or more items on the agenda, provided that the new items are accompanied by a justification or, where appropriate, a justified proposed resolution.

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The exercise of this right must be by submitted and be received at et registered office within the five (5) days following the publication of the call. The additional notice must be published fifteen (15) days prior to the date set for the meeting of the General Meeting.

5. Shareholders representing at least three percent (3%) of the share capital may, in the same period prescribed in the preceding paragraph, submit proposals on agreed-on matters already included or to be included on the agenda of the meeting called.

The Company shall ensure the dissemination of these proposed resolutions and documentation through its website.

Articles 6.9, 6.10 and 15.4 of the Regulations of the Board.

**B.4 Give details of attendance at general meetings held during the financial year to which this report refers and during previous financial years.**

| Date of general shareholders' meeting | Attendance details     |                     |                      |       | Total  |
|---------------------------------------|------------------------|---------------------|----------------------|-------|--------|
|                                       | % of physical presence | % in representation | % of absentee voting |       |        |
|                                       |                        |                     | Electronic voting    | Other |        |
| 30/06/2014                            | 56.59%                 | 9.62%               | 0.00%                | 0.00% | 66.21% |
| 24/06/2015                            | 50.86%                 | 10.86%              | 0.00%                | 0.00% | 61.72% |
| 17/12/2015                            | 58.65%                 | 6.97%               | 0.00%                | 0.00% | 65.62% |

**B.5 Indicate whether there are any restrictions in the Bylaws establishing a minimum number of shares needed to attend the General Shareholders' Meetings:**

Yes    x                      No

|   |     |
|---|-----|
| Number of shares required for attendance to the General Shareholders' Meeting | 100 |
|---|-----|

**B.6 Section revoked.**

**B.7 Indicate the address of and how to access the company's Website to obtain corporate governance and General Meeting information that should be made available to the shareholders through the Company's Website.**

All information regarding corporate governance is available at the company's website (<http://www.grupo-sanjose.biz>) under the section "Shareholders and Investors" within Corporate Governance.

**C STRUCTURE OF THE COMPANY'S GOVERNING BODY**

**C.1 Board of Directors**

**C.1.1 Indicate the maximum and minimum number of board members stipulated in the company Bylaws:**

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|  |    |
|--|----|
| <b>Maximum number of board members</b> | 15 |
| <b>Minimum number of board members</b> | 5  |

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C.1.2 Complete the following table with the Board members:

| Personal or Corporate Name of board member | Representative | Seat on the Board | Position       | Date of 1st appt. | Date of last appt. | Election procedure              |
|--|----------------|-------------------|----------------|-------------------|--------------------|---------------------------------|
| MR. ROBERTO ÁLVAREZ                        |                | Independent       | MEMBER         | 27/06/2008        | 30/06/2014         | RESOLUTION SHAREHOLDERS MEETING |
| MR. RAMÓN BARRAL REY GONZÁLEZ              |                | Independent       | MEMBER         | 07/02/2014        | 30/06/2014         | RESOLUTION SHAREHOLDERS MEETING |
| MR. JACINTO REY GONZÁLEZ                   |                | Executive         | CHAIRMAN – CEO | 18/08/1987        | 30/06/2014         | RESOLUTION SHAREHOLDERS MEETING |
| MR. ENRIQUE MARTÍN REY                     |                | Proprietary       | MEMBER         | 28/06/2013        | 28/06/2013         | RESOLUTION SHAREHOLDERS MEETING |
| MS. ALTINA DE FATIMA SEBASTIAN GONZÁLEZ    |                | Independent       | MEMBER         | 27/06/2008        | 30/06/2014         | RESOLUTION SHAREHOLDERS MEETING |
| MR. JACINTOREY LAREDO                      |                | Executive         | VICE-CHAIRMAN  | 28/06/2012        | 28/06/2012         | RESOLUTION SHAREHOLDERS MEETING |
| MR. JAVIER REY LAREDO                      |                | Executive         | MEMBER         | 30/10/2006        | 28/06/2014         | RESOLUTION SHAREHOLDERS MEETING |
| MR. JOSE MANUEL OTERO NOVAS                |                | Independent       | MEMBER         | 28/08/2014        | 24/06/2015         | RESOLUTION SHAREHOLDERS MEETING |
| MR. NASSER HOMAID SALEM ALI ALDEREI        |                | External          | MEMBER         | 17/12/2015        | 17/12/2015         | RESOLUTION SHAREHOLDERS MEETING |
| MR. SUNIL KANORIA                          |                | Independent       | MEMBER         | 28/07/2015        | 17/12/2015         | RESOLUTION SHAREHOLDERS MEETING |

|                               |    |
|-------------------------------|----|
| Total number of board members | 10 |
|-------------------------------|----|

Indicate the terminations that occurred on the board of directors during the period being reported:

| Personal or Corporate Name of board member | Seat on the Board | Termination date |
|--|-------------------|------------------|
| MR. ROBERTO REY PERALES                    | EXECUTIVE         | 28/07/2015       |

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C.1.3. Complete the following tables on Board members and their respective categories:

**EXECUTIVE DIRECTORS**

| Name                     | Position within the Company |
|--------------------------|-----------------------------|
| MR. JACINTO REY GONZALEZ | CHAIRMAN AND CEO            |
| MR. JAVIER REY LAREDO    | MEMBER                      |
| MR. JACINTO REY LAREDO   | VICE-CHAIRMAN               |

|                                     |        |
|-------------------------------------|--------|
| Total number of executive directors | 3      |
| % on the Board                      | 30.00% |

**EXTERNAL PROPRIETARY DIRECTORS**

| Personal or corporate name<br>of board member | Personal or corporate name of the significant shareholder they<br>represent or which proposed their appointment |
|---|---|
| MR. ENRIQUE MARTÍN REY                        | MRS. MARIA JOSE SANCHEZ AVALOS  |

|   |         |
|---|---------|
| Total number of independent external<br>directors | 1       |
| Total % of Board                                  | 10.00 % |

**EXTERNAL INDEPENDENT DIRECTORS**

Name of the Director:

MR. ROBERTO ÁLVAREZ ÁLVAREZ

Profile:

ECONOMIST

Name of the Director:

MR. RAMÓN BARRAL ANDRADE

Profile:

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ECONOMIST

**Name of the Director:**

MS. ALTINA DE FÁTIMA SEGBASTÍAN GONZÁLEZ

Profile:

ECONOMIST

**Name of the Director:**

MR. JOSÉ MANUEL OTERO NOVAS

Profile:

LAWYER

**Name of the Director:**

MR. SUNIL KANORIA

Profile:

ENTREPRENEUR

|   |         |
|---|---------|
| <b>Total number of independent external directors</b> | 5       |
| <b>Total % of Board</b>                               | 50.00 % |

Indicate whether any director classified as independent receives any amount or benefit from the company or from his/her own group, in any concept other than the remuneration as a board member, or whether he/she maintains or has maintained a business relation with the company or with any company within its group during the last financial year, in his/her own name or as significant shareholder, board member or top executive of a company that maintains or has maintained such relationship.

Roberto Álvarez received during 2015 non significant amounts for the professional services provided.

As the case may be, the board shall include a statement outlining the reasons why it deems that said board member can perform his/her duties in the capacity as independent board member.

#### OTHER EXTERNAL BOARD MEMBERS

Identify the members and the reason why they have not been considered in the groups below, as well as their connections to the Company or its directors and shareholders:

**Name of the Director:**

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MR. NASSER HOMAID SALEM ALI ALDEREI

Company, Director or shareholder he is relate to:

SANJ JOSE CONTRACTING LLC

Reasons:

Shareholder of San Jose Contracting LLC and Tecnocontrol Contracting LLC, associated of Grupo San Jose.

|  |         |
|--|---------|
| Total number of independent external directors | 1       |
| Total % of Board                               | 10.00 % |

Indicate the variations, if applicable, that occurred during the period in the typology of each board member:

| Personal or Corporate Name of board member | Date of variations | Previous condition | Current condition |
|--|--------------------|--------------------|-------------------|
| MR. JOSE MANUEL OTERO NOVAS                | 28/07/2015         | Other External     | Independent       |

C.1.4 Complete the following table with the information on the number of female board members for the last four financial years, including the capacity of such board members:

|                | Total number of board members |      |      |      | % of total of board members in each typology |        |        |        |
|----------------|-------------------------------|------|------|------|--|--------|--------|--------|
|                | Year                          | Year | Year | Year | Year   | Year   | Year   | Year   |
|                | 2015                          | 2014 | 2013 | 2012 | 2015   | 2014   | 2013   | 2012   |
| Executive      | 0                             | 0    | 0    | 0    | 0.00%  | 0.00%  | 0.00%  | 0.00%  |
| Proprietary    | 0                             | 0    | 0    | 0    | 0.00%  | 0.00%  | 0.00%  | 0.00%  |
| Independent    | 1                             | 1    | 1    | 1    | 20.00%                                       | 33.00% | 25.00% | 20.00% |
| Other external | 0                             | 0    | 0    | 0    | 0.00%  | 0.00%  | 0.00%  | 0.00%  |
| Total          | 1                             | 1    | 1    | 1    | 10.00%                                       | 11.11% | 11.11% | 12.50% |

C.1.5 Explain, as the case may be, the measures taken by the company to ensure the inclusion of females onto the Board of Directors in an amount that may ensure the male/female equilibrium.

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| Explanation of the measures   |
|---|
| The Group wants to increase the number of women who form part of the Board of Directors as vacancies are produced. For that, Article 18.2 of the Board of Directors' Regulations includes as responsibility of the Appointment, Remuneration and Good Governance Committee to set as purpose increase the representation of the less representative gender and set put the guidelines of how to achieve the same. |

- C.1.6 Explain the measures, as the case may be, that the Appointments Committee may have agreed upon to ensure that selection procedures refrain from implicit bias that would otherwise impede the selection of female members, and that the company purposefully seeks to include and includes female candidates that meet the professional profile sought:

| Explanation of the measures   |
|---|
| With the new appointments of 2015, the Appointments, Remuneration and Good Governance Committee when suggesting said candidates applied all measures and considerations not to discriminate candidates due to gender reasons. |
| However, due to geographic reasons and business purposes, both appointments correspond to male members, Nasser Al-Darei and Sunil Kanoria.  |
| However, the Appointments, Remuneration and Good Governance Committee keeps in line with its goal to incorporate a more balanced Board of Directors from a gender point of view.  |

- If albeit the measures implemented, as the case may be, the number of female board members is still scarce or non-existent, explain the reasons to justify such scarcity:

| Explanation of the measures  |
|--|
| As indicated above, despite having considered candidates from both genders during 2015, experience and business reasons as well as country of residence of the candidates (India and UAE) motivated that the new members appointment are male. |

- C.1.6. (2) Explain the conclusions of the appointments committee on the verification of compliance with the Policy for Selecting Directors. And, in particular, on how this policy is promoting the objective of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. Explanation of conclusions

| Explanation of conclusions  |
|---|
| The Company has applied during 2015 . the same criteria as previous years for both the recruitment of Members and personnel.  |
| Criteria is based in policies devoted to seek and incorporate candidates with the best requirements in terms of suitable competence, knowledge and experience for the development of the functions entrusted, ensuring equity. In this sense, it should be highlighted the incorporation to the Board of Directors of Mr. Kanoria and Mr. Al-Derei, in order to boost the expansion of the Company in India and UAE, respectively, countries where the Company already operates and where the market shows growth perspectives. |

- C.1.7 Explain the manner in which shareholders with significant shares are represented on the board.

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Ms. María José and Ms. Julia Sánchez Avalos as significant shareholders have representation within the Board of Directors through the nominal directors Mr. Enrique Martín Rey.

Mr. Jacinto Rey González, as majority shareholder, is represented by himself and his sons Mr. Jacinto Rey Laredo and Mr. Javier Rey Laredo.

- C.1.8 Explain, as the case may be, the reasons why proprietary members were appointed at the request of shareholders with stakes amounting to less than 3 % of the stock capital:

Detail any failure to address formal requests for board representation made by shareholders with stakes equal to or exceeding that of others at whose request proprietary members were appointed. If so, explain the reasons why the request was not entertained.

Yes

No x

- C.1.9 Indicate whether any board member resigned his/her post before the end of his/her term of office, whether reasons were given to the Board and how, and, if in writing to the entire Board, at least explain the reasons given by the board member:

**Name of the Member:**

MR. ROBERTO REY PERALES

**Reasons:**

Simplification of the organisational and management structure of the company after the finance restructuring process.

- C.1.10 Indicate, if any, the powers delegated by any Chief Executive Officers:

**Name of the Member:**

MR. JACINTO REY GONZÁLEZ

**Brief description:**

ALL POWERS AND FACULTIES INHERENT TO THE BOARD OF DIRECTORS, UNLESS THOSE INDELEGABLE BY LAW.

