Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2017 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.

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

Opinion

We have audited the financial statements of Grupo Empresarial San José, S.A. (the Company), which comprise the balance sheet as at 31 December 2017, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of ownership interests in Group companies and associates

Description	Procedures applied in the audit
The Company has ownership interests in the share capital of Group companies and associates that are not listed on regulated markets. As detailed in Note 4.d, the measurement of these ownership interests requires the use of significant judgements and estimates by Company management, which considers that the best evidence of the recoverable amount of these ownership interests is the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement. As a result of the foregoing, as well as the significance of the investments held, which amounted to EUR 107 million at year-end and for which an accumulated impairment loss of EUR 5 million had been recognised up to 2017, we consider the situation described to be a key matter in our audit.	Our audit procedures consisted of obtaining and analysing the conclusions prepared by Company management in relation to the existence of impairment losses on the aforementioned ownership interests, verifying their clerical accuracy and the adequacy of the valuation method used in relation to the investment held and verifying that it meets the requirements of the applicable regulations. For this purpose, we checked the underlying carrying amount of the investees and the related unrealised gains. Lastly, we evaluated whether the disclosures included in Note 7 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Other Information: Directors' Report

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report is defined in the audit regulations in force, which establish two distinct levels of review:

a) A specific level that applies to the non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report, or, as the case may be, that the directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the above legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the specific information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit Committee for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor’s report. This description is detailed on page 6, which forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 28 February 2018.

Engagement Period

The Annual General Meeting held on 22 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016, that is for year 2017.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 1995, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

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

Antonio Sánchez-Covisa Martín-González
Registered in ROAC under no. 21.251

28 February 2018

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the entity's audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2017 and Management 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.

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GRUPO EMPRESARIAL SAN JOSÉ, S.A.

BALANCE SHEET AS DECEMBER 31ST 2017 AND DECEMBER 31 ST 2016

(Thousand of Euros)

	31/12/2017	31/12/2016		31/12/2017	31/12/2016
NON-CURRENT ASSETS:			**EQUITY:**		
Intangible assets (Note 5)	**4,877**	**5,488**	**Share capital**	**1,951**	**1,951**
Property, plant and equipment (Note 6)	**422**	**439**	**Issurance premium**	**155,578**	**155,578**
Investments in associates and joint ventures (Note 7.1)	**118,688**	**117,597**	**Reserves**	**167,412**	**167,412**
Equity Investments in associates	102,152	97,988	Legal and statutory	263	263
Loans to related companies (Note 14.2)	16,536	19,609	Otras reserves	167,149	167,149
Other non-current financial assets	**133**	**135**	**Negative results from previous years**	**(365,039)**	**(323,380)**
Deferred tax assets (Note 12.3)	**36,531**	**38,284**	**Profit for the year**	**401**	**(41,659)**
TOTAL NON-CURRENT ASSETS	**160,651**	**161,943**	**TOTAL EQUITY (Note 9)**	**(39,697)**	**(40,098)**
			NON-CURRENT LIABILITIES		
			Long-term provisions (Note 10.1)	**17,972**	**18,018**
			Non-current bank borrowings (Note 11)	**107,883**	**104,663**
			Deferred tax liabilities (Note 12.3)	**14,579**	**15,051**
			TOTAL NON-CURRENT LIABILITIES	**140,434**	**137,732**
			CURRENT LIABILITIES:		
			Short-term provisions (Note 10.2)	**545**	**545**
Trade and other receivables	**16,370**	**12,656**	**Current bank borrowings (Note 11)**	**90**	**98**
Realetd companies receivables (Note 14.2)	15,864	10,749	**Payable to Group and associated companies (Note 14.2)**	**86,073**	**84,520**
Other current assets	312	37	**Trade and other payables**	**1,756**	**4,662**
Public admisnitrations (Note 12.1)	194	1,870	Trade payables	393	240
Investments in associates and joint ventures (Note 14.2)	**10,671**	**11,660**	Suppliers Group ans associated companies (Note 14.2)	125	3,119
Other current financial assets (Note 8.1)	**-**	**5**	Staff, remuneration payable	995	991
Cash and cash equivalents (Note 8.2)	**1,509**	**1,195**	Tax Payable (Note 12.1)	243	312
TOTAL CURRENT ASSETS	**28,550**	**25,516**	**TOTAL CURRENT LIABILITIES**	**88,464**	**89,825**
TOTAL ASSETS	**189,201**	**187,459**	**TOTAL EQUITY AND LIABILITIES**	**189,201**	**187,459**

