Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016 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 prevails.

Deloitte.

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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 2016, and the consolidated income statement, consolidated statement of recognized income and expenses, consolidated statement of changes in equity, consolidated cash flow 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 2016, 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.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 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 2016. 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

Antonio Sánchez-Covisa Martín-González
28 February 2017

Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated Financial Statements
for the year ended 31 December
2016 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.

Translation into English of consolidated financial statements for the year ending 31 December 2016 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiairies

Consolidated balance sheet at 31 December 2016 and 2015

(Thousand of Euros)

	31.12.2016	31.12.2015
NON-CURRENT ASSETS:		
Property, plant and equipment (Note 7)	45,900	45,917
Investment property (Note 8)	4,711	5,664
Goodwill on consolidation (Note 9)	9,984	9,984
Intangible assets (Notes 10)	20,557	18,856
Investments in associates and joint ventures (Note 13.4)	53,121	57,247
Equity investments in associates (Note 11)	52,666	56,792
Loans to related companies (Nota 23)	455	455
Other non-current financial assets (Note 13.4)	150,947	154,331
Deferred tax assets (Notes 20.4 and 20.6)	32,839	35,484
TOTAL NON-CURRENT ASSETS	318,059	327,483
CURRENT ASSETS:		
Non-current assets held for sale (Note 11)	4,186	-
Inventories (Note 12)	104,122	92,176
Trade and other receivables	237,282	271,415
Trade receivables for sales and services (Note 13.1)	202,864	210,536
Realetd companies receivables (Note 23)	1	-
Sundry accountes receivable	4,928	25,342
Public admisnitrations (Note 20.6)	28,610	29,646
Other current assets	879	491
Other current financial assets (Note 13.3)	101,884	61,941
Accrued income	5,247	5,400
Cash and cash equivalents (Note 13.2)	251,839	231,834
TOTAL CURRENT ASSETS	704,560	657,366
TOTAL ASSETS	1,022,619	984,849

	31.12.2016	31.12.2015
EQUITY:		
Share capital	1,951	1,951
Issurance premium	155,578	155,578
Reserves	(167,854)	(176,507)
Translation differences	(43,421)	(45,268)
Equity-Valuation adjustments	(262)	(428)
Profit of the year attibutable to the parent company	10,082	8,653
Equity attribtable to shareholders of the Parent	(43,926)	(56,021)
Minority Interests	21,297	21,680
TOTAL EQUITY (Note 14)	(22,629)	(34,341)
NON-CURRENT LIABILITIES		
Long-term provisions (Note 15)	28,963	19,223
Non-current bank borrowings (Note 16)	488,280	512,557
Bonds and other securities	138,075	146,734
Bank loans and overdrafts	346,524	361,065
Finance lease creditors	162	534
Other financial liabilities	3,519	4,224
Derivative financial instruments (Note 17)	906	1,196
Deferred tax liabilities (Note 20.6)	15,491	14,460
Long-term advances	965	954
TOTAL NON-CURRENT LIABILITIES	534,605	548,390
CURRENT LIABILITIES:		
Short-term provisions (Note 22.10)	42,388	37,471
Current bank borrowings (Note 16)	63,722	47,810
Bonds and other securities	33,594	30,800
Bank loans and overdrafts	26,871	15,837
Finance lease creditors	372	351
Other financial liabilities	2,885	822
Derivative financial instruments (Note 17)	2	8
Payables to related companies (Nota 23)	2,620	1,748
Trade and other payables (Note 18)	395,742	378,454
Trade payables (Note 18.1)	371,026	343,455
Tax Payable (Note 20.6)	14,464	24,437
Other current liabilities (Nota 18.2)	10,252	10,562
Trade and other payables	5,171	5,309
TOTAL CURRENT LIABILITIES	510,643	470,800
TOTAL EQUITY AND LIABILITIES	1,022,619	984,849

Notes 1 to 26 of the accompanying notes Consolidated Anual Report and Annex I,II and III are an integral part of the Consolidated Balance Sheet at 31 st December 2016

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED INCOME STATEMENT FOR
YEARS 2016 AND 2015
(Thousand of Euros)

	Year 2016	Year 2015
CONTINUING OPERATIONS		
Revenue (Note 22.1)	**613,394**	**536,099**
Other operating income	**9,806**	**7,976**
Change in inventories of finished goods and work in progress (Notes 12 and 22.11)	**(4,204)**	**(6,370)**
Procurements (Note 22.2)	**(402,902)**	**(338,125)**
Cost of raw materials and other consumables used	(214,561)	(187,967)
Works performed by other companies	(188,231)	(150,272)
Impairment of goods held for resale, raw materials and other supplies (Note 12)	(110)	114
Staff costs (Note 22.3)	**(94,706)**	**(85,228)**
Other operating expenses	**(89,978)**	**(80,265)**
Losses on impairment and change in allowances for trade receivables	(15,429)	(9,923)
Other current operating expenses (Note 22.2)	(74,549)	(70,342)
Depreciation and amortisation charge (Notes 6,7 and 8)	**(5,819)**	**(5,664)**
Excessive provisions (Notes 15 and 22.10)	**281**	**1,305**
Impairment and gains or losses on disposal of non-current assets (Note 22.9)	**(796)**	**1,021**
PROFIT FROM OPERATIONS	**25,076**	**30,749**
Finance income (Note 22.7)	**21,442**	**30,149**
Finance costs (Note 22.8)	**(27,671)**	**(30,201)**
Change in fair value of financial instruments (Note 17)	**-**	**(20,346)**
Exchange differences	**17**	**3,641**
Impairment and gains or losses on disposal of financial instruments (Notes 13.4 and 22.12)	**(109)**	**(2,497)**
FINANCIAL PROFIT / (LOSS)	**(6,321)**	**(19,254)**
Profit/ (loss) of companies accounted for using the equity method (Note 11)	**953**	**(845)**
PROFIT (LOSS) BEFORE TAX	**19,708**	**10,650**
Income Tax (Note 20.2)	**(11,636)**	**(3,364)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**8,072**	**7,286**
PROFIT (LOSS) FOR THE YEAR	**8,072**	**7,286**
PROFIT (LOSS) ATTRIBUTABLE TO EXTERNAL PARTNERS	**(2,010)**	**(1,367)**
PROFIT (LOSS) FOR THE YEAR	**10,082**	**8,653**
Earnings per share (Euros/share)		
-Basic	**0.16**	**0.13**
-Diluted	**0.16**	**0.13**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of the Consolidated Income Statement at 31st December 2016

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GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES FOR YEARS 2016 AND 2015

(Thousand of Euros)

	Year 2016	Year 2015
CONSOLIDATED PROFITS / (LOSSES) OF THE YEAR	**8,072**	**7,286**
Income and expenses recognised directly in equity		
-For cash flow hedges	(121)	(122)
-Other	93	20
-Tax effect	(50)	26
	(78)	**(76)**
Transfer to income statement		
-For cash flow hedges	412	30,682
-Other	(51)	(208)
-Tax effect	(90)	(7,355)
	271	**23,119**
TOTAL RECOGNISED INCOMES / (EXPENSES)	**8,265**	**30,329**
a) Attributable to Parent	**10,242**	**31,673**
b) Attributable to minority interests	**(1,977)**	**(1,344)**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of of the consolidated statement of recognized income and expenses at 31 December 2016

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2016 AND 2015

(Thousand of Euros)

	Share Capital	Issurance premium	Others reservers: Legal Reserve	Others reservers: of the parent	Consolidated Reserves: In consolidated companies	Consolidated Reserves: In associated companies	Translation differences	Equity Adjustments	Profit of the year	attributable to parent	Minority interests	Total Equity
Balance at December 31, 2014	**1,951**	**155,578**	**263**	**(86,032)**	**78,478**	**(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	-	-	-	-	(51,399)	51,218	-	-	-	**(181)**	181	-
Other equity movements	-	-	-	-	(933)	-	2,599	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**	**(191,520)**	**12,444**	**2,306**	**(45,268)**	**(428)**	**8,653**	**(56,021)**	**21,680**	**(34,341)**
Distribution of profit for year 2015:												
-To reserves	-	-	-	35,289	(25,791)	(845)	-	-	(8,653)		-	-
-Dividend payment	-	-	-	-	-	-	-	-	-		(801)	**(801)**
Translation differences	-	-	-	-	-	-	1,847	-	-	**1,847**	2,695	**4,542**
Variation of the consolidation perimeter (Note2.4)	-	-	-	-	(2,427)	2,427	-	-	-		(299)	**(299)**
Other equity movements	-	-	-	-	-	-	-	6	-	**6**	(1)	**5**
Total recognized income/expenses year 2016	-	-	-	-	-	-	-	160	10,082	**10,242**	(1,977)	**8,265**
Balance at December 31, 2016	**1,951**	**155,578**	**263**	**(156,231)**	**(15,774)**	**3,888**	**(43,421)**	**(262)**	**10,082**	**(43,926)**	**21,297**	**(22,629)**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of the Consolidated Statement of Changes in Equity at 31st December 2016.

ESTEFANÍA CALVO IGLESIAS
DE INGLÉS

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENTS

FOR YEARS 2016 AND 2015

(Thousand of Euros)

	Year 2016	Year 2015
Cash flows from operating activities:		
(+) Profit (Loss) before tax	19,708	10,650
(+) Depreciation and amortisation charge	5,819	5,664
(+/-) Changes in operating allowances	15,359	8,526
(-) Financial income	(21,442)	(30,149)
(+) Financial costs	27,671	30,201
(+/-) Exchange differences	(17)	(3,641)
(+/-) Result of changes in value of financial instruments	-	20,346
(+/-) Result of companies accounted for using the equity method	(953)	845
(+/-) Other gains or losses	1,533	(3,223)
Total Cash Flows from operating activities	**47,678**	**39,218**
Other adjustments		
(-) Imcome tax paid in the year	(8,937)	(4,584)
(+/-) (Increase) / Decrease in working capital		
a) (Increase) / Decrease in inventories	(10,141)	5,979
b) (Increase) / Decrease in debtors and other receivables	18,664	(16,631)
c) (Increase) / decrease in other current assets	154	(936)
d) (Increase) / Decrease in trade payables	29,502	28,514
e) (Increase) / decrease in other current liabilities	862	(3,835)
(+/-) Other collections / (payments) due to operating activities	(1,959)	(4,384)
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**75,823**	**43,342**
Investments:		
(-) Property, plant and equipment and investment property	(4,958)	(2,407)
(-) Intangible assets	(3,063)	(183)
(-) Shares and other financial assets	(5,686)	(369)
Total Investments	**(13,707)**	**(2,959)**
Dividends received	**2,960**	**4,359**
Disposals:		
(+) Property, plant and equipment and investment property	2,580	759
(+) Intangible assets	22	71
(+) Shares and other financial assets	886	8,019
Total Disposals	**3,488**	**8,849**
Other collections / (payments) due to financing activities	**3,364**	**29,629**
2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	**(3,895)**	**39,878**
Dividends payed	**(801)**	**(1,553)**
Increase / (decrease) in borrowings	**(44,060)**	**(25,187)**
Non current	(3,837)	1,004
Current	(40,223)	(26,191)
Net interests:	**(4,666)**	**(17,624)**
Received	10,077	14,881
Paid	(14,744)	(32,505)
Other collections / (payments) due to financial activities	**(2,396)**	**(10,282)**
3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES	**(51,923)**	**(54,646)**
TOTAL CASH FLOWS FOR THE YEAR	**20,005**	**28,574**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**231,834**	**203,260**
Changes in the year	20,005	28,574
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**251,839**	**231,834**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of the Consolidated Cash Flow Statement fot year 2016.

Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated notes
for the year ended 31 December 2016

1. Activities of the Group

Incorporation

Grupo Empresarial San José, 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 Sanmartn 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 44, Rosalia de Castro St.

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.
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 as well as public and private healthcare maintenance services; electro medicine and gas facilities and maintenance.

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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 Consesiones y Servicios, S.A.U. (maintenance services), San Jose Energia y Medio Ambiente, S.A. (energy), and Desarrollos Urbansticos 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 year:

Merger of "Desarrollos Urbanisticos Udra, S.A.U." and the investee: "Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U."

On 21 December 2016, the Sole Shareholder of the company "Desarrollos Urbanísticos Udra, S.A..U" adopted the decision to dissolve its investee "Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U." in order to proceed to its absorption, without liquidation, by transferring all its assets, rights and obligations to the absorbing company, which acquires and assumes them as universal succession, being surrogated in all rights and obligations of the absorbed companies, which are dissolved without liquidation once granted through public deed the merger agreement on 21 December 2016, and filed and registered at the Trade Registry of Companies of Pontevedra on 28 December 2016.

As the absorbing company is the sole shareholder of the absorbed company, in accordance with provisions under Article 49 of Law 3/2009, on 3 April on structural modifications of companies, an independent expert report has not been required.

The assets and liabilities transferred in the merger were included in the accounting records of "Desarrolos Urbanisticos Udra, S.A.U." at the same amounts as those at which they had been carried in the accounting records of the absorbed companies.

Transactions executed by absorbed companies are taken into consideration by "Inmobiliaria Europea de Desarrollos Urbanísticos, S.A.U." for accounting purposes as on 1 January 2016.

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This merger transaction has benefited from the exemptions and benefits provided for in Directive 90/434 / EEC and the Spanish rules, in particular those referred to in Chapter VII of Title VI of R.D.L. 27/2014, on 27 March, approving the Spanish Companies Tax Act.

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.

- 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: transation 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 "San Jose Tecnologias, S.A.U." and the investee: "Artel Ingenieros S.L.U.", "Sefri Ingenieros S.A.U.", "Instal 8 S.A.U." and "SM Klima S.A.U.": transaction passed and executed in year 2008.

- Spin-off of "Tecnocontrol, S.A.U." branch of activity in favour of "Tecnocontrol Servicios, S.A.U.": transaction approved and executed in year 20089

- 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.AU.", "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 transactions were qualified 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 2016 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 2016 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 2015, prepared in accordance with EU-IFRSs, were approved by the shareholders at the Annual General Meeting of Grupo Empresarial San José, S.A. (formerly named Udra, S.A.) held on 23 June 2016. Also, 2016 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.

Standards and interpretations applicable for the year

During year 2016 the following standards and interpretations, compulsory as from year 2016 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 2016:

New standards and amendments:		**Compulsory application for the Group:**
Adopted for use within the EU		
Amendment of IAS 19 – Employees' contributions to funds (released in June 2013)	The amendment facilitates the deduction of this costs of the cost of the service, provided certain criteria is 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 11on accounting of acquisition of stakes in joint ventures (released in May 2014)	It specifies how to record the acquisition of stakes in a joint ransactions whose activity involves a business itself.	01 January 2016
Amendment of IAS 16 and 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 September 2014)	Minor amendments of a series of standards	1 January 2016
Amendment IAS 27 on consolidation of individual 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
Amendment of IFRS 10, 12 and 28 Investment companies (released in December 2014)	It classifies the accepted impairment and amortisation methods of property, plant and equipment and intangible assets.	1 January 2016.

(1) The enforcement date approved by the IASB is 1 January 2014.

The enforcement date approved by the IASB is 1 January 2017.

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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 EU.:

Adopted for use within the EU		**Compulsory application as from:**
New standards		
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 June 2014)	It replaces former classification requirements, evaluation of assets and liabilities, accounting hedges of IAS 39.	1 January 2018

Non-adopted for use within the EU		**Compulsory application as from:**
New standards		
Clarifications IFRS 15 (released in April 2016)	They are related to the identification of performance obligations, principal versus agent, licensing and accrual at one point over time, as well as clarifications to transition rules.	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
Amendments and/or understanding		
Amendment of IAS 7: Breakdown (released in January 2016)	It incorporated additional breakdown requirements in order to improve the information provided to users.	1 January 2017
Amendment of IAS 12: Recognition of deferred taxes due to unrealised losses (released in January 2016)	Clarification of the main principles for the recognition of assets and deferred taxes for unrealised losses.	1 January 2017
Amendment of IFRS 2: Classification and assessment of share-based payments (released in June 2016)	Limited modifications that clarify specific issues such as the effects of accrual conditions on share-based payments to be settled in cash, the classification of share-based payments when it has net settlement clauses and some aspects of changes in the type of payments based on shares.	1 January 2018
Amendment of IFRS 4: Insurance policy	It allows entities within the scope of IFRS 4 the option of applying IFRS 9 or its temporary exemption.	1 January 2018
Amendment of IFRS 40: Reclassification of real estate investments (released in September 2016)	The amendment clarifies that a reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	1 January 2018

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Improvement of IFRS years 2014-2016 (released in December 2016)	Minor amendments of a series of standards	1 January 2018
IFRIS 22 – Transaction and advances in foreign currencies (released in December 2016)	It sets the date of the transaction, in order to determine the exchange rate applicable in transactions with foreign currency advances.	1 January 2018
Amendment of IFRS 10, 12 and IAS 28 Investment companies (released in September 2014)	It classifies the accepted impairment and amortisation methods of property, plan and equipment and intangible assets.	Without a set date.

IFRS 15 establishes the new revenue recognition model derived from customer contracts. This standard presents all applicable requirements in an integrated manner and will replace current revenue recognition standards, IAS 18 Revenue from ordinary activities and IAS 11 Construction Contracts, as well as other related IFRIC interpretations. IFRS 15 establishes 5 steps that must be taken into account for an entity to recognize a sale:

1. To identify the contract with the customer.
2. To identify contractual obligations.
3. To determine the price of the transaction.
4. To distribute the price of the transaction between the obligations of the contract.
5. To recognise income when, or as, the entity fulfils its obligations.

The rule is applicable as from 1 January 2018. However, it will be retroactive, although certain options are contemplated in the transition.

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 acquired in joint ventures (see Notes 2.4 and 9).

8. The assessment of the recovery of tax credits (see Note 4.16).

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9. Management of financial risk (Note 20)

Although these estimates were made on the basis of the best information available at 31 December 2016 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 2016 is as follows:

Country	Currency	Year-end exchange rate	Average exchange rate
United States /East-Timor	US Dollar (USD)	1.0536	1.1030
Mexico	Mexican Peso	21.7816	20.6696
Argentina	Argentine Peso (ARS)	16.7418	16.4459
Cape Verde	Cape Verde Escudo	110.2650	110.2650
Panama	Panamanian Balboa	1.0536	1.1030
Uruguay	Uruguayan Peso	30.1727	32.7909
Paraguay	Guaraní	5,911.27	6,137.1392
Peru	Peruvian Sol	3.4856	3.6704
Chile	Chilean Peso (CLP)	700.946	738.3149
Brazil	Brazilian Real	3.4274	3.8163
India	Indian Rupee	71.4785	74.1422
Morocco	Morocco Dirham	10.6076	10.7534
Colombia	Colombian Peso	3,158.05	3,341.14
Republic of Congo	Franco BEAC	655.957	655.957
Nepal	Nepalian Rupee	112.295	117.1979
Mozambique	New Metical	74.53	69.5248
United Arab Emirates	UAE Dirham	3.8688	4.0503
Romania	Romanian Leu	4.5309	4.4861

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 includes total assets and revenue provided by companies with operating currency other than the Euro.

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

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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. 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.

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Financial information provided by consolidated financial statements of the Group by multi-group companies, in aggregate, at 31 December 2016 and 2015 is as follows:

	Millions of Euros	
	31.12.2016	31.12.2015
Non-current assets	3.2	1.5
Current assets	262.7	261.2
Non-current liabilities	0.7	0.9
Current liabilities	255.2	253.6
Total income	159.7	147.4
Total expense	(149.4)	(144.7)

Appendix III to the consolidated financial statements details the joint ventures 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 was 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 2016 were as follows:

1. On 13 January and 19 May 2016, the Company of the Group "Constructora San Jose, S.A." has established branches in Malta and Bolivia. The purpose of these branches is the development of the activity of the Group in said countries. Currently, the Group has been awarded a construction contract (civil works) in Malta, which is currently under construction.

2. The associate "Corporación San Bernat, S.L." (Corsabe) has been settled on 23 December 2016. As a consequence, the Company has derecognised its participation in this company with a total net cost amounting to EUR 1,777 thousand, Among the assets received at the settlement, highlight 303,513 shares of the company "Oryzon Genomics, S.A." for a total value of EUR 1,411.thousand, corresponding to 1.07% share capital (see Note 13.4). This

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transaction involved a profit of EUR 364 thousand recorded under the caption "Impairment and disposal of financial instruments " in the accompanying profit and loss account at 31 December 2016.

3. During year 2016, the associated "Fotovoltaica El Gallo 10, S.L" has returned EUR 1,753 thousand to its shareholders due to capital reduction. As a consequence, the Group has reduced its participation in this company with a total net cost amounting to EUR 1,454 thousand,

4. During year 2016, the Group has increased its capital in the investee "Udra México, S.A. de CV" in EUR 716 thousand by means of capitalisation of loans previously granted to the Company.

5. On 29 June 2016, the Company has created a new company in Colombia, "Constructora San José Colombia, S.A.S." as part of the business plan of the activity of the Group in this country, with a total capital amounting to EUR 53 thousand. At 31 December 2016, EUR 30 thousand were pending disbursement.