- C.1.11 Identify, if any, the board members that hold administrator or directive positions in other companies making up the group of companies listed on the stock market:

| Personal or Corporate Name of board member | Corporate name of entity of group | Position | ¿Executive functions |
|--|-----------------------------------|----------|----------------------|
| JACINTO REY GONZALEZ                       | INMOBILIARIA 2010 SA              | CHAIRMAN | YES                  |
| JACINTO REY GONZALEZ                       | SAN JOSE COPNSTRUCTORA PERU S.A.  | CHAIRMAN | YES                  |
| JACINTO REY GONZALEZ                       | SAN JOSE PERU SAC                 | CHAIRMAN | YES                  |



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|                      |   |                       |     |
|----------------------|---|-----------------------|-----|
| JACINTO REY GONZALEZ | CARLOS CASADO SA  | CHAIRMAN              | YES |
| JACINTO REY GONZALEZ | SAN JOSE CONSTRUCTION GROUP INC                                   | CHAIRMAN              | YES |
| JACINTO REY GONZALEZ | SANJOSE TECNOLOGIAS PERU S.A.C.                                   | CHAIRMAN              | YES |
| JACINTO REY GONZALEZ | SOCIEDAD CONCESIONARIA TECNOCONTROL                               | CHAIRMAN              | YES |
| JACINTO REY GONZALEZ | UDRA MEXICO S.A.A DE CV   | SOLE DIRECTOR         | YES |
| JACINTO REY GONZALEZ | INMOBILIARIA MAERICANA DE DESAROLLOS URBANISTICOS S.A.U.          | SOLE DIRECTOR         | YES |
| JACINTO REY GONZALEZ | DESARROLLOS URBANISTICOS UDRA S.A.U.                              | SOLE DIRECTOR         | YES |
| JACINTO REY GONZALEZ | SAN JOSE CONCESIONES Y SERVICIOS S.A.U.                           | SOLE DIRECTOR         | YES |
| JACINTO REY LAREDO   | CONSTRUCTORA SAN JOSE CABO VERDE S.A.                             | DIRECTOR              | YES |
| JACINTO REY LAREDO   | SAN JOSE FRANCE S.A.  | SOLE DIRECTOR         | YES |
| JACINTO REY LAREDO   | CONSTRUCTORA UDRA LTDA.   | SOLE DIRECTOR         | YES |
| JACINTO REY LAREDO   | SAN JOSE CONSTRUCTION GROUP INC                                   | CHAIRMAN OF THE BOARD | YES |
| JACINTO REY LAREDO   | SJB MULLROSER BAUGESELLSCHAFT MBH                                 | SOLE DIRECTOR         | YES |
| JACINTO REY LAREDO   | SAN JOSE BAUGMBH  | DIRECTOR              | YES |
| JACINTO REY LAREDO   | CONSTRUCTORA SAN JOSE, SA (PONTEVEDRA) REPRESENTATION IN PROTUGAL | PROXY                 | YES |
| JACINTO REY LAREDO   | CONSTRUCTORA SAN JOSE S.A.  | CHAIRMAN AND CEO      | YES |
| JACINTO REY LAREDO   | SAN JOSE INDIA INFRASTRUCTURE & CONSTRUCTION PRIVATE LIMITED      | DIRECTOR              | YES |
| JAVIER REY LAREDO    | CARLOS CASADO S.A.  | DIRECTOR              | NO  |
| JAVIER REY LAREDO    | CONSTRUCTORA SAN JOSE, SA (PONTEVEDRA)                            | PROXY                 | YES |

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|                   | REPRESENTATION IN PROTUGAL |                  |     |
|-------------------|----------------------------|------------------|-----|
| JAVIER REY LAREDO | CONSTRUCTORA SAN JOSE S.A. | MEMBER           | YES |
| JAVIER REY LAREDO | COMERCIAL UDRA             | CHAIRMAN AND CEO | YES |
| JAVIER REY LAREDO | CADENA DE TIENDAS S.A.U.   | SOLE DIRECTOR    | YES |

C.1.12 Provide details, if any, of company Board members who also sit on the boards of other entities not belonging to the same business unit and are listed on the Spanish Stock Exchange, of which the company is aware:

C.1.13 Indicate, and if so, explain whether the company has established rules on the number of other boards on which its own Board members may sit:

Yes

No X

C.1.14 Section revoked.

C.1.15 Indicate the comprehensive remuneration of the Board of Directors:

|  |       |
|--|-------|
| <b>Comprehensive remuneration of the Board of Directors (in thousands of Euros)</b>  | 2,851 |
| <b>Amount of the comprehensive remuneration for the concept of accumulated pension entitlements (in thousands of Euros)</b>        | 0     |
| <b>Amount of the comprehensive remuneration for the concept of accumulated former pension entitlements (in thousands of Euros)</b> | 0     |

C.1.16 Identify any senior management staff that is not also an executive board member, and indicate the total remunerations payable to said staff during the financial year:

| Name                        | Position                                     |
|-----------------------------|--|
| Ms. CRISTINA GONZALEZ LOPEZ | DIRECTOR TAX CONSULTING                      |
| Mr. JAVIER ALONSO LOPEZ     | CEO SAN JOSE DESARROLLOS INMOBILIARIOS, S.A. |
| Mr. IGNACIO ALONSO LOPEZ    | MANAGING DIRECTOR COMERCIAL UDRA, S.A.U.     |
| Mr. VALERIANO GARCIA GARCIA | CEO CONSTRUCTORA SAN JOSE, S.A.              |

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|                                   |  |
|-----------------------------------|--|
| Mr. JOSE MARIA REBOLLO OLLETA     | PRODUCTION MANAGING DIRECTOR<br>CONSTRUCTORA SAN JOSE, S.A.              |
| Mr. FRANCISCO FERNANDEZ FERNANCEZ | ASSOCIATED COMPANIES MANAGER   |
| Mr. ANGEL RODRIGUEZ TEJO          | Associated Company Manager   |
| Mr. JUAN ARESES VIDAL             | MANAGING DIRECTR CIVIL WORKS AND<br>PROCUREMENT CONSTRUCTORA SAN<br>JOSE |
| Ms. ESTELA AMADOR BARCIELA        | MANAGING DIRECTOR OF HHRR, QUALITY<br>AND MEDIA                          |
| Mr. JEAN CLAUDE CURELL CONSTANZO  | INTERNATIONAL DIRECTOR INDIA   |
| Mr. JOSE LUIS GOYA ARTETA         | Associated Company Manager   |
| Ms. LOURDES FREIRIA BARREIRO      | RISKS AND INSURANCE MANAGING<br>DIRECTOR                                 |
| Mr. PEDRO ALLER ROMÁN             | INTERNATIONAL DIRECTOR AFRICA  |

|  |       |
|--|-------|
| Total of remunerations for senior executives (in thousands of Euros) | 1,668 |
|--|-------|

C.1.17 Identify, if any, the members of the Board of Directors who are also members of the board of directors of companies that hold significant shares and/or group entities:

| Personal or Corporate Name of board member | Corporate name of significant shareholder | Position      |
|--|---|---------------|
| Mr. JACINTO REY GONZALEZ                   | PINOS ALTOS XR.S .L.                      | Sole Director |
| Mr. JACINTO REY LAREDO                     | CONSTRUCTORA SAN JOSE, S.A.               | Ceo           |
| Mr. JAVIER REY LAREDO                      | COMERCIAL UDRA                            | CHAIRMAN-CEO  |

Provide details of any relevant relations, as the case may be, other than those contemplated in the previous section, between members of the board of directors and significant shareholders and/or group entities:

Name or Corporate Name of the Board Member:  
MR. JACINTO REY LAREDO

Personal or Corporate Name of the Significant Board member:

MR. JACINTO REY GONZÁLEZ

Description of the relationship:

FIRST DEGREE FAMILY RELATIONSHIP (FATHER-SON)

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Nº 6429

Name or Corporate Name of the Board Member:

MR. JAVIER REY LAREDO

Personal or Corporate Name of the Significant Board member:

MR. JACINTO REY GONZÁLEZ

Description of the relationship:

FIRST DEGREE FAMILY RELATIONSHIP (FATHER-SON)

Name or Corporate Name of the Board Member:

MR. JACINTO REY LAREDO

Personal or Corporate Name of the Significant Board member:

MR. JAVIER REY LAREDO

Description of the relationship:

SECOND DEGREE FAMILY RELATIONSHIP (BROTHERS)

Name or Corporate Name of the Board Member:

MR. ENRIQUE MARTIN REY

Personal or Corporate Name of the Significant Board member:

MR. JULIA SÁNCHEZ AVALOS

Description of the relationship:

SECOND DEGREE FAMILY RELATIONSHIP (SON-IN-LAW)

C.1.18 Indicate whether any of the rules and regulations of the board were amended during the financial year:

Yes X

No

| Description of amendments   |
|---|
| The purpose was to adapt provisions of the Board of Directors' Regulations to the amendments by Law 31/2014 as of 3 December which amends the Companies Act regarding Corporate Governance. Amended Articles: 3,7,8,11 82), 12,14,15,16,17,18,19,24,28,31,32,34,35 and 36 |

C.1.19 Indicate the procedures for the selection, appointment, reappointment, appraisal and removal of Board members. Provide details of the competent bodies, the processes to be followed and the criteria employed in each of the procedures.

The members of the Board of Directors are appointment by the General Meeting or by the Board itself.

The proposal to reappoint members corresponds to the Appointment, Remuneration and Good Governance Committee for Independent member and to the Board for all other members.

The proposal shall be submitted together with a report on competence, excellence and merits of the member which shall be provided with the Minutes of the General Meeting or the Meeting of the Board.

The reappointment proposal for members other than independent members shall be backed up by a report from the Appointment, Remuneration and Good Governance Committee. The Appointment, Remuneration and Good Governance Committee shall assess the quality of the work.

The board of Directors includes proprietary, independent, executive and other external members.

Proprietary and Independent members should represent majority regarding executive members due to the complexity of the Group and the participation percentage of the executive members in the social capital of the company.

Independent members should be well-know professionals with sound experience and competence.

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- C.1.20 Explain to what extent the Board's annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

| Description of significant changes  |
|---|
| At the meeting of the Board of Directors held last 17 December 2015, the chairman of the Appointment, Remuneration and Good Governance Committee informed on the assessment method of the board and identified the areas to be improved, highlighting the submission of information of each of the issues of the agenda in advance so that all details could be analysed carefully and in detail, as well as the submission of Minutes to be approved in advance. |
| The Board analysed the assessment of the members and the report of the chairman of the Appointment, Remuneration and Good Governance Committee taking notice of the improvements suggested and agreeing measures for their implementation.  |

- C.1.20. (2) Describe the evaluation process and the areas evaluated by the Board of Directors aided, where applicable, by an external consultant, with regard to diversity in its composition and powers, the operation and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

The assessment procedure starts by submitting to each member separately a form, which once duly completed shall be addressed to the secretary and that are analysed by the board.

With regards to 2015, the analysis was positive, yet improvements mentioned in the previous section were agreed on.

- C.1.21 Indicate the cases in which Board members are obliged to resign.

Artículo 25º of the Board of Directors Regulations - Directors Cessation

Directors shall resign from their posts upon expiration of the period for which they were appointment, whenever elected by the General Meeting or when incurring into legal reason for such resignation.

Members of the Board must place their post at the dismissal of the Board of Directors and resign whenever incurring into prohibitions established by Art. 213 of the Companies Act and any other legal applicable provisions.

The Board of Directors shall not propose the cessation of independent directors until completion of the period which they were appointment for unless reasonable cause and duly reported to the Appointment, Remunerations and Good Governance Commission. Reasonable cause is that related to the non compliance with obligations and liabilities inherent to the post. Additionally, the cessation of independent board members from mergers or other similar transactions which may involve a change in the social capital structure of the company.

- C.1.22 Section revoked.

- C.1.23 Does the company require supermajorities other than the legal majorities for any type of resolution?

Yes

No x

If so, provide a description of the differences.

- C.1.24 Explain whether there are specific requirements other than those relating to Board members for being appointed Chairman of the board of directors.

Yes

No x

- C.1.25 Indicate whether the Chairman has a deciding vote:

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Yes  No

|  |
|--|
| <b>Matters in which there is a deciding vote</b>   |
| In compliance with article 26 of the by-laws and article 10 of the Board of Directors' Regulations, in the event of tied vote, the vote of the Chairman shall be decisive. |

C.1.26 Indicate whether the bylaws or board regulations establish any age limit on board members:

Yes No

C.1.27 Indicate whether the bylaws or board regulations establish a limited mandate for independent board members, other than established in the law:

Yes No

C.1.28 Indicate whether the bylaws or the board of directors' regulations establish specific regulations for delegating voting rights on the board of directors, how it is done and, in particular, the maximum number of delegations that may be conferred on a board member, as well as whether it has been made compulsory to delegate in a board member of similar class. If so, provide brief details of said regulations.

