Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2016 and 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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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.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Grupo Empresarial San José, S.A. (the Company), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Grupo Empresarial San José, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2.1 to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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 financial statements present fairly, in all material respects, the equity and financial position of Grupo Empresarial San José, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

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.
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Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.

Antonio Sánchez-Covisa Martín-González
28 February 2017

Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2016,
Management Report and
Independent Audit Report

Translation of report originally issued in Spanish based on our work performed in accordance with the audit regulation in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

BALANCE SHEET AS DECEMBER 31ST 2016 AND DECEMBER 31 ST 2015

(Thousand of Euros)

	31/12/2016	31/12/2015
NON-CURRENT ASSETS:		
Intangible assets (Note 5)	**5,488**	**6,097**
Property, plant and equipment (Note 6)	**439**	**424**
Investments in associates and joint ventures (Notes 7.1 y 14.2)	**117,597**	**115,062**
Equity Investments in associates	97,988	98,926
Loans to related companies	19,609	16,136
Other non-current financial assets	**135**	**789**
Deferred tax assets (Note 12.3)	**38,284**	**80,146**
TOTAL NON-CURRENT ASSETS	**161,943**	**202,518**
Trade and other receivables	**12,656**	**5,189**
Trade receivables for sales and services	-	117
Realetd companies receivables (Note 14.2)	10,749	5,014
Other current assets	37	44
Public admisnitrations (Note 12.1)	1,870	14
Investments in associates and joint ventures (Notes 7.2. y 14.2)	**11,660**	**20,310**
Other current financial assets (Note 8.1)	**5**	**12**
Short-term accruals	**-**	**131**
Cash and cash equivalents (Note 8.2)	**1,195**	**2,631**
TOTAL CURRENT ASSETS	**25,516**	**28,273**
TOTAL ASSETS	**187,459**	**230,791**

	31/12/2016	31/12/2015
EQUITY:		
Share capital	**1,951**	**1,951**
Issurance premium	**155,578**	**155,578**
Reserves	**167,412**	**167,412**
Legal and statutory	263	263
Otras reserves	167,149	167,149
Negative results from previous years	**(323,380)**	**(358,669)**
Profit for the year	**(41,659)**	**35,289**
TOTAL EQUITY (Note 9)	**(40,098)**	**1,561**
NON-CURRENT LIABILITIES		
Long-term provisions (Note 10.1)	**18,018**	**17,222**
Non-current bank borrowings (Note 11)	**104,663**	**102,389**
Deferred tax liabilities (Note 12.3)	**15,051**	**17,253**
TOTAL NON-CURRENT LIABILITIES	**137,732**	**136,864**
CURRENT LIABILITIES:		
Short-term provisions (Note 10.2)	**545**	**916**
Current bank borrowings (Note 11)	**98**	**98**
Payable to Group and associated companies (Note 14.2)	**84,520**	**87,168**
Trade and other payables	**4,662**	**4,184**
Trade payables (Note 15.1)	240	289
Suppliers Group ans associated companies (Note 14.2)	3,119	1,710
Staff, remuneration payable	991	978
Tax Payable (Note 12.1)	312	1,207
TOTAL CURRENT LIABILITIES	**89,825**	**92,366**
TOTAL EQUITY AND LIABILITIES	**187,459**	**230,791**

Notes 1 to 16 of the accopanying notes form an integral part of the income statement at 31 December 2016.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

INCOME STATEMENTS FOR YEARS 2016 AND 2015

(Thousand of Euros)

	Year 2016	Year 2015
CONTINUING OPERATIONS		
Revenue (Notes 13.1 and 14)	**133**	**448**
Provisions of services	133	448
Other operating income (Note 13.1)	**17,759**	**18,086**
Non-core and other current income	17,759	18,086
Staff costs	**(6,994)**	**(7,165)**
Wages and salaries	(5,909)	(6,203)
Social charges (Note 13.2)	(1,085)	(962)
Other operating expenses	**(7,961)**	**(9,158)**
Outside services (Note 13.4)	(7,923)	(8,313)
Tributes	(34)	(6)
Impairment losses and changes in provisions for trade	-	119
Other operating expenses	(4)	(958)
Depreciation and amortisation charge (Notes 5 and 6)	**(629)**	**(27)**
PROFIT FROM OPERATIONS	**2,308**	**2,184**
Finance income	**16**	**63**
In third	16	63
Finance costs	**(4,927)**	**(4,452)**
On debts to Group companies and associates (Note 19.1)	(2,627)	(2,349)
On debts to third parties (Note 14)	(2,300)	(2,103)
Impairment and gains or losses on disposal of financial instruments (Notes 7 a	**(1,735)**	**53,660**
FINANCIAL PROFIT	**(6,646)**	**49,271**
PROFIT (LOSS) BEFORE TAXES	**(4,338)**	**51,455**
Income Tax (Note 12.2)	(37,321)	(16,166)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(41,659)**	**35,289**
PROFITS / (LOSSES) OF THE YEAR	**(41,659)**	**35,289**

Notes 1 to 16 of the accopanying notes form an integral part of the income statement at 31 December 2016.

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TRADUCTORA - INTÉRPRETE JURADA DE INGLÉS
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GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2016 AND 2015
A) STATEMENTS OF RECOGNIZED INCOMES AND EXPENSES
(Thousand of Euros)

	Year 2016	Year 2015
PROFITS / (LOSSES) OF THE YEAR	(41,659)	35,289
Income and expenses recognised directly in equity		
-For cash flow hedges	-	-
-Tax effect	-	-
Total income and expenses recognized directly in equity	-	-
Transfer to income statement		
-For cash flow hedges	-	-
-Tax effect	-	-
Total Tranfers to profits and losses account	-	-
TOTAL RECOGNISED INCOMES / (EXPENSES)	(41,659)	35,289

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2016 AND 2015
B) STATEMENTS OF CHANGES IN EQUITY
(Thousand of Euros)

	Share capital	Issurance premium	Legal reserve	Voluntary reserves	Fusion reserve	Negative results previus years	Profit of the year	TOTAL
Balance at December 31, 2014	1,951	155,578	263	36,619	130,530	(253,181)	(105,488)	(33,728)
Distribution of profit for year 2014:								
-To negative results from previous years	-	-	-	-	-	(105,488)	105,488	-
Total recognized income/expenses year 2015	-	-	-	-	-	-	35,289	35,289
Balance at December 31, 2015	1,951	155,578	263	36,619	130,530	(358,669)	35,289	1,561
Distribution of profit for year 2015:								
-To negative results from previous years	-	-	-	-	-	35,289	(35,289)	-
Total recognized income/expenses year 2016	-	-	-	-	-	-	(41,659)	(41,659)
Balance at December 31, 2016	1,951	155,578	263	36,619	130,530	(323,380)	(41,659)	(40,098)

Notes 1 to 16 of the accopanying notes form an integral part of the statement of changes in equity at 31 December 2016

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GRUPO EMPRESARIAL SAN JOSÉ, S.A.

CASH FLOW STATEMENTS FOR YEARS 2016 AND 2015

(Thousand of Euros)

	31-12-2016	31-12-2015
Cash flows from operating activities:		
(+) Profit (Loss) before tax	(4,338)	51,455
(+) Depreciation and amortisation charge	629	27
(+/-) Changes in operating allowances	-	(119)
(-) Financial income	(149)	(511)
(+) Financial costs	4,927	4,452
(+/-) Other gains or losses	1,735	(53,660)
Total Cash Flows from operating activities	**2,804**	**1,644**
Other adjustments		
(-) Imcome tax paid in the year	(115)	223
(+/-) (Increase) / Decrease in working capital	(6,746)	(200)
(+/-) Other collections / (payments) due to operating activities	(371)	(633)
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**(4,428)**	**1,034**
Investments:		
(-) Property, plant and equipment and investment property	(33)	(15)
(-) Intangible assets	(2)	(1)
(-) Investments in related companies	(3,474)	(5,042)
(-) Shares and other financial assets	-	-
Total Investments	**(3,509)**	**(5,058)**
Disposals:		
(+) Shares and other financial assets	654	18
Total Disposals	**654**	**18**
Other collections / (payments) due to financing activities	**8,658**	**362**
2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	**5,803**	**(4,678)**
Increase / (decrease) in borrowings	**(2,647)**	**(605)**
Current	(2,647)	(605)
Net interests:	**(2,505)**	**(1,886)**
Received	149	511
Paid	(2,654)	(2,397)
Other collections / (payments) due to financial activities	**2,341**	**8,275**
3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES	**(2,811)**	**5,784**
TOTAL CASH FLOWS FOR THE YEAR	**(1,436)**	**2,140**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**2,631**	**491**
Changes in the year	**(1,436)**	**2,140**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,195**	**2,631**

Accompanying notes 1 to 16 to the Annual Report and Anex I, II and III form an integral part of the Cash Flow Statement fot year 2016.

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¡Error! No se encuentra el origen de la referencia.
Notes for the year ended 31 December 2016

1. Incorporation, legal framework and business activities

Incorporation

Grupo Empresarial San Jose, S.A. (hereinafter "the Company"), 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, Mr. 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.

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

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

Legal framework

The Company is governed by its by-laws, the Commercial Code, the Spanish Companies Law and other legislation applicable to companies of this type.

Activities

The Company, Parent of Grupo Empresarial San Jose and Subsidiaries (Grupo SANJOSE), has as main purpose the management and control of business activities developed by companies which is takes part in in a significant and lasting manner.

As of 20 July 2009, "Grupo Empresarial San Jose, S.A." was listed on the Spanish Stock Exchange Market.

The purpose of the Company is also the development of real estate property; construction activity, either personally or for another party, natural or legal people, under management, contract or any other regime, of all type of buildings and works.

Also, the Company 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.

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.

2. Basis of presentation of the Financial Statements

a) Legal framework

Financial statements have been prepared by the directors of the Company in compliance with applicable financial regulation set forth on:

i) Code of Mercantile Law and similar.

ii) Accounting Standard approved by Royal Decree 1514/2007 and adaptation for construction companies.