Notes 1 to 16 of the accopanying notes form an integral part of the Blance Sheet at 31 December 2017

Translation into English of financial statements for the year ending 31 December 2017 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

INCOME STATEMENTS FOR YEARS 2017 AND 2016

(Thousand of Euros)

	31/12/2017	31/12/2016
CONTINUING OPERATIONS		
Revenue (Note 13.1)	**2,300**	**133**
Provisions of services	2,300	133
Other operating income (Note 13.1)	**21,586**	**17,759**
Non-core and other current income	21,586	17,759
Staff costs	**(6,965)**	**(6,994)**
Wages and salaries	(5,854)	(5,909)
Social charges (Note 13.2)	(1,111)	(1,085)
Other operating expenses	**(10,177)**	**(7,961)**
Outside services (Note 13.4)	(8,034)	(7,923)
Tributes	(28)	(34)
Impairment losses and changes in provisions for trade (note 14.2)	(2,113)	-
Other operating expenses	(2)	(4)
Depreciation and amortisation charge (Notes 5 and 6)	**(631)**	**(629)**
PROFIT FROM OPERATIONS	**6,113**	**2,308**
Finance income	**5**	**16**
In third	5	16
Finance costs	**(5,906)**	**(4,927)**
On debts to Group companies and associates (Note 11.1)	(2,659)	(2,627)
On debts to third parties	(3,247)	(2,300)
	388	**(1,735)**
FINANCIAL PROFIT	**(5,513)**	**(6,646)**
PROFIT (LOSS) BEFORE TAXES	**600**	**(4,338)**
Income Tax (Note 12.2)	(199)	(37,321)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**401**	**(41,659)**
PROFITS / (LOSSES) OF THE YEAR	**401**	**(41,659)**

Notes 1 to 16 of the accopanying notes form an integral part of the income statement at 31 December 2017

Translation into English of financial statements for the year ending 31 December 2017 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR PERIOD ENDED AT DECEMBER 2017 AND 2016
A) STATEMENTS OF RECOGNISED INCOMES AND EXPENSES

(Thousand of Euros)

	Year 2017	Year 2016
PROFITS / (LOSSES) OF THE YEAR	**401**	**(41,659)**
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)	**401**	**(41,659)**

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR PERIOD ENDED AT DECEMBER 2017 AND 2016
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, 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)**
Distribution of profit for year 2016:								
-To negative results from previous years	-	-	-	-	-	(41,659)	41,659	-
Total recognized income/expenses year 2017	-	-	-	-	-	-	401	**401**
Balance at December 31, 2017	**1,951**	**155,578**	**263**	**36,619**	**130,530**	**(365,039)**	**401**	**(39,697)**

Notes 1 to 16 of the accopanying notes form an integral part of the statement of changes in equity at 31 December 2017

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GRUPO EMPRESARIAL SAN JOSÉ, S.A.

CASH FLOW STATEMENTS FOR YEARS 2017 AND 2016

(Thousand of Euros)

	31-12-2017	31-12-2016
Cash flows from operating activities:		
(+) Profit (Loss) before tax	600	(4,338)
(+) Depreciation and amortisation charge	631	629
(+/-) Changes in operating allowances	2,113	-
(-) Financial income	(2,305)	(149)
(+) Financial costs	5,906	4,927
(+/-) Other gains or losses	(388)	1,735
Total Cash Flows from operating activities	**6,557**	**2,804**
Other adjustments		
(-) Imcome tax paid in the year	(605)	(115)
(+/-) (Increase) / Decrease in working capital	(8,125)	(6,746)
(+/-) Other collections / (payments) due to operating activities	342	(371)
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**(1,831)**	**(4,428)**
Investments:		
(-) Property, plant and equipment and investment property	(3)	(33)
(-) Intangible assets	-	(2)
(-) Investments in related companies	(1,091)	(3,474)
Total Investments	**(1,094)**	**(3,509)**
Disposals:		
(+) Shares and other financial assets	-	654
Total Disposals	**-**	**654**
Other collections / (payments) due to financing activities	**994**	**8,658**
2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	**(100)**	**5,803**
Increase / (decrease) in borrowings	**1,545**	**(2,647)**
Net interests:	**(381)**	**(2,505)**
Other collections / (payments) due to financial activities	**1,081**	**2,341**
	2,245	**(2,811)**
	314	**(1,436)**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,195**	**2,631**
Changes in the year	**314**	**(1,436)**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,509**	**1,195**

Notes 1 to 16 of the accompanying notes form an integral part of the Cash Flow Statement fot year 2017

Grupo Empresarial San José S.A.
Notes for the year ended 31 December 2017

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 Sanmartín 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 liabilities, 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.