Article 26 of the By-Laws and 20 of the Board of the Board of Directors' Regulations state that representation shall be held by other member and when not being able to attend personally, proxy shall have been provide clear and detailed instruction on the issues of the agenda, when applicable. Non-executive members can only delegate their representation on non-executive members.

C.1.29 Indicate the number of board meetings held during the financial year. Likewise indicate, if any, the number of times the Board met without the chairman in attendance. Proxies granted with specific instructions for the meeting shall be counted as attendances.

|  |   |
|--|---|
| <b>Number of board meetings</b>  | 8 |
| <b>Number of board meetings without the attendance of the Chairman</b> | 0 |

If the chairman is the executive director, indicate the number of board meetings held in the absence and without representation on behalf of any executive director and chaired by the coordinating director.

|                           |   |
|---------------------------|---|
| <b>Number of meetings</b> | 0 |
|---------------------------|---|

Indicate the number of meetings of the various board committees held during the year.

| Commission  | Number of meetings |
|---|--------------------|
| APPOINTMENT, REMUNERATION AND GOOD GOVERNANCE COMISSION | 5                  |
| EXECUTIVE COMMISSION                                    | 3                  |

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|                         |   |
|-------------------------|---|
| AUDIT COMMITTEE         | 6 |
| INTERNATIONAL COMMITTEE | 2 |

C.1.30 Indicate the number of board meetings held during the year with the attendance of all its members. Proxies granted with specific instructions for the meeting shall be counted as attendances.

|  |        |
|--|--------|
| Attendance of Board Members                              | 5      |
| % of attendances of the total votes cast during the year | 97.00% |

C.1.31 Indicate whether the individual and consolidated financial statements submitted for approval to the board of directors are first certified:

Yes No X

Identify, as the case may be, the person or persons who certified the company's individual and consolidated financial statements, for their approval by the Board:

C.1.32 Explain, if any, the mechanisms put in place by the board of directors to ensure that board-prepared individual and consolidated financial statements are not presented at shareholders' general meetings if the audits report contains reservations.

-Financial information is reviewed by an independent auditor during financial year: six-monthly review (July), preliminary stage of the audit (November).

-Final stage of audit is started prior to the formalisation of the financial statements by the Board of Directors.

-The Board of Directors, through the Audit Committee, analyses the outcome of the independent auditor's report at each stage, specially, at final stage and ensures the adequate implementation of the auditor's recommendations by the financial Management in order to guarantee information's veracity to be forwarded to the General Shareholders' Meeting.

C.1.33 Is the Board Secretary also a board member?

Yes No X

C.1.34 Section revoked.

C.1.35 Indicate, as the case may be, the mechanisms established by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.

Article 33 of the by-laws and Article 16 of the Board Regulations empower the audit committee to raise the board for the selection, appointment, reappointment and removal of the external auditor as well as to set out the conditions of recruitment and to regularly gather information on the audit plan while preserving its independence in the exercise of its functions.

It is also authorised to establish appropriate relations with the external auditor and receive information on those issues that may jeopardize its independence and any others related to the process as well as other communications envisaged related to audit legislation and auditing standards. In any case, it should receive annually from the external auditors an independence declaration in relation to the entity or entities related to it directly or indirectly, as well as information of any

further services, of any kind, provided and the fees received from these entities by the external auditor, or by people or entities related to it, in accordance with audit regulations and provisions.

Finally it must issue annually, prior to the issuance of the audit report, a report on the independence of the auditor. This report shall contain, in any case, the assessment of the provision of additional services referred to in the preceding paragraph.

For the effectiveness of the exercise of its duties, the audit committee may seek the assistance of experts if it considers that for reasons of independence or specialisation, it is not enough with the technical means of the Company. The committee can as well ask for the cooperation of any of the Company's employee or directors, even ask them to appear before the committee without the presence of any other director.

C.1.36 Indicate whether the company changed its external auditor during the financial year. If so, identify the incoming and outgoing auditors:

Yes

No

In the event of disagreements with the outgoing auditor, please provide details:

C.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its business group and, if so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

Yes

No

|  | Company | Group | Total  |
|--|---------|-------|--------|
| Fees for non-audit work (in thousands of Euros)                        | 106     | 0     | 106    |
| Fees for non-audit work/total amount invoiced by the audit firm (in %) | 46.09%  | 0.00% | 46.09% |

C.1.38 Indicate whether the audit report on the financial statement for the previous financial year contains reservations or qualifications. If so, detail the reasons given by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.

Yes

No

C.1.39 State the number of consecutive years during which the current audit firm has been auditing the financial statement of the company and/or its business group. Also indicate the percentage of years the current audit firm has been auditing the accounts over the total number of years the financial statement have been audited:

|  | Company | Group   |
|--|---------|---------|
| Number of consecutive years  | 21      | 21      |
| Number of years audited by the current auditing company / number of years the company has been audited | 100.00% | 100.00% |

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C.1.40 Indicate and, if applicable, provide detail of the procedure by which directors may seek external consultancy.

Yes      x                      No

| Details of the procedure   |
|--|
| <p>Article 27 of the Board of Directors Regulations sets out the following: In order to appropriately develop their functions and duties, Directors, Commissions and Committees may request the Chairman of the Board the support of legal, accountancy and financial counsellors.</p> <p>Only certain problems of great significance and complexity may be subject to these services.</p> |

C.1.41 Indicate and, as the case may be, provide detail of the procedure by which board members can obtain the necessary information in advance to prepare for meetings of the governing bodies:

Yes      x                      No

| Details of the procedure   |
|--|
| <p>Article 26 of the Board of Directors Regulations - Disclosure rights</p> <p>The Director shall be duly informed on the performance of the Company and, with such purpose, may request information to top management executives, informing the Chairman or CEO of the same. Further, any Director may request, through the Chairman, CEO, Secretary and Deputy-Secretary of the Board, information deemed appropriate on the Company. Information Rights affect branch offices, both at domestic and International markets. Each member of the board shall have all the information submitted to the Board. The Chairman, Deputy-Chairman, the CEO, the Secretary and the Deputy-Secretary shall try to respond to information request directly or providing the name of the adequate person within the organisation. If the Chairman considers said information may negatively affect the organisation, the issue may be dealt with by the Board.</p> |

C.1.42 Indicate and, as the case may be, provide detail of whether the company established rules that oblige directors to report and, where appropriate, resign in cases where the image and reputation of the company may be at stake:

Yes      x                      No

| Explanation of the rules  |
|---|
| <p>Article 25 of the Board of Directors Regulations.</p> <p>Directors shall resign from their posts upon expiration of the period for which they were appointment, whenever having incurred into legal prohibitions established by the Companies Act or any other applicable regulations.</p> |

C.1.43 Indicate whether any member of the Board of Directors informed the company that he/she was tried or formally accused of any of the offences stipulated in Article 213 of the Spanish Corporations Act:

Yes                                      No x

Indicate whether the Board of Directors analysed the case. If the answer is yes, explain the reasons for the decision taken on whether or not the board member should continue to hold its post or, as the case may be, state the actions that the Board of Directors have taken up to the date of this report or the report intended to be issued later.

- C.1.44 List the still valid significant agreements signed by the company, whether modified or terminated in the event of a change in the company's control through a hostile takeover bid, and its effects.

The finance restructuring agreement signed 29 December 2014 considers the compulsory amortisation in advance in the event of change of control. Change of control is if Mr. Jacinto Rey González o his successors would not hold direct or indirect control of GESJ pursuant to the terms established by Article 42 of the Code of Commerce, excluding change of control due to the transfer into shares of the warrants issued by GESJ.

- C.1.45 Identify in sum and provide detail of the agreements signed between the company and its administrative, management or employee posts with compensations, guarantees or protection clauses, in the event of resignation or unlawful dismissal or if contractual relationship is abruptly halted because of a hostile takeover bid or other kinds of transactions.

**Number of beneficiaries:** 0

**Type of beneficiaries:**

Not applicable.

**Description of the Agreement:**

Not applicable.

Indicate whether the governing bodies of the company or its group must be informed of and/or must approve such contracts:

|                              | Board of Directors | General Meeting |
|------------------------------|--------------------|-----------------|
| Body authorising the clauses | No                 | No              |

|  | Yes | No |
|--|-----|----|
| Is the General Meeting reported on clauses authorised? |     | x  |

## C.2 Committees of the Board of Directors

- C.2.1 Give details of all committees of the board of directors, their members and the proportion of proprietary and independent board members on such committees:

### APPOINTMENTS AND REMUNERATIONS COMMITTEE

| Name                        | Type     | Post        |
|-----------------------------|----------|-------------|
| MR. RAMON BARRAL ANDRADE    | CHAIRMAN | INDEPENDENT |
| MR. ROBERTO ALVAREZ ALVAREZ | MEMBER   | INDEPENDENT |

|                        |        |             |
|------------------------|--------|-------------|
| MR ENRIQUE MARTIN REY  | MEMBER | PROPRIETARY |
| MR. MANUEL OTERO NOVAS | MEMBER | INDEPENDENT |

|                                |        |
|--------------------------------|--------|
| % of proprietary board members | 25.00% |
| % of independent board members | 75.00% |
| % of external board members    | 0.00%  |

Explain the functions attributed to this committee, describe the organisational and operational rules and procedures of the same and summarise its most important actions during the year.

Article 34 of the bylaws and Articles 17 and 18 of the Board of Directors' Regulations deal with the composition, standards, performance and functionality of the Appointments, Remunerations and Good Governance Commission.

The Appointments, Remunerations and Good Governance Commission will consist of a minimum of three members and a maximum of 5. The Commission shall be composed exclusively of non-executive directors appointed by the Board of Directors, two of whom, at least, must be independent directors. The Chairman of the Commission shall be appointed from among the independent directors. The term of office of the Chairman shall be four (4) years and may be reappointed after the expiry of one (1) year from the date of termination.

Any member of the management or personal team of the company is obliged to attend the meetings of the Committee when required to do so.

The request for information to the Commission shall be issued by the Board of directors or the Chairman. The Commission will meet, whenever called by the Chairman, when most of its members request it, or whenever required by the Board of Directors. Without prejudice to this, the Commission shall meet at least twice a year.

The Secretary will take record of the resolutions of the Commission, which shall be adopted by a majority of its members.

Without prejudice to the aforementioned regulation, the Board of Directors may establish any other additional rules of operation for the Committee.

The functions of the Commission are:

1. To evaluate the competencies, knowledge and experience required for the Board of Directors. For this purpose, it defines the functions and skills of the candidates for each vacancy and assess the necessary time and dedication so that they can effectively play their role.
2. To establish a goal of representation for the under-represented sex in the Board and draw up guidelines on how to achieve this objective.
- 3 To raise proposals to the Board of Directors for the appointment of independent directors, for their designation by co-optation or for the submission to the decision of the general meeting of shareholders, as well as to propose candidates for re-election by the general meeting of shareholders.
- 4 To submit proposals for appointment of the remaining directors by co-optation or for its submission to the decision of the general meeting of shareholders.
- 5 To inform of the proposals for appointment and cessation of senior managers and the basic terms of their contracts.
6. To examine and arrange the succession of the Chairman of the Board of Directors and the Chief Executive Office and, where appropriate, make proposals to the Board of Directors of such succession in an orderly and planned manner.
- 7 To propose the remuneration policy of the directors to the Board of Directors, members of the committees or CEOs, as well as the Individual remuneration and other contractual conditions of the Executive Directors.
- 8 To report to the Board of Directors on transactions with associates.

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9. To supervise and monitor transparency in social actions, compliance with the Company's rules and principles and the compliance with applicable standards of all members and directors of the company, informing the board of Directors of any breach of conduct, so as it to be corrected or, if not corrected, to be reported to the general meeting.

10 To propose to the Board of Directors the amendment of its regulations.

11. To raise to the Board of Directors, for consideration and approval, any other proposals deemed appropriate.

12. The Commission should ensure that procedures for the selection of advisors encourage gender diversity, and not suffer from any implicit biases that may involve any discrimination and, in particular, facilitate the selection of counselors.

#### EXECUTIVE COMMITTEE

| Name                        | Type     | Post        |
|-----------------------------|----------|-------------|
| MR. JACINTO REY GONZALEZ    | CHAIRMAN | EXECUTIVE   |
| MR. JOSE MANUEL OTERO NOVAS | MEMBER   | INDEPENDENT |
| MR JACINTO REY LAREDO       | MEMBER   | EXECUTIVE   |
| MR. JAVIER REY LAREDO       | MEMBER   | EXECUTIVE   |

|                                |        |
|--------------------------------|--------|
| % of executive board members   | 75.00% |
| % of proprietary board members | 0.00%  |
| % of independent board members | 25.00% |
| % of external board members    | 0.00%  |

Explain the functions attributed to this committee, describe the organisational and operational rules and procedures of the same and summarise its most important actions during the year.