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iii) Compulsory regulations passed by the Audit and accounting Institute regarding the Accounting Standards and similar.

iv) Applicable Spanish regulation on the issue.

b) Fair view

These financial statements were prepared from the accounting records of the Company and are prepared in accordance with the accounting principles and rules in force, so that they show a true and exact image of the equity and financial situation of the company, changes in equity and cash flows occurred within the year. These financial statements, which were prepared by Directors of the company, will be subject to approval at the Shareholders' General Meeting are expected to be approved without any changes. As far as they are concerned, the financial statements for year 2015 were approved by the Ordinary General meeting of Shareholders held on 23 June 2016, and recorded at the Trade Registry of Pontevedra.

c) *Responsibility for the information and use of estimates*

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

- The assessment of potential impairment losses of certain assets (see Notes 4.c and 4.d).
- The useful life of the intangible assets, materials and goodwill (see Notes 4.a and 4. b).
- The fair value of certain non-listed assets (see Note 4.d).
- The amount of certain provisions (see Note 4.g and 4.h).
- The assessment of credit recovery feasibility (see Notes 4.e and 12.3).
- Management of financial risk (Note 8.2)

d)*Non-compulsory accounting principles applied*

Directors prepare the accompanying financial statements in accordance with all applicable accounting regulations and standards. All mandatory accounting principles have been applied.

e) *Associated items*

Certain items of the accompanying balance sheet, income statement, changes in equity and changes in cash flow statements are associated in groups in order to help their understanding; in the event of significant information, breakdown of the same has been included within the accompanying notes.

f) *Comparative information*

Information recorded on the financial statements for year 2015 is provided for comparison purposes only with that provided as of the year ended 31 December 2016. Yet, it is important to highlight that in December 2016, Royal Decree 602/2016, on 2 December, on the amendment of the Accounting Plan passed by Royal decree 1514/2007, on 16 November, was approved. Said Royal Decree 602/2016 is applicable to years starting as from 1 January 2016.

Regarding the amortisation of goodwill and property, plant and equipment with an indefinite useful life, the Company has applied the new amortisation criteria set forth on regulations on a prospective basis as from the beginning of 2016 to the value in Books of goodwill existing at the end of the previous year. The amortisation charge under this item in the accompanying income statement for year 2016 amounted to EUR 610 thousand (see Note 5).

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g) *Working capital and assets*

As shown in the accompanying balance sheet as of 31 December 2016 and 2015, the Company has at said date a negative working capital amounting to EUR 64,309 thousand and EUR 64,093 thousand, respectively, as current assets are less than current liabilities.

Director of the Company do not expect difficulties to face payments of debts at maturity dates. In this regard, it should be noted that the main current liability is debt to Group companies, as the Company is the parent of a Tax Group (see Note 4.e), and the Company's current financial account signed with them (see Note 14.2).

At 31 December 2016, the parent records a negative net equity amounting to EUR 40,098 thousand. However, it is not in the situation of asset imbalance pursuant to art. 327 and 363 of the Companies Act to the extent that it records an equity loan amounting to EUR 104,663 thcusand (see Note 11.2), received from creditor financial institutions in order to strengthen its financial position.

h) *Consolidation*

The Company is head of the group of dependent companies and associated (see Note 7), which issue separate financial statements. Consolidated financial statements for year 2016 have been prepared by the Directors of the Company, as well as the accompanying statements, in compliance with International Financial Regulations and Standards as adopted by the UE, the EC No 1606/2002 (hereinafter, "NIIF-UE"). Consolidated financial statements for year ended 31 December 2012 were approved on at the Shareholders' Annual Meeting held on 23 June 2016 and registered at the Register of Companies of Pontevedra

The accompanying financial statements do not show changes in value arising from the consolidations of financial statements with associated.

Main items of the consolidated financial statements of the Company are as follows:

	Thousands of Euros
Share capital and issuance rights	157,529
Reserves and equity attributed to the Parent	(211,537)
Net profit/(loss) for the year attributable to the Parent	10,082
Total assets	1,022,619
Turnover	613,394

3. Distribution of profit

Parent Company Directors will propose to the General Shareholders' Meeting the application of 2016 losses with a charge to "Prior years' losses", for an amount of EUR 41,659 thousand, to offset the profits the Parent Company generates in the future.

4. Accounting principles and measurement basis

Main accounting principles and measurements used in the preparation of the accompanying financial statements for year 2016 and 2015 pursuant to Spanish National Chart of Accounts are as follows:

a) *Intangible assets*

Intangible assets are recognised initially at acquisition or production cost. Subsequently they are measured at cost less any accumulated amortisation and any accumulated impairment losses. according to criteria set out by Note 4.c. Amortisation depends on useful life of assets. When the useful life of these assets cannot be qualified in a feasible way, they are amortised in a 10-year term.

Goodwill:

Goodwill is the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill is allocated to each cash-generating unit and is not subject to amortisation. Subsequent to the initial recognition, goodwill is assessed at acquisition price less accumulated amortisation, and, if applicable, the accumulated amount of assessment correction for recognised impairment.

Goodwill is amortised during its useful life, in an independent way for each cash-generating unit. The Company amortises goodwill in a ten-year term.

Said cash generating units, on the other hand, are subject to impairment test on an annual basis in order to record the valuation correction.

Valuation write-down due to impairment loss is not derecognised in subsequent years

<u>Computer software:</u>

The Company recognises under this item all costs incurred in the acquisition and development of computer programmes and software, event those regarding web site update and maintenance. Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred. Computer software is amortised on a straight-line basis over three years from the entry into service of each application.

b) Property, plant and equipment

Items of property, plant and equipment are recorded at acquisition or production cost, revalue, where appropriate, pursuant to the applicable legislation and in compliance with criteria set forth on Note 4.c, less any accumulated depreciation and any recognised impairment losses.

Upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred. On the other hand, 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.

The depreciation of property, plant and equipment is carried out using the straight-line method, based on the operational conditions of the assets or the acquisition of the asset, based on the estimated useful lives of each element or group of elements, according to the following detail:

Description	Years
Other items of property, plant and equipment	3 – 8

c) Asset impairment

At the end of each year or whenever it is deemed necessary, the Company analyses the value of assets through the so-called "Impairment Test" in order to determine whether there is any indication that these assets have suffered an impairment loss which may have reduced its accounting value.

Recoverable amount is the higher of fair value less costs to sell and value in use.

Recoverable amounts for cash-generating units, and items of property, plant and equipment, are analysed, when possible, on an individual basis.

Projections are prepared by the management of the Company on the basis of past experience and based on the best available estimates, which are consistent with information from abroad.

In the event that an impairment loss is recognized for a cash-generating unit to which all or part of a goodwill has been allotted, the carrying amount of the goodwill corresponding to that unit is reduced first. If the impairment exceeds the amount of this, secondly, in proportion to its value in books, the other assets of the cash-generating unit are reduced, up to the limit of the greater of the following: its fair value less costs of sale, its value in use or zero

When an impairment loss is derecognised in subsequent periods (event not possible for goodwill), the carrying amount of said cash generating units is increased in the same quantity as the estimated realisable value, yet carrying amount may never exceed initial carrying amount. The derecognising of an impairment write-down is recorded as income.

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d) 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.

On the other hand, financial derivatives (financial instruments whose value changes in response to changes in an observable market variable such as an interest rate, exchange rate, the price of a financial instrument or a market index whose initial investment is very small in relation to other financial instruments with a similar response to changes in market conditions, and is generally settled at a future date), are generally recorded on the date of hiring.

Trade payables, which are not interest bearing, are stated at their face value. Nonetheless, a provision is provided for impairment losses on trade accounts receivable when there is objective evidence that the amounts receivable will be irrecoverable.

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.

The Company has applied to financial instruments the following assessment regulations:

Financial Assets

Financial assets are initially recorded at acquisition cost, including operation costs. Financial assets are classified into the following categories:

- 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.

- Equity instruments issued by Companies of the Company, associated and multi-groups: being classified as companies of the Group those managed and/or controlled directly or their management by the Company itself. In addition to this, multi-group companies include those companies incorporated by means of an agreement and which imply joint management, by the partners.

For the purpose of presentation of the financial statements, it will be assumed that another company belongs to the Group if they constitute a single decision-making unit under the terms laid down in Article 42 of the Code of Commerce.

Initial recognition

Financial assets are, in general terms, measured at fair value plus direct costs incurred.

As from 1 January 2010, fees paid up to legal advisers or independent professionals as a result of investments in equity of companies of the Group are recognised at the income statement.

Subsequent recognition

Loans, receivables and held-to-maturity-investments are recognised in net profit or loss for the year.

Investments in group, associated and multi-group companies are valued at their cost, with any applicable cumulative sum of valuation corrections through impairment deducted. These corrections are calculated as the difference between the book value and the recoverable sum, the latter understood as whichever is the greater of the fair value less the costs of sale and the current value of the future cash flows derived from the investment. In the absence of any better evidence regarding the recoverable sum, consideration is given to the net worth of the company in which the stake is held, corrected in accordance with the tacit surpluses in existence on the date of valuation (including any commercial goodwill).

Financial assets not recognised at fair value are analysed at the end of each reporting period. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference. Impairment is charged to the income statement.

Financial liabilities and net equity

Financial liabilities and equity instruments are classified in accordance with the content of the contractual arrangements. An "equity instrument" is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Parent are recognised in consolidated equity at the proceeds received, net of direct issue costs.

The main financial liabilities held by the Group are held-to-maturity financial liabilities, which are measured at amortised cost.

Loans and bank credits, that accrue interests, 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 generally stated at their face value.

e) Income tax

"Grupo Empresarial San José S.A." and all Spanish subsidiaries which it holds a stake equal to or greater than 75%, are taxed on Corporate Income Tax under the Consolidated Income Statement since 2006.

Corporate income tax expense is calculated on the economic outturn, amendment, as the case may be, for permanent differences arising with respect to taxable income and that do not recur in subsequent periods.

Credits for deductions and bonuses generated are deducted from the individual accrued tax provided that their application is made by the Tax Consolidation Group in the year.

Credits for deductions and bonuses and credits for individual negative tax bases, prior to the incorporation of the company to the Tax Consolidation Group, are recorded whenever their future realisation is reasonably assured.

Differences between the individual taxable income and the pre-tax income for the year, derived from the different temporary imputation criteria used to determine both amounts and which may be reversed in subsequent periods, are recorded as prepaid income tax or deferred income tax, as appropriate.

Differences arising from the application of the Consolidated Taxation Tax Regime, to the extent that they can be reversed in case of modification of the application of said regime, are recorded as prepaid taxes or deferred taxes for consolidation.

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.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Comercial Udra, S.A.U.
- Udramedios, S.A.U.
- Cadena de Tiendas, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U.
- Vision King, S.A.U.
- Running King, S.A.U.
- Enerxías Renovables de Galicia, S.A.

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- Xornal de Galicia, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneració Parc de L´Alba ST-4, S.A.
- Xornal Galinet, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

f) Revenue and expenditure

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. Revenue is measured at the fair value of the consideration received or receivable, t of discounts, VAT and other sales-related taxes.

1. 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.

2. The interest received on financial assets is acknowledged in accordance with the effective rate of interest and the dividends, when the right of the shareholder to receive dividends is declared. In any event, interest and dividends on financial assets accrued subsequent to the time of acquisition are recognised as revenue in the profit and loss account.

3. Dividends received are recognised on accrual date. According to Enquiry 2 published in Bulletin 79 of the Institute of Accounting and Audit of Accounts (ICAC), both the dividends received and the financial income accrued for Group companies are recorded under item "Net revenue" in the accompanying income statement.

g) Provisions and contingencies

When preparing the financial statements, the Directors of Company made a distinction between:

a) 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.

b) 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.