6. On 21 December 2016 (accounting effect as from 1 January 2016) took place the merger by absorption, whereby the Group company "Desarrollos Urbanísticos Udra, S.A.U." has absorbed all of the assets, rights and obligations of any kind, of its investee company "Inmobiliaria Europea de Desarrollos Urbanísticos, SAU", which is dissolved without settlement. This transaction was recorded at the Registrar of Companies of Pontevedra on 28 December 2016.

7. On 19 December 2016, the company of the group "San José Constructora Chile, S.A.", has purchased a 50% stake in the company "Consorcio Hospital Carlos Cisternas de Calama, SA", for EUR 1,100 thousand, holding at 31 December 2016 100% of the share capital of this subsidiary.

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 synduicated credit loan in Spain (see Note 12),

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, S.L. ", 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 partical 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 capital reduction.

6. During December 2015, the Company 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 trough 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 dully paid-up by "Constructora San José, S.A.".

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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 Chillean Pesos (almost EUR 1 million), entirely property of the Group.

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 2015 is provided for comparison purposes only with that provided as of the year ended 31 December 2016.

2.6 Changes in the accounting criteria

Accounting criteria applied during year 2016 is the same as that implemented in year 2015.

During year 2016, no significant changes have been applied compared to those applied in year 2015.

3. Distribution of the Parent's profit

The Directors of the Parent Company will propose the General Shareholders' Meeting the recognition of EUR 41,659 thousand as 2016 losses to offset future profits the Parent Company may generate.

4. Accounting principles and policies and measurement basis

The accounting principles and policies and measurement bases used in preparing the Group's consolidated financial statements for 2016 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 is immediately available for sale. Sale shall be fulfilled within a year after the classification date.

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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.

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.

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 consolidated balance sheet.

Negative differences in the investments in the consolidated companies and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, are 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.

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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.

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Usage rights

The Group classifies as intangible assets the usage rights of the plot of land on which the investee company "Fotovoltaica El Gallo 10, S.L." operates and which is amortised on a linear basis, depending on the useful life of said rights, which serve the period of use of the plot of land, which is established in 25 years. The end of the leasing rights will be in 2036.

Likewise, the Group has also included under this item the construction rights of Carlos Cisternas de Calama Hospital, which were acquired during 2016 as part of the acquisition of the company Consorcio Hospital Carlos Cisternas de Calama, S.A. (see Note 2.4).

In both cases, rights have been valued in accordance with the costs incurred into at acquisition.

4.4 Property, plant and equipment and investment property

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:

	Percentage 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.

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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 if no impairment losses been recognised in prior years.

Property, plant and equipment is recognised at cost price less any accumulated depreciation and any recognised impairment.

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.

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 2016, 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 in 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 2016 and 2015, 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

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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 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.

With regards to the fair value of real estate assets, the Group uses assessments performed by independent experts (see Notes 8 and 12).

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.

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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, directs labour costs and production overheads, including the costs that 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 2016 and 2015, 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 2016 and 2015, "Inventories" includes advances to suppliers for the purchase of inventories amounting to EUR 17,801 thousand and EUR 18,436 thousand, respectively (see Note 12).

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.

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

Subsequent derecognition -

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.

4.8 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 13.1 and 18.3).

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.
- 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.

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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 scantly 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

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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.

On the other hand, Grupo San Jose will not recognise the derecognising of financial assets and will recognise financial liabilities equal to the received consideration in transfers of assets in which risks and profits are not transferred or financial assets which the transferring company holds any subordinate financing nor any guarantee or risk in

Net equity

Equity 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 2016 and 2015. Likewise, no transactions involving treasury shares were carried out during those years.

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.

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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 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 2016 were recognised under "Equity - Valuation Adjustments" in the accompanying consolidated balance sheet (see Note 14.6).

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 17).

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.

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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 asset 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 principles 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 counterpart and DVA (Debt Value Adjustment) or its own credit risk are 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 ifnormation available. At 31 December 2016 and 2015, the Group held interest rate swaps (IRSs and collars) for a total notional amount of EUR 15,799 thousand and EUR 17,034 thousands, respectively, with maturity dates in 2017 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 2016 and 2015 was EUR 711 thousand and EUR 844 thousand, respectively.

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. On a general basis, income for sales is generally recognised when goods and ownership have been delivered and transferred. Income from maintenance or operation services is recorded as revenue whenever such services have been effectively provided.

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.

   Any works performed not included in the main contract, at the request of the client, such as refurbishments, additions and modifications of the work, income is recorded following the same method of that used for the main work, provided it is technically justified and approved, and there is no doubt about its subsequent approval.

   Different Group companies with construction or project execution activity are provided with the necessary and sufficient internal control system for the identification and differentiation of the components of total revenue budget (main contract, amendment, complementary and claims) and the approval level (not approved, with technical approval, with technical and economic approval).

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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.

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.

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

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.

Income and expense relating to construction services or improvement of infrastructure are recorded in the consolidated financial statements as construction margin.

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.

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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 nor 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.

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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.

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 Cabo Verde, S.A.	Cape Verde	Construction
Branch office of Constructora Udra, Ltda. in Cape Verde	Praia (Cape Verde)	Construction
Constructora San José Argentina, S.A.	Buenos Aires (Argentina)	Construction
Tecnoartel Argentina, S.A.	Buenos Aires (Argentina)	Maintenance and facilities
Carlos Casado, S.A.	Buenos Aires (Argentina)	Property holding
Branch office of Constructora San José in Argentina	Buenos Aires (Argentina)	Construction
Hospes Brasil Participaciones e Empreendimientos Lda.	Brazil	Construction and Real Estate Development
Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.	Brazil	Construction and Real Estate Development
Concesionaria San José - Tecnocontrol, S.A.	Santiago de Chile (Chile)	Hospital Construction and Management
San José Tecnologías Chile Limitada	Chile	Construction
Tecnocontrol Chile Limitada	Chile	Construction
Inversiones San José Chile, Lda.	Santiago de Chile (Chile)	Investment and real estate
Inversiones San José Andina, Ltda.	Santiago de Chile (Chile)	Investment and real estate
San Jose India Infraestructure & Construction Private Limited	New Delhi (India)	Construction
Eskonel Company, S.A.	Uruguay	Construction
San José Construction Group, Inc	Washington (USA)	Construction
Inmobiliaria 2010, S.A.	Lima (Peru)	Construction and Real Estate

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San José Inmobiliaria Perú, S.A.C.	Lima (Peru)	Construction
San José Perú Constructora, S.A.	Lima (Peru)	Construction
Parsipanny Corp. S.A.	Uruguay	Real estate and agriculture and livestock
Rincon S.A.G.	Paraguay	Real estate and agriculture and
Puerta de Segura, S.A.	Uruguay	Industrial, Trade
Branch office of Constructora San José, S.A. in Nepal	Nepal	Construction
Branch office of Constructora San José, S.A. in Timor	Timor	Construction
Branch office of Constructora San José, S.A. in Abu Dhabi	Abu Dhabi	Construction
San José Congo, S.A.	Congo	Construction and Real Estate
SJ Contracting, LLC.	Abu Dhabi	Construction
Consorcio Hospital Carlos Cisternas de Calama, S.A.	Chile	Construction
Sociedad Concesionaria Rutas del Loa	Chile	Construction
San José Nuevos Proyectos Salud Limitada	Chile	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 20).

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 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.

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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 2016, the following SANJOSE group companies filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

1. Constructora San José, S.A.
2. Cartuja Inmobiliaria, S.A.U.
3. Desarrollos Urbanísticos Udra, S.A.U.
4. Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
5. Tecnocontrol Instalaciones, S.L.U.
6. Tecnocontrol Sistemas de Seguridad, S.A.U.
7. Tecnocontrol Servicios, S.A.U.
8. Basket King, S.A.U.
9. Arserex, S.A.U.
10. Comercial Udra, S.A.U.
11. Udramedios, S.A.U.
12. Cadena de Tiendas, S.A.U.
13. Trendy King, S.A.U.
14. Outdoor King, S.A.U.
15. Athletic King, S.A.U.
16. Vision King, S.A.U.
17. Running King, S.A.U.
18. Enerxías Renovables de Galicia, S.A.
19. Xornal de Galicia, S.A.U.
20. San José Concesiones y Servicios, S.A.U.
21. San José Energía y Medioambiente, S.A.U.
22. Poligeneraciones parc de L´Alba, S.A.
23. Xornal Galinet, S.A.U.
24. Gestión de Servicios de Salud, S.A.U.
25. GSJ Solutions, S.L.U.
26. Fotovoltaica El Gallo 10, S.L.

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Further, as from 1 January 2015, the associate "Erainkuntza Birgaikuntza Artapena, S.L.U." 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: Alexín 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 2016 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 fired without justified 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 2016 to meet the contract termination costs of temporary employees in accordance with legal provisions.

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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 16.2).

4.20 Transactions with associates

Grupo San Jos 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 Environmental nature assets

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.

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.

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:

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	Year 2016	Year 2015	Changes
Net profit/(loss) for the year attributable to the Parent (thousands of Euros)	10,082	8,653	1,429
Weighted average number of shares (shares)	65,026,083	65,026,083	-
Basic profit/(loss) per share (Euros/Share)	0.16	0.13	0.03

5.2 Diluted earnings per share

There is no potential dilutive effect derived from options on shares, warrants, convertible debt or other instruments as of 31 December 2016, apart from that which could be evidenced as a result of the execution of the warrants that the parent has issued, and whose execution, if applicable, would be in 2019 (see Note 16.3). At 31 December 2016, the diluted earnings per share is equal to the basic earnings per share.

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 2016 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 2016 and 2015, 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.:

Year 2016:

	Thousands of Euros					
	Construction	**Real estate and property development**	**Energy**	**Concessions and Services.**	**Adjustments and other**	**TOTAL**
Net Revenues:						
External sales	534,098	15,673	10,191	39,219	14,213	613,394
Inter-segment sales	3,256	-	-	236	(3,492)	-
	537,354	**15,673**	**10,191**	**39,454**	**10,721**	**613,394**
EBITDA	**33,268**	**6,536**	**2,883**	**1,269**	**1,969**	**45,925**
Amortisation	(2,984)	(301)	(1,496)	(918)	(119)	(5,819)
Provisions	(16,256)	1,233	30	(122)	(193)	(15,307)
Profit/(Loss) after sale	280	-	-	(4)	(0)	276
Profit/(Loss) from operations	**14,308**	**7,468**	**1,418**	**225**	**1,656**	**25,076**
Financial income	9,902	2,760	15	15,315	(6,549)	21,442
Financial costs and similar expenses	(16,009)	(1,117)	(884)	(9,909)	248	(27,671)
Changes in fair value of financial assets	-	-	-	-	-	-
Translation differences and other	(40)	305	(71)	3,445	(3,733)	(92)
Profit/(loss) from associates	(6)	1,111	(361)	-	209	953
Profit/(Loss) before tax	**8,156**	**10,526**	**117**	**9,077**	**(8,168)**	**19,708**

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Year 2015:

	Thousands of Euros					
	Construction	Real estate and property development	Energy	Concessions and Services.	Adjustments and other	TOTAL
Net Revenues:						
External sales	432,589	28,924	12,691	46,283	15,612	536,099
Inter-segment sales	9,528	-	-	306	(9,834)	-
	442,117	**28,924**	**12,691**	**46,589**	**5,778**	**536,099**
EBITDA	**20,984**	**10,215**	**3,419**	**9,232**	**(15)**	**43,835**
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
Profit/(Loss) from operations	**15,225**	**6,602**	**1,295**	**6,416**	**1,211**	**30,749**
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)
Profit/(Loss) before tax	**9,348**	**11,231**	**767**	**(11,485)**	**789**	**10,650**

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

The Group presents its results in accordance with generally accepted accounting standards (see Note 2.1). However, directors believe that certain alternative performance measures (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and that shall be considered to adequately assess performance of the group.

Among others, the Group identifies EBITDA as APM, defining it as the gross operating result, calculated from operating income, excluding depreciation, provisions and impairment provided or reverted during the period, as well as the result from disposal of fixed assets.

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

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Year 2016:

	Thousands of Euros					
	Construction	Real estate and property development	Energy	Concessions and Services.	Adjustments and other	TOTAL
Balance sheet:						
Non-current assets:						
Intangible assets	3,852	2	18,168	-	8,519	30,541
Property, plant and equipment	13,034	37	10,540	2,380	19,909	45,900
Real estate investments	870	3,838	-	-	3	4,711
Deferred tax assets	18,613	2,374	2,136	656	9,060	32,839
Other	15,710	34,917	4,593	140,537	12,497	208,254
Current assets:						
Inventories	63,002	36,928	18	1,390	2,784	104,122
Receivables	211,341	2,429	3,649	12,243	7,620	237,282
Other current assets	2,823	-	-	2,076	9,992	14,891
Short-term financial investments	21,985	33	460	68,639	1,123	92,240
Cash and cash equivalents	187,030	34,572	3,514	15,599	11,124	251,839
Total Assets						
In Spain	215,052	38,161	38,359	9,334	39,219	340,125
In foreign countries	323,208	76,969	4,719	234,186	43,412	682,494
	538,260	**115,130**	**43,078**	**243,520**	**82,631**	**1,022,619**
Non-current liabilities:						
Long-term payables	234,465	2,705	9,046	138,212	104,758	489,186
Deferred tax liabilities	2,234	1	1,426	10,227	1,603	15,491
Other non-current liabilities	30,689	1,679	1,119	1,022	(4,581)	29,928
Current liabilities:						
Short-term payables	15,471	11,437	1,036	33,604	2,176	63,724
Trade payables	370,885	10,083	2,415	6,469	5,890	395,742
Other current liabilities	23,023	8,580	750	10,558	8,266	51,177
Total Liabilities						
In Spain	425,046	6,265	15,343	3,345	110,909	560,908
In foreign countries	251,721	28,220	449	196,747	7,203	484,339
	676,767	**34,485**	**15,792**	**200,092**	**118,112**	**1,045,248**
Additions to fixed assets:						
In Spain	550	-	673	387	70	1,679
In foreign countries	5,779	-	-	465	98	6,342
	6,329	-	**673**	**852**	**167**	**8,021**

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Year 2015:

	Thousands of Euros					
	Construction	Real estate and property development	Energy	Concessions and Services.	Adjustments and other	TOTAL
Balance sheet:						
Non-current assets:						
Intangible assets	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
Current assets:						
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
Total Assets						
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
	509,707	**104,765**	**43,896**	**239,235**	**87,246**	**984,849**
Non-current liabilities:						
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
Current liabilities:						
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
Total Liabilities						
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
	650,537	**25,454**	**16,374**	**205,267**	**121,558**	**1,019,190**
Additions to fixed assets:						
In Spain	715	-	101	11	111	938
In foreign countries	1,588	9	-	3	52	1,652
	2,303	**9**	**101**	**14**	**163**	**2,590**

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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	Thousands of Euros					
	Net Revenue		Total assets		Additions to property, plant and equipment and investment property	
	2016	2015	2016	2015	2016	2015
Spain	252,063	222,956	340,125	340,836	1,679	938
Portugal	64,424	58,954	24,727	28,367	41	21
Cape Verde	54,538	25,836	37,161	34,400	1,504	508
United States	-	-	1,242	1,384	2	-
Argentina	3,775	4,850	66,869	79,216	103	68
Uruguay	-	-	4,722	4,034	-	-
Peru	32,835	44,395	69,936	61,577	8	24
Panama	-	-	667	199	-	-
France	-	-	745	598	-	-
Germany	-	-	41	9	-	-
Brazil	-	2	8,472	7,835	-	-
India	27,614	19,436	6,155	6,727	15	1
Chile	48,925	26,774	299,023	300,858	3,419	109
Morocco	-	-	70	72	-	-
Abu Dhabi	111,931	107,107	123,364	85,567	900	624
Nepal	2,002	9,099	18,313	15,349	337	64
Timor	5,759	9,400	5,219	8,108	-	23
Republic of Congo	195	7,290	5,792	8,330	-	210
Mexico	5,888	-	6,279	1,253	13	-
Colombia	-	-	10	31	-	-
Mozambique	-	-	60	99	-	-
Malta	3,445	-	3,627	-	-	-
TOTAL	**613,394**	**536,099**	**1,022,619**	**984,849**	**8,021**	**2,590**

Note 2.3 of the accompanying consolidated Notes includes a list of the main countries where the Group operates in a currency other than the Euro. From total assets at 31 December 2016 and 2015, EUR 653,354 thousand and EUR 615,039 thousand, respectively, correspond to assets in foreign currency. Likewise, from total revenue for years 2016 and 2015 the activity developed in said countries amounts to EUR 293,462 thousand and EUR 254,189 thousand, respectively.

7. Property, plant and equipment

Changes in 2016 and 2015 under "Property, Plant and Equipment" in the consolidated balance sheet, were as follows:

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<u>*Year 2016:*</u>

	Thousands of Euros					
	Balance at 31/12/2015	**Additions / Provisions**	**Disposals**	**Transfers (Notes 8 and 12)**	**Exchange rate differences and other**	**Balance at 31/12/2016**
Cost:						
Land and buildings	**32,293**	195	-	-	(65)	**32,423**
Plant and machinery	**34,324**	2,279	(414)	-	178	**36,367**
Other items of property, plant and equipment	**29,258**	2,484	(947)	(24)	86	**30,857**
Ongoing property, plant and equipment	-	-	-	710	-	**710**
Total cost	**95,875**	**4,958**	**(1,361)**	**686**	**199**	**100,357**
Accumulated amortisation:						
Land and buildings	**(4,345)**	(464)	-	-	(17)	**(4,826)**
Plant and machinery	**(18,355)**	(2,167)	414	-	(41)	**(20,149)**
Other items of property, plant and equipment	**(27,249)**	(1,598)	420	24	(35)	**(28,438)**
Total Accumulated Amortisation	**(49,949)**	**(4,229)**	**834**	**24**	**(93)**	**(53,413)**
Total Accumulated Impairment (Note 22.9)	**(9)**	(1,003)	-	-	(32)	**(1,044)**
Net carrying amount	**45,917**	**(274)**	**(527)**	**710**	**74**	**45,900**

<u>*Year 2015:*</u>

	Thousands of Euros				
	Balance at 31/12/2014	**Additions / Provisions**	**Disposals**	**Exchange rate differences and other**	**Balance at 31/12/2015**
Cost:					
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**
Total cost	**98,944**	**2,391**	**(5,401)**	**(59)**	**95,875**
Accumulated amortisation:					
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)**
Total Accumulated Amortisation	**(46,980)**	**(3,695)**	**615**	**111**	**(49,949)**
Total Accumulated Impairment (Note 22.9)	**(9)**	-	-	-	**(9)**
Net carrying amount	**51,955**	**(1,304)**	**(4,786)**	**52**	**45,917**

Year 2016:

Additions occurred in year 2016 correspond mainly to investment in machinery and technical facilities incurred into by the Group for the development of construction activity.

Likewise, technical equipment and office furniture have been acquired during 2016 for renovation and update of the existing one and as requirement of works in progress.

Transfers carried out in 2016 relate mainly to two commercial premises of the company "Erainkuntza Birgaikuntza Artapena, S.L.U." which have been transferred from "Inventories" in the accompanying consolidated balance sheet (see Note 12).

During 2016, the Company recorded impairment losses amounting to EUR 1,003 thousand, recorded under "Impairment and loss on disposal of fixed assets" in the accompanying income statement for 2016 (see Note 22.9). as a result of the evolution of the activity which these assets are associated to.

Year 2015:

Additions occurred in year 2015 correspond mainly to investment in machinery and technical facilities incurred into by the Group for the development of construction activity in foreign countries, mainly Republic of Congo and Abu Dhabi, amounting to 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 22.9).

At 31 December 2016, investment hold in foreign countries by the Group, detailed by associate is as follows:

	Thousands of Euros			
	31-12-2016		31-12-2015	
	Cost:	Accum. Amort.	Cost:	Accum. Amort.
Portugal	2,295	(2,245)	2,232	(2,211)
Argentina	18,354	(225)	18,362	(210)
Cape Verde	3,177	(1,452)	1,765	(1,123)
Chile	853	(188)	248	(115)
India	100	(66)	110	(72)
Peru	1653	(1,595)	1,507	(1,353)
Congo	2,008	(1,586)	2,008	(769)
Timor	1419	(1,010)	1,368	(428)
Abu Dhabi	3,139	(1,937)	2,106	(863)
Nepal	1,231	(1,029)	863	(517)
Other countries	469	(445)	140	(110)
TOTAL	**34,698**	**(11,778)**	**30,709**	**(7,771)**

"Land and Buildings" includes mainly at 31 December 2016 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 EUR 8.4 million.

At 31 December 2016 and 2015, the cost of the land upon which property for own use is located amounted to EUR 1.6 million.

At 31 December 2016 and 2015 there are specific property acting, with a carrying amount of approximately EUR 8,347 thousand and EUR 8,558 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 23.4 million (see Note 16.3).