The Executive Committee is dealt with in Article 31 of the By-Laws and Article 14 of The Board's Regulations.

The Executive Committee will be comprised of a minimum of three (3) and a maximum of five (5) directors, nominated by the Board of Directors among its component, for a period equal to the term in the office of each Member of the Board.

The Executive Committee, will have the powers which may be delegated by the Board of Directors, which in turn will determine the rules for the operation of the same.

The Chairman of the Board of Directors shall chair the Executive Committee. In the absence of the Chairman, his functions shall be exercised by the Vice Chairman, and if there are several, it depends on number priority, and in the absence of all of them, the Member the Committee designates from among its members.

It is borne to the following performance rules:

1. The Executive Committee will meet according to the schedule of meetings to be set at the beginning of each year and whenever the Chairman deems it appropriate in order to ensure the proper performance of the Committee.
2. Notice of meetings of the Executive Committee shall be by any means which can be recorded.
3. Executive Committee will be quorate when at least half of its members are present or represented. Whenever Directors Member of the Executive Committee cannot personally attend the meeting, Directors may delegate their representation to another attendee members by letter addressed to the Chairman.
4. Meetings shall be chaired by the Chairman of Board. In the absence of the Chairman, his duties shall be exercised by the Deputy-Chairman, and in the event of being several priority shall be set out by number, and in default of these, the Director appointed by the Committee from among its members to fulfil this function.

5. Secretary and Deputy Secretary of the Board of Directors shall act as Secretary and Deputy-Secretary of the Executive Committee and, in the event of being several priorities shall be set out by priority number, and in the absence of these, the Director appointed by the Commission from among its members to fulfil this function.
6. Agreements shall be adopted by majority Resolutions shall be adopted by an absolute majority of those present at the meeting.
7. The Executive Committee may pass resolutions without a calling a meeting pursuant to the same conditions of the Board.

Notwithstanding the foregoing, the Board of Directors may establish any additional rules or operating rules applicable to the Executive Committee.

The Board of Directors shall have knowledge of matters discussed and any decisions adopted by the Executive Committee.

Similarly, the Board of Directors may constitute, if so it is deemed desirable or necessary, other commissions, including and an Audit Committee and an Appointments, Remunerations and Good Governance Commission.

Without prejudice to the possible attribution of other functions decided by the Board of Directors, advisory committees have powers of information, advisory and proposal on matters determined by the following articles, as well as in any other established by the Board of Directors. The powers of the commissions do not mean that the Board may decide on these issues on its own initiative.

The chairman of each Committee shall be appointed from among its members by the Board of Directors and must an independent director.

The Secretary is the Secretary of the Board of Directors. In the event of the absence or disability of the Secretary, there is a Deputy Secretary and, if not, whoever is appoint by the Committee from among its members. In matters not provided, standards established by this regulation in relation to the Executive Commission apply as long as they are consistent with the nature and function of the Committee concerned.

Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different categories of Director.

Yes                      No

If no, explain.

The Executive Commission is composed by 3 executive members and an independent member.

#### AUDIT COMMITTEE

| Name                                    | Type     | Post        |
|---|----------|-------------|
| Ms. ALTINA DE FÁTIMA SEBASTIÁN GONZÁLEZ | CHAIRMAN | INDEPENDENT |
| MR. JOSE MANUEL OTERO NOVAS             | MEMBER   | INDEPENDENT |
| MR RAMÓN BARRAL ANDRADE                 | MEMBER   | INDEPENDENT |

|                              |       |
|------------------------------|-------|
| % of executive board members | 0.00% |
|------------------------------|-------|

|                                |         |
|--------------------------------|---------|
| % of independent board members | 100.00% |
| % of external board members    | 0.00%   |

Explain the functions attributed to this committee, describe the organisational and operational rules and procedures of the same and summarise its most important actions during the year.

Article 33 of the By-laws and Articles 15 and 16 of the Board of Directors' Regulations deals with the Audit Committee.

The audit Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, two of whom, at least, shall be independent directors and one of them shall be appointed taking into account the knowledge and experience in the field of accounting or audit or both.

The Chairman of the Audit Committee will be appointed from among the independent directors who form a part of the Committee and must be replaced every four years, and may be reelected once after a period of one year from its cessation.

The mandate of members of the Committee shall end by replacement, for the end of the period which they were appointed for, by own will or by the loss of the condition of member.

The legal consultant shall also be member of the Committee, with voice yet without vote. The Secretariat of the Committee shall be the Secretary of the Board of Directors.

Any member of the management team or staff of the company must attend the meetings if required to do so. External auditors may also be required to attend a meeting.

The Committee has powers regarding the information, monitoring, advisory and proposal of matters within its competence.

The Audit Committee shall meet whenever called by its Chairman, who shall do so whenever the Board of Directors, the Chairman or two members of the Audit Committee require so and whenever it is deemed convenient for the proper exercise of its functions. In any case, the Audit Committee shall meet not less than four times a year.

The Chairman of the Audit Committee shall chair the meetings and lead the discussions. The Audit Committee's meeting is understood to be validly constituted when attended by the most of its members, with a minimum of three.

Provisions set out by the by-laws apply for the running and calling of meeting of the Audit Committee.

The Audit Committee shall prepare an annual report on its activities to be included within the management report of the company.

The responsibilities of the Committee are:

- a) To inform the General Meeting of Shareholders on the issues raised regarding matters within its competence.
- b) To supervise the efficiency of the internal control system of the Company, internal audit and risk management systems.
- c) To supervise the elaboration of financial information.
- d) To propose the Board of Directors, for its subsequent submission to the General Meeting, the appointment of external auditors, the terms of the contract, the scope of the mandate and, its termination or non-renewal.
- e) To maintain relations with external auditors to receive information on any issues that may jeopardize their independence and any other matters related to the development process of the audit and other communications provided, if applicable, by auditing legislation and technical auditing standards.
- f) To issue on an annual basis, prior to the issuance of the auditor's report, a report regardless the auditor's impressions.
- g) To inform, previously, the Board of directors of all issues applicable by law, by-laws and regulations of the Board regarding:
  1. Financial information to be released regularly.
  2. The creation or acquisition of stakes in special purpose vehicles.

In the exercise of its functions, the Audit Committee may request the assistance of experts whenever it considers that, for reasons of independence or specialization, technical means of the company are not sufficient. In addition, the Committee may request the collaboration of any employees or directors of the company.

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Indicate the member of the Audit Committee who has been appointed for sound knowledge and experience regarding accounting, audit or both fields and indicate the total number of years the chairman has been in this position.

|  |   |
|--|---|
| Name of the Member with experience               | MS. ALTINA DE FATINA SEBASTIAN GONZALEZ |
| Number of years of the Chairman in this position | 2                                       |

#### INTERNATIONAL EXECUTIVE COMMITTEE

| Name                                | Type     | Post           |
|-------------------------------------|----------|----------------|
| MR. JACINTO REY GONZALEZ            | CHAIRMAN | EXECUTIVE      |
| MR JACINTO REY LAREDO               | MEMBER   | EXECUTIVE      |
| MR. JAVIER REY LAREDO               | MEMBER   | EXECUTIVE      |
| MR. NASSER HOMAID SALEM ALI ALDEREI | MEMBER   | Other External |
| MR. KUNIL KANORIA                   | MEMBER   | Independent    |

|                                |        |
|--------------------------------|--------|
| % of executive board members   | 60.00% |
| % of proprietary board members | 0.00%  |
| % of independent board members | 20.00% |
| % of external board members    | 20.00% |

Explain the functions attributed to this committee, describe the organisational and operational rules and procedures of the same and summarise its most important actions during the year.

Article 18 (2) of the regulations of the Board of Directors reflects the composition, functioning and internal regulation of the International Executive Committee.

Composition.

The International Executive Committee will comprise a maximum of twelve members, who shall be appointed by the Board of Directors under the unique proposal of the Chairman.

The members of the International Executive Committee shall be either members of the Board of Directors, as directors, or either technicians, with the character of international advisors or sector experts, especially appointed for this function.

The International Executive Committee is responsible for the information, monitoring, advisory and proposal of matters of its competence in the international arena. The Committee will be chaired by the Chairman of the Board of Directors. The resolutions of the Committee, adopted with the Chairman, shall be considered as legal decisions by the Chairman in accordance with the delegated powers of the Board.

The members of the International Executive Committee shall cease by substitution, the termination of the period which they have been appointed for, willingly or by loss of the condition of Member.

Running

The International Executive Committee shall meet whenever the Chairman deems it appropriate. The sessions of the Committee may be plenary or by sections, consisting the latter in private meetings with the members invited in each case by the Chairman, in response to a variety of countries, areas of specialization or sectors of activity.

Competencies

Without prejudice to other tasks assigned by the Board of Directors, the International Executive Committee shall have the following powers:

- (a) To collaborate in the development of the Group's international area in all its divisions, both in construction and in concessions, energy and real estate projects and urban or any other type of business.
- b) To contribute to the increase of the international relations of the Group with public and private, local and international partners.
- (e) To search for new business opportunities and projects, elaborate proposals for foreign, either public or private, institutions, and other entities that develop projects worldwide.
- (d) To raise capital and investment financing for international projects.
- (e) To propose projects with the appropriate partners.

Indicate whether the composition of the International Executive Committee reflects the participation within the Board of the different categories of Director.

Yes                      No x

If no, explain.

The International Executive Commission is composed by 3 executive members, an independent member and an external member.

C.2.2 Complete the following table using the information relating to the number of female board members who have served on the Board of Directors committees over the past four financial years:

|  | Total number of board members |       |           |       |           |       |           |       |
|--|-------------------------------|-------|-----------|-------|-----------|-------|-----------|-------|
|  | Year 2015                     |       | Year 2014 |       | Year 2013 |       | Year 2012 |       |
|  | Number                        | %     | Number    | %     | Number    | %     | Number    | %     |
| APPOINTMENTS AND REMUNERATIONS COMMITTEE | 0                             | 0.00€ | 0         | 0.00€ | 0         | 0.00€ | 0         | 0.00€ |
| EXECUTIVE COMMITTEE                      | 0                             | 0.00€ | 0         | 0.00€ | 0         | 0.00€ | 0         | 0.00€ |
| AUDIT COMMITTEE                          | 1                             | 0.00€ | 1         | 0.00€ | 1         | 0.00€ | 1         | 0.00€ |

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 Nº 6007



|  |   |       |   |       |   |       |   |       |
|--|---|-------|---|-------|---|-------|---|-------|
| <b>INTERNATIONAL EXECUTIVE COMMITTEE</b> | 0 | 0.00€ | 0 | 0.00€ | 0 | 0.00€ | 0 | 0.00€ |
|--|---|-------|---|-------|---|-------|---|-------|

C.2.3 Section revoked.

C.2.4 Section revoked.

C.2.5 Indicate, as the case may be, the existence of regulations of committees of the Board, where they can be reached for consultations and any amendments that may have been made during the financial year. Also state whether annual reports were voluntarily prepared on the activities of each committee.

The commissions of the Board are borne to the following articles of the by-laws: Article 31 Executive Commission, Article 33 Audit Committee and Article 34 Appointment, Remuneration and Good Governance Commission. And the Following articles from the Board of Directors' Regulations: Article 14 Executive Commission, Articles 15 and 16 Audit Committee, Articles 17 and 18 Appointment, Remuneration and Good Governance Commission and 18 82) International Executive Committee.

Documents for each commission are available online.

Amendments recorded are those necessary for adapting their performance to legal amendments.

Reports on their activities are issued on an annual basis.

C.2.6 Section revoked.