Financial statements include all the material provisions whose obligation to be settled is considered to be more likely. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed on explanatory notes to the same.

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.

As of 31 December 2016, the Company has recorded provisions for risks and expenses, which are intended to cover possible contingencies arising from the holding of financial investments (see Note 10.1).

h) Termination benefits

In accordance with current legislation, the Company is obliged to pay compensation to those employees who, under certain circumstances, have their employment contracts terminated. Compensation for redundancy liable to objective quantification is registered as an expense for the financial year in which the decision concerning the redundancy is taken. Directors of the Company consider that, as of 31 December 2016, any contingencies that may arise on this basis are duly provisioned.

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i) Transactions with associates

The Company undertakes all operations with associated companies at market values. In addition, the prices of transfer are borne appropriately, and the Company Directors do not therefore believe there are any significant risks in this regard of any substantial liabilities arising in the future.

j) Treasury shares

Equity instruments issued by the Company are recognised in consolidated equity at the proceeds received, net of direct issue costs.

The Company's own shares acquired during the year are recorded, directly at the value of the consideration given in exchange, as a lower value of Net Equity. The results of the purchase, sale, issuance or amortisation of equity instruments are recognised directly in equity, without in any case registering any result in the Income Statement.

As 31 December 2016 and 2015, the Company does not have treasury shares. Likewise, no transactions involving treasury shares were carried out during years 2016 and 2015 (see Note 9.5).

k) Environmental issues

Due to the nature of the activity performed by the Company, the Company does not incur into expenses or have any assets or liabilities of environmental nature.

l) Current and non-current items

Current assets are those linked to the normal operating cycle, usually a one year period, also those assets whose maturity, disposal or realisation is expected to occur in the short term from the end of the year, financial assets held for trading, with the exception of financial derivatives whose settlement period is greater than a year, and cash and cash equivalents. Assets not fulfilling these requirements are qualified as non-current.

Likewise, current liabilities are those linked to the normal operating cycle, financial liabilities held for trading, with the exception of financial derivatives whose settlement period is greater than a year, and in general all liabilities whose maturity or extinction will occur in the short term. Otherwise, they qualify as non-current.

m) Cash flow statement

The following terms are used in the consolidated cash flow statement:

- Cash flows: input and output of cash and cash equivalents, as well as short-term investments with high liquidity and low risk.

- Operating activities: the principal revenue-producing activities of the Group and other activities than investing or financing.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- 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. a) Intangible assets

Breakdown of this item for years 2016 and 2015, is as follows:

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Year 2016:

	Thousands of Euros			
	Balance at 31-12-2015	Additions / (Provisions)	Disposals	Balance at 31-12-2016
Cost:				
Goodwill	6,095	-	-	6,095
Computer software	133	2	-	135
Total Cost	**6,228**	**2**	-	**6,230**
Accumulated amortisation:				
Goodwill	-	(610)	-	(610)
Computer software	(131)	(1)	-	(132)
Total Accumulated Amortisation	**(131)**	**(611)**	-	**(742)**
Net Cost	**6,097**	**(609)**	-	**5,488**

Year 2015:

	Thousands of Euros			
	Balance at 31-12-2014	Additions / (Provisions)	Disposals	Balance at 31-12-2015
Cost:				
Goodwill	6,095	-	-	6,095
Computer software	132	1	-	133
Total Cost	**6,227**	**1**	-	**6,228**
Accumulated amortisation:				
Computer software	(130)	(1)	-	(131)
Total Accumulated Amortisation	**(130)**	**(1)**	-	**(131)**
Net Cost	**6,097**	-	-	**6,097**

The Company has recorded in its balance sheet a goodwill amounting to EUR 6,095 thousand, associated to the stake in "Constructora San José, S.A.", which is the main Cash Generating Unit (CGU) of Grupo SANJOSE, of which the Company is Parent Company.

In order to proceed with its amortisation, the Company estimates a 10-year useful life, and a linear recovery according to a prospective approach, as of 1 January 2016. Further, the directors of the Company carry out regular reviews of the recovery of this asset, according to expected flows pursuant to the business plan of the Group. At 31 December 2016, no impairment is recorded under this item.

The cost of the assets fully amortised at 31 December 2016 and 2015 amounts to EUR 132 thousand.

6. Property, plant and equipment

Breakdown of this item for years 2016 and 2015, is as follows:

Year 2016:

	Thousands of Euros			
	Balance at 31-12-2015	Additions / (Provisions)	Disposals	Balance at 31-12-2016
Cost:				
Other items of property, plant and	1,225	33	(1)	1,257
Total Cost	**1,225**	**33**	**(1)**	**1,257**
Accumulated amortisation:				
Other items of property, plant and	(801)	(18)	1	(818)
Total Accumulated Amortisation	**(801)**	**(18)**	**1**	**(818)**
Net property, plant and equipment	**424**	**15**	**-**	**439**

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Year 2015:

	Thousands of Euros		
	Balance at 31-12-2014	**Additions / (Provisions)**	**Balance at 31-12-2015**
Cost:			
Other items of property, plant and	1,210	15	1,225
Total Cost	**1,210**	**15**	**1,225**
Accumulated amortisation:			
Other items of property, plant and	(775)	(26)	(801)
Total Accumulated Amortisation	**(775)**	**(26)**	**(801)**
Net property, plant and equipment	**435**	**(11)**	**424**

This item includes mainly equipment for the treatment of information.

Carrying net cost at 31 December 2016 and 2015 amounts to EUR 760 thousand and EUR 758 thousand, respectively.

It is the policy of the Company to take out insurance policies in order to cover any such possible risks as may affect tangible fixed asset items. Directors considered current insurance to be enough and sufficient.

7. Group companies and associates

7.1 Long-term investments in Group companies and associates

Breakdown of this item of the accompanying balance sheet at 31 December 2016 and 2015, as well as main movement under said item, is as follows:

Year 2016:

	Thousands of Euros			
	Balance at 31-12-2015	**Additions**	**Disposals**	**Balance at 31-12-2016**
Equity instruments				
Cost	103,748	1	-	103,749
Impairment	(4,822)	(939)	-	(5,761)
	98,926	(938)	-	97,988
Granted loans and credits	16,136	3,473	-	19,609
Total	115,062	2,535	-	117,597

Year 2015:

	Thousands of Euros			
	Balance at 31-12-2014	**Additions**	**Disposals**	**Balance at 31-12-2015**
Equity instruments				
Cost	123,942	6	(20,200)	103,748
Impairment	(5,600)	(3)	781	(4,822)
	118,342	3	(19,419)	98,926
Granted loans and credits	11,100	5,036	-	16,136
Total	129,442	5,039	(19,419)	115,062

During 2016, no significant changes have been recorded under "Investments in Group companies and associates". The Company has recorded an impairment associated to financial investments for EUR 939 thousand, justified by the loss recorded in these companies in 2016, which are mainly derived from adjustments and regularisation of tax assets carried out as a consequence of changes performed in 2016 within the tax regulatory framework in Spain.

On 30 June 2015, as part of the financial debt restructuring agreements signed on 30 December 2014 (see Note 11.2), the Company fully sold its interest in "Desarrollos Urbanísticos Udra, S.A.U." to "Constructora San José, S.A.", amounting to EUR 75 million, resulting in a positive result amounting to EUR 54,800 thousand, recorded under "Impairment and profit/(loss) from the disposal of financial instruments" in the income statement for year 2015.

Additions recorded under "Loans to Group companies" in 2016 relate to the increase in the number of participating loans that the Company has granted to its subsidiaries "Udramedios, S.A.U." and "San José Energía y Medio Ambiente, S.A.U. ", in order to strengthen the financial position of these companies.

Detail of stake in Group companies, as well as of credits and loans granted as of 31 December 2016 and 2015, is as follows:

Year 2016:

	Ownership %		Thousands of Euros				
			Net carrying amount of the stake				
	Direct	Indirect	Cost	Impairment for the year	Accumulated impairment	Net Cost	Long-term loans (*)
Group companies:							
Constructora San José, S.A. (a)	99.79%	-	92,510	-	-	92,510	-
San José Concesiones y Servicios, S.A.U. (b)	100.00%	-	2,446	-	-	2,446	-
San José Energía y Medio Ambiente, S.A.U. (b)	100.00%	-	4,039	(931)	(2,970)	1,069	3,525
Enerxías Renovables de Galicia, S.A (b)	25.00%	75.00%	662	(5)	(533)	129	-
Cadena de Tiendas, S.A.U. (b)	100.00%	-	60	-	-	60	-
Comercial Udra, S.A.U. (b)	100.00%	-	1,748	-	-	1,748	-
Constructora Udra Limitada (a)	7.00%	69.85%	25	-	-	25	-
SJB Müllroser Baugesellschaft GmbH (b)	100.00%	-	730	-	(730)	-	-
Udra Medios, S.A.U. (b)	100.00%	-	1,500	-	(1,500)	-	14,100
Xornal de Galicia. S.A. (b)	-	92.73%	-	-	-	-	1,981
Udra Mexico S.A. de C.V. (c)	0.0874%	99.9126%	26	-	(25)	1	-
GSJ Solutions, S.L.U.	100%	-	3	(3)	(3)	-	3
TOTAL			**103,749**	**(939)**	**(5,761)**	**97,988**	**19,609**

(a) Companies audited by Deloitte, S.L.

(b) Non-audited companies

(c) Companies audited by other auditors

(*) At 31 December 2016, "Credits and Loans granted" amounts to EUR 19,609 thousand, corresponding mainly to participating loans granted by the Company to its investees. These loans bear variable interest rates according to the performance of said investees (see Note 14).

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

	Ownership %		Thousands of Euros				
			Net carrying amount of the stake				Long-term loans (*)
	Direct	Indirect	Cost	Impairment for the year	Accumulated impairment	Net Cost	
Group companies:							
Constructora San José, S.A. (a)	99.79%	-	92,510	-	-	92,510	-
San José Concesiones y Servicios, S.A.U. (b)	100.00%	-	2,446	-	-	2,446	-
San José Energía y Medio Ambiente, S.A.U. (b)	100.00%	-	4,039	708	(2,039)	2,000	2,725
Enerxías Renovables de Galicia, S.A (b)	25.00%	75.00%	662	73	(528)	134	-
Cadena de Tiendas, S.A.U. (b)	100.00%	-	60	-	-	60	-
Comercial Udra, S.A.U. (b)	100.00%	-	1,748	-	-	1,748	-
Constructora Udra Limitada (a)	7.00%	69.85%	25	-	-	25	-
SJB Müllroser Baugesellschaft GmbH (b)	100.00%	-	730	-	(730)	-	-
Udra Medios, S.A.U. (b)	100.00%	-	1,500	-	(1,500)	-	11,450
Xornal de Galicia. S.A. (b)	-	92.73%	-	-	-	-	1,961
Udra Mexico S.A. de C.V. (b)	0.34%	99.66%	25	(3)	(25)	-	-
GSJ Solutions, S.L.U.	100%	-	3	-	-	3	-
TOTAL			**103,748**	**778**	**(4,822)**	**98,926**	**16,136**

(a) Companies audited by Deloitte, S.L.