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 2016 were approved by the Ordinary General meeting of Shareholders held on 22 June 2017, 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 were occasionally made by Directors of the Company 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

The information contained in the financial statements for the year 2016 is presented, for comparative purposes, with the information for the year 2017.

g) Working capital and assets

As shown in the accompanying balance sheet as of 31 December 2017 and 2016, the Company has at said date a negative working capital amounting to EUR 59,914 thousand and EUR 64,309 thousand, respectively, as current assets are less than current liabilities.

Director of the Company do not expect difilculties 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 2017, the Company records a negative net equity amounting to EUR 39,697 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 107,883 thousand (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 2017 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 2016 were approved on at the Shareholders' Annual Meeting held on 22 June 2017 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:

	Thousand of Euros
Share capital and issuance rights	157,529
Reserves and equity attributed to the Parent	(218,204)
Net profit/(loss) for the year attributable to the Parent	11,440
Total assets	964,376
Turnover	982,868

3. Distribution of profit

Parent Company Directors will propose at the General Shareholders' Meeting that the profit for year 2017 shall be applied to offset "Prior years' losses", for an amount equal to EUR 401 thousand, for the offset against future profits of the Company.

4. Accounting principles and measurement basis

Main accounting principles and measurements used in the preparation of the accompanying financial statements for year 2017 and 2016 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

Computer software:

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.

Periodic maintenance, 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.

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), is 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 and not negotiated within an active market.

- 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.

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.

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

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

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 2017, 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.
- 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, net 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 2017, 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. The Company has not registered any amounts related to this concept as of 31 December 2017.

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 under net equity at the proceeds received, net of direct issuing 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 2017 and 2016, the Company does not have treasury shares. Likewise, no transactions involving treasury shares were carried out during years 2017 and 2016 (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. Intangible assets

Breakdown of this item for years 2017 and 2016 is as follows:

Year 2017:

	Thousand of Euros			
	Balance 31-12-2016	**Additions / (Provisions)**	**Disposals**	**Balance 31-12-2017**
Cost:				
Goodwill:	6,095	-	-	6,095
Computer software:	135	-	-	135
Total Cost	**6,230**	**-**	**-**	**6,230**
Accumulated amortisation:				
Goodwill:	(610)	(610)	-	(1,220)
Computer software:	(132)	(1)	-	(133)
Total Accumulated Amortisation	**(742)**	**(611)**	**-**	**(1,353)**
Net cost:	**5,488**	**(611)**	**-**	**4,877**

Year 2016:

	Thousand of Euros			
	Balance 31-12-2015	Additions / (Provisions)	Disposals	Balance 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 amortización acumulada	**(131)**	**(611)**	**-**	**(742)**
Net cost	**6,097**	**(609)**	**-**	**5,488**

The Company has recorded under its balance sheet a goodwill amounting to EUR 6,095 thousand, associated to the stake in "Constructora San José, SA", which is the main Cash Generating Unit (UGE) 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 2017, no impairment is recorded under this item.

The cost of the assets fully amortised at 31 December 2017 and 2016 amounts to EUR 132 thousand in both years.

6. Property, plant and equipment

Breakdown of this item for years 2017 and 2016 is as follows:

Year 2017:

	Thousand of Euros			
	Balance 31-12-2016	Additions / (Provisions)	Disposals	Balance 31-12-2017
Cost:				
Other items of property, plant and	1,257	3	-	1,260
Total Cost	**1,257**	**3**	**-**	**1,260**
Accumulated amortisation:				
Other items of property, plant and	(818)	(20)	-	(838)
Total Accumulated Amortisation	**(818)**	**(20)**	**-**	**(838)**
Net property, plant and equipment	**439**	**(17)**	**-**	**422**

Year 2016:

	Thousand of Euros			
	Balance 31-12-2015	Additions / (Provisions)	Disposals	Balance 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**

This item includes mainly equipment for the treatment of information.