## **D CONNECTED TRANSACTIONS AND INTRA-GROUP TRANSACTIONS**

D.1 Identify the competent organ and explain, as the case may be, the procedure for approving associate and intra-group transactions.

|  |
|--|
| <p><b>Procedures for approving associate transactions</b></p> <p>Article 32 of the Board of Directors Regulation – Associate transactions</p> <p>All the transactions executed by the Company, either direct or indirectly, with Members of the Board, significant shareholders or representatives of Members of the Board, require the authorisation of the Board and the prior approval of the Appointments, Remuneration and Good Governance Committee, unless for daily business common transactions.</p> <p>Transactions referred to in the previous paragraph must comply with principles of equal treatment and market conditions and shall be listed in the Annual Good Governance Report and public information released according to applicable standards and regulations.</p> <p>Shall be considered persons connected to the Directors those legally provided.</p> |
|--|

D.2 Give details of transactions deemed significant due to the amount or relevant due to the aspect between the company and companies of its group, and the significant shareholders in the company:

**D.3 Give details of transactions that are significant due to amount or that are relevant due to the nature between the company and companies of its group, and the managers and directors of the company:**

| Name or company name of the directors | Name or company name of the associate                          | Type of association       | Nature of the transaction  | Amount (thousands of Euros) |
|---------------------------------------|--|---------------------------|----------------------------|-----------------------------|
| MR. NASSER HOMAID SALEM ALI ADEREI    | Tecnocontrol General contracting LLC San Jose Construction LLC | Shareholder               | Other                      | 38                          |
| MR VALERIANO GARCIA GARCIA            | Constructora San Jose, S.A.                                    | CEO Constructora San Jose | Financing agreement: loans | 502                         |
| MR PEDRO ALLER ROMÁN                  | Grupo Empresarial San Jose                                     | Director for Africa       | Financing agreement: loans | 277                         |
| PINOS ALTOS XR, SL                    | Grupo Empresarial San Jose                                     | Shareholder               | Provision of services      | 108                         |

**D.4 Report on the significant transactions between the company and other entities in the same group provided they are not eliminated in the process of preparing the consolidated financial statements, and are not part of the normal company transactions with regards to purpose and conditions.**

At any rate, report shall be issued on any intra-group transaction with entities in countries or territories classified as tax havens:

**D.5 Indicate the amount of the transactions with other connected parties.**

0 (Thousands of Euros)

**D.6 Provide details of any mechanisms in place to detect, determine and resolve possible conflicts of interest between the company and/or its group and its Board members, executives or significant shareholders.**

The Board of Directors Regulations details the general obligations and commitments of the members pursuant to Article 225 and the following articles of the Companies Act.

**Article 28 – General obligations**

1. Directors shall fulfil functions and obligations in compliance with applicable laws and by-laws, taking into consideration the nature of the position and the main functions attributed to each of them.
2. Directors shall be devoted to their position and adopt all necessary measures for the smooth performance and control of the Company.
3. Within its functions, the Members shall request all Company Information for the fulfilment of the obligations.
4. Directors shall perform their functions according to loyalty and good faith practises and for the interest of the company.

Loyalty commits Directors to:

- a) Not to use powers for purposes other than those for which they have been granted to.
- b) Keep secret all information, data, reports and records released within the performance of this position, even after its office, unless requested by law.
- c) Not to take part in the decision making process of the any issues, agreements or decisions which the director or any other person linked to the same may be interested in, either directly or indirectly. Decisions affecting his condition as member are excluded, such as the renewal or cessation of Directors.



## **E RISKS MANAGEMENT AND MONITORING SYSTEMS**

### **E.1 Explain the scope of the company's Risks Management System.**

Grupo SANJOSE is a group of companies operating globally in various fields of activity: construction, concessions, maintenance, real estate, etc.

To do this, it gives a local address in each of the countries in which it operates, with experienced professionals with knowledge related to the country and type of activity. Also has support and control departments at central headquarters, located in Madrid.

The scope of the risk management system covers the entire Group, regardless of the activity and / or geographical region.

### **E.2 Identify the section of the company in charge of elaborating and executing the Risks Management System.**

The Board of Directors formally assumes the ultimate responsibility for the existence and proper application of the Internal Control System.

The role of the Board of Grupo SANJOSE is to approve the policy of control and risk management, and the periodic monitoring of internal information and control systems. This function is transferred to the Audit Committee, which periodically checks the correct design and development of the internal control system, in coordination with the General Directors of each area, as well as the Group CEO.

### **E.3 Specify the main risks that could affect the attainment of business objectives.**

The main risks to which the Group is exposed, derived of the types of activities developed and the environment where those activities are performed. These risks are:

- Market Risk: in particular,
  - a) those relating to the demand for the services and products offered by the Group.
  - b) related to the demand for real estate assets and, consequently, the indirect effect it has on the valuation of these assets in the balance sheet of the Group.
- Regulatory Risk: concerning compliance with the legal requirements that affect the development of the activity. The number of countries where the Group operates is high, being subject to the regulatory framework of each country. In addition, certain activities developed by the Group have a special regulation.
- Financial Risk: exposure to liquidity risk, currency risk and interest rates.
- Operative Risk: Group activity consists primarily in the design, development and management of construction projects. The Group possesses very demanding controls to ensure the proper conduct of its business controls and the provision of high quality services to its customers.
- Risk Of fraud.

### **E.4 Indicate whether the company has a risk tolerance level.**

Grupo SANJOSE relies on a risk tolerance level in line with the profitability level seek by the Group.

### **E.5 Identify the risks that materialized during the financial year.**

The main risks which the Group is exposed to that have materialized during 2015 were:

- Market Risk: having very significant reduction in the level of bidding for public works, as well as the level of private contracting, justified by budgetary constraints measures being carried out, as well as a widespread lack of confidence in the market.
- Financial – liquidity risk: the Group signed a financial restructuring agreement on 29 December 2014 for the novation of the syndicated loan in Spain. During the first half of 2015, the Group has met all obligations established therein, as well as the sale of its stake in the company "San Jose Desarrollos Inmobiliarios, S.A.".

With the formalisation of this agreement the Group reaches a situation of financial stability in the medium and long term, key for ensuring the appropriate development of its business activities.

- Financial risk – exchange rate risk. The Group operates in many countries, being its main currencies of reference the Euro and the US Dollar. The Group is provided with financial instruments in order to minimise exchange rate risks: financing arranged in the currency of the country of reference, derivatives, etc.

During 2015 the Group has issued Bonds in Chile, in UF, being UF income in line with settlement obligations in said currency.

## **E.6 Explain the response and supervision plan for the most threatening risks of the entity.**

The internal control system is mainly focused on pre identify the risks to which the Group may be exposed by the intrinsic characteristics of the activity or markets in which it operates, establish the necessary controls to minimize possible contingencies that may arise, and create actions or responses to those contingencies once occurred.

In this regard, monitoring and response plans for major risk events they are:

- Demand risk: the commercial department has multiple tools to identify and evaluate new business opportunities, being in full coordination with the Chairman and CEO, as well as the Production Management.
- Financial risks: activity budgets are periodically done and supervise, in particular, estimation related to the Company's cash, in a daily, weekly and monthly basis.
- Production Risk: there is a system of supervision and authorization in order to avoid assuming risk positions on the bids submitted, as well as supervision during the development and production phase of works.
- Risk of fraud: there is a very strict system laid down, to the granting of powers to the management and employees of the Group, as well as to making payments. Additionally, these actions are reviewed by internal audit of the Group.

**F**

## **Internal risks monitoring and management systems in relation to the process of financial reporting (System of Internal Control over Financial Reporting).**

Describe the mechanisms entailed in the risks monitoring and management system in relation to the company's financial reporting (System of Internal Control over Financial Reporting) process.

### **F.1 The Company's control environment**

Report, pointing out the main characteristics of at least:

F.1.1. The bodies and/or functions in charge of: (i) the existence and maintenance of an appropriate and effective System of Internal Control over Financial Reporting; (ii) its introduction; and (iii) its supervision.

The Internal Control System on Financial Information (SCIIF) of the Group is based upon the on the principles and good practices of the reports published by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) that sets out the main guidelines for the implementation, management and control of a system of internal control and corporate risk management.

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The Board of Directors formally assumes the ultimate responsibility for the existence and correct application of Internal Control Systems on Financial Information. The Board of Directors' role is to approve the risk control and management policy, and the regular monitoring of internal information and control systems. Said function has been transferred to the Audit Committee, who should be informed of controls implemented by the Financial Department. For controls which may be considered appropriate, especially those made directly by the Finance Department and with a high element of subjectivity, the Board of Directors will require the implementation of appropriate control procedures.

The design, implementation and operation of SCIIIF is the responsibility of the General Directorate of Administration and Finance Group, as set forth the San Jose Group Oversight Policy of SCIIIF.

Internal Audit Management of Grupo SANJOSE shall be responsible for the monitoring and control of said functions, as well as any other functions entrusted by the Board of Directors.

F.1.2. The following elements, if existing, especially in relation to the process of elaborating the financial report:

- Departments and/or mechanisms in charge of: (i) designing and revising the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of duties and tasks; and (iii) ensuring the existence of sufficient procedures for its correct announcement through the entity.

The Financial management, regarding departments involved in the elaboration of financial information. Is responsible for the design and revision of the organisational structure.

The HR Management is responsible for defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions.

The Group has a section on the Intranet which publishes the organizational structure. The functions of the mainly responsible for the area. Access to these files is restricted based on the type of user you refer.

- Code of conduct, body of approval, degree of publication and instruction, principles and values including (indicating whether there is specific mention of the recording of transactions and the elaboration of the financial report), body in charge of analysing breaches and of proposing the correct actions and sanctions.

Grupo SANJOSE has a Code of Conduct that is in the process of approval by the Board of Directors.

The main values in the Code of Conduct refer to:

- Maintaining an unimpeachable standard of integrity in their behaviour and relationships, both outside as inside the organisation.
  - Optimization of resources which is responsible to provide maximum competitiveness to SANJOSE Group.
  - Objectivity, transparency and non discrimination in administrative management and elaboration of financial information to ensure its reliability.
  - Enforcement of policies and internal rules and legislation. Obligation of rejection and reporting of any bad practice.
  - Treatment of confidential information which comes to light in the process of developing administrative and financial information
- Whistle blowing channel, which enables reporting of irregularities of financial and accounting nature to the audits committee, in addition to possible breaches of the code of conduct and irregular activities in the organization. The reports may be filed in secrecy or anonymity.

The Group possesses the necessary tools to allow any type of incident report in this respect, safeguarding confidentiality, irregular behaviour of a financial nature accounting or any other, and any eventual breach of the Code of Conduct.

- Training programs and regular updates for the personnel involved in the preparation and revision of the financial report, as well as in the evaluation of the System of Internal Control over Financial Reporting, which should at least cover accounting regulations, auditing, internal risks monitoring and management.

Personnel of Grupo SANJOSE involved in the preparation and review of financial information and assessment of internal control systems on financial information are subject to continuous training programmes on regulation updates and best practices necessary to ensure the reliability of financial reporting.

## **F.2 Financial Reporting Risks Assessment:**

Report, at least:

F.2.1. What are the main characteristics of the process of identifying risks, including those of error or fraud, with regards to:

- Whether the process exists and is documented.

The presence of Grupo SANJOSE in several business areas in different countries with different regulatory, political and social frameworks involves the assessment of risks of different nature.

During year 2011, the Group identified the major risks which it is exposed to, having documented SCIIF at domestic and international levels. Periodically, the Group has carried out revision and update tasks.

- Whether the process covers the entire financial reporting objectives, (existence and occurrence, integrity, valuation, presentation, disclosure and comparability, rights and obligations), it is updated and how often.

The identification of risks affecting the reliability of financial information is based and has its beginning in determining the scope, according to quantitative criteria, of consolidated amounts within the consolidated financial statements regarding the Group's "Net revenue" and "Total Assets ", as well as other quantitative criteria / error, fraud, unusual transactions,

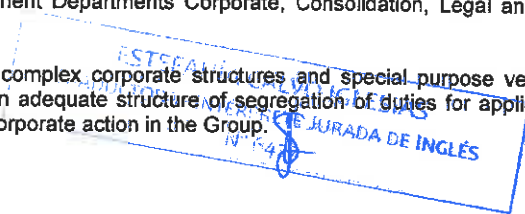
For each executed sub processes, risks arising at each stage of the process- sub process and internal controls are identified and documented by a Risk-Control Matrix, which analyses the adequate coverage of financial information reporting objectives (existence and occurrence, integrity, valuation, presentation, disclosure and comparability, rights and obligations).

Said process is updated pursuant to scope of consolidation and business activity results as recorded within the Financial Statements by analysing changes recorded within processes and sub processes.

- The existence of an identification process of scope of consolidation method by taking into account, inter alia, the existence of complex corporate structures and special purpose vehicles.

The Group has a documented process based on domestic regulation which guarantees the adequate identification of the scope of consolidation through a proper segregation of duties in the request, authorization, recording and reporting of any transaction of incorporation, merger, acquisition or sale of companies and any other corporate transaction, and that means for their execution, directly and in a coordinated manner, the Central Government Departments Corporate, Consolidation, Legal and Tax, among others.

This process considers the existence of complex corporate structures and special purpose vehicles, through, inter alia, the establishment of an adequate structure of segregation of duties for application, approval and communication to take any corporate action in the Group.



- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) affecting the financial statements.

The internal control system of the Group on financial information has been designed from a global point of view by considering effects arising from all types of risks (operational, environmental, etc).