Fair value of own use buildings at 31 December 2016 and 2015 amounts to EUR 18.7 million and EUR 18.4 million, respectively, according to estimates carried by independent valuers (Savills Espaa, S.A.). Carrying net cost at 31 December 2016 and 2015 amounts to EUR 8.4 million and EUR 8.6 million, respectively.

At year-end 2016 and 2016 there were fully amortised items in use, with a total cost amounting to EUR 25,8 million and EUR 20 million, respectively.

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At year-end 2016, 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.

Finance Leases

The Group has leasing contracts mainly related to the rental of printing and office equipment, which has a very limited relevance.

8. Investment property and investment property in progress

8.1 Property investment

The detail of "Investment Property" and changes therein in 2016 and 2015, is as follows:

Year 2016:

	Thousands of Euros				
	Balance at 31/12/2015	Additions / Provisions	Transfers	Exchange rate differences	Balance at 31/12/2016
Cost:					
Land and buildings	**7,708**	-	-	(983)	**6,725**
Plant and machinery	**1,105**	-	-	(133)	**972**
Furniture, tools and other items	**113**	-	24	(17)	**120**
Total cost	**8,926**	-	**24**	**(1,133)**	**7,817**
Accumulated amortisation:					
Buildings	**(2,282)**	(216)	233	257	**(2,008)**
Technical facilities	**(845)**	(4)	(257)	149	**(957)**
Furniture, tools and other items	**(110)**	(1)	-	(5)	**(116)**
Total Accumulated Amortisation	**(3,237)**	**(221)**	**(24)**	**401**	**(3,081)**
Total Accumulated Impairment (Note 22.9)	**(25)**	-	-	-	**(25)**
Net carrying amount	**5,664**	**(221)**	-	**(732)**	**4,711**

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Year 2015:

	Thousands of Euros					
	Balance at 31/12/2014	Additions/ Provisions	Disposals	Transfers	Exchange rate differences	Balance at 31/12/2015
Cost:						
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**
Total cost	**7,799**	**16**	-	**3,834**	**(2,723)**	**8,926**
Accumulated amortisation:						
Buildings	**(2,560)**	(376)	-	-	654	**(2,282)**
Technical facilities	**(1,130)**	(25)	-	-	310	**(845)**
Furniture, tools and other items	**(150)**	(1)	-	-	41	**(110)**
Total Accumulated Amortisation	**(3,840)**	**(402)**	-	-	**1,005**	**(3,237)**
Total Accumulated Impairment (Note 22.9)	**(77)**	-	**52**	-	-	**(25)**
Net carrying amount	**3,882**	**(386)**	**52**	**3,834**	**(1,718)**	**5,664**

The cost of the investment property at 31 December 2016 and 2015 includes approximately EUR 3 million and EUR 3.5 million, relating to the carrying amount of the land relating thereto.

During year 2016, pursuant to the assessment of investment assets committed by Grupo SANJOSE to independent values, no significant reduction in value of investment property was recorded (see Note 8.2).

Use or nature of the investment property

Substantially all of the Group's investment property relates to properties earmarked for lease, mainly in Argentina. The detail of the use or nature of the Group's investment property devoted to leasing purposes at 31 December 2016 and 2015 is as follows:

	2016		2015	
Lease purpose	Surface for lease (m2)	Percentage	Surface for lease (m2)	Percentage
Administrative building	651	1%	651	1%
Shopping Centres	175,919	98%	175,470	98%
Other	1,869	1%	1,869	1%
	178,439	**100%**	**177,990**	**100%**

Mortgaged investment property

At 31 December 2016 and 2015, the Group dos not have real estate assets as collateral for mortgage investments.

At 31 December 2016 and 2015 there are specific property acting, with a carrying amount of approximately EUR 870 thousand and EUR 893 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 2,566 thousand (see Note 16.3).

Income and expenses from rental of investment property

At 31 December 2016 commercial premises, office building and car park spaces had been leased out to third parties under operating leases.

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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 at 31 December 2016 and 2012 is as follows:

Term	Thousands of Euros	
	Year 2016	**Year 2015**
Up to a year	4,142	973
From one to five years	3,954	1,549
More than five years	832	773
	8,928	**3,295**

Calculation has not taken into consideration increase of CPI and, regarding variable rate contracts, amount for year 2016 has been considered.

Total investment property rental income of the Group for year 2016 excluding potential costs charged to clients, amounts to EUR 3,879 thousand recorded under "Provision of services" in the accompanying consolidated income statement for year 2016.

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 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 2016 and 2015, the aforementioned studies were conducted mainly 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 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 abovementioned study, no change has been recorded under the real estate investments of the Group (see Notes 8.1 and 22.9).

At 31 December 2016, the fair value of the Company's inventories based on the aforementioned study amounted to EUR 74.6 million. Said amount, at 31 December 2016, includes EUR 36.6 million corresponding to real **estate** investments of investee 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:

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	Thousands of Euros	
	31.12.2016	**31.12.2015**
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
Total net	**9,984**	**9,984**

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 2016, 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).
- 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 2016, 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 16) completed in 2014.

Likewise, revenue and margin projections have been draft 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 2016, 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.

Further, the Group has recorded under the consolidated balance sheet at 31 December 2016 the following consolidation differences arising from the purchase operations with a position of dominance:

- Derived from the purchase of the group company "Carlos Casado, S.A." in 2008, and the subsequent domain position, the Group recorded as increased value of land under "Property, plant and equipment" of the consolidated balance sheet the surplus with respect to the price paid compared to the carrying value in books of the purchased stake (price purchase allocation - PPA). At 31 December 2016, the amount recorded amounts to EUR 18,640 thousand. During year 2015, as a consequence of land sales of the subgroup Carlos Casado (see Note 9), the Group partially derecognised the PPA registered, amounting to EUR 4,616 thousand, recorded as a reduction in the profit from said transaction under "Impairment and gains on disposal of fixed assets" (see Note 22.9).

- The Group also records a PPP, as higher cost of inventories, as a result of the operations related to the takeover of the investee companies, "Zivar, Investimentos Inmobiliarios, SA" and "Cartuja Inmobiliaria, SA" amounting to EUR 4.911 thusand and EUR 1,543 thousand.

- During 2016, as a result of the purchase transaction to reach 100% of the share capital of the Group "Consorcio Hospital Carlos Cisternas de Calama, S.A.", the Group recorded as "Other intangible assets" in the consolidated balance sheet, the amount of the price paid exceeding the book value of the acquired share, which at 31 December 2016 amounted to EUR 2,389 thousand (see Note 10).

According to IFRS NIIF 3 "Business Combinations", fair value of purchased assets shall be reviewed up to a year after purchase date.

10. Intangible assets

This item includes the Group's concessions and licences, in which the Group assumes demand risk.

The detail in the consolidated balance sheets at 31 December 2016 and 2015, is as follows:

Year 2016:

	Thousands of Euros					
	Balance at 31/12/2015	Additions / Provisions	Disposals	Transfers	Exchange rate differences	Balance at 31/12/2016
Concessions	30,403	564	-	-	-	30,967
Patents, licences and trade marks	82	-	-	-	-	82
Other intangible assets	3,555	2,499	(276)	(94)	127	5,811
Total cost	**34,040**	**3,063**	**(276)**	**(94)**	**127**	**36,860**
Concessions	(14,314)	(1,276)	113	-	-	(15,477)
Patents, licences and trade marks	(4)	(4)	-	-	-	(8)
Other intangible assets	(725)	(89)	-	-	(4)	(818)
Total Accumulated Amortisation	**(15,043)**	**(1,369)**	**113**	-	**(4)**	**(16,303)**
Total Accumulated Impairment (Note 23.9)	**(141)**	-	**141**	-	-	-
Net carrying amount	**18,856**	**1,694**	**(22)**	**(94)**	**123**	**20,557**

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Year 2015:

	Thousands 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
Total cost	**33,940**	**183**	**(82)**	**(1)**	**34,040**
Concessions	(12,902)	(1,412)	-	-	(14,314)
Patents, licences and trade marks	-	(4)	-	-	(4)
Other intangible assets	(575)	(151)	-	1	(725)
Total Accumulated Amortisation	**(13,477)**	**(1,567)**	-	**1**	**(15,043)**
Total Accumulated Impairment (Note 23.9)	**(152)**	-	**11**	-	**(141)**
Net carrying amount	**20,311**	**(1,384)**	**(71)**	-	**18,856**

The increase in "Other intangible assets" in 2016 was mainly due to the acquisition of construction rights by the company "San José Constructora Chile, Ltda" Group, as part of the purchase transaction of 50% of the capital of the company "Consorcio Hospital Carlos Cisternas de Calama, SA" (see Notes 2.4 and 10).

Additions under "Concessions" are mainly due to the expenses incurred into by the Group's "Polygeneration Parc de l'Alba ST-4, SA" company in the pipelines and adjustments made to provide energy supply to new customers, amounting in 2016 to a total of EUR 563 thousand.

Additionally, at 31 December 2016, main intangible assets of the Group as as follows:

- Construction elements and technical installations constituting the polygeneration plant for the production of electric power, cold and heat, of the company of the Group Polygeneration Parc de l'Alba ST-4, SA, located in the Partial Plan "Centro Direcional de Cerdanyola del Valles "(Barcelona), for a net cost at 31 December 2016 of EUR 14,664 thousand.

- 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. Arising from the stake of the Group in the company "Fotovoltaica el Gallo 10, S.L." (see Note 2.4) it was included at 31 December 2014.

- Real estate assets associated to operation of the paring under concession regime in Olvera.

At 31 December 2016, there are no significant investment commitments in intangible assets.

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

Finance Leases

The Group has leasing contracts, mainly related to technical facilities under concession contracts, recorded in the consolidated balance sheet as intangible assets. It mainly includes the thermal power station at the hospital of Torre Cárdenas, whose construction, operation and maintenance is responsibility of the Group.

Breakdown at 31 December 2016 is as follows:

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	Thousands of Euros
Term of contract (years)	10
Outstanding instalments (Note 16.1)	
Non-current	162
Current	372

The rent paid in 2016 amounted to EUR 351 thousand, including a finance charge of EUR 43 thousand.

At year-end 2016 and 2015, total items pending amortisation corresponding to finance leases amounted to EUR 534 thousand and EUR 885 thousand (see Note 17.1).

11. Investments accounted for using the equity method

The Group's most significant investments in associates at 31 December 2016 and 2015, were as follows:

	Thousands of Euros	
	31.12.2016	31.12.2015
Distrito Castellana Norte, S.A. (DCN)	26,400	21,173
Panamerican Mall, S.A. (PM)	8,484	11,783
Fingano, S.A.	-	2,635
Vengano, S.A.	-	1,539
Corporación San Bernat, S.L. (Corsabe)	-	1,777
Cresca, S.A.	12,117	12,214
Pinar de Villanueva, S.L.	5,665	5,671
Other	-	-
Total net	**52,666**	**56,792**

The changes, by company, in "Investments Accounted for Using the Equity Method" in 2016 and 2015 are as follows:

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Year 2016:

	Thousands of Euros						
	Balance at 31-12-2015	**Changes scope/ Transfers**	**Profit/(Loss) for the year**	**Additions**	**Dividends received**	**Exchange rate differences**	**Balance at 31-12-2016**
Corsabe, S.L. (Note 2.4)	1,777	(1,777)	-	-	-	-	-
Cresca, S.A. (Note 26)	12,214	-	209	-	-	(306)	12,117
Fingano, S.A.	2,635	(2,925)	(133)	-	-	423	-
Vengano, S.A.	1,539	(1,261)	(177)	-	-	(101)	-
Dilpren, S.A.	-	-	(50)	-	-	50	-
Pinar de Villanueva, S.L.	5,671	-	(6)	-	-	-	5,665
Distrito Castellana Norte, S.A.	21,173	-	(459)	5,686	-	-	26,400
Panamerican Mall, S.A.	11,784	-	1,569	-	(2,960)	(1,909)	8,484
Other	(1)	-	-	-	-	1	-
Total	**56,792**	**(5,963)**	**953**	**5,686**	**(2,960)**	**(1,842)**	**52,666**

Year 2015:

	Thousands of Euros						
	Balance at 31-12-2014	**Change in the scope of consolidation**	**Profit/(Loss) for the year**	**Additions**	**Dividends received**	**Exchange rate differences**	**Balance at 31-12-2015**
Corsabe, S.L.	2,803	-	(1,026)	-	-	-	1,777
Cresca, S.A.	8,999	-	(1,948)	4,132	-	1,031	12,214
Fingano, S.A.	1,149	-	106	329	-	1,051	2,635
Vengano, S.A.	631	-	162	161	-	585	1,539
Dilpren, S.A.	124	-	(62)	-	-	(62)	-
Pinar de Villanueva, S.L.	-	6,422	(751)	-	-	-	5,671
Distrito Castellana Norte, S.A.	-	21,668	(495)	-	-	-	21,173
Panamerican Mall, S.A.	-	16,155	3,169	-	(4,359)	(3,181)	11,784
Other	2	-	-	-	-	(3)	(1)
Total	**13,708**	**44,245**	**(845)**	**4,622**	**(4,359)**	**(578)**	**56,792**

The main addition of 2016 corresponds to the investee "Castellana Norte District, S.A." whose Shareholders' Meeting approved a capital increase for a total amount of EUR 23,246 thousand, granted thourgh public deed on 4 March 2016. The Group, through its associate "Desarrollos Urbanisticos Udra, S.A.U.", has subscribed and paid up the totality of its shares, for a total value of EUR 5,686 thousand. Therefore, it keeps its 24.46% participation within the share capital of "Distrito Castellana Norte, S.A.".

The associate "Desarrollos Urbanísticos Chamartín, S.A." has as main business activity the urban development of the plat of land comprising the area of the "Extension of the Castellana" in Madrid., at is operation. Since its incorporation on 25 November 1993 up to now, the activity of this company has consisted in the development of any activities necessary for the acquisition of land property of the Administrator of Railway Infrastructures (ADIF) and Renfe-Operadora, for its urban development after its disuse for railway purposes within the real estate plan APR 08.03 and APE 05.27, in the municipal term of Madrid.

"Distrito Castellana Norte, S.A." submitted a review of the PPRI of APR 08.03, having been approved initially by the Governing Board of the City of Madrid on 19 February 2015. During 2016, the decision of the Board of the City of Madrid, at the proposal of the Municipal Planning Commission, has been released,

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denying its approval, although to date the Group has no information on the Technical reasons underlying this decision.

Likewise, during December 2016, the investee has signed an extension of the contract with ADIF, extending the term in two additional years and relying on the transaction.

To the extent that, in one way or another, there is no definitive approval of the PPRI, there is evidence of an uncertainty in the fair value of the Group's financial holding in this company. In any case, the Group supports the project (which is evidenced by the subscription and disbursement of the last capital increase carried out by "Castellana Norte, SA" - see Note 2.4), and does not doubt the recoverability of this participation in its consolidated financial statements, since in its opinion there are sufficient technical and economic reasons that make feasible the project which, in addition, has the support of the main parties involved in the same.

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:

At 31 December 2016:

	Millions of Euros		
	DCN	**PM**	**Cresca**
Non-current assets	2.7	27	10.4
Current assets	120.3	44.4	50.3
Total Assets	**123**	**71.4**	**60.7**
Non-current liabilities	9.6	0.5	-
Current liabilities	5.5	29.3	25.5
Total Liabilities	**15.1**	**29.8**	**25.5**
Income from ordinary activities	-	22.3	-
Profit/(Loss) from continued operations	(1.8)	9.7	1.1
Profit/(Loss) for the year	(1.8)	9.7	1.1

At 31 December 2015:

	Millions of Euros		
	DCN	**PM**	**Cresca**
Non-current assets	2.7	37.8	9.2
Current assets	105.7	33.4	49.2
Total Assets	**108.4**	**71.2**	**58.4**
Non-current liabilities	7.5	1.2	14.8
Current liabilities	14.4	11.2	9.7
Total Liabilities	**21.9**	**12.4**	**24.5**
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)

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

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At 31 December 2016:

	Millions of Euros		
	DCN	PM	Cresca
Total net equity	109.8	49.2	35.1
% ownership of Grupo SANJOSE	24.459%	20.0%	50.0%
Net carrying amount of the stake (NCV)	26.4	8.7	17.0
Amendments of the NCV and other	-	-	(4.8)
Stake cost	**26.4**	**8.7**	**12.2**

At 31 December 2015:

	Millions 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)
Stake cost	**21.2**	**11.8**	**12.2**

Held-for-trading non-current assets:

At 31 December 2016, non-current assets held for sale correspond to the Group's stake in the investees "Vengano, SA", "Fingano, SA" and "Drilpen, SA", as a result of the agreement of intent signed on 25 January 2017 for the sale of the operating wind farms that constitute the main business of these companies (see Note 26).

At present, verification and closure procedures as per terms of the contract of intentions signed, required for the sale, are being carried out. The Company's directors estimate that this process will be completed in the coming months, with the sale of the aforementioned assets being carried out during the first half of 2017. Consequently, said assets meet the requirements set out by accounting standards to be classified as non-current assets to be held for sale. At 31 December 2016, there are no liabilities related to said assets.

The transfer price is pending confirmation. In any case, directors of the Company do not believe said transactions will have a significant impact on the net equity nor profit/(loss) of the Group.

12. Inventories

The detail in the consolidated balance sheets at 31 December 2016 and 2015, is as follows:

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	Thousands of Euros					
	Balance 31-12-2015	Additions	Disposals	Transfers	Differences Exchange rate differences and other	Balance 31-12-2016
Acquired property	**10,211**	-	(145)	-	(343)	**9,723**
Land and buildings	**52,474**	16,374	-	-	1,274	**70,122**
Raw materials and other supplies	**6,463**	-	(1,372)	-	384	**5,475**
Ongoing urban development						
- Short-cycle developments under construction	**1,433**	3,376		(4,413)	(288)	**108**
Completed construction works	**14,104**	-	(7,998)	3,703	947	**10,756**
Advances to suppliers	**18,436**	-	(635)	-	-	**17,801**
Issuance rights	-	109	(69)	(33)	-	**7**
Impairment losses on inventories	**(10,945)**	(54)	972	-	157	**(9,870)**
Total	**92,176**	**19,805**	**(9,247)**	**(743)**	**1,421**	**104,122**

During year 2016, and based upon the assessment of real estate assets performed by the independent expert (see Note 12.7), the Group has not recorded any impairment for real estate inventories, including the impairment of potential contingencies arising from the purchase commitment of land and plots of land.

12.1 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 1,185 thousand amortisations (see Note 16.2).
- Further, also under this item are recorded the housing units of Promópolis, in Seville.
- Car parking spaces and housing units in Puerto Llano, Ciudad Real.
- Car parking spaces and housing units in Mairena de Aljarafe, Seville.
- Car parking spaces and housing units in Manilva, Malaga.

During years 2016 and 2015, no changes have been recorded under this item.

12.2. 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 2016 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.

The main movement under the item "Land and plots of land" in 2016, corresponds to the purchase in December 2016, by the company "San José Inmobiliaria Peru, S.A.C.", of a plot of land located in the district of Bellavista, in the city of Lima, with an area of 20,000 m2 arranged into in two plots, with the aim of building 980 homes distributed in 15-story buildings. The execution term shall depend on sale, yet it is expected to be not less than 6 years,

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Additionally, during year 2016, the Group company "Constructora San José, S.A." has purchased plots of land to the City Hall of Umbrete within the framework of the agreement to collect the commercial account payable by the works executed to said City.

Further, at 31 December 2016 "Land and plot of land" includes the following properties:

1. Plot of land in La Tablada Hispalis, in Seville, with a total surface of 149,619 m^2.

2. Urban plots of land RS F2 and F3 in Granada, located within the Partial Plan PT- 43.2 of the Urban General Plan of Granada and a total surface of 15,043 and 330 m^2, respectively. Said plots of land were acquired in year 2010 by deed of assignment in payment as collection of default rate.

3. Two plots of land of 3,965 and 9,532 m^2, located in Vicalvaro (Madrid) and Manilva (Malaga), acquired by the Company by deed of assignment in payment as collection of default rate.

4. A plot of land in Salvador de Bahía, Brazil, devoted to residential purposes, with a total surface amounting to 30.285 m^2.

5. La Tablada, located in Buenos Aires – Argentina, for residential and commercial purposes, with as total surface amounting to 808,102 m^2 and a buildable surface amounting to 1,650,000 m^2.

At 31 December 2016 and 2015, the Group did not have lands acting as collateral of mortgage loans.

In addition, several assets recorded under this item at 31 December 2016 and 2015 for a total net cost amounting to EUR 4,740 thousand act as collateral for part of the loan syndicated by the Group (see Note 16.3) for EUR 4,561 thousand, in both years.

At 2016 year-end the Group owned land with a total area of 1,350,974 m2, of which 80% amounting to 1,146,333 m2 are qualified as buildable land at 31 December 2016. The detail, by location, of the Group's land is as follows:

	Total m^2	
	31.12.2016	**31.12.2015**
Spain	526,244	323,667
Argentina	1,012,101	1,012,101
Brazil	15,206	15,206
TOTAL	**1,553,551**	**1,350,974**

12.3 Land purchase commitments

At 31 December 2016 and 2015, 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. 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 2016 are not related to real estate. It corresponds to advances to suppliers associated with the purchase of raw materials and other procurement necessary to develop the group's construction activity, mainly in Abu Dhabi, Chile and India, for amounts of EUR 11.4, EUR 3.9 and EUR 0.9 millions, respectively.