Carrying net cost at 31 December 2017 and 2016 amounts to EUR 787 thousand and EUR 760 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 2017 and 2016, as well as main movement under said item, is as follows:

Year 2017:

	Thousand of Euros				
	Balance at 31-12-2016	**Additions**	**Disposals**	**Transfers**	**Balance at 31-12-2017**
Equity instruments					
Cost	**103,749**	297		**3,520**	**107,566**
Impairment	**(5,761)**	-	342	**5**	**(5,414)**
	97,988	**297**	**342**	**3,525**	**102,152**
Granted loans and credits	**19,609**	452	**-**	**(3,525)**	**16,536**
Total	**117,597**	**749**	**342**	**-**	**118,688**

Year 2016:

	Thousand 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**

Transfers mainly refer to the offset of losses of the company of the Group "San José Energía y Medio Ambiente, S.A.U." for the participatory loan of the Company, in order to strengthen the assets of the company. Additions recorded in year 2017 correspond mainly to an increase in the stake of the Group company "GSJ Solutions, S.L.U.". The company has recorded a reversal of impairment loss amounting to EUR 342 thousand under "Impairment and disposal of financial instruments " in the accompanying profit and loss account fir year 2017.

Detail of stake in Group companies, as well as of credits and loans granted as of 31 December 2017 and 2016 is as follows:

Year 2017:

	Ownership %		Thousands of Euros				
			Net carrying amount of the stake				
	Direct	**Indirect**	**Cost**	**Impairment of 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%	-	7,564	335	(2,634)	4,930	400
Enerxías Renovables de Galicia, S.A (b)	25.00%	75.00%	662	4	(529)	133	-
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%	-	-	-	-	1,998
Udra México, S.A. de C.V. (c)	0.0874%	99.9126%	21	-	(21)	-	-
GSJ Solutions, S.L.U.	100%	-	300	3	-	300	38
TOTAL			**107,566**	**342**	**(5,414)**	**102,152**	**16,536**

(a) Companies audited by Deloitte.
(b) Non-audited companies
(c) Companies audited by other auditors
(*) At 31 December 2017, "Credits and Loans granted" amounts to EUR 16,536 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).

Year 2016:

	Ownership %		Thousands of Euros				
			Net carrying amount of the stake				
	Direct	Indirect	Cost	Impairment of 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 México, 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**

(d) Companies audited by Deloitte.
(e) Non-audited companies
(f) 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).

Additionally, at 31 December 2017 and 2016 the Company records a provision for EUR 17,972 thousand and EUR 18,018 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 parts, at 2017 and 2016 year-end is as follows:

<u>Year 2017:</u>

			Thousands of Euros (*)				
				Profit/ (Loss) for the year			Total net equity
			Capital and issuance fee	from operations	for the Year	Remaining net equity	
<u>Group companies:</u>							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalia de Castro, 44 (Pontevedra)	8,076	8,218	2,459	106,677	117,212
GSJ Solutions, S.L.U.	Engineering services	Ronda de Poniente, 11 – Tres Cantos (Madrid)	300	53	39	(38)	301
San José Concesiones y Servicios, S.A.U.	Provision of healthcare and social services	Rosalia de Castro, 44 (Pontevedra)	2,446	(7)	441	(325)	2,562
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	(359)	(418)	(1,323)	2,298
Cadena de Tiendas, S.A.U.	Storage, destruction and sale of goods	Roselia de Castro, 44 (Pontevedra)	60	(1)	12	612	684
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured products	Roselia de Castro, 44 (Pontevedra)	4,181	(39)	286	1,889	6,356
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1º de Dezembro, 12-14 - Monçào (Portugal)	350	731	625	4,526	5,501
SJB Müllroser Baugesellschaft GmbH	Construction.	Gewerparkrinh, 1315299 Mullroser. Germany	625	14	14	5,731	(5,092)
Enerxias Renovables de Galicia, S.A.	Production and trade of electric energy by renewable energy resources	Roselia de Castro, 44 (Pontevedra)	2,649	(7)	17	(2,132)	534
Udra Medios, S.A.U.	Edition, production, reproduction and release of books, newspapers, magazines and video	Roselia de Castro, 44 (Pontevedra)	1,500	(1)	30	(14,575)	(13,045)
Udra México, S.A. de C.V.	Holding company	Miravalle, Mexico	1,628	414	289	(758)	1,159