(b) Non-audited companies

(*) At 31 December 2015, "Credits and Loans granted" amounts to EUR 16,136 thousand, corresponding mainly to participating loans granted by the Company to its investees. These loans bear variable interest rates according to the performance of said investees (see Note 14).

Additionally, at 31 December 2016 and 2015 the Company records a provision for EUR 18,018 thousand and EUR 17,222 thousand, respectively, under the item "Long-term provisions" as non-current liabilities within the balance sheet, devoted to potential contingencies of Group companies (see Note 10.1).

The most significant information regarding investees in which the Company takes part, at 2016 and 2015 year-end, is as follows:

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Year 2016:

			Thousand of Euros (*)				
				Profit/ (Loss) for the year			
			Capital and issuance fee	from operations	for Year	Remaining net equity	Total net equity
Group companies:							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalía de Castro, 44 (Pontevedra)	8,076	2,897	2,273	104,405	114,754
GSJ Solutions, S.L.U.	Engineering services	Ronda de Poniente, 11 – Tres Cantos (Madrid)	3	(45)	(35)	(3)	(35)
San José Concesiones y Servicios, S.A.U.	Provision of healthcare and social services	Rosalía de Castro, 44 (Pontevedra)	2,446	(123)	(93)	(227)	2,126
San José Energía y Medio Ambiente, S.A.U.	Construction, provisions of services and management of energy contracts	Ronda de Poniente, 11 – Tres Cantos (Madrid)	4,039	(392)	(1,169)	(3,679)	(809)
Cadena de Tiendas, S.A.U.	Storage, distribution and sale of goods	Rosalía de Castro, 44 (Pontevedra)	60	(1)	(98)	710	672
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured products	Rosalía de Castro, 44 (Pontevedra)	4,181	413	2,833	1,256	8,270
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1° de Dezembro, 12-14 - Monçào (Portugal)	350	855	637	5,494	6,481
SJB Müllroser Baugesellschaft GmbH	Construction.	Gewerparkrinh, 1315299 Mullroser. Germany	625	(26)	(28)	(5,703)	(5,106)
Enerxias Renovables de Galicia, S.A.	Production and trade of electric energy by renewable energy resources	Rosalía de Castro, 44 (Pontevedra)	2,649	(992)	(801)	(1,331)	517
Udra Medios, S.A.U.	Edition, production, reproduction and release of books, newspapers, magazines and video	Rosalía de Castro, 44 (Pontevedra)	1,500	(12)	(3,128)	(11,447)	(13,075)
Udra Mexico S.A. de C.V.	Holding company	Miravalle, Mexico	1,582	126	(609)	(21)	952

(*) Data from individual financial statements of each associate.

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Year 2015:

			Thousand of Euros (*)				
				Profit/ (Loss) for the year			Total net equity
			Capital and issuance fee	from operations	for Year	Remaining net equity	
Group companies:							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalia de Castro, 44 (Pontevedra)	8,076	9,775	3,670	100,735	112,481
GSJ Solutions, S.L.U.	Engineering services	Ronda de Poniente, 11 – Tres Cantos (Madrid)	3	(4)	(3)	-	-
San José Concesiones y Servicios, S.A.U.	Provision of healthcare and social services	Rosalía de Castro, 44 (Pontevedra)	2,446	(238)	(246)	19	2,219
San José Energía y Medio Ambiente, S.A.U.	Construction, provisions of services and management of energy contracts	Ronda de Poniente, 11 – Tres Cantos (Madrid)	4,039	(362)	(1,339)	(2,340)	360
Cadena de Tiendas, S.A.U.	Storage, distribution and sale of goods	Rosalia de Castro, 44 (Pontevedra)	60	(2)	7	703	770
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured products	Rosalia de Castro, 44 (Pontevedra)	4,181	-	(99)	1,356	5,438
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1º de Dezembro, 12-14 - Monção (Portugal)	350	1,021	551	3,451	4,352
SJB Müllroser Baugesellschaft GmbH	Construction.	Gewerparkrinh, 1315299 Mullroser. Germany	625	(7)	(7)	(3,727)	(3,109)
Enerxias Renovables de Galicia, S.A.	Production and trade of electric energy by renewable energy resources	Rosalia de Castro, 44 (Pontevedra)	2,649	(938)	(701)	(629)	1,319
Udra Medios, S.A.U.	Edition, production, reproduction and release of books, newspapers, magazines and video	Rosalia de Castro, 44 (Pontevedra)	1,500	(14)	(2,195)	(9,252)	(9,947)
Udra Mexico S.A. de C.V.	Holding company	Miravalle, Mexico	1,887	(231)	(1,455)	176	608

(*) Data from individual financial statements of each associate.

None of the associates is listed on the stock exchange market at 31 December 2016 and 2015.

7.2 Long-term investments in Group companies and associates

The balance of "Investments in Group companies and associates in the short term" corresponds mainly to current account financial contracts maintained by the Company with Group companies, which accrue interest at Euribor plus a market spread. Breakdown for associates at 2016 and 2015 year-end is detailed on Note 14.2.

In addition, due to the fact that the Company is the head of the consolidated tax group, this item of the balance sheet includes the debit position vis-à-vis the various companies that make up the tax group, for a total amount of EUR 3,745 thousand and EUR 11,662 thousand at 31 December 2016 and 2015, respectively, corresponding to the amount to be paid as corporate income tax of Group companies that are included in the tax perimeter (see Notes 12 and 14.2).

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8. Short-term financial investment and cash and cash equivalents

8.1 Short-term financial investments

At 31 December 2016 and 2015, the balance of this item amounts to EUR 5 and EUR 12 thousand, respectively, and mainly corresponds to short-term levies granted by the Company.

8.2 Cash and cash equivalents

"Cash and Cash Equivalents" includes the company's cash and short-term deposits with an original maturity of three months or less. Net carrying value is similar to fair value, without restriction on their availability.

Information on the nature and level of risk of financial instruments

The management of financial risks of the Company is centralised in the Group's Financial Management, which has established the necessary mechanisms to control the exposure to changes in interest rates and exchange rates, as well as to credit and liquidity risks. Main financial risks which may have a potential impact on the Company are as follows:

a) Credit risk

The Company 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 company'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 Company's credit risk is mainly attributable to trade receivables of Group companies. 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 Company does not have a significant concentration of credit risk, being its exposure concentrated in Group companies and associates, and therefore the credit risk associated to the activity of these companies.

The Company 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.

b) Liquidity risk

The Company forms part of the centralised treasury system of Grupo SANJOSE and has available short-term syndicated credit facilities of the Group, being able to obtain liquidity if necessary. The Group's liquidity policy consists of the arrangement of committed credit facilities and current financial assets for sufficient amounts to cater for the projected liquidity needs for a given period based on the situation and prospects of the debt and capital markets.

On 30 December 2014, Grupo SANJOSE signed non-terminating amendments to the syndicated debt of the Group in Spain, entering new conditions to accommodate repayment terms of the same to the Group's generation of flows.

c) Market risk (including interest rate risk and other price risks):

- Interest rate risk: Both the treasury and the financial debt of the Company are exposed to interest rate risk, which could have an adverse impact on financial outcome and cash flows. In order to minimise this impact, the Company's policy is to contract derivative financial instruments to hedge interest rates. At 31 December 2016, since most of the funding of the Company is repaid on a fix interest rate (see Note 11.2.b), there are no derivative financial instruments.

- Exchange rate risk: the Company does not bear at 31 December 2016 any positions in other currency than in Euro. Likewise, there are no coverage contracts for exchange rates. Its currency exposure corresponds mainly to its stake in group companies operating in markets with a currency other than the Euro (see Note 7.1). The Group's policy is that funding of these units, if applicable, would be in local currency.

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9. Net equity

9.1 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 mean quote for the last quarter of 2013 and 2015 has been EUR 3.23 and EUR 3.04 for year 2016 and EUR 0.92 and 0.90 for year 2011, respectively.

At 31 December 2016, the only shareholder with a stake exceeding 10% in the share capital of the Company was Mr. Jacinto Rey González, with a direct and effective participation of 24,952% and 48.292%, respectively

On 30 December 2014, the Group has entered into with a majority of the creditor banking entities a novation agreement of its syndicated credit loan in Spain, pursuant to which it commits to issue Warrants for 35% of its social capital, whose execution shall depend on the level of performance of the Group of the amortisation of the participating loan granted as on said date, for a total amount of EUR 100 million. The General Meeting of Shareholders at its meeting held on 24 June 2015, resolved to issue the above-mentioned warrants (see Note 11.2).

9.2 Issuance rights

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

9.3 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. At year-end 2016 the legal reserve has not been fully provided.

9.4 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 11.2), in addition to the above-mentioned ones regarding goodwill reserve.

9.5 *Treasury shares*

At 31 December 2016 and 2015 the Company did not hold any treasury shares neither had executed transactions with treasury shares during 2016 and 2015.

9.6 *Goodwill reserves*

Pursuant to provisions established under Art, 273 of the Spanish Companies Act, up to 2015, a restricted reserve equal to goodwill recorded under the assets of the balance sheet, should be recorded amounting to at least five per cent of the amount of said goodwill.

At 31 December 2016 and 2015, said reserve amounted to EUR 762 thousand and was recorded under "Voluntary Reserve" under net equity. Since the net book value of goodwill recorded at 31 December 2016 is greater, the goodwill reserve is qualified as a restricted reserve at said date.

9.7 *Equity*

At 31 December 2016, the Company records a negative net equity amounting to EUR 40, 098 thousand. However, the Company is not in the situation of asset imbalance pursuant to provisions under Art. 327 of the Companies Act to the extent that it records an equity loan amounting to EUR 104,663 thousand (see Note 11.2), received from creditor financial institutions in order to strengthen its financial position.

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According to provisions under Article 20 of Royal Decree- Law 7/1996, on 7 June, participating loans are qualified as net equity as far as the calculation of minimum amounts for capital reduction and settlement of companies are concerned.