12.4 Ongoing urban development

The balance of this account at 31 December 2016 corresponds to costs incurred from the beginning in different property developments under construction at said date.

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The main element included under this item is the Feria Internacional del Pacífico, located in Lima, Peru, started in year 2008 by the Group company "San José Perú, S.A.C." (company registered in Peru). This urban development was commissioned during 2016, being transferred to "Completed works".

At 31 December 2016, the Group did not have urban development under construction acting as mortgage or syndicated credit facilities collateral.

12.5 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".

- Items under "Borinbizcarra" and "62 housing units in Mariturri", for "Eraikuntza, Birgaikuntza Artapena, S.L.U." (EBA).

- Promociones Quinta do Moleao (Lagos) of the branch office in Portugal of "Constructora San José, S.A.".

- Promoción Feria Internacional del Pacífico, located in Lima, Peru, of the Company of the Grupo "San José Inmobiliaria Perú, S.A.C.".

During 2016, the company "San José Inmobiliaria Perú, S.A.C.", has commissioned the last stage of the construction works of the urban development Feria Internacional del Pacífico, located in Lima, Peru, started in year 2008 by the Group company "San José Perú, S.A.C.". Said urban development consists of a total surface of 102 thousand sqm which shall house over 3,000 homes. In year 2016 and 2015, 258 and 544 housing units have been completed and delivered for a total amount of EUR 11,600 thousand and EUR 22,298 thousand.

During year 2016, 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 266 thousand, recorded under "Changes in ongoing and completed works" in the accompanying consolidated income statement for 2016.

During 2016, the Company, through its branch office in Portugal, sold units of the Quinta do Moleao urban development (in Lagos) for EUR 2,663 thousand at a cost of EUR 3,295 thousand, with an associated impairment of EUR 958 thousand, which has been reversed, with an income recorded in the accompanying statement "Change in inventories of products ending and in progress" in the accompanying income statement.

At 31 December 2016 and 2015, certain real estate assets are recorded under "Completed Construction Work" in the accompany consolidated balance sheet for a total net cost amounting to EUR 7,613 thousand and EUR 7,878 thousand, respectively, which act as mortgage hedge for banking borrowings amounting to EUR 4,830 thousand and EUR 4,998 thousand (see Note 16.2).

At 31 December 2016 and 2015 the Group hold completed developments for a total net cost amounting to EUR 4,504 thousand and EUR 5,543 thousand which guarantee the syndicated debt for EUR 3,683 and EUR 4,523 (see Note 16.3).

12.6 Commitments to sell property developments in progress and completed buildings

At 31 December 2016 and 2015, the Group had entered into private agreements and reservation documents for the sale of property developments in progress and completed buildings at that date, for a total amount of EUR 7,829 thousand and EUR 12,344 thousand, for which the Group had received advances from the related customers totalling EUR 406 thousand and EUR 4,142 thousand, respectively (see Note 18.3).

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12.7 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 2016 and 2015, said studies were conducted by "Instituto de Valoraciones, S.A.". The studies 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 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 habi1tual interest rates in the mortgage market.

At 31 December 2016 and 2015, the fair value of the Company's inventories based on the aforementioned study amounted to EUR 164.3 million and EUR 160.9 million.

12.8 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.

12.9 Issuance rights

At 31 December 2016, "Inventories" includes the emission rights of greenhouse gases received by the company of the Group "Polygeneration Parc de l'Alba ST-4, SA" which are pending redemption against the Public Administration, with a total cost amounting to EUR 94 thousand, not having associated any deterioration. In year 2016, we received emission rights for EUR 20 thousand, having proceed to the redemption against the public administration for the emission rights for CO2 emissions for year 2015 amounting to EUR 153 thousand, being largely provisioned under "Short-term provisions" under current liabilities in the consolidated balance sheet of the Group at 31 December 2015.

In 2016, the Group recorded a net reversal of the impairment of emission rights amounting to EUR 18 thousand (in 2015 it recorded a net reversal of EUR 11 thousand), in order to adjust emission rights to market price at 31 December 2016, being recorded under "Impairment and disposal of property, plant and equipment" in the accompanying consolidated income statement for the year 2016.

In addition, during 2016 the Group has applied the remaining impairment of emission rights, which was recorded for EUR 123 thousand, reducing the cost of these rights in the accompanying consolidated balance sheet. As of 31 December 2016, the Group has assessed the rights recorded at market price, not considering it necessary to record any additional impairment.

At 31 December 2016, under "Emission rights", the Group also includes a negative amount of EUR 87 thousand for the consumption of rights in 2016, which at the end of the year have not yet been subject of redemption before the Public Administration. This expense has been recorded under "Provisions" in the accompanying consolidated income statement for the year 2016.

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13. Financial Assets

13.1 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 2016 and 2015, is as follows:

	Thousands of Euros	
	31.12.2016	31.12.2015
Progress billings receivable and trade receivables for sales and provision of services	142,477	164,105
Executed works pending billing (WIP)	47,275	49,505
Retentions for guarantees	22,328	13,208
Customers, discounted instruments	25,441	13,799
Impairment (Note 22.10)	(34,657)	(30,081)
Total	**202,864**	**210,536**
Advances (Note 18.3)	(140,472)	(160,023)
Total net accounts receivable	**62,392**	**50,513**

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

"Amounts to be billed for executed works (OEPC)" 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. To the extent that the accounting criterion adopted by the Group for the recording of sales revenue, for the purpose of calculating the degree of progress, takes into account as total revenue budget of the work / project only the justified and technically approved part, and on which there is no doubt about its approval, the amount of the TPRB corresponds entirely to production executed to date associated with properly signed and valid contracts. The Group does not record receivables from customers, resulting from modifications or claims not approved by the competent technical body. In any case, the amount of OEPC arises from amendments of the main contract and, at the end of the year, its impact is little. As of 31 December 2016, as a result of the unilateral termination by the customer of the civil works contract for the infrastructure at Simikhot and Rara airports in Nepal (see Notes 21 and 26), this item includes a EUR 8,812 thousand, corresponding to work carried out under the main contract that is currently in claim. The Group has technical reports that make it highly probably to have such production included under the settlement process (see Note 26).

The current liabilities "Advances" item from the consolidated balance sheet at 31 December 2016 and 2015 include EUR 100,717 thousand and EUR 98,705 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 6,120 thousand and EUR 7,435 thousand at 31 December 2016 and 2015, respectively. 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.

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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 2016 and 2015 is as follows:

	Thousands of Euros	
	31.12.2016	**31.12.2015**
Public Sector Customers	94,276	87,545
Private Sector Customers	108,588	122,991
	202,864	**210,536**

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 127 and 141 days for years 2016 and 2015 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 2016 and 2015 is very relevant.

13.2 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 16.3).

Breakdown at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	31.12.2016	**31.12.2015**
Other cash equivalents	115,276	132,952
Cash	368	241
Banks and credit entities	136,195	98,641
Total cash and cash equivalents	**251,839**	**231,834**

Out of the total balance of this item, EUR 19,335 thousand and EUR 27,593 thousand correspond to joint ventures (see Annexure III) for year 2016 and 2015, respectively.

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13.3 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 2016, it mainly includes amounts arising from short-term loans amounting to EUR 37,713 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 41,051 thousand and EUR 36,166 thousand at 31 December 2016 and 2015 for the construction of the Hospitals of Maipu and La Florida, in Santiago de Chile.

Similarly, it includes receivables from the company "Sociedad Concesionaria San José Rutas del Loa, S.A." and the branch office in Nepal, amounting to EUR 6,053 thousand and EUR 5,945 thousand, respectively, due to the termination of the contract and the execution of the guarantees on first requirement, provisioned in the accompanying balance sheet (see Note 15).

13.4 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 2016 is as follows:

	Thousands 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**
Balance at 31 December 2014	**51,533**	**8,019**	**9,044**	**180,427**	**(18,030)**	**230,993**
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)
Balance at 31 December 2015	**56,792**	**455**	**9,652**	**156,350**	**(11,671)**	**211,578**
Entries or provisions	6,639	-	23	11,762	(174)	18,250
Changes in the scope of consolidation (Note 2.4)	(1,777)	-	1,482	-	-	(295)
Transfers	(4,186)	-	-	(34,901)	-	(39,087)
Exchange rate differences	(1,842)	-	(610)	19,574	(540)	16,582
Disposals, withdrawals or redundancies	(2,960)	-	-	-	-	(2,960)
Balance at 31 December 2016	**52,666**	**455**	**10,547**	**152,785**	**(12,385)**	**204,068**

13.4.1. 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 refer to investment available for sale at 31 December 2016 and 2015 (see Note 22.12).

Net cost at which interest ownership of the Group is recorded, by associate, at 31 December 2016 and 2015, is as follows:

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Company	Thousands of Euros	
	31.12.2016	31.12.2015
Bodegas Altanza, S.A.	994	994
Unirisco S.C.R., S.A.	469	407
Filmanova, S.A.	37	37
Editorial Ecoprensa, S.A.	787	741
Oryzon Gernomics, S.A. (*)	1,411	-
Other	363	986
	4,061	**3,165**

(*) Company listed in the Stock Exchange Market Shares have been received during the settlement procedure of the investee Corporación San Bernat, S.L." (see Note 2.4)

13.4.2 Credits payable and other payables

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

13.4.3. 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 140,457 thousand and EUR 149,287 thousand at 31 December 2016 and 2015, 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.

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 three instalments on 31 March 2014, 2015 and 2016. The Group records said amount deducting the finnancial efect of the deferred payment. During years 2016 and 2015, finance income arising from the update of said items amounting to EUR 8,702 thousand and EUR 12,893 thousand, respectively, were recorded (see Note 22.7).

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.

14. Net equity

14.1 Share capital

At 31 December 2016 and 2015, 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 average quote for the last quarter of 2016 and 2015 has been EUR 3.23 and EUR 0.92 respectively.

At 31 December 2016, 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

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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 16.3).

14.2 Issuance premium

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.

14.3 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 273.4 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.

14.4 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 16.3).

14.5 Consolidated reserves

Breakdown for "Reserves" at 31 December 2016 is as follows:

	Thousands of Euros	
	31.12.2016	**31.12.2015**
Reserves of the Parent	(155,968)	(191,257)
Consolidation reserves		
-From consolidated companies	(15,774)	12,444
-From companies considered equivalent	3,888	2,306
TOTAL	**(167,854)**	**(176,507)**

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:

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

	Thousands of Euros			
	2016		2015	
	Reserves	Profit/ (Loss) for the year	Reserves	Profit/ (Loss) for the year
Grupo Empresarial San José, S.A.	(216,512)	411	(218,656)	4,571
SJB Müllroser	(5,808)	(28)	(5,801)	(7)
Construction subgroup	53,643	9,444	48,653	4,990
Trade subgroup	10,215	169	9,911	304
Udra Medios subgroup	(12,901)	(549)	(12,264)	(637)
San José Concesiones y Servicios sub-group	2,239	355	2,004	235
San José Energía y Medio Ambiente	(4,191)	(540)	(4,228)	37
Cadena de Tiendas, S.A.U.	1,575	(98)	1,568	7
GSJ Solutions, S.L.U.	(2)	(35)	-	(2)
	(171,742)	**9,129**	**(178,813)**	**9,498**

Net profit/(loss) for the year attributable to the Parent by companies accounted for using the equity method:

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:

	Thousands of Euros			
	2016		2015	
Company	Reserves	Profit/ (Loss) for the year	Reserves	Profit/ (Loss) for the year
Distrito Castellana Norte, S.A.	(531)	(459)	(36)	(495)
Panamerian Mall, S.A.	7,670	1,569	4,501	3,169
Pinar de Villanueva, S.L.	(751)	(6)	-	(751)
Corsabe, S.L.	-	-	(1,401)	(1,026)
Cresca, S.A.	(2,520)	209	(572)	(1,948)
Eskonel sub-group branch offices	(37)	(361)	(242)	205
Other	57	1	56	1
	3,888	**953**	**2,306**	**(845)**

14.6 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 17) due to the application of IAS 32 and 39.

14.7 Shares of the Parent

At 31 December 2016 and 2015, the Group did not hold any treasury shares.

In year 2016, no transactions with treasury shares took place.

14.8 Minority interests

At 31 December 2016, the of "Minority Interests" and "Profit (Loss) Attributable to Minority Interests" of consolidated companies is as follows:

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Company	Thousands of Euros	
	Total Interest Interests	Profit/ (Loss) for the year attributed to minority
Construction subgroup	20,089	(1,996)
Comercial Udra subgroup	(200)	(54)
Udra Medios subgroup	(248)	(39)
San José Energía y Medio Ambiente	1,656	75
	21,297	**(2,014)**

Changes under this item during years 2016 and 2105, are as follows:

	Thousands of Euros	
	2016	2015
Start balance	**21,680**	**24,302**
Changes in the scope of consolidation (Note 2.4)	(299)	181
Profit/(Loss) for the year	(2,010)	(1,344)
Exchange rate differences	2,695	2,227
Dividends	(801)	(1,553)
Adjustments attributable to minority interests and other	32	(2,133)
Final balance	**21,297**	**21,680**

14.9 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 2016 and 2015, the amount mentioned is as follows:

	Thousands of Euros	
	31.12.2016	31.12.2015
Non-current bank borrowings and other financial liabilities (Note 16)	383,617	410,188
Current bank borrowings and other financial liabilities (Note 16)	63,722	47,810
Cash and cash equivalents (Note 13.2)	(251,839)	(231,834)
Total net	**195,500**	**226,164**
Corrected net equity	**89,475**	**76,280**
Leverage (%)	**218%**	**296%**

The Group presents its results in accordance with generally accepted accounting standards (see Note 2.1). However, directors believe that certain alternative performance measures (MARs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and that shall be considered to adequately assess performance of the group.

Among other, the Group identifies as MAR the net financial debt (DFN), defining it as the total amount of bank and non-bank financial debt, including financial leasing creditors and the valuation of obligations

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associated with financial derivative instruments, recorded under "Other current financial assets" and "Cash and cash equivalents" in the current assets of the balance sheet.

(*) The Group does not include as bank financial debt that arising from the syndicated loan agreement of "Grupo Empresarial San José, S.A.", amounting to EUR 104,663 thousand at 31 December 2016. Due to its participative nature, the Group considers this amount as equity as for management purposes.

14.10 Property status 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 2016, the parent records a negative net equity amounting to EUR 40,098 thousand, representing 80% of the subscribed and paid up capital. Therefore, there is an equity unbalance according to provisions of Art. 327 and Art 363 of the Companies Act. Further, the Parent Company has a participating loan at 31 December 2016 amounting to EUR 104,664 thousand (see Note 16.3), received from creditor financial institutions, that comes to strengthen its financial position, and the resulting net equity is well above the subscribed and paid-in capital.

15. Non-current provisions

Changes under this item during years 2016 and 2105, are as follows:

	Thousands of Euros	
	2016	**2015**
Start balance	**19,233**	**20,799**
Provision for the year	11,878	3,676
Reversals	(281)	(3,447)
Applications	(624)	(842)
Reclassifications and other	(1,243)	(963)
Final balance	**28,963**	**19,223**

This item mainly includes provisions to cover possible contingencies that may arise in the Group, arising from litigation and court proceedings, mainly as a result of the development of its activity

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.

On 12 December 2016, the Company received the communication from the client regarding the unilateral termination of the construction contract for the improvement of infrastructure at the Simikhot and Rava airport in Nepal, based on breach of certain contractual obligations. The Company considers that the reasons alleged by the client lack a legitimate basis, being this answer to repeated claims previously presented by the Company. Currently, the Company has implemented all the mechanisms contemplated in the contract for the effective defense of its rights and interests (see Note 26).

Associated with this procedure, and in spite of positive expectations for the Company, as of 31 December 2016, there has been a long-term provision, which substantially covers the possible contingency that could arise for the Company in a negative resolution scenario, taking into account estimates made by management (see Note 13.3).

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16. Bank borrowings and debt instruments and other marketable securities

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

Year 2016:

	Thousands of Euros		
	Debts and accounts payable	Derivative financial instruments	Total
Non-current financial liabilities:			
Obligations and other securities (Note 16.4)	138,075	-	**138,075**
Bank borrowings (Note 16.1)	346,685	-	**346,685**
Derivatives (Note 17)	-	906	**906**
Other financial liabilities	3,520	-	**3,520**
Total non-current	**488,280**	**906**	**489,186**
Current financial liabilities:			
Obligations and other securities (Note 16.4)	33,594	-	**33,594**
Bank borrowings (Note 16.1)	27,242	-	**27,242**
Derivatives (Note 17)	-	2	**2**
Other financial liabilities	2,886	-	**2,886**
Total current	**63,722**	**2**	**63,724**

Year 2015:

	Thousands of Euros		
	Debts and accounts payable	Derivative financial instruments	Total
Non-current financial liabilities:			
Obligations and other securities (Note 16.4)	146,734	-	**146,734**
Bank borrowings (Note 16.1)	361,599	-	**361,599**
Derivatives (Note 17)	-	1,196	**1,196**
Other financial liabilities	4,224	-	**4,224**
Total non-current	**512,557**	**1,196**	**513,753**
Current financial liabilities:			
Obligations and other securities (Note 16.4)	30,800	-	**30,800**
Bank borrowings (Note 16.1)	16,188	-	**16,188**
Derivatives (Note 17)	-	8	**8**
Other financial liabilities	822	-	**822**
Total current	**47,810**	**8**	**47,818**

The items "Other non-current financial liabilities" and "Other current financial liabilities" include, mainly, debts of companies of the Group with minority shareholders for the for acquisition of property assets. Likewise, it includes real estate liabilities.

16.1 Bank borrowings

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

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	Thousands of Euros	
	31.12.2016	31.12.2015
Non-current		
Finance leases (Notes 7 and 10)	162	534
Bank loans and credit facilities	15,035	15,676
Syndicated loan "Grupo Empresarial San José, S.A." (Note 16.3)	104,664	102,389
Syndicated loan "Constructora San José, S.A" (Note 16.3)	226,824	243,000
Total non-current	**346,685**	**361,599**
Current		
Finance leases (Notes 7 and 10)	372	351
Syndicated loan (Note 16.3)	15,260	-
Payables from discounted notes and bills	-	4,249
Bank loans and credit facilities	5,595	5,404
Mortgage loans secured by inventories (Note 12 and 16.2)	6,015	6,184
Total current	**27,242**	**16,188**
TOTAL	**373,927**	**377,787**

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 2016 the following:

- A balance for EUR 7,430 thousand corresponding to Project finance, granted for the construction, commissioning and operation of the Plant and the facilities of the Group company Poligeneraci Parc de LAlba ST-4, S.A.'s Policy Project (see Notes 10 and 2.6). Said plant acts as collateral for credit facilities.

- EUR 6,670 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 2016 and 2015 includes EUR 1,344 thousand and EUR 1,342 thousand, respectively, for financial expenses pending settlement at year-end close. EUR 1,231 thousand (EUR 1,235 thousand at 31 December 2015) refer to the syndicated credit of the company (see Note 16.3).

16.2 Mortgage loans

The Group provides as collateral for mortgage loans real estate assets for a total net cost amounting to EUR 9,729 thousand.

Mortgage loans secured by investment property

The Group does not hedge mortgage loan on real estate investments at 31 December 2016.

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 2016 have a long-term maturity and concern entirely on subsidiaries.

These mortgage loans bear annual floating interest at a market rate, which in 2014 ranged from 2.75% to 3%.

The outstanding principal of these loans at 31 December 2016 matures approximately as follows:

Thousands of Euros				
Year 2017	Year 2018	Year 2019	Year 2020 and following	TOTAL
133	1,418	239	4,225	**6,015**

16.3 Syndicated financing

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 a 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:

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

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

<u>Stretch A:</u> 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 2016, the amount recorded amounts to EUR 242 million. During years 2015 and 2016, the Company voluntarily amortized EUR 7,000 thousand and EUR 916 thousand, respectively. Maturity of the outstanding amount shall be paid according to the following schedule:

Thousands of Euros			
Year 2017	Year 2018	Year 2019	TOTAL
15,260	20,700	206,124	**242,084**

Quarterly settlement of accrued financial interest. At 31 December 2016, accrued finance expense pending payment amounts to EUR 1,231 thousand (see Note 16.1).

<u>Lines of working capital</u>; 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.

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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 It shall be calculated quarterly on a year-on-year basis.

The Directors of the Parent deem at 31 December 2016 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 up to 3% interest rate on the third and fourth year and a 4% interest rate on the fifth year, including a variable rate according to the outcome of the Group, 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. 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. 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. Therefore, its fair value of zero, both at the initial and subsequent recognition.