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

Year 2016:

			Thousands of Euros (*)				
				Profit/ (Loss) for the year			
			Capital and issuance fee	from operations	for the Year	Remaining net equity	Total net equity
Group companies:							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalia 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	Rosalia 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, destruction and sale of goods	Roselia de Castro, 44 (Pontevedra)	60	(1)	(98)	710	672
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured products	Roselia de Castro, 44 (Pontevedra)	4,181	413	2,833	1,256	8,270
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1º 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	Roselia 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	Roselia de Castro, 44 (Pontevedra)	1,500	(12)	(3,128)	(11,447)	(13,075)
Udra México, S.A. de C.V.	Holding company	Miravalle, Mexico	1,582	126	(609)	(21)	952

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

None of the associates is listed on the stock exchange market at 31 December 2017 and 2016.

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 2017 and 2016 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 3,608 thousand and EUR 3,745 thousand at 31 December 2017 and 2016, 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).

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

8.1 Short-term financial investments

At 31 December 2016, the balance of this item amounts to EUR 5 thousand and mainly corresponds to short-term levies granted by the Company. At 31 December 2017, there is no amount recorded under this item since all positions have expired.

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 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 2017, 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 2017 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.

9. Net equity

9.1 Share capital

At 31 December 2017 and 2016, 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 2017 has been EUR 3.55 and EUR 3.14 for year 2017 and EUR 3.23 and 3.04 for year 2016, respectively.

At 31 December 2017, 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, resolve 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 2017 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 (see Note 9.6).

9.5 Treasury shares

At 31 December 2017 and 2016 the Company did not hold any treasury shares neither had executed transactions with treasury shares during 2017 and 2016.

9.6 Goodwill reserve

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 2017 and 2016, 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 2017 is greater, the goodwill reserve is qualified as a restricted reserve at said date.

9.7 Equity

At 31 December 2017, the Company records a negative net equity amounting to EUR 39,697 thousand. However, it is not in the situation of asset imbalance pursuant to art. 363 of the Companies Act to the extent that it records an equity loan amounting to EUR 107,883 thousand (see Note 11.2), received from creditor financial institutions in order to strengthen its financial position.

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 2017 y 2016 year-end, as well as main movements during years 2017 and 2016, are as follows:

Year 2017:

	Thousands of Euros			
	Balance at 31-12-2016	Additions	Reversals	Balance at 31-12-2017
Provision for risks and expenses	18,018	3	(49)	17,972
Total	**18,018**	**3**	**(49)**	**17,972**

Year 2016:

	Thousands 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**

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:

	Thousands of Euros	
	Balance at 31-12-2017	Balance at 31-12-2016
SJB Müllroser Baugesellschaft mbH	5,110	5,106
Udra Medios, S.A.U.	12,862	12,877
GSJ Solutions, S.L.	-	35
Total	**17,972**	**18,018**

10.2 Short-term provisions

At 31 December 2017 and 2016, 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 Contingencies

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 2017.

11. Financial debt

Breakdown of this item is as follows:

Year 2017:

	Thousands of Euros		
	Other financial liabilities with changes in income statement	**Debts and accounts payable**	**Total**
Syndicated loan (Note 11.2)	-	107,883	**107,883**
Total non-current liabilities	**-**	**107,883**	**107,883**
Other financial liabilities (Note 11.1)	-	90	**90**
Total current financial liabilities	**-**	**90**	**90**

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**

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

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 2017, the amount recorded amounts to EUR 213 million. During years 2017 and 2016, the Company voluntarily amortized EUR 6,295 thousand and EUR 916 thousand, respectively. Maturity of the outstanding amount shall be paid according to the following schedule:

Thousands of Euros		
Year 2018	**Year 2019**	**Total**
20,700	192,019	**212,719**

Quarterly settlement of accrued financial interest is established.

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

The Directors of the Company deem at 31 December 2017 that the Group meets all the requirements.

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

Pursuant to the modifying novation agreement of the debt of Grupo SANJOSE, the Company assumed a EUR 100 million participating loan on a 2% fixed interest rate to be increased up to 3% during the third and fourth year, and to 4% last year, with 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. 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.

At 31 December 2017 and 31 December 2016, the Group has real estate assets amounting to EUR 17,994 thousand and EUR 18,464 thousand, which guarantee the syndicated credit for EUR 34,176 thousand at both dates.