10. Provisions and contingencies

10.1 Long-term provisions

The details of long-term provisions under the balance sheet at 2016 y 2015 year-end, as well as main movements during years 2016 and 2015, are as follows:

Year 2016:

	Thousand of Euros		
	Balance at 31-12-2015	Additions	Balance at 31-12-2016
Provision for risks and expenses	17,222	796	18,018
Total	**17,222**	**796**	**18,018**

Year 2015:

	Thousand of Euros		
	Balance at 31-12-2014	Additions	Balance at 31-12-2015
Provision for risks and expenses	15,304	1,918	17,222
Total	**15,304**	**1,918**	**17,222**

This item mainly includes provisions provided by the Company in order to cover possible contingencies arising from the holding of financial investments with negative equity, in addition to the impairment of own shares that may be recorded to date (see Note 7.1). Breakdown, by associate, is as follows:

	Thousand of Euros	
	Balance 31-12-2016	Balance 31-12-2015
SJB Müllroser Baugesellschaft mbH	5,106	5,078
Udra Medios, S.A.U.	12,877	12,144
GSJ Solutions, S.L.	35	-
Total	**18,018**	**17,222**

10.2 Short-term provisions

At 31 December 2016 and 2015, the Company has short-term provisions amounting to EUR 545 thousand and EUR 916 thousand, respectively, in order to meet contingencies arising from its activity.

10.3 Contingences

The Directors of the Company do not consider any liability arising in connection to the committed guarantees. in addition to those recorded in the accompanying financial statements at 31 December 2016.

11. Financial debt

Breakdown of this item, is as follows:

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Year 2016:

	Thousands of Euros		
	Other financial liabilities with changes in income statement	**Debts and accounts payable**	**Total**
Syndicated loan (Note 11.2)	-	104,663	**104,663**
Total non-current liabilities	-	**104,663**	**104,663**
Other financial liabilities (Note 11.1)	-	98	**98**
Total current financial liabilities	-	**98**	**98**

Year 2015:

	Thousands of Euros		
	Other financial liabilities with changes in income statement	**Debts and accounts payable**	**Total**
Syndicated loan (Note 11.2)	-	102,389	**102,389**
Total non-current liabilities	-	**102,389**	**102,389**
Other financial liabilities (Note 11.1)	-	98	**98**
Total current financial liabilities	-	**98**	**98**

11.1. Other financial liabilities

"Other financial liabilities" corresponds mainly to financial current accounts with Shareholders, Senior Management and other employees of the Group, which bear a market interest rate referenced to Euribor, and whose maturity is renewed annually tacitly (see Note 14.2).

11.2. Syndicated credit facilities

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. This involved the novation of the syndicated credit facilities signed in April 2009, as well as a set of funding bilateral contracts: 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:

Stretch A: for a total amount of EUR 250 million and having a maturity of five years, renewable for another year (provided certain terms are satisfied), with a progressive payment schedule; At 31 December 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:

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

Quarterly settlement of accrued financial interest.

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

- Trade and financial discount tranche amounting to EUR 49 million
- A "confirming" stretch amounting to EUR 28.8 million.
- Tender and performance bonds 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: additional credit facilities for the call of bonds amounting to EUR 10 million.

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

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

The Directors of the Company 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 during the last year and a variable term according to the Groups results, with a 5-year bullet maturity, while being released from the guarantees granted pursuant to the previous financing agreement.

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

The part of this contract not attended at maturity shall be converted into shares of Grupo San José with a limit of 35% of total social capital of the company. This transaction has been materialised through the emissions of warrants approved at the Shareholders' Meeting of "Grupo Empresarial San José, S.A" held on 24 June 2015. Said warrants entitle holders the right to subscribe newly issued shares of Grupo San José by offsetting credit claims which were pending repayment at maturity date (including capitalised interest).

Conversion shall take place at market price of shares of Grupo San José by reference to the weighted average price of the previous 20 sessions prior to the maturity date (see Note 12.1). 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.

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

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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.

12. Taxation

The Company is subject to the Tax Consolidation Regime under reference number 002/06, being the Parent of the tax group.

12.1. Tax receivables and payables

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

	Thousands of Euros	
	31-12-2016	31-12-2015
Current assets:		
VAT receivables	1,741	-
Income tax receivables	129	14
Total	1,870	14

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

	Thousands of Euros	
	31-12-2016	31-12-2015
Current liabilities:		
VAT payables	-	885
Persona income payables	233	243
Social Security payables	79	79
Total	312	1,207

On 1 January 2012, the Company together with most of its subsidiaries, representing 50%, and several JVs agreed on submitting joint VAT declaration as a Group under the general regime, under reference number 111/12.

12.2. Reconciliation of the accounting profit/(loss) and taxable base

The reconciliation of the accounting profit/(loss) and the taxable base for income tax purposes for year 2016 and 2015, is as follows:

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	Thousands of Euros	
	2016	**2015**
Profit/(Loss) before tax	(4,338)	51,454
Permanent differences		
Increase	2,730	144,898
Decrease	-	(314,686)
Prior taxable profit	**(1,608)**	**(118,334)**
BI not included in the accounting record	-	(141,976)
BI for the calculation of accounting expense	(1,608)	23,642
Gross tax payable 25% (28% in 2015)	**402**	**(6,620)**
Tax credits	7	24
Income tax expense payable abroad	(6)	(23)
Income tax expense	**403**	**(6,619)**
Temporary differences		
Increase prepaid tax	1	1
Decrease prepaid tax	-	(73,842)
Increase deferred tax	-	(15,344)
To offset tax credit	151	-
To offset outstanding deductions	1,765	-
Amount (payable) / receivable	**2,018**	**82,589**
-Offset against tax group	2,018	8,966
-Tax credit	-	73,623

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. Likewise, a tax reversal is required on the impairment of financial holdings, which were tax deductible in tax base prior to 1 January 2013. As a direct consequence of this regulatory change, the Company has regularised the amount of deferred tax assets and deferred assets and liabilities recorded in the balance sheet, with a higher tax expense in this year amounting to EUR 37,724 thousand.

Likewise, the outcome of investees has also been affected, generating, in certain cases, the need to record a higher provision in 2016 (see Note 7.1).

With regards to tax reversal of the impairment of securities representing certain equity investments (RDL 3/2016), at the end of 2016, the Company recorded a tax liability amounting to EUR 182 thousand, which has taken into consideration specific situations of each impairment of equity securities of tax deductible subsidiaries, as well as potential legal, contractual or other restrictions regarding the possible transferability of such shares.

In year 2015, due to the changes in tax rates established by Law 27/2014 as of 27 November 2014 on corporate income tax, which is reduced from 30% in 2015 to 28% in 2016, up to 25% in 2016, the Company has proceeded to regularise the deferred assets and liabilities recorded in the balance sheet, resulting in an increased income tax expense during this year amounting to EUR 9,547 thousand.

12.3. Deferred tax assets and liabilities

The detail of long-term provisions under the balance sheet at 2016 y 2015 year-end, as well as main movements during years 2016 and 2015, are as follows:

Year 2016:

	Thousands of Euros			
	31.12.2015	Tax for the year	Regularisation and other	31.12.2016
Temporary differences on investment portfolio	3,696	-	(3,696)	-
Temporary differences on other items	2,371	1	-	2,372
Tax credit carry forwards	2,111	(1,765)	-	346
Tax losses carry forwards prior to the Group	4,858	-	(2,429)	2,429
Offset of tax loss carry forwards (Note 14.2)	67,110	(1,075)	(32,897)	33,138
Total	**80,146**	**(2,839)**	**(39,022)**	**38,284**

Year 2015:

	Thousands of Euros			
	31.12.2014	Tax for the year	Regularisation and other	31.12.2015
Temporary differences on investment portfolio	71,972	(73,842)	5,566	3,696
Temporary differences on other items	338	1	2,032	2,371
Tax credit carry forwards	1,987	24	100	2,111
Tax losses carry forwards prior to the Group	4,858	-	-	4,858
Offset of tax loss carry forwards (Note 14.2)	12,186	73,623	(18,699)	67,110
Total	**91,341**	**(194)**	**(11,001)**	**80,146**

The most significant amounts under "Deferred tax assets" at 31 December 2016 relate basically to credits for negative taxable bases pending to be offset and to be applied outstanding tax deductions.

The detail of long-term provisions under the balance sheet at 2016 y 2015 year-end, as well as main movements during such years, are as follows:

Year 2016:

	Thousands of Euros			
	31.12.2015	Tax for the year	Regularisation and other	31.12.2016
Translation differences for investment portfolio	-	-	182	182
Temporary differences on margins in group transactions	13,447	-	-	13,447
Payable to group companies for income tax (Note 14.2)	3,806	(924)	(1,460)	1,422
Total	**17,253**	**(924)**	**(1,278)**	**15,051**

Year 2015:

	Thousands of Euros			
	31.12.2014	Tax for the year	Regularisation and other	31.12.2015
Temporary differences on margins in group transactions	-	15,344	(1,897)	13,447
Payable to group companies for income tax (Note 14.2)	3,843	-	(37)	3,806
Total	**3,843**	**15,344**	**(1,934)**	**17,253**

Tax loss

After merger with absorption transactions in previous years, the Company is the universal successor of the tax rights and obligations of all the companies absorbed. Thus, the Company has the following tax loss outstanding application:

Year of Inclusion	Thousands of Euros
2004	0.06
2005	0.27
2006	538.00
2007	6,695.00
2008	12,198.00
	19,431.33

Further, the Company has the following tax loss outstanding offset generated within the tax group which it belongs to:

Year of inclusion	Thousands of Euros
2008	29,429.00
2009	40,177.00
2010	0.05
2012	751.00
2013	10.00
2015	402,084.00
	472,451.05

At 31 December 2016 and 2015, the Company has recorded tax loss due to tax credit amounting to EUR 35,567 thousand and EUR 71,968 thousand, respectively.

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 variable arising from the applicable regulation in force (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 2016. The most significant assumptions used provide effect to 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.

Variables derived from the business plan remain relatively stable, without major variations. However, changes in the tax legislation have been very relevant, affecting the Company in a negative way. As a result of the Tax Plan carried

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out and as a direct consequence of the changes in the tax legislation in force, the Company has regularised deferred assets recorded in the consolidated balance sheet (see Note 12.2).

As a result of the Tax Plan developed, 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 9 years.

Tax credits

Applicable regulations in force with regards to income tax includes sundry tax incentives. Tax credits generated within in a 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 Company has the following tax credits outstanding application, arising from both the activities performed and the deductions from absorbed companies:

Tax credits	Year	Thousands of Euros
Double taxation tax credit	2016	6.00
Deduction for donations	2016	0.60
Deduction for amortisation	2016	0.08
Double taxation tax credit	2015	23.00
Deduction for donations	2015	0.50
Deduction for amortisation	2015	0.08
Double taxation tax credit	2014	62.00
Tax credit for training activities	2011	0.10
Double taxation tax credit	2011	11.00
Tax credit for training activities	2010	0.06
Double taxation tax credit	2009	69.00
Tax credit for training activities	2009	0.08
Deduction for exporters	2008	27.00
Double taxation tax credit	2008	540.00
		739.50

At 31 December 2016, the Company has partially recorded tax credits outstanding application.