Such novation agreement includes several terms and conditions to be fulfilled, among which highlights the court approval in compliance with the Fourth Additional Provision of the Bankruptcy Act. At year-end 2015, all requirements had been fully satisfied.

At 31 December 2016 and 2015, the Group has real estate assets amounting to EUR 18,464 thousand and EUR 19,734 thousand, which guarantee the syndicated credit for EUR 34,176 thousand and EUR 35,016 thousand, respectively.

16.4 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 (see Note 16.3), and the settlement of derivative financial instruments, property of "Sociedad Concesionaria San José-Tecnocontrol S.A.". It is amortised on an annual basis by means of fixed installments amounting to UF 1,014 thousand, 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%. During June 2016, the Company has paid the first instalment.

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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 2017	**Year 2018**	**Year 2019**	**Year 2020**	**Outstanding years**	**Total**
33,594	32,970	33,982	35,024	36,099	**171,669**

(*) Gross amounts prior to deducing borrowing costs, amounting to EUR 5,328 thousand at 31 December 2016.

17. 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 2016, 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 2016 and 2015, together with their fair values at said date, are the following:

Year 2016:

			Thousands of Euros		
Company	**Financial Instrum.**	**Maturity**	**Initial par value**	**Remaining par value at 31.12.2016**	**Balance at 31.12.2016** (Note 16.1)
Efficient Hedges:					
Outdoor King, S.A.U.	CCS-usd	16/01/2017	230	230	3
Outdoor King, S.A.U.	CCS-usd	15/05/2017	118	118	(2)
Poligeneraciò Parc de l'Álba ST-4, S.A.	IRSwap	15/12/2021	15,451	7,545	(906)
TOTAL			**15,799**	**7,893**	**(905)**

Year 2015:

			Thousands of Euros		
Company	**Financial Instrum.**	**Maturity**	**Initial par value**	**Remaining par value at 31.12.2015**	**Balance at 31.12.2015** (Note 16.1)
Efficient Hedges:					
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)
Poligeneraciò Parc de l'Álba ST-4, S.A.	IR Swap	15/12/2021	15,451	8,686	(1,196)
TOTAL			**17,034**	**10,269**	**(1,188)**

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Assets and liabilities as hedge financial instruments include the changes in the measurement of fair value of hedge financial instruments. At 31 December 2016, 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 2016 and 2015 the change in fair value of Derivative Financial Instruments allocated as Hedge Elements for their effective portion accumulated in Equity amounts to EUR 711 thousand and EUR 844 thousand, respectively

During 2016 and 2015, EUR 412 thousand and EUR 27,570 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.

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.

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Level 3: inputs 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 2016. Neither had taken place inputs or outputs of Level 3 at 31 December 2015.

<u>Sensitivity analysis of interest rate and exchange rate</u>

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 Chilean Pesos (CLP).

At 31 December 2016, changes in the value of financial instruments due to changes in interest rates is not significant,

Fair value of financial instruments

<u>Fair value of financial instruments at amortised cost</u>

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

<u>Applicable pricing techniques and hypothesis to measure fair value:</u>

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.

• 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).

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The Group's derivative financial instruments at 31 December 2016 are classified under Level 2.

18. Trade payables and other payables

18.1 Trade payables

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

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 2016, as well as the balance of payments to suppliers at 31 December 2016:

	Year 2016:	Year 2015:
Average payment term to suppliers (days)	**45**	**52**
Ratio of paid transactions (days)	43	49
Ratio of transactions pending settlement (days)	50	57
Total payments made (thousands of Euros)	241,183	226,951
Total outstanding payments (thousands of Euros)	93,246	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 is 60 days.

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 is 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.

18.2 Other current liabilities

"Other current liabilities" includes mainly the accounts payable relating to joint ventures and advances to customers (see Note 18.3). It also includes the provisions totalling EUR 5,228 thousand and EUR 5,592 thousand, at 31 December 2016 and 2015, respectively, for remuneration payable.

18.3 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 2016 and 2011 amount to EUR 406 thousand and EUR 4,143 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 12). Most of the advances received from customers had been guaranteed by financial guarantees.

At 31 December 2016 and 2015 this item includes "Amounts Billed in Advance for Construction Work" totalling EUR 100,717 and EUR 98,705 thousand, respectively, (see Note 13.1) which relates to progress

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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.

19. Risk exposure

19.1 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 counterpart 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 counterparts 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 customers.

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.

19.2 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 16 and 17).

The sensitivity of profit and equity of the Group to changes in the interest rate at 31 December 2016, considering the existing hedging instruments and financing fixed rate is as follows (considering fluctuations of fifty basic points in applicable interest rates):

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

19.3 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.

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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 2016, considering the existing hedging instruments and a fixed interest rate, is as follows (considering fluctuations of fifty basic points in applicable interest rates):

(Millions 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
TOTAL		**0.8**	**-0.8**	**-6.8**	**7.5**

19.4 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 s 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 16.

At 31 December 2016, the Group records a positive working capital amounting to EUR 193.9 million, what guarantees its feasibility regarding all current financial liabilities included within the accompanying consolidated balance sheet.

20. 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 2016, 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 Americana de Desarrollos Urbanísticos, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.

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- 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.
- Vision King, S.A.U.
- Running King, S.A.U.
- 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: Alexín XXI, S.A.U.

20.1 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 2011 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 2016.

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.

20.2 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:

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Country	Applicable tax rate
Spain	25%
Peru	28%
Cape Verde	25%
Portugal	21%
Chile	24%
Abu Dhabi	0%
Republic of Congo	30%
Argentina	35%

The balance of "Income Tax" in the accompanying consolidated income statement for 2016 and 2015 was determined as follows:

	Thousands of Euros	
	2016	2015
Profit/(Loss) before tax	**19,708**	**10,649**
Increases at individual companies	28,927	161,890
Decreases at individual companies	(9,737)	(323,100)
Elimination trade consolidation	5,002	55,149
Non-recorded losses tax credit	4,446	3,467
Equity method	465	2,814
Offset of prior years' tax losses	(345)	(524)
Taxable profit	**48,466**	**(89,655)**
Less taxable profit of companies not resident in Spain	(30,547)	(14,426)
Less taxable profit excluded from accounting records	-	(141,976)
Tax loss of consolidated group resident in Spain	**17,919**	**(104,081)**
Gross tax payable (25% in 2016 / 28% in 2015)	**4,480**	**(10,611)**
Plus - deductions	(561)	1,651
Accrued tax expense	**3,919**	**(9,093)**
Regularisation previous year and change of tax rate	(160)	10,681
Non-resident tax expense	7,877	(4,952)
Tax expense	**11,636**	**(3,364)**

Royal Decree Law 3/2016 on 2 December 2016, approving tax measures, introduces significant limitations in fiscal legislation regarding the ability of large companies to offset the negative tax bases that could have been generated In previous years, as well as the application of deductions.

The impact of this regulatory change in the Group's consolidated financial statements as of 31 December 2016 has been negligible

20.3 Tax loss carry forwards

At 31 December 2016, total tax loss carry forwards pending Offset amounts to EUR 597,842 thousand, The Group records under "Deferred tax assets" in the accompanying consolidated balance sheet at 31 December 2016 a tax credit arising from said tax loss carry forwards amounting to EUR 14,131 thousand.

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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 2017-2026, 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 draft 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 impact such Tax Plan at 31 December 2016, 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 business plan Group (medium and long term), assuming a 10% annual growth of total construction activity for 2017-2026.
- 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 2016, in a given period of nine years.

The detail of the tax loss carry forwards of the consolidated companies at 31 December 2016 is as follows:

Company	Year of inclusion	Thousand of Euros
Grupo Empresarial San José S.a. y subsidiaries Tax consolidated group	2002-2015	530,884
Spanish companies not included in the consolidated tax group	2006-2015	845
Foreign companies	1997-2016	66,113
TOTAL		**597,842**

In the case of the Spanish companies and under current legislation, the tax losses of a given year since 1997 can be carried forward for tax purposes for an indefinite period of time. 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.

Directors' of the parent consider that the Tax Group, in accordance with the existing Business Plan, will be able to generate positive results in order to offset the recorded tax credits.

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20.4 Deferred tax assets and liabilities

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2016 and 2015 arose as a result of the following:

Year 2016:

	Thousands of Euros				
	31.12.2015	**Changes affecting profit/(loss) for the year**	**Equity adjustments**	**Regularisation and other**	**31.12.2016**
Assets from deductible temporary differences:					
Concessions and projects in progress	9,960	(993)	-	(2,152)	6,815
- Non-deductible amortisation	385	(117)	-	160	428
- Impairment of financial stakes	472	-	-	(472)	-
- Credits payable and other payables	4,175	(841)	-	(660)	2,674
- Other items	827	-	(125)	3,449	4,151
Tax credit carry forwards	**6,699**	**(2,057)**	-	**(3)**	**4,639**
Tax loss carry forwards (Note 21.3)	**12,966**	**2,126**	-	**(961)**	**14,131**
	35,484	**(1,882)**	**(125)**	**(638)**	**32,839**

Year 2015:

	Thousands of Euros				
	31.12.2014	**Changes affecting profit/(loss) for the year**	**Equity adjustments**	**Regularisation and other**	**31.12.2015**
Assets from deductible temporary differences:					
- 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
- Credits payable and other payables	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 2016 relates basically to the following items:

1. Acknowledgement of tax credits arising from negative tax bases declared by companies of the Group.
2. Outstanding tax credits
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 2016 and 2015 arose as a result of the following:

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Year 2016:

	Thousands of Euros				
	31.12.2015	Changes affecting profit/(loss) for the year	Equity adjustments	Regularisation and other	31.12.2016
Different criteria projects in progress	9,637	573	-	(2,053)	8,157
Deferral for reinvestment of extraordinary gains	443	(9)	-	-	434
Backlog provisions	395	-	-	(395)	-
Deferred consolidation profit and other	1,042	(936)	-	3,595	3,701
Accelerated amortisation	1,291	-	-	-	1,291
Other adjustments	1,652	(103)	-	359	1,908
	14,460	**(475)**	-	**1,506**	**15,491**

Year 2015:

	Thousands 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
	28,982	**(2,623)**	-	**(11,899)**	**14,460**

The balance of "Deferred tax liabilities" at 31 December 2016 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.

20. 5 Tax credits

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 561.3 thousand as an increase in the income tax asset accrued in 2016, as follows:

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Item	Year of inclusion	Thousands of Euros
Earned by the consolidated tax group Grupo Empresarial San Jose S.A.		
Double taxation tax credit	2016	538.0
Deduction for amortization, reversion temporary measures DT 37ª	2016	9.3
Tax credits for donations	2016	14.0
		561.3

At 31 December 2016, the following tax credits remain outstanding:

Earned by the consolidated tax group Grupo Empresarial San Jose S.A.	**Year of inclusion**	**Thousands of Euros**
Double taxation tax credit	2016	538.0
Tax credits for donations	2016	13.0
Deduction for reversal of temporary amortisation DT 37ª	2016	9.3
Double taxation tax credit	2015	1,535.0
Tax credits for donations	2015	4.0
Deduction for reversal of temporary amortisation DT 37ª	2015	10.0
Double taxation tax credit	2014	580.0
Tax credits for donations	2014	73.0
Double taxation tax credit	2013	11.0
Tax credits for donations	2013	4.0
Double taxation tax credit	2012	5.0
Tax credits for donations	2012	10.0
Deduction for R&D	2012	14.0
Deduction for R&D	2011	379.0
Double taxation tax credit	2011	18.0
Tax credit for training activities	2011	0.4
Tax credits for donations	2011	82.0
Double taxation tax credit	2010	164.0
Tax credits for donations	2010	45.0
Tax credit for training activities	2010	0.3
Deduction for R&D	2010	92.0
Tax credit for environmental actions	2010	354.0
Double taxation tax credit	2009	657.0
Tax credits for donations	2009	42.0
Tax credit for training activities	2009	1.0
Double taxation tax credit	2008	540.0
Deduction for R&D	2008	229.0
Tax credit for training activities	2008	0.7
Tax credit for fairs	2008	27.0
Total		**5,437.7**

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

20.6 Tax receivables and payables

The detail of the Group's tax receivables and payables at 31 December 2016 is as follows:

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	Thousands of Euros			
	31.12.2016		31.12.2015	
	Current	Non-current	Current	Non-current
Tax assets:				
Deferred tax assets	-	32,839	4,688	35,484
Tax receivables				
VAT receivables	25,916	-	24,376	-
Sundry receivables	2,694	-	582	-
	28,610	-	24,958	-
Total tax assets	**28,610**	**32,839**	**29,646**	**35,484**
Tax liabilities				
Deferred tax liabilities	4,906	15,491	5,802	14,460
Tax payables				
VAT payables	4,469	-	13,235	-
Personal income tax payable	1,362	-	1,648	-
Sundry payables	2,029	-	79	-
Social Security payables	1,698	-	1,423	-
	9,558	-	16,385	-
Total tax liabilities	**14,464**	**15,491**	**24,437**	**14,460**

20. 7 Restructuring transactions

The following restructuring transactions have been executed pursuant to the provisions of the Structural Modifications Act 3/2009 and according to the provisions of the tax regulations applicable during the the years which they took place in, that is 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 on 5 March approving the Consolidated Spanish Corporation Tax Law in force until 2015.

Transactions executed within the previous years:

1- The company Parquesol Inmobililaria 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 absorpbed 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.

3.- As of 29 December 2008 Constructora San José S.A. absorbed the subsidiaries Alcava Mediterranea S.A., Constructora Avalos S.A., Balltagi Mediterriani 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.

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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 Sanjosé 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 S.A..

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.", "Sanjosé Energía y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U..

On 3 December 2013 took place the merger trough absorption of the company Inmobiliria Europea de Desarrollos Urbanisticos 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.

21. Guarantees committed to third parties

At 31 December 2016 and 2015, the Group had received from banks and insurance companies guarantees provided to third parties amounting to EUR 365 million and EUR 348 million (mainly project and definite tender and performance bonds to public and private bodies). EUR 0.04 million of which correspond to the parent company and the rest to the subsidiaries at the previous years.

Of the total of guarantees provided to third parties by the Group, EUR 232.6 million (approximately 64 %) relate to the international activity of the Group, mainly in Abu Dhabi and India, amounting to EUR 150.8 million and EUR 52.3 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 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.

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

22. Income and expenditure

22.1 Income

The detail of "Revenue" in the accompanying consolidated income statements for 2016 and 2015 is as follows (in thousands of Euros):

	Thousands of Euros	
	2016	**2015**
Construction		
-Civil works	60,469	54,471
-Residential	60,750	22,390
-Non-Residential	385,135	340,011
-Industrial	31,000	15,717
	537,354	**432,589**
-Real Estate	15,673	28,924
Concessions and Services.	39,454	46,283
Energy	10,191	12,691
Consolidation adjustments and other	10,722	15,612
Net revenue	**613,394**	**536,099**

43.75% and 52.4% of construction revenues refer to sales to the public sector in years 2016 and 2015, respectively.

In year 2016, EUR 44.3 million of the more than EUR 614 million of net revenue relate to joint ventures (see Annex III).

Virtually all the work was performed as prime contractor.

The contracted and outstanding project backlog at 31 December 2016 and 2015 amounts to EUR 1,889 million and EUR 1,835.2 million, respectively, and its breakdown is as follows:

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	Millions of Euros	
	2016	**2015**
Construction		
-Civil works	212.6	229.7
Residential	195.2	53.0
Non-Residential	719.7	731.8
Industrial	6.5	5.1
Subtotal construction	**1,134.0**	**1,019.6**
Concessions and Services (**)	248.2	262.8
Energy (*)	506.8	552.8
Total Backlog	**1,889.0**	**1,835.2**
Details by type of client:		
-Public-sector	64.31 %	64.28%
-Private-sector	35.69 %	35.72%
Details by geographical area:		
-Domestic market	46.15%	48.61%
-International market	53.85%	51.39%

(*) 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.

(**) According to the financial economic model of the concessions.

The Group presents its results in accordance with generally accepted accounting standards (see Note 2.1). However, directors believe that certain alternative performance measures (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and that shall be considered to adequately assess performance of the group.

Among others, the Group identifies the portfolio as APM, defining it as the total amount of sales contracted by Group companies with customers, discounting the part realised and recognised as income in the income statement. In concession contracts, the total amount of sales is identified with the best estimate made by the Group, which is included in the economic-financial business plan of the concession.

22.2 Procurements and other external expenses

The detail of "Procurement" in the accompanying consolidated income statements for 2016 and 2015 is as follows (in thousands of Euros):

	Thousands of Euros	
	2016	**2015**
Procurement of raw materials and other supplies	214,561	187,967
Changes in the impairment of inventories (Note 12)	110	(114)
Works performed by other companies	188,231	150,272
Total procurement	**402,902**	**338,125**

"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 2016 and 2015 is as follows:

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	Thousands of Euros	
	2016	2015
R&D expenses	75	3
Utilities	7,282	6,615
Repair and maintenance services	1,621	1,133
Transport and freight costs	889	775
Insurance premiums and banking services	3,303	4,096
Independent professional services	15,198	13,748
Leases	16,507	13,121
Advertising and publicity	2,060	2,254
Other Services	21,400	17,071
Taxes and income tax	5,451	5,568
Other operating expense	763	5,958
Total	**74,549**	**70,342**

22.3 Staff costs

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2016	2015
Wages and salaries	72,490	64,548
Termination benefits	3,438	4,411
Employer social security costs	13,998	11,956
Other social costs	4,780	4,313
Total	**94,706**	**85,228**

The average workforce by professional category is as follows:

Category	2016		2015	
	Men	Female	Men	Female
University graduates	396	78	356	89
University three-year degree graduates	251	57	265	62
Clerical staff	200	123	83	105
Officers and technical personnel	1,618	78	1,563	42
	2,465	**336**	**2,267**	**298**

The number of employee at 31 December 2016 was 3,114, of which 2,740 were men and 374 women, being the distribution by type similar to that of the year.

The average number of people employed in the course of the year with a disability greater than or equal to 33% is 10 workers, mainly diploma graduates. The Company, taking into account the specific risk involved in its activity, has recognised the exceptionality of hiring disabled workers, fulfilling it by contracting services with different special employment centres. These contracts are on an annual basis, incurring into an average expense higher than the minimum required by law.

22.4 Compensation in kind

At 31 December 2016, there was no significant compensation in kind.

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22.5 Share-based payment

There are no share-based payment

22.6 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 2016, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 534 thousand, most of which will be amortised in the following six years. Said balance is included under "Bank borrowings" (see Note 16.1).

22.7 Financial income

The detail of this item in the accompanying consolidated income statements for 2016 and 2015 is as follows (in thousands of Euros):

	Thousands of Euros	
	2016	**2015**
Interest on receivables	21,437	30,142
Income from equity investments	5	7
Other financial income	-	-
	21,442	**30,149**

"Interests on receivables" for years 2015 and 2013 includes mainly 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 11,365 thousand and EUR 12,893 thousand, respectively. (see Note 13.4.3)

"Interests on receivables" for year 2016 and 2015 includes approximately EUR 3.3 million and EUR 7.2 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.

22.8 Financial expense

Breakdown is as follows:

	Thousands of Euros	
	2016	**2015**
Interest on receivables	26,781	30,201
Expense for finance update	890	-
Other financial expense	-	-
	27,671	**30,201**

At 31 December 2016, under this item there are EUR 9,515 thousand arising from the settlement of interests of the syndicated credit (see note 16.3).

During 2016, and as a result of the deferral of certain receivables to customers, the Group has estimated the loss of value of these assets due to the financial effect, recording an expense of EUR 890 thousand.

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

The detail is as follows:

	Thousands of Euros	
	2016	**2015**
Gains/Losses on write-offs of fixed assets (Note 7)	276	1,057
Impairment of fixed assets (Note 7)	(1,003)	-
Intangible assets impairment (Note 10)	-	11
Impairment of investment property (Note 8)	-	52
Other	(69)	(99)
	(796)	**1,021**

22.10 Changes in operating provisions

Changes under this item in the accompanying consolidated balance sheet during years 2016 and 2015, are as follows:

Year 2016:

	Thousands of Euros		
	Operating insolvencies (Note 13)	**Other operating provisions**	**Total**
Balance at 31 December 2015	**30,081**	**37,471**	**67,552**
Provisions	5,322	8,753	14,075
Applications	(507)	(2,439)	(2,946)
Reversals	(1,383)	(2,069)	(3,452)
Transfers and other	1,144	670	1,814
Balance at 31 December 2016	**34,657**	**42,386**	**77,043**

Year 2015:

	Thousands of Euros		
	Operating insolvencies (Note 13)	**Other operating provisions**	**Total**
Balance at 31 December 2014	**28,248**	**42,925**	**71,173**
Provisions	5,897	6,636	12,533
Applications	(1,095)	(10,982)	(12,077)
Reversals	(2,890)	(1,254)	(4,144)
Transfers and other	(79)	146	67
Balance at 31 December 2015	**30,081**	**37,471**	**67,552**

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Current provisions classified under "Short-term provisions" include estimated amounts to face possible business contingencies. During 2016 and 2015, EUR 512 thousand and EUR 614 thousand, respectively, linked to provisions for conclusion of property developments, were reversed as they no longer apply

At 31 December 2016 and 2015, "Provisions for traffic insolvencies" includes an accumulated impairment amounting to EUR 355 thousand associated to "Other receivables" under assets in the accompanying consolidated balance sheet.