- Which entity within the institution monitors the aforesaid process

The Internal Audit Department is responsible for monitoring the SCIIF, consisting of:

a) Follow up of recommendations and ensure their adequate implementation by the General Direction of Administration and Finance;

b) Issuance opinions (binding) on changes proposed by the General Directorate of Administration and Finance, etc.

c) The General Direction of Administration and Finance, through the Bureau of Administration and consolidation will evaluate and will validate twice a year, coinciding with the issuance of semi-annual and annual information, the SCIIF completely. The problem identified will reported to the Internal Audit Group, in order to evaluate the design and effectiveness of SCIIF by a report to the Audit Committee, including the identification of the weaknesses of SCIIF as well as suggested actions of corrections

### F.3 Control Activities

Report pointing out the main characteristics of the following, if any, is at least include:

- F.3.1. Procedures for reviewing and authorizing the financial reporting and the description of the System of Internal Control over Financial Reporting, to be published at the stock market, indicating responsibilities, as well as the descriptive documents of cash flows and monitoring (even in connection with fraud risks) of the various types of transactions that could materially affect the financial statements, including the accounting closure proceedings and the specific revision of the judgements, estimates, evaluations and relevant projections.

Grupo SANJOSE has revision and authorisation procedures on financial information and internal control SCIIF, being the Board of Directors responsible for the same and having said powers transferred to the Audit committee pursuant to article 16.4. of the Board of Directors' Regulation of GESJ, S.A.

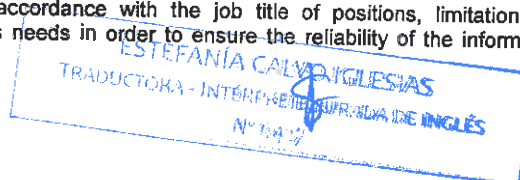
The Audit Committee reviews, analyses and makes comments on the Financial Statements and any other financial information, as well as judgements and estimates, together with the directorate General of Finance and the Internal audit Department and External Auditors in order to verify information reliability and consistency with previous years.

The flow of activities and control tests, even those regarding fraud, of transactions affecting the financial statements, accounting close and specific revision of judgements and estimates included, are duly document by means of the mandatory corporate policies, standards and procedures.

- F.3.2. Policies and procedures of internal control of information systems (among others, access security, monitoring of changes, operation continuity, and segregation of duties) that support relevant processes within the organisation in relation to the development and public release of financial information.

Grupo SANJOSE has policies, standards and procedures of internal control of information systems and security management set within the MSIS or Management System of Safety of Information Systems, in accordance with international standards, such as ISO 27001, ISO27002.

Access to information systems is managed in accordance with the job title of positions, limitations are established by applicable regulations and business needs in order to ensure the reliability of the information.





Following corporate policy, Companies of the Group, coordinated by the Director of Systems, define access profiles, modification, validation or query information based on each user's role, assigned under the criteria of an adequate segregation of duties.

Procedures have been established to ensure that installed software cannot be changed without specific permission. All information systems are protected against viruses and software updates are available to prevent hacking into information systems

**F.3.3. Policies and internal control procedures for monitoring the management of outsourcing activities to third parties, and aspects regarding assessment and calculation of works entrusted to independent experts, which may affect financial statements in a certain way.**

As a general rule, Grupo SANJOSE performs management controls of activities which may affect the reliability of financial statements by the direct use of internal resources, avoiding outsourcing activities.

The management of assessment activities, calculation or assessment procedures commissioned to independent experts refer mainly to real estate appraisal. The selection of such companies is performed according to methods consistent with the criteria established by "The Royal Institution of Chartered Surveyors" in implementing International Assessment Standards.

The reports on assets assessment are subjected to an internal review process to verify the adequacy of hypotheses and most significant assumptions used, as well as its compliance with International Accounting and Assessment Standards.

**F.4 Information and Reporting**

Report pointing out the main characteristics of the following, if any, is at least include:

**F.4.1. A specific function responsible for defining, maintaining up to date accounting policies (area or department of accounting policies) and resolving questions or disputes regarding their interpretation and ensuring good communication with those responsible for operations within in the organization, as well as keeping up to date guidelines on accounting policies duly informing operating units on the same.**

The Group has procedures and mechanisms to convey to staff involved in the preparation of financial information the applicable performance criteria and the information systems used in such processes.

The ultimate responsibility lays on the General Direction of Administration and Finance and must be carried out through the Central Administration Office together with the Consolidation and Control Management Division.

**F.4.2. Mechanisms of submission and preparation of financial information in homogeneous formats, application to all units, which support main financial statements and the accompanying notes, as well as information detailed on internal control systems on financial information, SCIIF.**

The Group's financial information is produced through a process consisting of aggregating individual financial statements for further consolidation in response to consolidation and accounting regulations on consolidated financial information publishing in the markets.

All of the units within the SANJOSE Group are required to submit detailed financial information using a single format and a CFO is responsible for each level of aggregation. The Consolidation Department establishes the formats to use and analyses potential problems which may arise, reporting the same to the General Direction of Administration and Finance.

In the process of aggregation and consolidation of financial statements, the Group employs the software application so-called CONSOLIDADA; this tool is parameterised for testing and automatic reconciliations looking for inconsistencies in the recorded data before validating them. This tool generates improvements in information security, as well as progress in the implementation of details.

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## F.5 System Operation Supervision

Report pointing out the main characteristics of the following, if any, is at least include:

F.5.1. The activities of supervising the System of Internal Control over Financial Reporting performed by the audits committee, and of whether the entity has an internal audits system that is empowered to support the committee in supervising the internal monitoring system, including the SICFR. Also provide information on the scope of the assessment of the SICFR performed during the financial year and on the process by which the head of the assessment reports the results, whether the entity has an action plan that outlines the possible corrective measures, and whether its impact on the financial reporting has been considered.

Among the functions of the Audit Committee, the Board of Directors Regulation includes the monitoring of accounting and financial information, internal and external audit services and corporate governance.

The SCIF monitoring activities undertaken by the Audit Committee include the following:

-To approve the internal audit plan for the assessment of Internal Control Systems of Financial Information Reporting and receive regular information on worked performed and a corrective action plan.

Monitoring the independence and efficacy of internal auditing; proposing the selection, appointment, re-election and removal of the head of internal audit; proposing the department's budget; receiving regular feedbacks on its activities; and verifying whether senior management is acting on the findings and recommendations of the reports.

- To review on a semi-annual and quarterly basis the preparation of financial statements.

The Group has an Internal Audit Department responsible for the assurance and consulting functions, among other, supporting the Audit Committee on monitoring the internal control system of financial reporting.

The Internal Audit Department submits to the Audit Committee its annual working plan, reports directly of all incidents identified in its development, proposing possible corrective measures on the same.

F.5.2. Whether there is a discussion procedure by which the accounts auditor (pursuant to the stipulations of the NTA), the function of the internal audits and other experts may report the significant weaknesses identified in the internal monitoring during the revision of the financial statements or all the others entrusted to them to the top management and to the audits committee or to the directors of the entity. Also report whether there is an action plan for correcting or mitigating the weaknesses uncovered.

The Audit Committee maintains a stable and professional relationship with the external auditors of Grupo SANJOSE and the main Group companies, with strict respect for their independence. This relationship facilitates communication and discussion of significant weaknesses of internal control identified during the revision of financial statements.

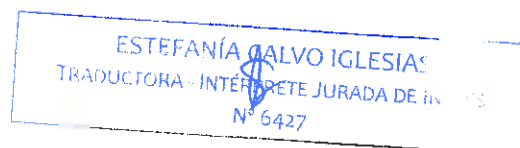
In this regard, the Audit committee is regularly informed by the external auditor on the progress and findings of the auditing plan and to ensure that senior management act on its recommendations.

The Director of Internal Audit, either in the process of reviewing the financial statements, issues a report addressed to Directorate General or the Area Manager involved in such revision. The report emphasises on process weaknesses and other identified issues, resolving on correctives measures to be implement.. The Department of Internal Audit assesses correction measures regarding implementing time and method. The Internal Audit Department reports on a regular basis to the Audit Committee of the main weaknesses identified as well as the correction process implemented.

## F.6 Other Information of Interest

## F.7 Report from the External Auditor

Report:



F.7.1. Whether the external auditor revised the SICFR information issued to the markets and, if so, the entity must include the corresponding report as annex. Otherwise, if that is not the case, the entity must provide its reasons.

Grupo San Jose does not submit to review of an external auditor ICFR info sent to the markets.

**G Degree to which corporate governance recommendations are followed**

Indicate the degree to which the company follows the recommendations of the Unified Good Governance Code.

In the event that a recommendation is not or is only partially followed, the entity should include detailed explanation of its reasons such that the shareholders, investors and the market in general, are provided with sufficient information to assess the performance of the company. Explanations of general nature shall not be acceptable.

1. The bylaws of listed companies should not limit the votes that can be cast by a single shareholder, or impose other obstacles to impede the takeover of the company by means of share purchases on the market.

Compliant        Explain

2. When a parent and a subsidiary company are listed, both should provide detailed disclosure on:

a) Their respective types of activities, and any business dealings between them, including between the listed subsidiary and other companies in the group;

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant    Partially compliant    Explain    Not applicable

3. During the general shareholders' meeting, in addition to the written dissemination of the annual corporate governance report, the chairman of the Board of Directors verbally informed the shareholders, in sufficient detail, about the most relevant aspects of the Company's corporate governance and, in particular:

a) About the changes that had occurred since the last general shareholders' meeting.

b) About the specific reasons why the Company does not follow some of the recommendations in the Corporate Governance Code and about the alternative rules it applies, if any, in that area.

Compliant        Partially compliant    Explain

4. The Company should define and promote a policy of communication and contact with shareholders, institutional investors and vote advisors that fully respects rules against market abuse and treats shareholders in the same position in a similar fashion. And the Company should make the policy public on its website, including information relating to the way in which the same has been put into practice and identifying the parties responsible for it.

Compliant        Partially compliant    Explain

5. The Board of Directors should not submit a proposed proxy for issuing shares or convertible bonds with the exclusion of pre-emptive rights to the general shareholders' meeting, for an amount higher than 20% of the capital at the time of the proxy. And when the Board of Directors approves any issue of shares or convertible bonds with exclusion of pre-emptive rights, the Company should immediately publish on its website the reports on that exclusion referred to by commercial legislation.

Complaint      Partially complaint      x      Explain

The Board of Directors took to the shareholders' meeting held on 24.06.2015 a proposal to delegate powers and faculties to issue shares, lacking the shareholder's preemptive right for an amount exceeding 20% total social capital pursuant to contractual obligations set out by the financing agreements signed on 29.12.2014 which became enforceable as from 30.06.2015, and with the final goal of allowing holders of warrants, if applicable, change said warrants for shares of GESJ.

The Company published on the corporate website reports on the refusal of preemptive right.

6. Listed companies that draw up the following reports, whether of a compulsory or voluntary nature, should publish them on their website sufficiently in advance of the general shareholders' meeting, although their dissemination is not compulsory:

- a) Report on the independence of the auditor.
- b) Reports on the operation of the audit and appointment and remuneration committees.
- c) Audit committee's report on related-party transactions.
- d) Report on the corporate social responsibility policy.

Compliant      Partially compliant      x      Explain

The Company has developed and published reports on auditor independence and functioning of audit and appointments and remuneration committees.

7. The Company should broadcast the general shareholders' meetings live on their website.

Complaint      Explain x

Due to the little capitalisation and the reduced releasing percentage of auditor's reports and the performance of the audit and appointment and remunerations commissions.

8. The audit committee should ensure the Board of Directors tries to present the annual accounts to the general shareholders' meeting without limitations or reservations in the audit report. Should such reservations exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant x      Partially compliant      Explain

9. The Company should publish on its website, permanently, the requirements and procedures that it will accept for certifying ownership of shares, the right to attend the general shareholders' meeting and exercising or delegating the right to vote. And those requirements and procedures should favour the shareholders attending and exercising their rights and be applied in a non-discriminatory fashion.

Compliant x      Partially compliant      Explain

10. Then a legitimated shareholder has exercised the right, before the general shareholders' meeting, to complete the agenda or submit new proposed resolutions, the Company:

- a) Immediately disseminates these additional points and new proposed resolutions.
- b) Publishes the attendance, remote voting and proxy card model with the precise amendments so that the new points on the agenda and alternative proposals may be voted on under the same terms as the proposals made by the Board of Directors.
- c) Submits all of these points and alternative proposals to voting and applies the same voting rules to them as to those made by the Board of Directors, including, in particular, the presumptions or deductions on voting.

d) Subsequent to the general shareholders' meeting, announce the breakdown of the voting on these additional points or alternative proposals.

Compliant Partially compliant Explain Not applicable x

11. If the Company has planned to pay premiums for attendance at the general shareholders' meeting, a general policy on those premiums should be established in advance and the policy should be stable.