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 2017 and 2016 is as follows:

	Thousands of Euros	
	31-12-2017	**31-12-2016**
Current assets:		
VAT receivables	-	1,741
Income tax receivables	194	129
Total	**194**	**1,870**

Breakdown of tax receivables at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31-12-2017	**31-12-2016**
Current liabilities:		
VAT payables	438	-
Personal income payable	265	233
Offsetting tax	(540)	-
Social Security payables	80	79
Total	**243**	**312**

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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Profit/(Loss) before tax	600	(4,338)
Permanent differences		
Increase	382	2,730
Decrease	-	-
Prior taxable profit	**982**	**(1,608)**
BI not included in the accounting record	-	-
BI for the calculation of accounting expense	982	(1,608)
Prior setting 25%	**(246)**	**402**
Deductions	1	7
Income tax expense payable abroad	-	(6)
Income tax expense	**(245)**	**403**
Temporary differences		
Increase prepaid tax	-	1
Decrease prepaid tax	(1)	-
Increase deferred tax	-	-
To offset tax credit	(904)	151
To offset outstanding deductions	(421)	1,765
Payments on aacount	(2,122)	-
Amount (payable) / receivable	**(3,203)**	**2,018**
-Offset against tax group	(3,106)	2,018
-Tax credit	(97)	-

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. 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 46 thousand.

In 2016, as a consequence of Royal Decree Law 3/2016, as of 2 December 2016, incorporating into the tax legislation significant limitations in relation to the capacity of large companies to offset the negative tax bases that could have been generated in previous years, as well as the application of deductions, and required the tax reversion of the impairment of financial participations, which were tax deductible in the tax base prior to 1 January 2013, the Company proceeded to regularise the amount of tax credits and deferred assets and liabilities recorded in the balance sheet, registering a higher expense for corporate tax in this year amounting to EUR 37,724 thousand.

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.

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).

12.3. Deferred tax assets and liabilities

The detail of deferred tax assets under the balance sheet at 31 December 2017 y 2016, as well as main movements during years 2017 and 2016, are as follows:

Year 2017:

	Thousands of Euros			
	31.12.2016	**Tax for the year**	**Regularisation and other**	**31.12.2017**
Temporary differences on investment portfolio	-	-	-	-
Temporary differences on other items	2,372	-	(77)	2,295
Tax credit carry forwards	346	(421)	75	-
Tax losses carry forwards prior to the Group	2,429	-	-	2,429
Offset of tax loss carry forwards (Note 14.2)	33,138	(661)	(670)	31,807
Total	**38,284**	**(1,082)**	**(669)**	**36,531**

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**

The most significant amounts under "Deferred tax assets" at 31 December 2017 relate basically to credits for negative taxable bases pending to be offset and to be applied outstanding tax deductions.

The detail of deferred tax assets under the balance sheet at 31 December 2017 y 2016, as well as main movements during years 2017 and 2016, are as follows:

Year 2017:

	Thousands of Euros			
	31.12.2016	**Tax for the year**	**Regularisation and other**	**31.12.2017**
Translation differences for investment portfolio	182	(46)	1	137
Temporary differences in margins for group transactions	13,447	(95)	105	13,457
Payable to group companies for income tax (Note 14.2)	1,422	(437)	-	985
Total	**15,051**	**(578)**	**106**	**14,579**

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 in margins for 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**

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:

Generation year	Thousands of Euros
2008	26,059.00
2009	40,177.00
2010	0.05
2012	751.00
2013	10.00
2015	402,084.00
	469,081.05

At 31 December 2017 and 2016, the Company has recorded tax loss due to tax credit amounting to EUR 34,236 thousand and EUR 35,567 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 years 2016 and 2017. The most significant assumptions used to affect such Tax Plan at 31 December 2017, 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 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.

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 2017, in a given period of 9 years.

Deductions

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:

Deductions	Year	Thousands of Euros
Tax credits for donations	2017	0.60
Deduction for amortisation	2017	0.08
Double taxation tax credit	2016	6.00
Tax credits for donations	2016	0.60
Deduction for amortisation	2016	0.08
Double taxation tax credit	2015	23.00
Tax credits for donations	2015	0.50
Deduction for amortisation	2015	0.08
Tax credit for training activities	2011	0.10
Tax credit for training activities	2010	0.06
Tax credit for training activities	2009	0.08
		31.18

At 31 December 2017, the Company has partially recorded tax credits outstanding application.