22.11 Change in inventories of finished goods and in progress

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

	Thousands of Euros	
	2016	**2015**
Changes in inventories for recorded expenses /sales	5,176	6,383
Changes in inventories for impairment (Note 12)	(972)	(13)
Total	**4,204**	**6,370**

22.12 Impairment and gains or losses on disposals of financial investments

This item includes mainly the profit obtained by the Group in the liquidation process of the investee "Corporación San Bernat, S.L.",amounting to EUR 364 thousand (see Note 2.4.d). Likewise, it includes EUR 473 thousand, corresponding to the impairment recorded in year 2016 of current and non-current financial assets.

22.13 Audit fees

In 2016 and 2015 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:

Year 2016:

Description	Thousands of Euros	
	Services provided by the main auditor	**Services provided by other auditing firms**
Audit services	233	175
Other verification services	47	28
Total audit services and related services	**280**	**203**
Tax and fiscal advice services	-	14
Other Services	-	-
Total	**280**	**217**

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Year 2015:

Description	Thousands of Euros	
	Services provided by the main auditor	**Services provided by other auditing firms**
Audit services	231	126
Other verification services	111	45
Total audit services and related services	**342**	**171**
Tax and fiscal advice services	-	-
Other Services	-	-
Total	**342**	**171**

23. 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:

	Thousands of Euros	
	2016	2015
Assets:		
Cresca, S.A. (Note 13)	9,014	-
Pinar de Villanueva, S.L. (Note 13.4.2)	455	455
Other	1	-
Liabilities:		
Panamerican Mall, S.A.	-	1,405
Other	2,620	343
Transactions:		
Income	-	-
Expenses	4,673	2,568

The item "Other" recorded under liabilities at 31 December 2016 corresponds mainly to current bank accounts at financial entities and people linked to the Group through joint ventures.

These expenses correspond mainly to expenses incurred by the JVs of the Group in Abu Dhabi and Malta with its partners for a total amount of EUR 4,467 thousand. Further, it includes payables with them, amounting to EUR 2,134 thousand.

24. Remuneration

24.1 Remuneration of Directors

The detail of the remuneration of all kinds earned in 2016 and 2015 by the Directors of Grupo Empresarial San José, S.A., 10 men and 1 women, and of the Group company, jointly controlled entity or associated obliged to pay such remuneration are as follows:

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Type of Directors	Thousands of Euros	
	2016	**2015**
Executive board members	2,305	2,680
Independent board members	129	156
Other external board members	27	15
Total	**2,461**	**2,851**

Breakdown by type is as follows:

Type of compensation	Thousands of Euros	
	2016	**2015**
Salary	2,226	2,525
Allowance	187	251
Other items	48	75
Total	**2,461**	**2,851**

The amount for 2016 and 2015 includes Directors' remunerations for the furtherance of their duties as Senior Management for EUR 2,226 thousand and EUR 2,525 thousand, respectively.

At 31 December 2016 and 2015, 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.

The directors of the Company are covered by the "Corporate Liability Insurance Policies of Directors and Officers" contracted by the parent company of Grupo SANJOSE, in order to cover possible damages that may be claimed, and that they arise as a result of an error of management committed by its managers or directors, as well as those of its subsidiaries, in the exercise of their positions. Net value of the business activity branch amounts to EUR 88,5 thousand.

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 at 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 2016 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.

24.2 Remuneration and other benefits of senior executives

Total remuneration accrued for all items, from those employees who are considered Top Management in the Group, - excluding those who simultaneously have the status of member of the Board of Directors (whose remuneration has been detailed above) - during the years 2016 and 2015, can be summarized as follows:

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Number of people	Thousands of Euros
Year 2016:	
10 directors	1,716
Year 2015:	
13 directors	1,772

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

25. 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.

26. Events after the reporting period

On 25 January 2017, the Company proceeded to formalise a commitment to sell its stake in the Uruguayan company "Eskonel Company, S.A.", recording as "Nun-current assets held for sale" the stake in the associates "Vengano, S.A.", "Fingano, S.A." and "Drilpen, S.A." (see Note 11). At present, verification and closure procedures are being carried out. Directors expect said transactions to be completed in the following months.

During December 2016, contracts for improvement works of infrastructure of the airports of Simikhot and Rara in Nepal was terminated by the client (see Notes 15, 13.1 and 13.3). The Company has internal and external advisors, both legal and technical, for the exercise of all those processes established by the contract and national and international legislation, in defense of their interests. At present, it is in a process of resolution of conflicts at local level, considering the opening of an arbitration process at the international level in the second half of 2017.

On 5 October 2016, the company "Carlos Casado, SA" entered into an agreement with "Brasilagro Companhia Brasileira de Propiedades Agrícolas, SA" for the sale of the assets of the associate "Cresca, SA" (owned in a 50% ratio by both companies). Up to the present date, upon completion of the statuary period 120 days, not offer has been received. Therefore, the assets of "Cresca, S.A." are being harmoniously divided and distributed among its shareholders, according to balance sheet at 31 December 2016. Directors expect no significant impact of this process in the net equity of the Group.

There are no other significant events occurred after 31 December 2016 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 (Thousands of Euros)
				Direct	Indirect	
1681 West Avenue, LLC	Dixon Hughes Goodman	Miami (USA)	Real Estate Development	-	100	791
Alexin XXI, S.L.U.	-	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.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	20,932
Arserex, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	2,844
Basket King, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	977
Cadena de Tiendas, S.A.U.	-	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	Seville	Construction	-	100	3,884
Centro Comercial Panamericano, S.A	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	10,202
CIMSA Argentina, S.A.	Auren	San Luis (Argentina)	Civil works	-	100	(764)
Comercial Udra, S.A.U.	-	Pontevedra	Trade	100	-	1,748
Sanjose Panamá, S.A.	BDO Audit, S.A.	City of Panama (Panama)	Construction	-	100	228
Constructora San José Argentina, S.A.	Auren	Buenos Aires (Argentina)	Construction	-	96.947	493
Constructora San José Brasil Limitada	-	Salvador de Bahia (Brazil)	Construction and Urban development	-	100	433
Constructora San José Cabo Verde, S.A.	Deloitte	Cape Verde	Construction	-	100	453
Constructora San José, S.A.	Deloitte	Pontevedra	Construction	99.79	-	92,510
Constructora San José Timor, Unipessoal Lda.	-	Timor	Construction	75	-	3
Constructora Udra Limitada	Deloitte	Monaco (Portugal)	Construction, maintenance and repair	7	70	270
Desarrollos Urbanísticos Udra, S.A.U.	-	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 (Thousands of Euros)
				Direct	Indirect	
Eraikuntza Birgaikuntza Artapena, S.L.U.	Deloitte	Vitoria Gasteiz	Construction	-	100	435
Eskonel Company, S.A. (*)	-	Uruguay	Energy	-	100	2,577
Enerxías Renovables de Galicia, S.A.	-	Pontevedra	Energy	-	100	2,648
Athlelic King S.A.U.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
Fotovoltaica el Gallo 10, S.L.	-	Burgos	Energy	-	82.97	11,283
Gestión de servicios de la Salud S.L.	-		Hospital services	-	100	90
GSJ Solutions, S.L.U.	-	Madrid	Engineering services	100	-	3
Hospes Brasil Participaciones e Empreendimientos Lda.	-	Brazil	Construction and Real Estate Development	-	100	423
Inmobiliaria 2010, S.L.	Deloitte	Lima (Peru)	Construction and Real Estate Development	-	100	1,294
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.	-	Pontevedra	Real Estate Development	-	100	60
Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	680
Inversión SanJose Chile Limitada	-	Santiago de Chile (Chile)	Investment and real estate	-	100	22
Inversiones San Jose Andina Ltda.	Deloitte	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.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
O&M Parc de LÀlba ST-4, S.A.	-	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	Barcelona	Construction, implementation and maintenance of electric energy power stations	-	76	4,560
Pontus Euxinus Tehnologii Renovabile, S.R.L. (%)	-	Bucarest (Romanía)	Production and trade of electric energy by renewable energy resources	-	75	8
Puerta de Segura, S.A.		Uruguay	Industrial, Trade	-	51.72	5,086
San José Constructora Perú S.A.	Deloitte	Lima (Perú)	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.	-	Pontevedra	Trade, distribution, import and export of clothes	-	100	1
Sociedad Concesionaria Rutas del Loa, S.A.	-	Santiago de Chile (Chile)	Construction	-	100	7,106
San José BAU GmBH	Wisbert & Partner	Berlin (Germany)	Construction	-	84	435

(*) A sale commitment was signed on 25 January 2017 (see Note 28).

(*) Company in settlement process

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Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost
				Direct	Indirect	(Thousands of Euros)
San José Concesiones y Servicios, S.A.U.	-	Pontevedra	Provisions of health care and social services	100	-	2,446
San José Construction Group, Inc	Dixon Hughes Goodman	Washington (USA)	Construction	-	100	24,654
San José France, S.A.S.	-	Le Haillan (France)	Holding company	-	100	982
San José Maroc, S.A.R.L.A.U.	-	Rabat (Morocco)	Construction	-	100	5
San José Perú Inmobiliaria, S.A.C.	Deloitte	Lima (Peru)	Construction	-	100	9,075
San José Congo, S.A.	Deloitte	Republic of Congo	Construction	-	70	10
São José Mozambique, Sociedade Limitada	-	Mozambique	Construction	-	100	142
San José Tecnologías Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
San Jose India Infrastructure & Construction Private Limited		New Delhi (India)	Development, construction and operation of Infrastructure	-	99.99	2,42
Sanjose Mahavir Supreme Building One Private Limited		New Delhi (India)	Construction	-	51	-
San José Real Estate Development, LLC	Dixon Hughes Goodman	Delaware (EE.UU)	Real Estate Development	-	100	394
San José Energía y Medio Ambiente, S.A.U.	-	Pontevedra	Energy production	99.99	0.01	4,039
SanJosé Nuevos Proyectos Salud, Limitada	-	Chile	Construction	-	100	1
SanJosé Contracting, L.L.C.	EY	Abu Dhabi (UAE)	Construction	-	85%	8,013
Sefri Ingenieros Maroc, S.A.R.L.	-	Morocco	Engineering and installations	-	75	258
Sociedad Concesionaria Chile Tecnocontrol	Deloitte	Santiago de Chile (Chile)	Infrastructure Concessions	-	100	14,414
San José Constructora Chile Ltda.	Deloitte	Santiago de Chile (Chile)	Construction	-	100	20
San José Colombia, S.A. (*)	-	Bogota (Colombia)	Construction	-	100	675
Constructora San José Colombia, S.A.AS.	-	Bogota (Colombia)	Construction	-	100	22
SJB Mullroser	Wisbert & Partner	Mullroser (Germany)	Construction	100	-	730
Tecnoartel Argentina, S.A.	Auren	Buenos Aires (Argentina)	Maintenance and facilities	-	100	23,465
Tecnocontrol Mantenimiento, S.L.U.	-	Tres Cantos (Madrid)	Maintenance and collection of public telephone services	-	100	3
Tecnocontrol Servicios, S.A.U.	Deloitte	Tres Cantos (Madrid)	Maintenance services	-	100	1,668
Tecnocontrol Sistemas de Seguridad, S.A.U.	-	Tres Cantos (Madrid)	Maintenance of security systems	-	100	120
Tecnocontrol Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
Top Brands, S.A.	-	Argentina	Trade	-	65	195
Trendy King, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	1,515
Udra Medios, S.A.U.	-	Pontevedra	Edition, production, reproduction and release of books, newspapers, magazines and video	100	-	1,5
Udra Mexico S.A. de C.V.	-	Mexico	Construction	-	100 9918	13.171
Vision King S.A.U. (anteriormente Fashion King, S.A.U.)	-	Madrid	Trade, distribution, import and export of clothes	-	100	60
Xornal de Galicia, S.A.	-	Galicia	Press	-	92.73	5,653
Xornal Galinet, S.A.U.	-	A Coruña.	Press	-	100	1,1
Zivar, investimentos inmobiliarios C.	-	Portugal	-Real Estate	-	52.5	2,609

(*) Company in settlement process

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Appendix II
Consolidated subsidiaries

Company	Audit company	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost (Thousands of Euros)
				Direct	Indirect	
Distrito Castellana Norte, S.A.	Deloitte	Madrid	Real Estate Development	-	24.459	26,400
Fingano, S.A. (1)	-	Uruguay	Management wind farms	-	10	-
Drilpen, S.A. (1)	-	Uruguay	Construction	-	10	-
Vengano, S.A. (1)	-	Uruguay	Management wind farms	-	10	-
Panamerican Mal, S.A.	PWC	Buenos Aires (Argentina)	Real Estate Development	-	20	8,484
Cresca S.A. (2)	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	12,117
Pinar de Villanueva, S.L.	-	Valladolid	Real Estate Development	-	50	5,665

(1) Investee trough the company, "Eskonel Company, S.A.", on sale in 2017 (see Note 26).

(2) Company on which shareholders have agreed to proceed to its settlement in favour of latter, based on the balance sheet at 31 December 2016 (see Note 26).

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Appendix III

1. <u>Joint ventures:</u>

Joint ventures	Ownership %	Net revenue (Thousands of Euros)
Ute Conservacion Murcia	50%	1,021
El Regueron	33%	3,063
Ute Enlace Thader	50%	1,592
Ute Barrio Bajo	80%	-
Ute Hospital Xeral De Lugo	50%	-
Ute Piscina Parla	100%	-
Ute Nueva Ciudad Deportiva De Umbrete En Sevilla	100%	-
Ute Autovía A-50 Salamanca	100%	-
Ute Kultur Etxea Hondarribia	100%	215
Ute Clinica Imq Bilbao	100%	1,068
Ute Miaman Ponte Ambia	70%	255
Ute San Jose El Ejidillo Valladolid	60%	670
Ute Hospital Albacete	38%	25
Ute Agua Potable Monforte	50%	1
Ute Variante Pajares - Lote Sur	60%	4,826
Ute Residencia Real Madrid	50%	45
Ute Edar Gandarío	50%	96
Xardins de Ferrol	60%	595
Ute Campus Humanidades	85%	42
Ute San Jose El Ejidillo Alcobendas	60%	224
Ute Patrimonio Jardines	40%	545
Ute Abastecimiento Burgos	55%	6,229
Ute Pontesur	50%	906
Ute El Ejidillo Ss.Reyes	60%	1,836
Ute El Ejidillo Arroyo De La Vega	60%	85
Ute Hospital Txagorritxu Del Hua	80%	2,927
Ute Canal Octubre 2015	60%	52
Ute Ant.Fabrica Tabacos	50%	713
Ute Reposicion Alumbrado Barcelona	75%	1,544
Ute Hospital Caceres	60%	492
Ute Centro Salud Amurrio	80%	912
Ute Centro Comercial Tamaraceite	60%	6,281
Ute Area Generacion Urbana De Jinamar	49%	922
Ute El Ejidillo Sur-Este Valladolid	60%	264
Ute El Ejidillo Paracuellos Del Jarama	60%	32
Ute Al Ain	50.0%	48,055
Ute Louvre	33.33%	41,025
Ute Al Mamsha Project	50.0%	16,014
Other		12,021
		154,593

(*) Data included in consolidation procedure (ownership %

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GRUPO EMPRESARIAL SAN JOSE, S.A. AND SUBSIDIARIES

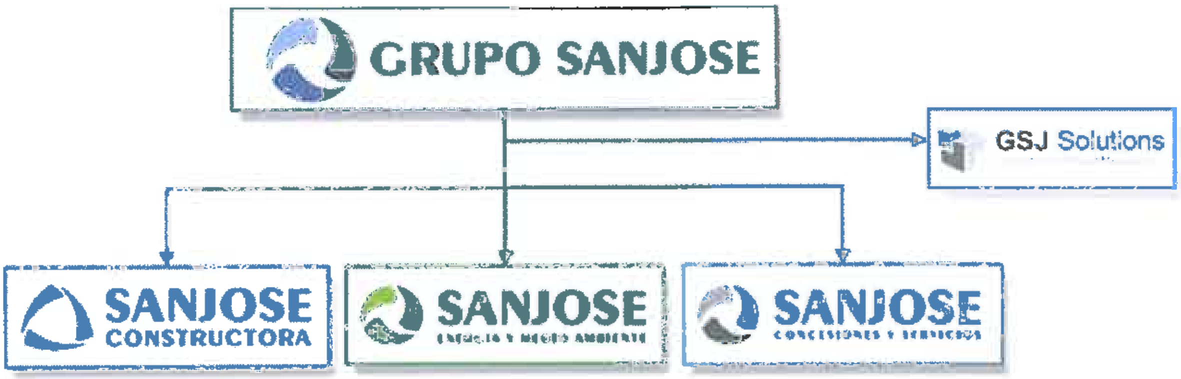
Directors' Report for the year ending 31 December 2016

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 the last years 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 2016, 58.9% total revenue of the Group comes from overseas (58.4% in 2015).

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 influence the process of territorial diversification, combining it with the search for greater efficiencies in the cost structure. The clear objective of the Group is to consolidate itself as a benchmark for construction at a global level, maintaining a high level of quality standards, being strict in

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meeting deadlines, and maximizing customer satisfaction. Likewise, one of the main objectives is to increase the international presence in countries with sustainable growth, of high economic solvency and that present interesting business opportunities. On the other hand, to the extent that the national economy is in the interest of recovery, and given the improvement in macroeconomic forecasts, the Group wants to promote new opportunities for activity that arise within the national territory.

Concessions: Grupo SANJOSE is positioned in this line of business internationally. Of particular note are the Hospitals of Chile, which were completed and put into operation for 15 years, during the second half of 2013.

Energy: it mainly focuses on the operation of the polygeneration plant of Cerdanyola del Vallés, whose concession extends until March 2047. Also, the two wind farms in Uruguay with a total power of 90 MW stand out, Entered into operation at the end of fiscal year 2015, as well as the management and operation of a photovoltaic electric power generation plant in Jaén.

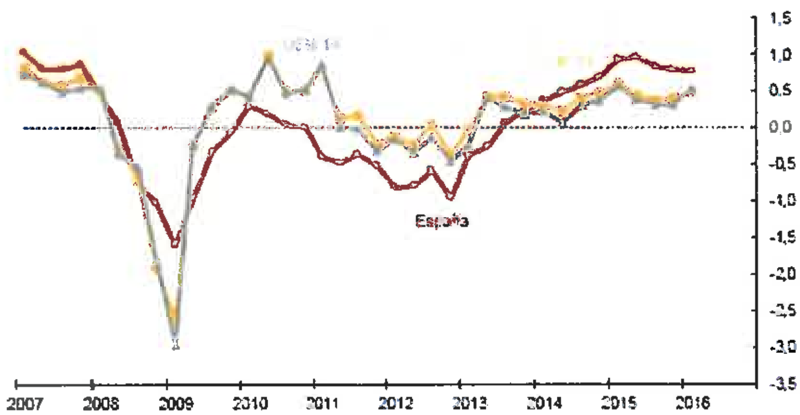
Real Estate: Following the sale of the company "San José Desarrollos Inmobiliarios, S.A.U." under the financial restructuring contract signed by the Group on 30 December 2014, real estate activity takes second place. The Group addresses this activity in a complementary way to the construction activity

2. Evolution of the market

2.1. Market performance

The economic and financial crisis since the end of 2007 has resulted in an abrupt reduction in the level of activity from 2007 to present date, not only in Spain but throughout Europe as a whole. In the last two years, signs of improvement have begun to appear.

Gross Domestic Product Spain vs



Source.: RTVE with data from INE

The year 2013 marked a turning point in the domestic economy, technically coming out from the recession. During 2014, there was an increase in the four quarters, which continued in 2015, when the Spanish economy once again hit the growth accelerator to achieve the most intense advance since the end of 2007. In fiscal year 2016, according to data from the National Statistics Institute (INE), the gross domestic product (GDP) increased by 0.7% compared to the second quarter of 2016 and has thus extended almost three years of expansion, following two recessions chained in the previous five years, reaching 3.2%. The forecast is that the closing of 2016, reflects another increase of 0.7%, reaching GDP 3%. According to the latest forecasts by the International Monetary Fund (IMF), Spain has lowered its GDP forecasts in the latest report of the International Monetary Fund (IMF), but still remains the fastest growing country in the group of the most advanced economies of the world. planet. An effect that will allow Spain to boast of an improvement in the ranking of the largest world powers for the first time since the beginning of the crisis. The IMF now anticipates a 2.3% growth in Spain in 2017 and a 2.1% growth in 2018, which is a significant slowdown compared to the expansion of the IMF of 3.2%, Which maintains its most recent forecasts on

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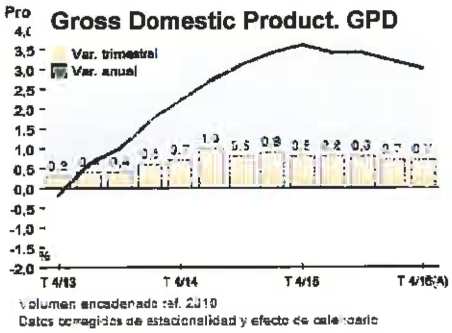
Spain, while it has revised two tenths upwards its growth forecast for 2018, to 2.1%, compared to the 1.9% calculated in October.