The Company benefited from the deduction for reinvestment of profits, applicable in previous years, with the total amount of the transfers being reinvested in years prior to 2006, being the amounts involved being as follows:

Year of transfer	Thousands of Euros	
	Transmissions	Gains
2003	303.42	222.32
2004	1,712.08	1,284.16
2005	2,628.05	911.52
Total	**4,643.55**	**2,418.01**

12.4. Years open for review

Years open for review are as follows:

Tax	Years
VAT	2013-2016
Person income tax	2013-2016
Income tax	2012-2015

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 2006.

These tax returns, and the tax returns for the other taxes to which the Company and its subsidiaries are subject cannot be deemed to be definitive until the statute of limitations period of four years has expired or until they have been reviewed and approved by the tax authorities.

12.5. Transactions under the special tax neutrality regime

In 1 July 1994 "Grupo Empresarial San José, S.A." increased its social capital by the non-monetary provision of shares of the company "Constructora San Jose S.A.", transaction subject to the special tax neutrality regime pursuant to terms and provisions of Act 29/1991. The transaction is described in the notes to said financial statements.

On 22 October 1999, the Company subscribed shares of "Inmobiliaria Udra S.A." (currently "San Jose Desarrollos Inmobiliarios, S.A.") ny means of the non-monetary provision of shares of "Pontegran S.L.", transaction subject to the special tax neutrality regime pursuant to terms and provisions of Act 43/1995. The transaction is described in the notes to said financial statements.

On 27 June 2005, the Company subscribed shares of "Constructora San José, S.A." by the non-monetary provision of shares of "Inmobiliaria Udra S.A.". This transaction qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004, on 5 March on Income Tax. The transaction is described in the notes to said financial statements.

On 2 June 2006, The Company subscribed shares of "Comercial Udra S.A." by means of the non-monetary provision of shares of "Arserex, S.A.U." and "Basket King, S.A.". This transaction qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004, on 5 March on Income Tax. The transaction is described in the notes to said financial statements.

On 19 June 2006, the Company subscribed shares of "Grupo Empresarial San José, S.A." (company its was merged to in year 2008 –see Note 1-, adopting its company name) by means of the non-monetary provision of shares of "Constructora San José, S.A.". This transaction qualified for taxation under the tax neutrality regime provided for in Chapter VIII of Title VIII of Legislative Royal Decree 4/2004, on 5 March on Income Tax. The transaction is described in the notes to said financial statements.

12.6 Subrogation of the Company of tax liabilities of absorbed companies

Merger by absorption of "Parquesol Inmobiliaria y Proyectos, S.A." with "Miralepa Cartera, S.L." and "Parquesol inmobiliaria y Proyectos, S.L.".

In 2006, the company "Parquesol Inmobiliaria y Proyectos SA" absorbed "Miralepa Cartera, SL" and "Parquesol Inmobiliaria y Proyectos, SL", a company that in year 2000 had already absorbed certain companies. Article 90 of the Consolidated Text of the Companies Tax Law (Royal Legislative Decree 4/2004, on 5 March) establishes that when a restructuring operation is carried out determining a universal succession, as in the case of the above-mentioned takeovers, all rights and tax obligations of the absorbed entities are transferred to the acquiring entity. Thus, the Company acquired, among other, the tax obligations of the absorbed companies. However, the directors of the Company do not expect any significant liabilities arising as a consequence of siad transaction.

Likewise, merger agreements of the Company with "Parquesol Inmobiliaria y Proyectos, S.L." and "Miralepa Cartera, S.L." specified that said transactions would qualify for taxation under the special tax regime provided for in Chapter VIII of Title VII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Corporation Tax Law, of which the tax authorities will be formally notified

Segregation of the branch of activity of the company Grupo Empresarial San José, S.A. and consequent capital increase of the beneficiary company San José Desarrollos Inmobiliarios, S.A.

As of 30 June 2010, spin-off of the real estate branch of activity of "Grupo Empresarial San Jose, S.A." and its transfer en bloc and universal succession to "San Jose Desarrollos Inmobiliarios, S.A.", who increases its share capital, was granted though public deed. After said transaction, the Company continues with the same material and human resources for the development of its other activities.

The contribution of this branch of activity has accounting retroactive effect as from 1 January 2010. The aforementioned spin-off took place pursuant to provisions under the Structural Amendment Act of Companies, number 3/2009 and 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, having been notified to the Large Taxpayers Central Office of the Department of the Treasury on 2 November 2010.

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13. Revenue and expenditure

13.1 Net Revenue and other operating income

Net revenue by activity for years 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Income from holding activity (Note 14.1)	133	448
Total	**133**	**448**

"Revenue from holding activity" includes mainly financial income from the financing granted to the investees, as well as the dividends received from them. In years 2016 and 2015, the amount recorded under this item corresponds to income from granted funding.

"Other operating income" in the accompanying income statement for years 2016 and 2015 amounts to EUR 17,745 thousand and EUR 16,885 thousand, respectively, and corresponds mainly to income from the provisions of management services by the Company to its investees (see Note 14.1).

13.2 Social security costs

Breakdown for years 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Social security	763	786
Other social costs	322	176
Total	**1,085**	**962**

13.3 Staff costs

Average number of employees during years 2016 and 2015, is as follows:

	2016		2015	
Category	**Men**	**Female**	**Men**	**Female**
Executives	11	2	14	2
Directors	5	6	6	8
Clerical staff	9	16	9	16
Technicians	13	13	10	13
Total	**38**	**37**	**39**	**39**

The number of employee at 31 December 2016 was 75, of which 38 were men and 37 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 1 workers, who is herself a university graduate. 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.

13.4 External services

Breakdown for years 2016 and 2015, is as follows:

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	Thousands of Euros	
	2016	2015
Rents and royalties	366	362
Independent professional services	517	1,027
Insurance premiums	352	357
Banking services and similar	1	1
Advertising, publicity and public relations	12	16
Utilities	4	7
Other Services	6,671	6,543
Total	**7,923**	**8,313**

"Other services" includes mainly services provided by companies of the Group amounting to EUR 5,754 thousand and EUR 5,226 thousand in years 2016 and 2015, respectively (see Note 14.1).

13.5 Audit fees

In 2016 and 2015 the expense corresponding to the financial audit services provided to the Company by Deloitte, S.L. and 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
Audit fees	32.5
Other verification services	39.0
Total audit services and related services	**71.5**
Tax advisory services	-
Other Services	-
Total	**71.5**

Year 2015:

Description	Thousands of Euros
Audit fees	32.5
Other verification services	65.5
Total audit services and related services	**98.0**
Tax advisory services	-
Other Services	-
Total	**98.0**

14. Transactions and balances of associates

14.1. Transactions with associates

The detail of transactions with associates during years 2016 and 2015, is as follows:

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Year 2016:

	Thousands of Euros			
	Provision from services (Note 13.1)	**Reception of services** (Note 13.4)	**Expenses Financial**	**Income Financial** (Note 13.1)
Comercial Udra, S.A.U.	450	-	96	-
Pinos Altos X.R., S.L.	-	113	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	240	-	-	-
Cartuja Inmobiliaria, S.A.U.	360	-	-	-
Constructora San José, S.A.	11,113	5,641	2,439	-
San Jose Concesiones y Servicios, S.A.U.	540	-	21	-
San Jose Energía y Medio Ambiente, S.A.U.	267	-	-	109
Xornal de Galicia, S.A.U.	-	-	-	20
Udramedios, S.A.U.	-	-	54	-
Constructora Udra Limitada	671	-	-	-
Cadena de Tiendas, S.A.	-	-	17	-
San José Inmobiliaria Perú S.A.C.	990	-	-	-
San José Colombia, S.A.S.	61	-	-	-
Constructora San José Timor, Unipessoal Lda.	235	-	-	-
Constructora San José Cabo Verde, S.A.	16	-	-	-
Concesionaria San Jose Tecnocontrol, S.A.	521	-	-	-
Constructora Sanjose Chile Ltda.	1,372	-	-	-
Fotovoltaica El Gallo, S.A.	110	-	-	-
Constructora San José Argentina, S.A.	284	-	-	-
SanJosé Tecnología Chile Lda.	299	-	-	-
Udra Mexico S.A. de C.V.	110	-	-	-
Other companies of the Group	106	-	-	4
Total	**17,745**	**5,754**	**2,627**	**133**

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Year 2015:

	Thousands of Euros			
	Provision from services (Note 13.1)	**Reception of services** (Note 13.4)	**Expenses Financial**	**Income Financial** (Note 13.1)
Comercial Udra, S.A.U.	510	-	12	-
Pinos Altos X.R., S.L.	-	151	-	-
Desarrollos Urbanísticos Udra, S.A.U.	-	-	-	205
Eraikuntza Birgaikuntza Artapena, S.L.U.	300	-	-	-
Cartuja Inmobiliaria, S.A.U.	77	-	-	-
Constructora San José, S.A.	11,005	5,075	2,330	-
San Jose Concesiones y Servicios, S.A.U.	639	-	-	26
San Jose Energía y Medio Ambiente, S.A.U.	276	-	-	137
Xornal de Galicia, S.A.U.	-	-	-	36
Udramedios, S.A.U.	-	-	-	44
Constructora Udra Limitada	836	-	-	-
Cadena de Tiendas, S.A.	-	-	7	-
San José France, S.A.S.	752	-	-	-
San José Inmobiliaria Perú S.A.C.	1,348	-	-	-
San José Colombia, S.A.S.	129	-	-	-
Constructora San José Timor, Unipessoal Lda.	300	-	-	-
Constructora San José Cabo Verde, S.A.	198	-	-	-
Concesionaria San Jose Tecnocontrol, S.A.	480	-	-	-
Other companies of the Group	35	-	-	-
Total	**16,885**	**5,226**	**2,349**	**448**

The amount of services rendered by the investee company "Constructora San José, SA" in 2016 and 2015 is mainly for the provision of management services provided by this investee, which, in turn, the Company partially re-invoices to the rest of the Group companies in which it takes part in.

Commercial transactions are carried out in accordance with the terms and conditions established by the parties, under normal market conditions.

Interest, both paid and received, arises from the application of Euribor plus a market spread to the credit and debit balances in current accounts with Group companies.