Compliant Partially compliant Explain Not applicable x

12. The Board of Directors should perform its duties with a single purpose and independent criteria, treat all shareholders in the same position in the same manner and be guided by the Company's interests, understood to be achieving a profitable and sustainable business in the long term, which promotes its continuity and the maximum financial value for the Company.

Pursuing the Company's interests, besides respecting laws and regulations and conduct based on good faith, ethics and respect for commonly accepted customs and good practices, it should try to conciliate the Company's interests with, as applicable, the legitimate interests of its employees, its providers, its clients and those of the Corporate Governance 51 remaining stakeholders that may be affected, and also the impact of the Company's activities on the community as a whole and on the environment.

Compliant x Partially compliant Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise between five and fifteen members.

Complaint x Explain

14. The Board of Directors should approve a policy for selecting directors that:

a) Is precise and attestable.

b) Ensures that the proposed appointments or re-elections are based on prior analysis of the needs of the Board of Directors.

c) Encourages diversity of gender, experience and knowledge.

The result of the prior analysis of the needs of the Board of Directors should be contained in the appointments committee's report that is published when the general shareholders' meeting to which the ratification, appointment or re-election of each director is submitted is called. The policy for selecting directors should promote the objective of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. The appointments committee will check compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

Complaint x Partially compliant Explain

15. Proprietary and independent directors should occupy an ample majority of places on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complaint x Partially complaint Explain

16. The percentage of proprietary directors of the total non-executive directors should not be greater than the proportion between Company capital represented by those directors and the rest of the capital.

This criterion may be minimised:



a) In large cap companies where few equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the Board of Directors but not otherwise related.

Complaint x Explain

17. The number of Independent Directors should represent at least half of all board members. Nonetheless, when it is not a large cap company or when it is but has one or several shareholders acting in a concerted manner, who control more than 30% of the company capital, the number of independent directors should represent, at least, a third of the total directors.

Complaint x Explain

18. Companies should publish the following Director particulars on their websites, and keep them permanently updated:

a) Professional experience and background.

b) Other boards of directors they belong to, whether listed companies or not, and also other paid activities they perform, whatever their nature.

c) An indication of the Director's classification as Executive, Proprietary or Independent; in the case of Proprietary Directors, stating the shareholder they represent or have links with. 52 2015 Annual Report

d) The date of their first appointment and subsequent re-elections as a company Director.

e) Shares held in the company, and any options on the same, that they own

Complaint x Partially complaint Explain

19. The annual corporate governance report should, after verification by the appointments committee, also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complaint Partially complaint Explain Not applicable x

20. Proprietary directors should resign when the shareholders they represent transfer their equity stake in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Complaint x Partially complaint Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board of Directors, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director takes on new roles or new obligations that prevent him or her from dedicating the time required for performing the duties of the role of director, is in breach of his or her fiduciary duties or comes under one of the grounds that disqualify him or her from being independent, in accordance with what is established in applicable legislation.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 16.

Complaint x Explain

22. Companies should establish rules obliging directors to inform the board of directors of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

And the moment a Director is indicted or tried for any of the crimes stated in company law, the Board of Directors should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The Board of Directors should also disclose all such determinations in the annual corporate governance report

Complaint x Partially complaint Explain

23. All directors should express clear opposition when they feel a proposal submitted for the board of directors' approval might damage the corporate interest. In particular, independents and other Directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking representation on the board of directors.

When the board of directors makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this recommendation should also apply to the secretary of the board of directors, whether a director or otherwise.

Complaint x Partially complaint Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board of directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the annual corporate governance report.

Complaint x Partially complaint Explain Not applicable

25. The appointments committee should ensure that non-executive directors have enough time to properly perform their duties.

The Board of Directors' Regulations should establish the maximum number of boards of directors that its directors may sit on

Complaint Partially complaint x Explain

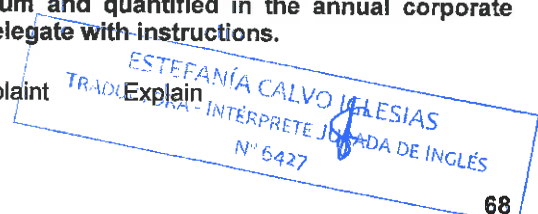
The Company requires Members of the Board to devote time enough for the proper development of the tasks inherent to their position; the mechanism to achieve that is the remuneration system associated to the meetings of the Board, Commissions and the global allocation established by the Shareholders' Meeting. The Regulation does not established a maximum number of board the Member may form part of.

26. The board of directors should meet with the necessary frequency to properly perform its functions and, at least, eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may individually propose the addition of other items.

Complaint x Partially complaint Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And, when necessary, they should delegate with instructions.

Complaint x Partially complaint Explain



28. When directors or the secretary express concern about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minute book.

Complaint x Partially complaint Explain Not applicable

29. The company should establish suitable channels for directors to obtain the advice and guidance they need to carry out their duties including, if required by the circumstances, external assistance at the company's expense.

Complaint x Partially complaint Explain

30. Regardless of the knowledge required of the directors for exercising their duties, the companies should also offer directors refresher programmes when circumstances so advise.

Complaint Explain x Not applicable

Despite the Company not having updating programmes, Members rely on information and pieces of advice from all areas of the Company with regards to their position.

31. The agenda should clearly indicate those points on which the board of directors has to adopt a decision or agreement so that the directors may study or gather, in advance, the information required to make such decisions.

When, exceptionally, in urgent cases, the chairman wants to submit decisions or agreements that are not on the agenda to the board of directors for approval, prior and express consent will be required from the majority of directors present, which will be duly recorded in the minutes.

Complaint x Partially complaint Explain

32. Directors shall be regularly informed of any changes in shareholdings and of the opinion of significant shareholders, investors and credit rating agencies as regards the company and its group.

Complaint x Partially complaint Explain

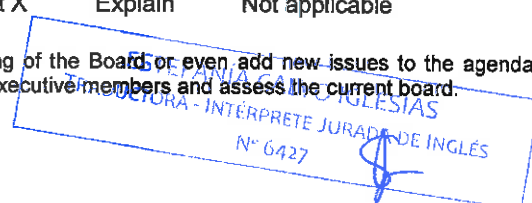
33. The chairman, as the party responsible for the efficient operation of the board of directors, besides exercising duties that are attributed to him or her by law and the bylaws, should draw up and submit a calendar and agenda to the board of directors; organise and coordinate the regular evaluation of the board and also, where applicable, of the company's chief executive officer; be responsible for managing the board and its effective operation; ensure that sufficient time is spent on the discussion of strategic matters, and agree on and review refresher programmes for each director, when circumstances so advise.

Complaint x Partially complaint Explain

34. When there is a coordinating director, the bylaws or board of directors' regulations should attribute to him or her, besides the powers corresponding by law, the following duties: presiding over the board of directors in the absence of the chairman and the vice chairmen, if there are any; echoing the concerns of the non-executive directors; maintaining contact with investors and shareholders to learn their points of view for the purpose of forming an opinion regarding their concerns, in particular, in relation to the company's corporate governance; and coordinating the plan for the succession of the chairman.

Complaint Partially complaint X Explain Not applicable

The Coordinator Member has powers to call a meeting of the Board or even add new issues to the agenda or a already called meeting, coordinate and gather all non executive members and assess the current board.





35. The secretary of the board of directors should especially ensure that the board of directors take the good governance recommendations contained in this good governance code into account when they are applicable to the company.

Complaint  Explain

36. The board of directors, in plenary session, should evaluate and adopt, where applicable, an action plan once a year to correct deficiencies detected with regard to:

- a) The quality and efficiency of the operation of the board of directors.
- b) The operation and composition of its committees.
- c) Diversity in the composition and powers of the board of directors.
- d) The performance of their duties by the chairman of the board of directors and by the company's chief executive officer.
- e) The performance and contribution of each director, paying special attention to the managers of the board's different committees.

The evaluation of the different committees will be based on the reports they submit to the board of directors and the latter will be evaluated based on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in carrying out an assessment by an independent external consultant, whose independence will be verified by the appointments committee.

The business relationships that the consultant or any company in its group maintains with the company or any group company must be listed in the annual corporate governance report.

The process and areas evaluated will be described in the annual corporate governance report.

Complaint  Partially complaint  Explain

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board should also act as secretary to the executive committee.

Complaint  Partially compliant  Explain  Not applicable

The Executive Commission consists of three proprietary members and an independent member since it is understood to be the best arrangement in order to meet management needs.

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all members of the board of directors should receive a copy of the executive committee's minutes.

Complaint  Partially compliant  Explain  Not applicable

The Minutes are available at request of the Members.

39. The members of the audit committee and, especially, its chairman should be appointed bearing in mind their knowledge and experience in accounting, auditing or risk management, and most of those members should be independent directors.

Complaint  Partially complaint  Explain

40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function and ensures the proper operation of internal reporting and control systems and that reports to the Corporate Governance 55 non-executive chairman of the board or of the audit committee.

Complaint x Partially complaint Explain

41. The head of the unit that assumes the internal audit function should present an annual work program to the audit committee; directly report any incidents arising during its implementation; and submit an activities report at the end of each year.

Complaint x Partially compliant Explain Not applicable

42. Besides those set out in law, the following duties correspond to the audit committee:

1. With respect to internal control and reporting systems:

a) To monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, check for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.

b) To strive for the independence of the unit that assumes the internal auditing function; propose the selection, appointment, re-election and removal of the person responsible for the internal auditing services; propose the budget for such service; approve the focus and work plan to ensure the activity is primarily focused on relevant risks for the company; receive regular information on its activities; and verify that senior management takes into consideration the conclusions and recommendations of its reports.

c) To establish and supervise a mechanism whereby staff can report, confidentially and, if possible and necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect of the external auditor:

a) To investigate the issues giving rise to the resignation of any external auditor.

b) To ensure that the remuneration of the external auditor for his work does not compromise its quality or its independence.

c) To oversee that the company reports, as a material fact, to the Spanish Securities Market Commission (CNMV) the change of auditor and accompanies it with a declaration on the eventual existence of disagreements with the outgoing auditor and, if any, the content thereof.

d) To ensure that the external auditor maintains an annual meeting with the board of directors, in plenary session, to inform it regarding the work performed and the financial position of and risks faced by the company.

e) To ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on the independence of the auditors;

Complaint Partially complaint x Explain

The By-laws and Regulations of the Board of Directors assign the Audit Committee the following duties:

- a) To inform the General Meeting of Shareholders on the issues raised regarding matters within its competence.

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TRADUCTORA - INTERPRETE JURADA DE INGLÉS  
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- b) To supervise the efficiency of the internal control system of the Company, internal audit and risk management systems.
- c) To supervise the elaboration of financial information.
- d) To propose the Board of Directors, for its subsequent submission to the General Meeting, the appointment of external auditors, the terms of the contract, the scope of the mandate and, its termination or non-renewal.
- e) To maintain relations with external auditors to receive information on any issues that may jeopardize their independence and any others matters related to the development process of the audit and other communications provided, if applicable, by auditing legislation and technical auditing standards.
- f) To issue on an annual basis, prior to the issuance of the auditor's report, a report regardless the auditor's impressions.
- g) To inform, previously, the Board of directors of all issues applicable by law, by-laws and regulations of the Board regarding:
  - 1. Financial information to be released regularly.
  - 2. The creation or acquisition of stake in special purpose vehicles.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complaint  Partially compliant Explain

44. The audit committee should be informed of any transactions that would implement structural and corporate changes that the company aims to make for their analysis and a preliminary report to the board of directors on their economic conditions and their accounting impact and, especially, where applicable, on the proposed exchange ratio.

Complaint  Partially compliant Explain Not applicable

45. Control and risk management policy should specify at least:

a) The different types of risk, financial and non-financial, (inter alia, operational, technological, legal, social, environmen- 56 2015 Annual Report tal, political and reputational) that the company is exposed to, including among financial or economic risks, contingent liabilities and other risks not on the balance sheet.

b) The determination of the risk level the company sees as acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Complaint  Partially compliant Explain

46. Under the direct supervision of the audit committee or, where applicable, of a specialist committee of the board of directors, there should be an internal risk control and management function exercised by one of the company's internal units or departments that has expressly been entrusted with the following duties:

a) Ensure the proper operation of the risk control and management systems and, in particular, ensure that all important risks that affect the company are appropriately identified, managed and quantified.

b) Actively participate in drawing up the risk strategy and in important decisions regarding its management.

c) Ensure that the risk control and management systems ~~appropriately~~ mitigate risk as part of the policy defined by the board of directors.

Complaint  Partially compliant Explain

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47. The members of the appointments and remuneration committee — or the appointments committee and the remuneration committee, if they are separate — should be appointed ensuring that they have the appropriate knowledge, aptitude and experience for the functions that they are called upon to perform and the majority of those members should be independent directors.