Source: INE

The main causes of growth have been the increase in tourism visits, the moderate increase in domestic consumption and the progressive lowering of Spanish families (supported by a significant improvement in financial expectations and conditions, as well as in the decline of the prices during the last financial year). The creation of jobs is precisely the main driver of GDP. Although these are mostly precarious jobs, this increase in employment is directly transferred to disposable income of households and, therefore, to consumption. Likewise, the current expenditure of Public Administrations in GDP has improved.

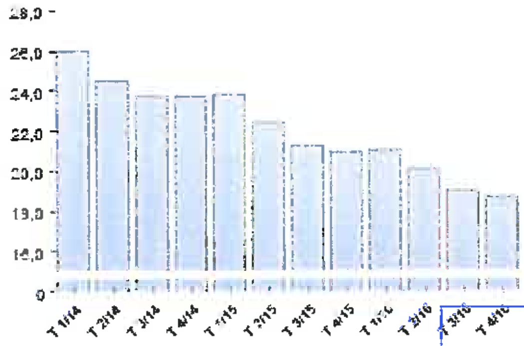
The International Monetary Fund (IMF) highlighted in its latest report in January 2017 that "after the dull result of 2016, projections point to a rebound in economic activity in 2017 and 2018, especially in emerging market economies and under development". Specifically, it forecasts world GDP growth of 3.4% in 2017 and 3.6% in 2018 - unchanged from the report of last October - from 3.1%. According to current projections, advanced economies will grow 1.9% in 2017 and 2.0% in 2018; That is, 0.1 and 0.2 percentage points more than in the October forecast, respectively.

The change in the trend of the Spanish economy has been well seen from the outside. The risk premium (the 10-year Spanish bond spread over the same period, which is the most used indicator to quantify this risk premium), which increased in relation to the end of 2015, bringing new highs since February in the risk premium of Spain, with levels approaching 160 basis points at the moment, has been placed at the end of 2016 in 116 points, returning to levels of the end of 2015, thanks to among other factors to the formation of the government in Spain.

Therefore, economic activity shows signs of recovery although these indications are not sufficient for the country to be fully recovered. In order to consolidate the trend change that has taken place in the national economy, the improvement of aspects such as employment, public debt and public deficit must be maintained.

With regard to employment, in the year 2015 the unemployment rate continued to decline in previous years, with the unemployment figure 18.63%:

Labour Force Survey. Unemployment rate (%)



Source.: INE

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Unemployment at the end of the year

The 2016 financial year has been a good year for employment. Spain has re-created more than half a million jobs in a year. Social Security has added 540,7 thousand members, an annual increase of 3.12%. Although this figure is supported by temporary recruitment. With regard to registered unemployment, the annual balance, 390,5 thousand less unemployed, is the best data in the statistical series.

The services sector has been the biggest beneficiary of the reduction of unemployment this month, with a fall of 208,053 unemployed (7.6% less). Almost all sectors have been relieved. Construction was the second with the biggest drop in annual terms. (77,249 unemployed), down 17.04%.

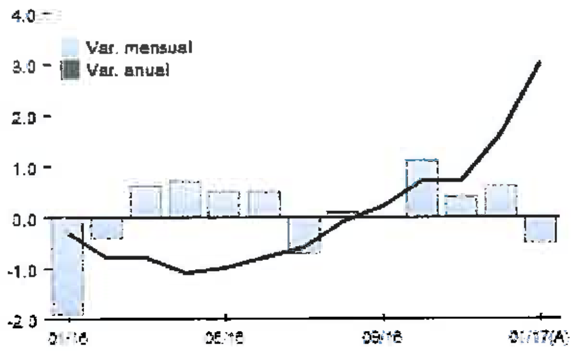
In November, public debt increased by 11,103 million euros compared to October, from 1,056,749 million to 1,067,852 million. Thus, debt in November was 99.82% of GDP, increasing by 2.8% compared to the figure for 2014.

As for the public deficit, the figure for 2015 stood at 5.13%. In the third quarter of 2016 it amounted to 2.78%. The Bank of Spain expects the public deficit to close at 4.4% of GDP this year, two tenths below the target committed with Brussels, thanks to the increase in the minimum rate of the fractional payments of the Corporation Tax. On the contrary, according to the latest macroeconomic projections on the Spanish economy made by the Bank of Spain, the deficit of 2017 will be 3.6% of GDP, half a point more than the target agreed with Brussels, although the monetary authority has not taken into account the latest tax measures that the Government has approved and which will report an additional 7,500 million next year.

Spain must maintain the adjustments in order to achieve this objective.

Spain's CPI in 2015 stood at 0.0%. During 2016, this slight increase in prices has been maintained, bringing the annual CPI to 1.6%, after rising nine tenths in the last month of the year.

Consumer price index.



Indice general nacional (%)

Source.: INE

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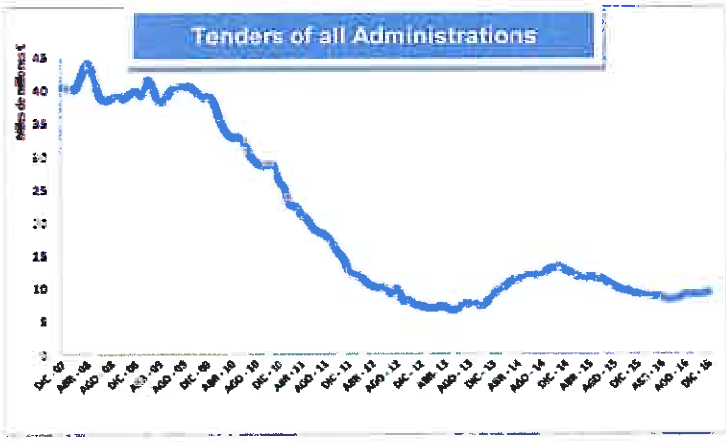
This increase in prices is closely related to the evolution of fuel prices, more specifically oil prices, as well as electricity. Since January 2016, the path of oil prices has been bullish, to close to 60 dollars, and inflation in Spain has followed the same path. Since April, the rate is on an upward trend. In September it was already in positive territory and the December has marked an unknown level for more than three years. The confirmed increase from January 2017 to 3%, is the fifth consecutive positive rate and its highest level since October 2012, very marked by the increase in electricity prices.

The main national market in which the Company operates, construction, remains heavily affected by the crisis, although there are indications of the country's economic recovery that are beginning to be perceived. During 2016, a level of tenders was maintained similar to that of 2015 (only a decrease of 1% higher), given the continuity of the public policy of reduction of investment, by the adjustments to reach the objectives of deficit imposed by The European Commission (9.395 million SEOPAN data).



Source: SEOPAN

Impact of construction within the overall economy of Spain is very significant. Its importance has been increasingly reduced over the last years. Its importance lies in the important effect of the construction sector on the whole economy, due to the effect on intermediate suppliers and because it provides the country with the necessary infrastructure to boost the economy, contributing to increase productivity and long-term growth capacity of the economy in general.

For the rest of the world, things do not change much. China continues to lead growth and Latin America, once again, is in a middle point, with less growth than expected, and without being able to approach the level of the dynamic economies of Asia, by 1.2% and 2.1 % For 2017 and 2018, returning it to the positive growth path. Growth, however, will be positive in most countries in the region. The contraction is mainly due to the situation in Brazil, whose recession "is proving to be deeper and longer than expected". In the Middle East, Saudi Arabia's growth would be weaker than expected in 2017 as the recent OPEC agreement will lead to a cut in oil production. In India, the current and next fiscal year growth projections were cut by 1 percentage point and 0.4 percentage points, respectively, with prospects of 7.2% and 7.7% projected for 2017 and 2018.

Likewise, the latest leading indicators, compiled by the Organization for Economic Co-operation and Development (OECD), underpin the idea of growth. The growth of major developed economies has accelerated. The experts of this international organisation, which groups the 34 most industrialized countries, synthesise data that serve to anticipate the progress of a country's economic activity in the short term, in the next six or nine months. In the case of Spain, the indicators chosen by the OECD are the degree of utilization of industrial capacity, production in the construction sector, services sector prices, stock market prices and vehicle registration.

OECD composite leading indicators remained at 99.8 in October, suggesting slower-than-normal growth.

The barometer of future activity of the Paris-based organ showed greater signs of a rebound in growth in the United States and other developed economies, as well as in large developing economies such as China and Brazil

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In view of this macroeconomic situation, the Group's main lines of activity are the effort to improve its profitability, being flexible in adapting its structure to the current situation in Spain, and also strengthening its intention to present a business with a Diversification and increasing internationalization.

The Group develops its activities in sectors, countries and socio-economic and legal environments that assume the assumption of different levels of risk caused by these conditions. Thus, it controls such risks in order to prevent them from causing a loss to the profitability of its shareholders or a problem for its customers. For this control task, it has instruments that allow them to be identified sufficiently in advance or avoided minimizing the risks.

The Group maintains a portfolio of EUR 1,889 million, ensuring its medium and long-term future, both in the execution of work, and in the realisation and provision of services in concession and energy projects.

2.2. Main figures of the GROUP

Main consolidated figures of Grupo SANJOSE for year 2016 are as follows:

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Consolidated Management Balance Sheet

Thousands of euros

	Dic. 16 Amount	%	Dic. 15 Amount	%	Var.
Intangible assets	20.557	2,0%	18.856	1,9%	9,0%
Property, plant and equipment	45.900	4,5%	45.917	4,7%	0,0%
Real state investments	4.711	0,5%	5.664	0,6%	-16,8%
Investments accounted	53.121	5,2%	57.247	5,8%	-7,2%
Long term finantial investments	150.947	14,8%	154.331	15,7%	-2,2%
Deferred taxes assets	32.839	3,2%	35.484	3,6%	-7,5%
Goodwill on consolidation	9.984	1,0%	9.984	1,0%	0,0%
TOTAL NON-CURRENT ASSETS	**318.059**	**31,2%**	**327.483**	**33,3%**	**-2,9%**
Non-current assets held for sale	4.186	0,4%	0	0,0%	
Inventories	104.122	10,2%	92.176	9,4%	13,0%
Trade and other receivables	242.529	23,8%	271.415	27,6%	-10,6%
Other short term finantial investments	101.884	10,0%	61.941	6,3%	64,5%
Cash and cash equivalents	251.839	24,7%	231.834	23,5%	8,6%
TOTAL CURRENT ASSETS	**704.560**	**69,2%**	**657.366**	**66,7%**	**7,2%**
TOTAL ASSETS	**1.022.619**	**100,0%**	**984.849**	**100,0%**	**3,4%**

Thousands of euros

	Dic. 16 Amount	%	Dic. 15 Amount	%	Var.
Equity attributable to shareholders of the parent (*)	60.737	6,0%	46.368	4,7%	31,0%
Minority interest	21.297	2,1%	21.680	2,2%	-1,8%
TOTAL EQUITY	**82.034**	**8,1%**	**68.048**	**6,9%**	**20,6%**
Long term provisions	28.963	2,8%	19.223	2,0%	50,7%
Long term finantial liabilities	383.617	37,7%	410.168	41,6%	-6,5%
Long term derivative finantial contracts	906	0,1%	1.196	0,1%	-24,3%
Deferred taxes liabilities	15.491	1,5%	14.460	1,5%	7,1%
Other long term liabilities	965	0,1%	954	0,1%	1,2%
TOTAL NON CURRENT LIABILITIES	**429.942**	**42,2%**	**446.001**	**45,3%**	**-3,6%**
Short term provisions	42.386	4,2%	37.471	3,8%	13,1%
Short term finantial liabilities	63.724	6,3%	47.818	4,9%	33,3%
Payables to related companies	2.620	0,3%	1.748	0,2%	49,9%
Trade accounts and other current payables	401.913	39,5%	383.763	39,0%	4,7%
TOTAL CURRENT LIABILITIES	**510.643**	**50,1%**	**470.800**	**47,8%**	**8,5%**
TOTAL EQUITY & LIABILITIES	**1.022.619**	**100,4%**	**984.849**	**100,0%**	**3,8%**

(*) **Net Shareholders' Equity**: EUR 104.7 million and EUR 102.4 million were included under this item at 31 December 2016 and 2015, respectively, corresponding to the participatory loan of Grupo Empresarial San José, S.A.

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Consolidated Management Income Statement

Thousands of euros

	Grupo SANJOSE				
	Dic. 16		Dic.15		
	Amount	%	Amount	%	Variac.
Revenue	613.394	100,0%	536.099	100,0%	14,4%
Other operating income	9.754	1,6%	7.931	1,5%	23,0%
Change in i nventories	-5.177	-0,8%	-6.384	-1,2%	-18,9%
Procurements	-402.791	-65,7%	-338.239	-63,1%	19,1%
Staff costs	-94.706	-15,4%	-85.228	-15,9%	11,1%
Other operating expenses	-74.549	-12,2%	-70.342	-13,1%	6,0%
EBITDA	45.925	7,5%	43.837	8,2%	4,8%
Amortisation chargue	-5.819	-0,9%	-5.665	-1,1%	2,7%
Imparment on inventories	862	0,1%	127	0,0%	577,0%
Changes in trade provisions and other imparment	-15.893	-2,6%	-7.550	-1,4%	110,5%
EBIT	25.076	4,1%	30.749	5,7%	-18,4%
Ordinary finantial results	-6.229	-1,0%	-52	0,0%	11926,3%
Changes in fair value for finantial instruments	0	0,0%	-20.346	-3,8%	--
Foreign exchangue results and others	-92	0,0%	1.144	0,2%	--
NET FINANTIAL RESULT	-6.321	-1,0%	-19.254	-3,6%	67,2%
Results on equity method	953	0,2%	-845	-0,2%	--
PROFIT BEFORE TAX	19.708	3,2%	10.650	2,0%	85,1%
Income tax	-11.636	-1,9%	-3.364	-0,6%	245,9%
CONSOLIDATED PROFIT	8.072	1,3%	7.286	1,4%	-10,8%

Alternative Performance Measures (APM):

In the consolidated financial statements for the year ending 31 December 2016, the Group presents its results in accordance with generally accepted accounting standards (IFRS - see Note 2.1 of the accompanying consolidated report). However, directors of the Group believe that certain alternative performance measures (MARs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and therefore must be considered to adequately assess the performance of the group.

Among others, the Group identifies the following MARs:

- **EBITDA:** gross operating result, calculated from operating income, excluding from this figure the amount of depreciation, provisions and impairment provided or reversed during the period, as well as the result from disposal of property, plant and equipment.

- **Net financial debt (NFD):** total amount of bank and non-bank financial debt, including finance lease creditors and the valuation of obligations associated with financial derivative instruments, discounting the amount recorded under "Other current financial assets" And "Cash and cash equivalents" under current assets in the balance sheet.

  (*) The Group does not include as bank financial debt the derivative of the syndicated loan agreement of "Grupo Empresarial San José, SA", amounting to EUR 104,663 thousand at 31 December 2016. In view of its participative nature, for management purposes, the Group considers this amount as equity.

- **Backlog:** total amount of sales contracted by Group companies with customers, discounting the part realised and recognised as income in the income statement. With regards to concessions, the total amount of sales has been identified with the best estimate made by the Group, which is included in the economic-financial business plan of the concession.

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Revenue

SANJOSE Group's net revenue for the year ending 31 December 2016 rose to € 613.4 million, recording a 14.4% increase with regards to the previous year.

Grupo SANJOSE's main activity is Construction, which represents 87.6% of the total turnover in the period and 60% of the Group's total backlog at the end of 2016. The billing for this line of activity in year 2016 stood at EUR 537.4 million, experiencing a growth of 21.5% compared to the figure obtained in the previous year.

For its part, the sales of the Real Estate line dropped by 45.8%, mainly due to the lower delivery of housing in stage IX of the Parques de la Huaca urban development in Lima (Peru) as it was in its final stage, although the Group has made an investment in the purchase of a new plot of land that in the coming years will allow the recovery of the levels of turnover of previous periods. In addition, Grupo SANJOSE continues to seek new opportunities for the purchase of other plots of land.

On the other hand, the lines of activity of Concessions and Services and Energy, decreased by 19.7% and 15.3% respectively, due to the specific increase in activity that meant in 1Q-2015 the definitive commissioning and implementation of the operation of the hospitals under concession regime in Chile, for the Concessions and Services line, as well as for a readjustment of demand in the Energy line.

The breakdown of the turnover of Grupo SANJOSE by activity is as follows:

Thousands of euros

	Grupo SANJOSE				
Revenues by activity	**Dic. 16**		**Dic.15**		**Var.(%)**
Construction	537.354	87,6%	442.117	82,5%	21,5%
Real estate and property development	15.673	2,6%	28.924	5,4%	-45,8%
Energy	10.191	1,7%	12.691	2,4%	-19,7%
Concessions and services	39.455	6,4%	46.589	8,7%	-15,3%
Adjustment and other	10.721	1,7%	5.778	1,1%	
TOTAL	**613.394**		**536.099**		**14,4%**

Once again, once more, highlights the importance of the international market for Grupo SANJOSE, which provides 59% of the Group's total turnover.

The Group's sales increased 14.4% with regards to the previous year. There was an increase in sales in the domestic market of 13.1%, while in the international market sales grew 15.4%.

Thousands of euros

	Grupo SANJOSE				
Revenues by geography	**Dic. 16**		**Dic.15**		**Var.(%)**
National	252.063	41%	222.956	42%	13,1%
International	361.331	59%	313.143	58%	15,4%
TOTAL	**613.394**		**536.099**		**14,4%**

Profit for the hyear

Grupo SANJOSE's gross operating profit (EBITDA) for the year ending 31 December 2016 amounted to EUR 45.9 million, representing a margin of 7.5% over the net turnover.

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Highlight the 58.5% increase in EBITDA in the Construction business, recording in 2016 a total of EUR 33.3 million.

It should also be noted the evolution of the Concessions and Services business line, where at the end of 2016, EBITDA declined by 86.3%, having started this decrease in 2015 (1Q-2015), when the operation and exploitation of the hospitals under concession regime of Chile started, which involved a one-off increase in turnover and margins.

The breakdown of EBITDA by activity for 2016 is as follows

Thousands of euros

EBITDA by activity	Grupo SANJOSE Dic. 16		Dic.15		Var.(%)
Construction	33.268	72,3%	20.984	48,0%	58,5%
Real estate and property development	6.536	14,2%	10.215	23,3%	-36,0%
Energy	2.883	6,3%	3.419	7,8%	-15,7%
Concessions and services	1.269	2,8%	9.232	21,0%	-86,3%
Adjustment and other	1.969	4,3%	-15	0,0%	
TOTAL	**45.925**		**43.835**		**4,8%**

EBIT for 2016 amounted to EUR 25.1 million, representing a margin of 4.1% over the net turnover. EBIT decreased 18.4% compared to the previous year, due to the provisions provided by the Group in 2016.

In the calculation of Corporate Tax, all new tax innovations and regulatory changes passed by the Ministry of Finance through RDL 3/2016 as of 2 December have been taken into account, where the two main aspects to be highlighted are:

I) the reduction in the percentage of taxable income for the taxable year with negative tax bases that the companies may have generated in previous years and which are pending compensation

II) an increase in the taxable income due to the allocation of expenses on the provision of financial assets that the Group would have considered deductible in previous years.

Profit after tax of the SANJOSE Group for the year ending 31 December 2016 amounted to EUR 8.1 million.

Net equity

Net equity of Grupo SANJOSE at 31 December 2016 stands at EUR -22.6 million, being this the most significant change with regards to December 2015.

At 31 December 2016, Net Equity of the Group consists of 65.0 million of shares, what involves a EUR - 0.35 per share.

Stock Exchange performance and any information on shares shall be included under section 9.

Management cash flow statement

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Thousands of Euros

CASH FLOW	Grupo SANJOSE Dic. 16	Dic. 15
Cash flow from operating activities	47.678	39.218
Working capital	39.041	8.508
Others adjustments	-10.896	-4.384
Operating cash flow	**75.823**	**43.342**
Divestments / (Investments)	-10.219	5.890
Others adjustments	6.324	33.988
Investment cash flow	**-3.895**	**39.878**
Free cash flow	**71.928**	**83.220**
Capital flow & Minorities	-801	-1.553
Increase / (Decrease) in borrowings	-44.060	-25.187
Net interest	-4.666	-17.624
Others adjustments	-2.396	-10.282
Financing cash flow	**-51.923**	**-54.646**
Total cash flow	**20.005**	**28.574**

Backlog

The Group's future backlog at 31 December 2016 amounts to EUR 1.889 million, which represents a 2.9% decrease regarding year 2015 (EUR 1,835 million).