14.2. Balances with associates

Breakdown of balances with associates is as follows:

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

	Thousands of Euros				
	Long-term credits (Note 7.1)	**Trade receivables**	**Short-term credits**	**Short-term debts**	**Trade payables**
Comercial Udra, S.A.U.	-	45	-	3,903	-
San José Energía y Medio Ambiente, S.A.U.	3,525	54	2,795	-	-
San José Concesiones y Servicios, S.A.	-	54	-	563	-
Constructora Udra Limitada	-	111	-	-	-
Inversiones San José Andina Lda.	-	155	-	-	-
San José France, S.A.S.	-	-	-	-	-
Xornal de Galicia, S.A.	1,981	-	-	-	-
Cadena de Tiendas, S.A.U.	-	-	-	541	-
Constructora San José, S.A.	-	5,027	-	74,159	3,109
SJB Mullroser Baugeschellsaft	-	-	5,052	-	-
Udra Medios, S.A.U.	14,100	-	-	4,454	-
San José Inmobiliaria Perú, S.A.C.	-	1,551	-	-	-
San José Colombia, S.A.S.	-	6	-	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	-	24	-	-	-
Constructora San José Cabo Verde, S.A.	-	214	-	-	-
Centro Comercial Panamericano, S.A	-	15	-	-	-
Soc. Concesionaria Chile Tecnocontrol	-	1,002	-	-	-
San Jose Constructora Chile Ltda.	-	1,932	-	-	-
Pinos Altos XR, S.L.	-	-	-	-	10
San José Tecnologías Chile Limitada	-	299	-	-	-
Cartuja Inmobiliaria, S.A.	-	73	-	-	-
Fotovoltaica El Gallo, S.A.	-	33	-	-	-
Udra México, S.A. de CV	-	110	-	-	-
GSJ Solutions, S.L.	3	-	68	-	-
Other companies of the Group	-	44	-	-	-
Balances with companies of the group by tax consolidation (Note 12)	-	-	3,745	900	-
Total	**19,609**	**10,749**	**11,660**	**84,520**	**3,119**

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Year 2015:

	Thousands of Euros				
	Long-term credits (Note 7.1)	Trade receivables	Short-term credits	Short-term debts	Trade payables
Comercial Udra, S.A.U.	-	51	-	2,607	-
San José Energía y Medio Ambiente, S.A.U.	2,725	292	3,614	-	-
San José Concesiones y Servicios, S.A.	-	64	-	561	-
Constructora Udra Limitada	-	251	-	-	-
Inversiones San José Andina Lda.	-	155	-	-	-
San José France, S.A.S.	-	599	-	-	-
Xornal de Galicia, S.A.	1,961	-	-	-	-
Cadena de Tiendas, S.A.U.	-	-	-	526	-
Constructora San José, S.A.	-	1,674	-	80,454	1,701
SJB Mullroser Baugeschellsaft	-	-	5,034	-	-
Udra Medios, S.A.U.	11,450	-	-	1,667	-
San José Inmobiliaria Perú, S.A.C.	-	538	-	-	-
San José Colombia, S.A.S.	-	92	-	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	-	30	-	-	-
Constructora San José Cabo Verde, S.A.	-	198	-	-	-
Centro Comercial Panamericano, S.A	-	15	-	-	-
Soc. Concesionaria Chile Tecnocontrol	-	480	-	-	-
San Jose Constructora Chile Ltda.	-	560	-	-	-
Pinos Altos XR, S.L.	-	-	-	-	9
Other companies of the Group	-	15	-	-	-
Balances with companies of the group by tax consolidation (Note 12)	-	-	11,662	1,353	-
Total	**16,136**	**5,014**	**20,310**	**87,168**	**1,710**

At 31 December 2016, the amount recorded under "Long-term Group loans and advances to companies", amounting to EUR 19,609 thousand, corresponds mainly to the participatory loans granted by the Company to its investees, for the purpose of strengthen their equity position (see Note 7.1).

"Short-term loans" and "Short-term liabilities" are derived from current financial account contracts signed with Group companies and accrue interest at Euribor plus a market spread.

Due to the fact that the Company is the head of the consolidated tax group for corporate income tax, the Company recorded under "Deferred Tax Liability" a long-term credit position against the Group, for a total amount of EUR 1,422 thousand and EUR 1,909 thousand at 31 December 2016 and 2015, respectively, corresponding to the Company's accounts payable to companies within the tax group, for the tax credit recorded by the Company under "Deferred tax assets", corresponding to negative tax bases contributed to the tax perimeter by them (see Note 12.3).

Additionally, as of 31 December 2016, the Company has granted loans to senior management amounting to EUR 125 thousand, recorded under "Long-term financial investments" under the non-current assets of the accompanying balance sheet. Said loans bear interest rate at Euribor plus a market spread. Further, at 31 December 2016 the Company has receivables from and payables to partners, directors and executives amounting to EUR 5 thousand and EUR 98 thousand, respectively, recorded under "Other current financial assets" and "Other short-term financial liabilities" in the accompanying balance sheet (see Note 11.1). At 31 December 2015, said amounts were EUR 12 thousand and EUR 98 thousand, respectively.

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15. Other disclosure

15.1. 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 Company during years 2016 and 2015, as well as the balance of payments to suppliers at 31 December 2016 and 2015:

	Year 2016:	Year 2015:
Average payment term to suppliers (days)	**25**	**22**
Ratio of paid transactions (days)	26	26
Ratio of transactions pending settlement (days)	23	1
Total payments made (thousands of Euros)	8,219	9,616
Total outstanding payments (thousands of Euros)	3,359	2,000

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

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

15.2. Remuneration of Directors and Senior Management

The detail of the remuneration of all kinds earned in 2016 and 2015 by the members of the Board of the Company is as follows:

Type of Directors	Thousands of Euros	
	2016	2015
Executive board members	2,296	2,585
Independent board members	130	156
Other external board members	27	15
Total	**2,453**	**2,756**

Total remuneration paid by the Company in years 2016 and 2015 of non-member executives amounts to EUR 761 thousand and EUR 844 thousand, respectively.

There were no pension or life insurance obligations to the former or current members of the Board of Directors neither Top Management members.

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.

15.3. 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.

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- Do not have stakes in entities with the same, similar or complementary business activity as that of the social purpose of the Company.
- 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.

16. Events after the reporting period

There are no significant events occurred after 31 December 2016 which may have impacted on the accompanying financial statements.

GRUPO EMPRESARIAL SAN JOSE, S.A.

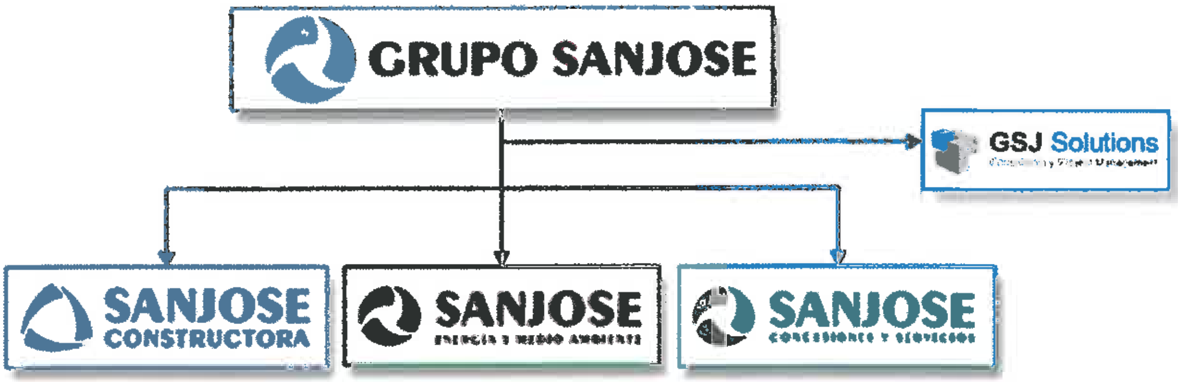
Directors' Report for the year ending 31 December 2016

1. <u>Situation of the Company</u>

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 finance restructuring as of 30 December 2014, by means of which the Company sold "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 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.

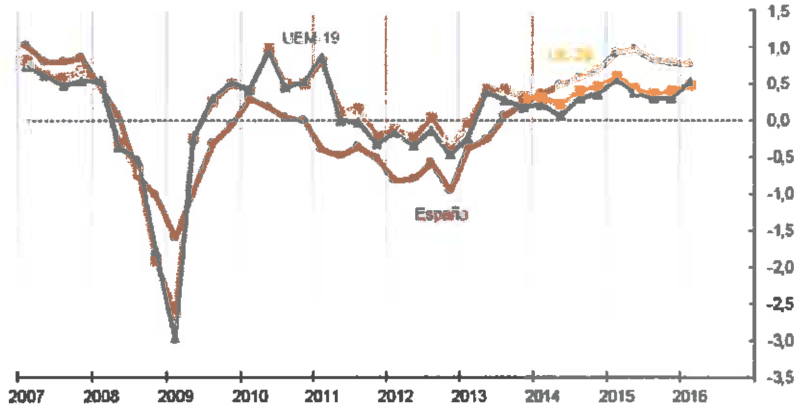
Real Estate: Following the sale of the company "San José Desarrollos Inmobiliarios, S.A.U." under the financial restructuring contract signed by the Group on 30 December 2014, real estate activity takes second place. The Group addresses this activity in a complementary way to the construction activity

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 UE



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

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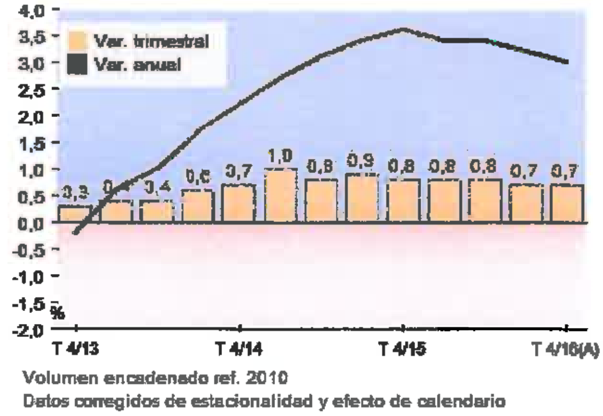
Gross Domestic Product. GPD



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.

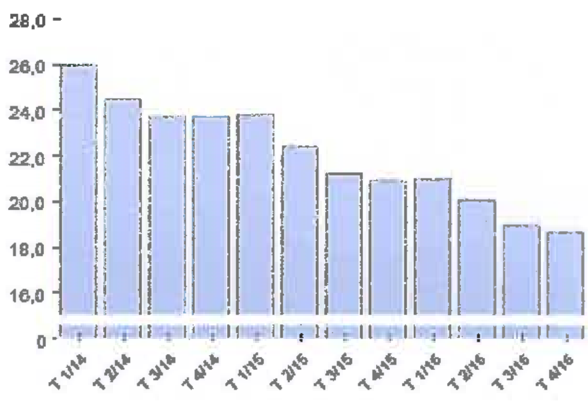
The International Monetary Fund (IMF) highlighted in its latest report in January 2017 that "after the dull result of 2016, projections point to a rebound in economic activity in 2017 and 2018, especially in emerging market economies and under development". Specifically, it forecasts world GDP growth 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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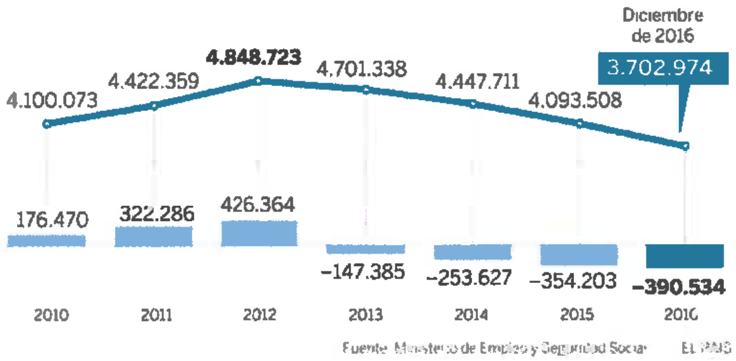
Unemployment at the end of the year



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 540,655 members, an annual increase of 3.12%. Although this figure is supported by temporary recruitment. With regard to registered unemployment, the annual balance, 390,534 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%.