Complaint x Partially compliant Explain

48. Large cap companies should have a separate appointments committee and remuneration committee.

Complaint Partially compliant Not applicable x

49. The nomination committee should consult with the chairman of the board of directors and the company's chief executive officer, especially on matters relating to executive directors.

Any board member should be able to suggest directorship candidates to the appointments committee for its consideration.

Complaint x Partially compliant Explain

50. The remuneration committee should exercise its functions independently and, besides the functions attributed to it by law, should also have the following duties:

a) To propose the standard conditions for senior officer employment contracts to the board of directors.

b) To check compliance with the remuneration policy set by the company.

c) To regularly review the remuneration policy applied to directors and senior management, including systems Corporate Governance 57 of remuneration in shares and its application, and also guarantee that their individual remuneration is proportionate to that paid to the other company directors and senior management.

d) To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the committee.

e) To verify information regarding remuneration of directors and senior executives provided in various corporate documents, including the annual report on remuneration of directors.

Complaint Partially compliant x Explain

The appointments and remuneration committee has the functions set out in the statutes and regulation of the Board of Directors, as indicated below:

- a) Evaluate the skills, knowledge and experience in the Board of Directors and define the skills of the candidates to fill each vacancy and the time and dedication necessary.
- b) Establish an objective of representation for the sex less represented in the Board of Directors and develop guidance on how to achieve that objective.
- c) Submit to the Board of Directors the proposals for appointment of independent directors to be appointed by cooptation or for submitting to the decision of the General Shareholders Meeting, as well as proposals for re-election or removal of such directors by the General Meeting of Shareholders.
- d) Report on proposals for appointment of the remaining directors to be appointed by interim basis or for submission to the decision of the General Shareholders Meeting, as well as proposals for re-election or removal by the General Meeting of Shareholders.
- e) Report on proposals for appointment and removal of senior managers and the basic terms of their contracts.
- f) Examining and organizing the succession of the chairman of the Board of Directors and the CEO of the company and, where appropriate, make proposals to the Board of Directors to guarantee that the succession occurs in an order and planned.
- g) Propose to the Board the remuneration policy for directors and general managers or those who develop their senior management functions under direct control of the Board, or under Executive Committees or CEOs executives, as well as individual remuneration and other contractual conditions of executive directors to ensure their observance.

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TRADUCTORA - INTERPRETE JURADA DE INGLÉS  
Nº 6427

- h) Previously inform to the Board of Directors on transactions with related parties.
- i) The Commission shall ensure that the selection procedures for directors stimulate gender diversity, as well as different experiences and knowledge, and do not include facts which could implied any discrimination and particularly facilitate the selection of female directors.

**51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Complaint        Partially compliant    Explain

**52. The rules for the composition and operation of the supervision and control committees should be in the board of directors' regulations and should be consistent with those applicable to the commissions that are applicable by law in accordance with the above recommendations, including:**

- a) They should be exclusively comprised of non-executive directors, and the majority should be independent directors.
- b) Committees should be chaired by an independent director.
- c) The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and should report on their activity to the first board plenary following their meetings and should answer for the work done.
- d) The committees may engage external advisors, when they feel this is necessary for the discharge of their duties. e) Minutes should be taken of their meetings and should be available to all directors.

Complaint        Partially compliant    Explain    Not applicable

**53. One or several committees of the board of directors should be responsible for supervising compliance with the corporate governance rules, with internal codes of conduct and with the corporate social responsibility policy; these may be the audit committee, the appointments committee, the corporate social responsibility committee, if there is one, or a specialist committee that the board of directors, exercising its powers of self-organisation, decides to create for the purpose, which will have the following specific minimum duties:**

- a) Supervision of compliance with the internal codes of conduct and the company's corporate governance rules.
- b) Supervision of the communications strategy and relationships with shareholders and investors, including small and medium shareholders.
- c) Regular assessment of the suitability of the company's corporate governance system, so that it complies with its mission of promoting social interest and takes into account, as applicable, the legitimate interests of the other stakeholders.
- d) Review of the company's corporate social responsibility policy, ensuring it is aimed at creating value. e) Monitoring the corporate social responsibility strategy and practices and assess compliance therewith.
- f) Supervision and assessment of the engagement processes for different interest groups.
- g) Assessment of all aspects related to the company's non-financial risks — including operating, technological, legal, social, environmental, political and reputational risks.
- h) Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.

Complaint x Partially compliant Explain

**54. The corporate social responsibility policy should include the principles or commitments that the company assumes voluntarily in its relationship with the different stakeholders and should identify at least:**

**a) The objectives of the corporate social responsibility policy and the development of support instruments.**

**b) Corporate strategy relating to sustainability, the environment and social matters.**

**c) Specific practices in matters relating to: shareholders, employees, clients, providers, social matters, environment, diversity, tax obligations, respect for human rights and prevention of illegal conduct.**

**d) The methods or systems for monitoring the results of applying the specific practices indicated in the previous letter, the associated risk and management of the same.**

**e) Mechanisms for supervising non-financial risk, ethics, and business conduct.**

**f) Channels of communication, participation and dialogue with stakeholders.**

**g) Responsible communication practices that prevent manipulation of information and protect integrity and honour.**

Complaint Partially compliant x Explain

The Company has subscribed the principles of the United Nations Global Compact, which shall be taken into account by the Group in the relations with suppliers, clients, contractors. And also in terms of Social Corporate Responsibility.

**55. The company should report, in a separate document or in the management report, on matters relating to corporate social responsibility, using any of the internationally accepted methodologies.**

Complaint Partially compliant Explain x

The company is preparing the Social Corporate Responsibility Policy which is expected to be passed on in 2016.

**56. The remuneration of the directors should be as necessary to attract and retain directors of the desired profile and to remunerate the dedication, qualification and responsibility that the role requires, but not so high that it compromise the non-executive director criteria of independence.**

Complaint x Explain

**57. Remuneration linked to the company's performance and personal effort, and also remuneration comprising the delivery of shares, share options or rights to shares, or other share-based instruments and long-term savings systems such as pension plans, retirement schemes or other social benefit systems should be confined to executive directors. The delivery of shares may be contemplated as remuneration for non-executive directors when they are obliged to retain them until the end of their tenure. The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.**

Complaint x Partially compliant Explain

**58. In the case of variable remuneration, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not only the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind. And, in particular, with regard to the variable components of the remuneration:**

a) They should be related to pre-determined and measurable performance criteria and those criteria should consider the risk assumed to obtain a result.

b) They should promote the sustainability of the company and include non-financial criteria that should be appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies.

c) They should be based on balance between compliance with objectives in the short, medium and long term, which allow performance to be remunerated for continued effort over a long enough period of time for their contribution to the creation of sustainable value to be appreciated, so that the elements for measuring this performance do not only revolve around specific, occasional or special events.

Complaint x Partially compliant Explain Not applicable

59. Payment of a relevant part of the variable components of the remuneration should be a deferred for a sufficient minimum period to check that previously established performance conditions have been met.

Complaint Partially compliant Explain Not applicable x

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complaint x Partially compliant Explain Not applicable

61. A relevant percentage of the variable remuneration of executive directors should be linked to the delivery of shares or share-based financial instruments.

Complaint x Partially compliant Explain Not applicable

62. Once the shares or options or rights to actions corresponding to the remuneration systems have been attributed, the directors may not transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, nor may they exercise the options or rights until, at least, three years after they were attributed. The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.

Complaint Partially compliant Explain Not applicable x

63. Contractual agreements should include a clause that allows the company to claim a refund of variable components of remuneration when the payment was not adapted to performance conditions or when they were paid based on data which later proved to be incorrect.

Complaint Partially compliant Explain Not applicable x

64. Payments for termination of contract should not exceed a set amount equivalent to two years of total annual remuneration and should not be paid until the company has been able to check that the director has complied with the previously established performance criteria.

Complaint x Partially compliant Explain Not applicable

H

#### Other information of interest

1 Provide a brief detail, if any, on all other relevant aspects in the matter of the corporate governance of the company or entities of the group that have not been included in the other sections of this report, but that the inclusion of which is necessary for the compiling of a more comprehensive and reasonable information on the structure and practices of governance in the entity or group.

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Nº 6427

*Translation into English of consolidated Director's report for the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.*

2 In this section, you may also include any other information, clarification or detail related to the sections set forth above in the report, to the extent that these are deemed relevant and not reiterative.

Specifically, indicate whether the company is subject to non-Spanish legislation with regards to corporate governance and, if so, include the information it is obliged to provide and which is different from that required in this report.

3 The company may also indicate whether it voluntarily adhered to other codes of the principles of ethics or other good practices, international, sector-wise or of other scope. As the case may be, the company shall identify the code in question and the date of adherence thereto.

The Company has subscribed the principles of the United Nations Global Compact.

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This Report has been approved on by the Board of Directors as of 29/02/2016

Indicate whether Board Members voted against or abstained from voting for or against the approval of this Report.

Yes

No

ESTEFANÍA CALVO IGLESIAS  
TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS  
Nº 6427



## DIRECTORS' SIGNATURES

For the purposes of R.D. 1362/2007 on 19 October (Article 8.1.b and Article 10), the undersigned Directors of "Grupo San Jos, S.A." hereby make the following statement of liability:

That, to the best of their knowledge, the consolidated annual accounts prepared in accordance with applicable accounting standards present a true and fair view of consolidated equity, the consolidated financial position and the consolidated results obtained by the issuer and its consolidated companies taken as a whole and that the consolidated Directors' Report includes an accurate analysis of business development and results, the position of the issuer and the companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These Consolidated Financial Statements at 31 December 2015 consisting of the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement Notes to the Consolidated Financial Statements and the accompanying Consolidated Directors' Report extended to 112 sheets of plain paper as well as the Corporate Governance Report extended to 75 sheets of plain paper, additionally to this signature sheet, were prepared by the Company's Board of Directors on 29 February 2016.

\_\_\_\_\_  
Mr. Jacinto Rey González

\_\_\_\_\_  
Mr. Jacinto Rey Laredo

\_\_\_\_\_  
Mr. Sunil Kanoria

\_\_\_\_\_  
Mr. Enrique Martín Rey

\_\_\_\_\_  
Ms. Altina de Fátima Sebastián González

\_\_\_\_\_  
Mr. Ramón Barreal Andrade

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Mr. José Manuel Otero Novas

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Mr. Roberto Alvarez Álvarez

\_\_\_\_\_  
Mr. Javier Rey Laredo

\_\_\_\_\_  
Mr. Nasser Homaïd Salem Ali Alderei



*Translation into English of consolidated notes the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.*

## NEGATIVE CLEARANCE REGARDING ENVIRONMENTAL INFORMATION IN FINANCIAL STATEMENTS

**Company's identification:**

Grupo Empresarial San José, S.A. and Subsidiaries

**Company's identification:**

R.M. Pontevedra, Volume 586, sheet 88, page 8119

**VAT Id #:** A36.046.993    **Fiscal year:** 2015

*The undersigned, as Director of the above mentioned company state that accounting records of the financial statements issued in 188 sheets of paper do not include items to be included within the document apart from environmental information set forth by Ministerial Order 8 October 2001.*

**Signature and name of the Directors:**

\_\_\_\_\_  
Mr. Jacinto Rey González

\_\_\_\_\_  
Mr. Jacinto Rey Laredo

\_\_\_\_\_  
Mr. Sunil Kanoria

\_\_\_\_\_  
Mr. Enrique Martín Rey

\_\_\_\_\_  
Ms. Altina de Fátima Sebastián González

\_\_\_\_\_  
Mr. Ramón Barral Andrade



*Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.*

*Translation into English of consolidated notes the year ending 31 December 2015 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.*

\_\_\_\_\_  
Mr. Jose Manuel Otero Novas

\_\_\_\_\_  
Mr. Roberto Alvarez Álvarez

\_\_\_\_\_  
Mr. Javier Rey Laredo

\_\_\_\_\_  
Mr. Nasser Homaid Salem Ali Alderei



*Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.*

**CERTIFICATION**

**CERTIFICACIÓN**

*I, Estefanía Calvo Iglesias, English Sworn Translator, certified by the Spanish Ministry of Foreign Affairs,*

*do hereby certify*

*that the preceding is a true and faithful English translation, on the essentials, of a document issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.*

In Madrid, on the fifteenth of July, two thousand and sixteen

*Yo, Estefanía Calvo Iglesias, Traductora e Intérprete Jurada de inglés por el Ministerio de Asuntos Exteriores del Gobierno de España,*

*certifico que*

*la que precede es traducción fiel y completa al inglés de un documento redactado en español. En caso de discrepancia, el documento original redactado en español prevalece.*

Madrid, a quince de julio de dos mil dieciséis



Estefanía Calvo Iglesias