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Millions of euros

BACKLOG by segment	Grupo SANJOSE				
	Dic. 16		Dic. 15		Var.(%)
Construction	**1.134**	**60%**	**1.020**	**56%**	**11,2%**
Civil works	213	11,3%	231	12,6%	-7,9%
Non residential building	720	38,1%	731	39,9%	-1,6%
Residential building	195	10,3%	53	2,9%	268,0%
Industrial	7	0,3%	5	0,3%	21,5%
Energy	**507**	**27%**	**552**	**30%**	**-8,2%**
Concessions and services	**248**	**13%**	**263**	**14%**	**-5,5%**
Maintenance	22	1%	40	2%	-45,0%
Concessions	226	12%	223	12%	1,1%
TOTAL BACKLOG	**1.889**	**100%**	**1.835**	**100%**	**2,9%**

Millions of euros

BACKLOG by geography	Grupo SANJOSE				
	Dic. 16		Dic. 15		Var.(%)
National	**872**	**46%**	**892**	**49%**	**-2,3%**
International	**1.017**	**54%**	**943**	**51%**	**7,9%**
TOTAL BACKLOG	**1.889**		**1.835**		**2,9%**

Millions of euros

BACKLOG by client	Grupo SANJOSE				
	Dic. 16		Dic. 15		Var.(%)
Public client	**1.215**	**64%**	**1.179**	**64%**	**3,1%**
Private client	**674**	**36%**	**656**	**36%**	**2,8%**
TOTAL BACKLOG	**1.889**		**1.835**		**2,9%**

International backlog is increased in 7.9%

The Construction backlog, the main activity of the Group and representing 60% of the total backlog, improved by 11.2% during 2016.

The Energy and the Concessions and Services backlog experienced a slight reduction, justified by the normal development of the contracts during the year.

2.3 Performance of the Group by type of activity

Construction

This business line generated revenues of EUR 537.4 million during year 2016, representing an increase of 21.5 % regarding the same period of the previous year.

EBITDA for the period stood at EUR 33.3 million compared to EUR 21 million for the same period of the previous year, representing an improvement of 58.5 %, representing 6.2 % of total sales.

At the end of the period, the Group`s portfolio in this business line amounted to EUR 1,134 million, with a significant growth of 11.2 % over the previous year.

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Thousands of euros

CONSTRUCTION	Grupo SANJOSE Dic. 16	Dic.15	Var.(%)
Revenue	537.354	442.117	21,5%
Earnings before interest, taxes, D&A (EBITDA)	33.268	20.984	58,5%
EBITDA margin	6,2%	4,7%	
Earnings before interest and taxes (EBIT)	14.308	15.225	-6,0%
EBIT margin	2,7%	3,4%	
Earnings before tax of continued operations	8.155	9.348	-12,8%
Backlog (millions of euros)	**1.134**	**1.020**	**11,2%**

The turnover breakdown of this line of activity, taking into account the main types of business that integrate it, as well as the geographic area, is the following:

Thousands of euros

DETAIL OF CONSTRUCTION REVENUES	National		Internac.		Total	
Civil works	23.650	11,4%	36.819	11,2%	60.469	11,3%
Non residential building	139.626	67,4%	245.509	74,4%	385.135	71,6%
Residential building	24.227	11,7%	36.523	11,1%	60.750	11,3%
Industrial	19.897	9,6%	11.103	3,4%	31.000	5,8%
TOTAL	**207.400**	**39%**	**329.954**	**61%**	**537.354**	

Construction revenue at international level for 2016 stood at EUR 330 million, recording an 23.5% increase with regards to the same period of the previous year, and accounts for 61% of this line of activity (60% in 2015).

On the other hand, sales at domestic level recorded an increase up to EUR 207.4 million compared to EUR 175 million in 2015, representing an increase of 18.5%. domestic sales represent 39% total sales of this line of activity.

In overall, sales of this line of activity increase by 21.5%.

Real Estate

Turnover for 2016 for the Real Estate activity of the Group (which currently is mainly developed in Peru) stands at Eur 15.7 million.

There was a 45.8% decrease in sales of this line of activity compared to the previous year, due to the lower delivery of housing produced in 2stage IX of the Parques de la Huaca urban development in Peru, for being in its final stage.

At the end of 2016, the Group made an important investment for the acquisition of a new plot of land, which will progressively allow the recovery of previous years' turnover levels.

EBITDA amounted to Eur 6.5 million, increasing the sales margin to 41.7% compared to 35.3% in this line of business in the same period of the previous year.

EBIT also increased, representing 47.6% of sales (22.8% in 2015).

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Thousands of euros

REAL ESTATE AND PROPERTY DEVELOPMENT	Grupo SANJOSE Dic. 16	Dic.15	Var.(%)
Revenue	15.673	28.924	-45,8%
Earnings before interest, taxes, D&A (EBITDA)	6.536	10.215	-36,0%
EBITDA margin	41,7%	35,3%	
Earnings before interest and taxes (EBIT)	7.468	6.602	13,1%
EBIT margin	47,6%	22,8%	
Earnings before tax of continued operations	10.527	11.231	-6,3%

Grupo SANJOSE has performed a new valuation of its real estate assets at year-end 2016 by an independent expert.

Gross Asset Value (GAV) from the aforementioned valuation for SANJOSE Group`s real estate assets amounts to EUR 266.4 million, with is detailed as follows:

Thousands of euros

GAV activos de GESJ (*)	Dic. 16		Dic.15		Var.(%)
Lands	142.898	53,6%	126.414	48,4%	13,0%
Buildings under construction	2.681	1,0%	13.644	5,2%	-80,4%
Buildings	27.455	10,3%	32.178	12,3%	-14,7%
Real state investments	74.655	28,0%	70.674	27,0%	5,6%
Inmovilizado	18.700	7,0%	18.363	7,0%	1,8%
TOTAL	266.389		261.273		2,0%

(*) Includes the valuation of the assets of associated companies, at Group's stake.

The change in value in 2016 is mainly due to:

I) Land and plots of land: the 13% increase in this item corresponds to the investment made in Peru, where a new plot of land of approximately 20,000 sqm in the district of Bellavista, in the province of Callao, has been acquired, where the Group plans to build 980 housing units arranged in 15-story buildings. The execution period is estimated for approximately 6 years.

Ii) In terms of Buildings under construction and finished buildings, the variations mainly come from the real estate development activity carried out by the Group in Peru, where stage IX of the Parques de la Huaca urban development is being completed.

Iii) Real estate investments: most of the variations are due to the improvement in occupancy and income of some of the Group's assets in Argentina.

In overall, the gross value of the assets of Grupo SANJOSE, experiences a growth of 2%.

Energy

Net revenue for 2016 stood at EUR 10.2 million.

The percentage of EBITDA on sales of this business activity for the period stood at 28.3 %, improving the figure for the same period of 2015, representing stability and recurrence in the activity of this business line

Operating net profit increases by 9.,5%.

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Thousands of euros

ENERGY	Grupo SANJOSE Dic. 16	Dic.15	Var.(%)
Revenue	10.191	12.691	-19,7%
Earnings before interest, taxes, D&A (EBITDA)	2.883	3.419	-15,7%
EBITDA margin	28,3%	26,9%	
Earnings before interest and taxes (EBIT)	1.417	1.295	9,4%
EBIT margin	13,9%	10,2%	
Earnings before tax of continued operations	116	767	-84,9%
Backlog (millions of euros)	**507**	**552**	**-8,2%**

Grupo SANJOSE has at year-end 2016 a contracted portfolio of EUR 507 million, which will be materializsed as the Group's largest activity in a period of approximately 25 years.

The reduction in the portfolio compared to that at the end of 2015 is mainly due to the normal production and exploitation of contracts in force maintained by the Group, as well as by the periodic review carried out by the Group due to the effect of regulatory and financial changes.

Concessions and Services

The turnover for year 2016 stands at EUR 39.5 million. The decrease in billing and margins are a direct result of the definitive commissioning and implementation of the operation of the hospitals under concession regime in Chile, which took place in 1Q-2015 and resulted in a sharp increase in sales and the EBITDA of this line of activity for approximately EUR 8.9 million.

Notwithstanding the foregoing, the pre-tax profit for year 2016 is a profit of EUR 9.1 million, compared to losses in 2015 amounting to EUR 11.5 million.

At year-end 2016, the Group's contracted portfolio in this line of business amounts to EUR 248 million.

Thousands of euros

CONCESSIONS AND SERVICES	Grupo SANJOSE Dic. 16	Dic.15	Var.(%)
Revenue	39.455	46.589	-15,3%
Earnings before interest, taxes, D&A (EBITDA)	1.269	9.232	-86,3%
EBITDA margin	3,2%	19,8%	
Earnings before interest and taxes (EBIT)	225	6.416	-96,5%
EBIT margin	0,6%	13,8%	
Earnings before tax of continued operations	9.077	-11.485	--
Backlog (millions of euros)	**248**	**263**	**-5,5%**

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2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2016 with an average payment term of 45 days. This figure is within the average legal period established by law 15/2010 which is 60 days.

A significant number of the Company's transactions are with public-sector clients, such as States, autonomous communities, municipalities, local governments and other public bodies, which settle payment obligations in longer term that 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 s 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 2016, net financial debt is as follows:

Thousands of euros

NET CASH POSITION		Dic. 16 Amount	%	Dic. 15 Amount	%	Var.
Other short term finantial investments		101.884	28,8%	61.941	21,1%	64,5%
Cash and cash equivalents		251.839	71,2%	231.834	78,9%	8,6%
	Total cash	353.723	100%	293.775	100%	20,4%
Long term finantial liabilities (*)		383.617	85,1%	410.168	89,0%	-6,5%
Long term derivative finantial contracts		906	0,2%	1.196	0,3%	-24,3%
Short term finantial liabilities		66.344	14,7%	49.566	10,8%	33,9%
	Total debt	450.867	100%	460.930	100%	-2,2%
TOTAL NCP		97.143		167.154		-41,9%

(*)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".

Net financial debt at 2016 year end stands at EUR 97.1 million compared to the EUR 167.1 million at December 2015, recording a 41.9% decrease.

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Assets improve in 20.4%. Likewise, there was a 2.2% reduction of liabilities, mainly due to the periodic maturity and annual amortization of the bond issue that finances the concession of the two hospitals in Chile.

The financial debt at 31 December 2016 includes the financing of projects without recourse of Grupo SANJOSE for the amount of EUR 179.6 million.

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 million.

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 Group has a risk management function through which it: i) identifies; Ii) measures; iii) controls; Iv) monitors and, v) evaluates, the different types of risk from an integrated and global perspective.

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

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minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

Credit risk: rick 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 25 January 2017, the Company proceeded to formalise a commitment to sell its stake in the Uruguayan company "Eskonel Company, SA" The verification and closing processes established in the signed agreement of intentions are currently being carried out. The directors of the Company estimate that this operation will be celebrated in the coming months.

During the month of December 2016, the construction contract for the improvement of infrastructures at Simikhot and Rara airports in Nepal was terminated. The Company has internal and external advisors, both legal and technical, for the exercise of all those processes established under the contract and by domestic and international regulations in defense of its interests. At present, it is in a process of resolution of conflicts at local level, considering the opening of an arbitration process at the international level in the second half of 2017.

On 5 October, 2016, the company "Carlos Casado, SA" entered into an agreement with "Brasilagro Companhia Brasileira de Propiedades Agrícolas, SA" for the sale of the assets of the associate "Cresca, SA" (a Paraguayan company in a 50:50 ratio by both companies). At the present date, once the 120-day deadline established in the agreement has been fulfilled, no sale offer has been received. As a result, the assets of "Cresca, SA" among its shareholders are being harmoniously divided and distributed, taking as distribution balance that at 31 December 2016. The Group's Management estimates that this process does not have significant impact on the Group's consolidated financial statements or equity.

Further, there are no events subsequent to 31 December 2016 that could have any impact on these consolidated financial statements.

6. Future outlook

The changing trend in the business cycle of Spain during the last years, together with growth forecasts for the years 2017 and 2018 and the GDP improvement in the last three quarters of the year, which is expected to continue in the fourth quarter of 2016 and the pollical stability, 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:
  - Taking advantage of the value acquired in countries where it is present (Abu Dhabi, Chile, Timor, etc.) to increase its presence.
  - Taking advantage of new opportunities for expansion.

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In this regard, in 2016, the Tourism Development and Investment Company (TDIC) has awarded SANJOSE the construction of the stage I of the Mamsha Al Saadiyat residential building, in a joint venture in a 50:50 ratio with Pivot Engineering & General Contracting, for EUR 300 million (AED 1,250 million - United Arab Emirates dirham). Grupo SANJOSE adds this important project to two other unique works that it is executing in the region: the Louvre Museum Abu Dhabi and the Hospital of Al Ain.

In addition, in 2016, the City and Industrial Development Corporation of Maharashtra Limited has awarded SANJOSE, a in 50:50 joint venture with GVK Projects & Technical Services Ltd, the earthmoving and stabilisation works at Navi Mumbai, with an approximate budget of Eur 105 million. This new award enhances the Group's presence in the civil engineering sector in the country, where it is currently executing other important transport infrastructure works, among which highlight the design and rehabilitation of the Raebareli-Banda section of the NH-232 Highway in the State of Uttar Padresh and the design and construction of all stations that make up the new Navi Mumbai Metro Line 1.

As part of the expansion policy, in 2017, the SANJOSE Group will build a new resort in Cape Verde, on Boavista Island. The 5 star White Sands Hotel & Spa will have a total built surface of 70,606 sqm distributed on a plot of 130,500 sqm. The complex will have a 5 star hotel with 188 bedrooms and 4 apartments, 15 villas, 632 homes, amphitheater with capacity for 250 people, 5 restaurants, 6 bars, 14 swimming pools, 76 parking spaces, children's playground, gym and spa.

Grupo SANJOSE will also renovate and expand the 4-star Lx Boutique Hotel in Lisbon, strategically located in the Cais de Sodré district, in the heart of the Portuguese capital. These hotel projects should be added to others that Grupo SANJOSE is currently doing in Portugal, including the construction of the 5 star Cais de Santarem hotel in Lisbon, the RAW Culture Bairro Alto in Lisbon, the first phase of the hotel Oporto Wine & Books and the excavation and containment of two more hotels in the Expo Park of Lisbon.

This line of staying in countries where it has already operated, is reinforced by its position in Latin America. After the delivery and final operation of the Hospitals of Chile already built by the Group in previous years, the operation of non-sanitary services continues for 15 years, which will provide recurrent income during this period.

Also, after the good experience in the real estate development in Peru (project carried out in Lima - Parque de la Huaca Condominium), Grupo SANJOSE has closed the purchase of approximately 20,000 sqm of land in the district of Bellavista, Province of Callao, Lima, for approximately 14.5 million US dollars. The Group's company, GSJ Solutions, will carry out the definitive project, which aims to build 980 housing units. The execution period is estimated to be not less than 6 years.

Regarding the domestic market, the joint venture led by SANJOSE Constructora has been awarded the Alisios Shopping Center in Tamaraceite, Las Palmas, consisting of the construction of the new Alisios shopping center, designed by Mikel Arriola Azaldegui (Chapman Taylor). The site will have a constructed area of 165,000 sqm distributed in two heights, which will house 120 premises, hypermarket and 2,500 underground parking spaces. The awarded company estimates a total investment of approximately 150 million euros for this new initiative.

Also, Porsche Ibérica, S.A. has awarded SANJOSE Constructora the execution of works under the modality "turnkey" for the remodeling and renovation of its central offices and the Porsche Center Madrid Norte (exhibition and workshop). The project includes the demolition of the existing building, the renovation of the semi-basements, preservation of part of the structure and the execution of a new building of 7.609 sqm built, with three floors in height and two basement floors. Within this line of exploitation of the private company's offer, the SANJSOE Group has also been awarded the expansion of the Marques de Murrieta wineries in La Rioja, an emblematic work of expanding its oldest and most renowned facilities located in Finca Igay

Likewise, the Group remains attentive to the public tender offered, to take advantage of business opportunities arising from the public sector. In this regard, the SANJOSE Group has been awarded the works for the construction of the new headquarters of the Special Delegation of the Tax Agency in Murcia. The works include the construction of a new building of 19,106 m² consisting of a basement, ground floor and four floors in height and a budget of approximately 12 million euros.

Likewise, the Extremadura Health Service (SES) has awarded the completion of Phase I of the new Hospital of Cáceres to the Temporary Union of Companies formed by SANJOSE Constructora and Magenta. The new and modern sanitary complex is organized around four buildings occupying a total constructed area of 77,000 sqm.

The Group will seek to maintain excellent quality standards in the performance of its activities. In this line, the SANJOSE Group received in 2016 the "Latin America Social Infrastructure Deal of the Year 2015" award to the Chilean hospitals at the IJGlobal Awards, granted at the ceremony held on 16 March at the Hotel Mandarin Oriental of New York by the prestigious American magazine "IJGlobal".

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 1,889 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 has presence and knowledge.

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 2016.

7. R&D&i 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.

Technological areas for the development of R & D & I projects include, among others, technologies applicable to building and civil works, renewable energy and energy efficiency, new materials and construction processes or the development of tools for improvement in the provision of maintenance and services. During 2016, the Group developed the R & D project "Fixed and automatic system for detection and dissipation of fog by hygroscopic agents", which arises from the need for a search by the Ministry of

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Development for an innovative solution to the problems of dense and persistent fogs that happen in the highway A-8, in the section between Mondoñedo and A Xesta. The Group proposes a system to eliminate this fog by means of precipitation with hygroscopic agents in this stretch of road, which has the help of the Center for Industrial Technological Development (CDTI), a public business entity responsible for the management and development of Policy of technological innovation of the Ministry of Economy and Competitiveness, as well as with the collaboration of the Polytechnic University of Madrid, as research center. Cooperation between entities has become a determining factor for the Group.

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 2016 and 2015.

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:

	2016	2015
*Capitalization ** *(thousands of shares)*	210.034	59.824
Nº of shares *(x 1.000)*	65.026	65.026
Last price of the period *(euros)*	3,23	0,92
Last price of the period *(euros)*	3,23	0,92
Higher price of the period *(euros)*	4,95	1,38
Lower price of the period *(euros)*	0,7	0,74
Volume *(thousands of shares)*	119.561	28.206
Actual *(thousands of euros)*	306.897	29.323

* Capitalization is calculated with listed shares and does not include shares from capital increases which have not been listed yet.

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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 will propose the General Meeting of Shareholders the record of the loss for year 2016 amounting to EUR 41,659 as higher value of "Negative results from previous years".

10. Annual Corporate Governance Report

In accordance with the provisions of the trade regulation, the Annual Corporate Governance Report of the SANJOSE Group, which is available on the Group's website, is also attached by reference, as well as on the website of the National Stock Market Commission, and which forms an integral part of the Consolidated Management Report of the SANJOSE Group for the year ending 31 December 2016.

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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 Empresarial San José, 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 2016 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 extended in 110 sheets of plain paper, and the accompanying Consolidated Directors' Report extended on 75 sheets of plain paper, additionally to this signature sheet, were prepared by the Company's Board of Directors on 28 February 2017.

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

M . Sunil Kanoria

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Aldarei

Mr. Guillermo E. Nielsen

The Member Mr..Sunil Kanoria has delegated by rpoxy his vote on Mr.Ramón Barral.

Mr.Roberto Álvarez and Mr. Guillermo E.Nielsen have atended the meeting of the Board online through videoconference.

Mr. Nasser Al Darei has submitted absence for leave due to justified professional reasons not revealing any discrepancy in terms of the approval of the accompanying financial statements.

The Secretary of the Board El Secretario del Consejo de Administración

Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.

NEGATIVE CLEARANCE ON ENVIRONMETNAL INFORMATION WITHIN THE FINANCIAL STATEMENTS

Company details:

GRUPO EMPRESARIAL SAN JOSE, S.A. and Subsidiaries

Registry details of the company:

Trade Registry of Pontevedra, Book 586, sheet 88, page 8119

TAX Id No: A36046993 ***Financial year:*** 2016

The undersigned, as Directors of the aforementioned Company, state that the accounting records of said Company for the accompanying financial statements issued on 187 sheets of paper, one-side document, do not include any entry which shall qualify as environmental information pursuant to Ministerial Order as of 8 October 2001.

Signature and name of the Directors:

ESTEFANÍA CALVO IGLESIAS
TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS
Nº 6427

Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.

Mr. Jacinto Rey González	Mr. Jacinto Rey Laredo
M . Sunil Kanoria	Mr. Enrique Martín Rey
Ms. Altina de Fátima Sebastián González	Mr. Ramón Barral Andrade
Mr. José Manuel Otero Novas	Mr. Roberto Alvarez Álvarez
Mr. Javier Rey Laredo	Mr. Nasser Homaid Salem Ali Aldarei
Mr. Guillermo E. Nielsen	

CALVO IGLESIAS
JURADA DE INGLÉS
Nº 6?27

Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.

CERTIFICATION

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 ninth of May, two thousand and seventeen

CERTIFICACIÓN

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 nueve de mayo de dos mil diecisiete

ESTEFANÍA CALVO IGLESIAS
TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS
Nº 6427

Estefanía Calvo Iglesias