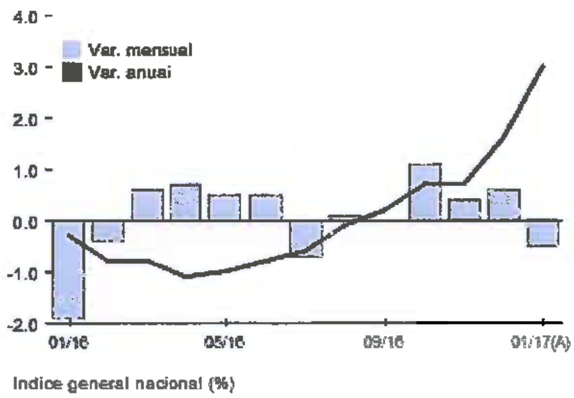
In November, public debt increased by 11,103 million euros compared to October, from 1,056,749 million to 1,067,852 million. Thus, debt in November was 99.82% of GDP, increasing by 2.8% compared to the figure for 2014.

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.



Source: INE

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

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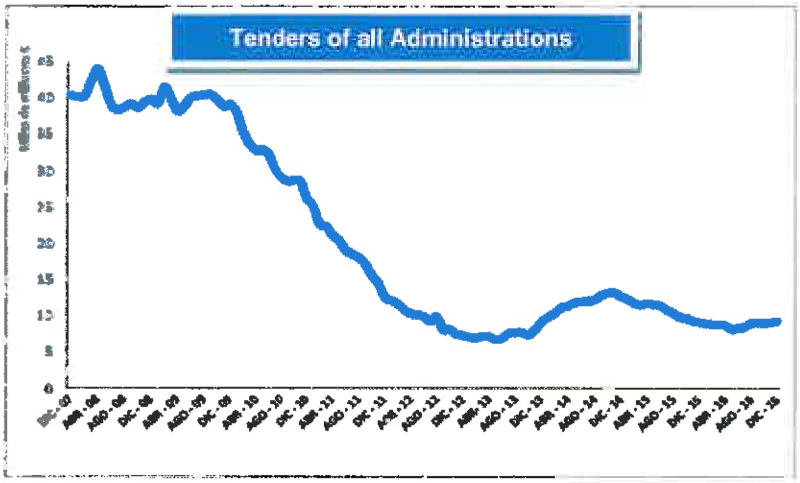
January 2017 to 3%, is the fifth consecutive positive rate and its highest level since October 2012, very marked by the increase in electricity prices.

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

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.

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2.2. Main figures of the GROUP

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

Consolidated Management Balance Sheet

Thousands of euros

	Dic. 16		Dic. 15		
	Amount	%	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	57,307	5.6%	57,247	5.8%	0.1%
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	**322,245**		**327,483**		
Inventories	104,122	10.2%	92,176	9.4%	13.0%
Trade and other receivables	242,529	23.7%	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	24.6%	231,834	23.5%	8.6%
TOTAL CURRENT ASSETS	**700,374**		**657,366**		
TOTAL ASSETS	**1,022,619**		**984,849**		

Thousands of euros

	Dic. 16		Dic. 15		
	Amount	%	Amount	%	Var.
Equity attributable to shareholders of the (*) parent	60,737	5.9%	46,368	4.7%	31.0%
Minority interest	21,297	2.1%	21,680	2.2%	-1.8%
TOTAL EQUITY	**82,034**		[illegible]		
Long term provisions	28,963	2.8%	19,223	2.0%	50.7%
Long term finantial liabilities	383,617	37.5%	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**		**446,001**		
Short term provisions	42,386	4.1%	37,471	3.8%	13.1%
Short term finantial liabilities	63,724	6.2%	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	39.3%	383,763	39.0%	4.7%
TOTAL CURRENT LIABILITIES	**510,643**		**470,800**		
TOTAL EQUITY & LIABILITIES	**1,022,619**		**984,849**		

(*) **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		43,837		
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	25,075		30,749		
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		-19,254		
Results on equity method	953	0.2%	-845	-0.2%	--
PROFIT BEFORE TAX	19,707		10,650		
Income tax	-11,636	-1.9%	-3,364	-0.6%	245.9%
CONSOLIDATED PROFIT	8,072		7,286		-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 (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 therefore must be considered to adequately assess the performance of the group.

Among others, the Group identifies the following APMs:

- **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.

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.

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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

Revenues by activity	Grupo SANJOSE 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

Revenues by geography	Grupo SANJOSE 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 year

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.

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:

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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

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**

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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).

Millions of euros

BACKLOG by segment	Dic. 16		Dic. 15		Var.(%)
	Grupo SANJOSE				
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	Dic. 16		Dic. 15		Var.(%)
	Grupo SANJOSE				
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	Dic. 16		Dic. 15		Var.(%)
	Grupo SANJOSE				
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.

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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.

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%**

Renevue breakdown of this line of activity of Grupo SANJOSE, according to its main business lines, and geographic areas, is as follows:

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 stage 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 GESJ assets (*)	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%
Others	18,700	7.0%	18,363	7.0%	1.8%
TOTAL	266,389		261,273		2.0%

(*) It includes the assessment of real estate assets of associates, according to participation percentage of the Group.

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 materialised 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%**

2.4 Average payment term to supplies

The Group has paid their national suppliers during year 2016 with an average payment term of 42 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.

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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. 16 %	Dic. 15 Amount	Dic. 15 %	Var.
Other short term finantial investments		182,891	43.0%	148,292	40.1%	23.3%
Cash and cash equivalents		242,000	57.0%	221,677	59.9%	9.2%
	Total cash	424,891	100%	369,969	100%	14.8%
Long term finantial liabilities (*)		375,381	86.0%	401,216	89.8%	-6.4%
Short term finantial liabilities		60,984	14.0%	45,347	10.2%	34.5%
	Total debt	436,365	100%	446,563	100%	-2.3%
TOTAL NCP		11,474		76,594		-85.0%

(*)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.

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.

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4. Main risks

The Group operates in sectors, countries and socio-economic and legal environments that involve the assumption of different levels of risk caused by these conditions. The Company manages these risks in order to avoid involving a loss of profitability for its shareholders or cause trouble to customers. In order to exercise this control, the company has tools which allow the identification of risks in advance in order to prevent or minimize the same.

Operational risks

Main risks arising from the activities of the Group are assuming operations (whether construction, concessions or maintenance) which shall not involve the sufficient return for investments, international diversity where the Company operates or cause a decrease in value of real estate assets.

To avoid accepting unprofitable projects, an individual study of each project is carried out ensuring profitability of the same.

Additionally, the Group holds an International Legal Department, which analyses the potential impact of different regulatory frameworks in the activity of the company.

To adjust the price of its real estate assets to market value, the company commissions to independent experts the assessment of property of the Group, ensuring that value reflected thereof is suitable to market prices.

Financial risks

Due to its activity, the Group faces the following risks arising from payment and collection rights of business transactions:

Interest rate risk: This is the main risk to which the Group is exposed as a result of the bank borrowings described in the notes to the consolidated financial statements. In order to minimise exposure to this risk. The Group's financial management has arranged cash flow hedges to protect the Company against foreseeable interest rate increases in the future.

Foreign currency risk: The Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, there is currently no significant foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the Euro. In view of the Group's geographical expansion over the last few years, exposure to foreign currency risk may arise in the future. Should this risk arise, the best solution will be analysed in order to minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

Credit risk: 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, S.A." 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.

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On 5 October, 2016, the company "Carlos Casado, SA" entered into an agreement with "Brasilagro Companhia Brasileira de Propiedades Agrícolas, S.A." for the sale of the assets of the associate "Cresca, S.A." (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, S.A." 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.

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

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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 m² 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 m².

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 is present.

The Group is not estimated, based on information available to date, to face risk and/or uncertainty substantially different from those already taken place in year 2016.

7. R&D Activities

Grupo SANJOSE, aware of the importance that represent the activities of Research, Development and Innovation for competitiveness and business success, develops and collaborates in R &D&I trying to offer innovative technical solutions that meet the demands and needs of its customers.

In order to facilitate the detection of opportunities, generating innovative ideas and the development of R&D activities, a R&D Management System following the guidelines set out in the standard UNE 166002 and having obtained the AENOR recognition through certification in the following companies has been implemented:

Company	Type of certificate	Certificate #
CONSTRUCTORA SAN JOSE S.A.	R&D&i Management	IDI-0056/2010
SANJOSE ENERGIA Y MEDIO AMBIENTE, S.A.	R&D&i Management	IDI-0056/2010

The R&D&i 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

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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 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.

Translation into English of the Directors' report for the year ending 31 December 2016 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

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 financial statements prepared in accordance with applicable accounting standards present a true and fair view of the Company, the financial position and the outcome of the Company, and the Directors' Report includes an accurate analysis of business development and outcome, the position of the Company and description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These Financial Statements at 31 December 2016 consisting of the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and the notes to the Financial Statements extended in 41 sheets of plain paper, and the accompanying Directors' Report extended on 78 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 his vote on Mr.Ramón Barral.

Mr.Roberto Álvarez and Mr. Guillermo E.Nielsen have attended 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.

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Translator's note: Due to language features, the number of pages of.

The Secretary of the Board El Secretario del Consejo de Administración

Translation into English of the Directors' report for the year ending 31 December 2016 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

NEGATIVE CLEARANCE ON ENVIRONMETNAL INFORMATION WITHIN THE FINANCIAL STATEMENTS

Company details:

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

Registry details of the company:

Trade Registry of Pontevedra, Book 586, sheet 88, registration 1, page 8119

Id#: A36.046.993 ***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 120 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:

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	

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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 nineteenth 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 diecinueve de mayo de dos mil diecisiete

ESTEFANÍA CALVO IGLESIAS
TRADUCTORA-INTÉRPRETE JURADA DE INGLÉS
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Estefanía Calvo Iglesias