12.4. Years open for review

Years open for review are as follows:

Tax	Years
VAT	2014-2017
Personal income tax	2014-2017
Income tax	2013-2016

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 2007.

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.”) by 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 said 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.

13. Revenue and expenditure

13.1 Net Revenue and other operating income

Net revenue by activity for years 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Income from holding activity (Note 14.1):		
Dividends reciieved	2,200	-
Financial incomes		133
Total	**2,300**	**133**

"Revenue from holding activity" includes mainly financial income from the financing granted to the investees, as well as the dividends received from them.

"Other operating income" in the accompanying income statement for years 2017 and 2016 amounts to EUR 21,574 thousand and EUR 17,745 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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Social security	770	763
Other social costs	341	322
Total	**1,111**	**1,085**

13.3 Staff costs

The average number of employees during years 2017 and 2016 is as follows:

	2017		2016	
Category	**Men**	**Female**	**Men**	**Female**
Executives	11	2	11	2
Managers	5	6	5	6
Clerical staff	11	18	9	16
Technicians	13	13	13	13
Total	**40**	**39**	**38**	**37**

The number of employees at 31 December 2017 was 79, of which 40 were men and 39 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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Rents and royalties	389	366
Independent professional services	607	517
Insurance premiums	302	352
Banking services and similar	2	1
Advertising, publicity and public relations	18	12
Utilities	3	4
Other Services	6,713	6,671
Total	**8,034**	**7,923**

"Other services" includes mainly services provided by companies of the Group amounting to EUR 5,986 thousand and EUR 5,754 thousand in years 2017 and 2016, respectively (see Note 14.1).

13.5 Audit fees

In 2017 and 2016 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 2017:

Description	Thousands of Euros
Audit fees	37.0
Other verification services	30.0
Total audit services and related services	**67.0**
Tax advisory services	-
Other Services	-
Total	**67.0**

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**

14. Transactions and balances of associates

14.1. Transactions with associates

The detail of transactions with associates during years 2017 and 2016 is as follows:

Year 2017:

	Thousands of Euros			
	Provision from services (13.1)	**Reception of services** (Note 13.4)	**Expenses Financial**	**Income financial** (Note 13.1)
Comercial Udra, S.A.U.	408	-	92	2,200
Pinos Altos X.R., S.L.	-	113	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	270	-	-	-
Cartuja Inmobiliaria, S.A.U.	420	-	-	-
Constructora San José, S.A.	15,076	5,986	2,375	-
San Jose Concesiones y Servicios, S.A.U.	540	-	35	-
San Jose Energía y Medio Ambiente, S.A.U.	239	-	-	81
Xornal de Galicia, S.A.U.	-	-	-	18
Udramedios, S.A.U.	-	-	139	-
Constructora Udra Limitada	828	-	-	-
Cadena de Tiendas, S.A.	-	-	17	-
San José Inmobiliaria Perú S.A.C.	406	-	-	-
Constructora San José Colombia, S.A.S.	1	-	-	-
Constructora San José Timor, Unipessoal Lda.	15	-	-	-
Concesionaria San Jose Tecnocontrol, S.A.	575	-	-	-
Constructora Sanjose Chile Ltda.	2,402	-	-	-
Fotovoltaica El Gallo, S.A.	112	-	-	-
Constructora San José Argentina, S.A.	70	-	-	-
Udra Mexico S.A. de C.V.	150	-	-	-
Other companies of the Group	62	-	1	1
Total	**21,574**	**6,099**	**2,659**	**2,300**

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	-	-	-
Constructora 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**

The amount of services rendered by the investee company "Constructora San José, SA" in 2017 and 2016 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:

Year 2017:

	Thousands of Euros				
	Long-term loans (Note 7.1)	**Trade receivables**	**Short-term Credits**	**Short-term Debts**	**Trade payables**
Comercial Udra, S.A.U.	-	41	-	1,917	-
San José Energía y Medio Ambiente, S.A.U.	400	120	2,011	-	-
San José Concesiones y Servicios, S.A.	-	54	-	577	-
Constructora Udra Limitada	-	139	-	-	-
Inversiones San José Andina Lda.	-	-	-	-	-
San José France, S.A.S.	-	1	-	-	-
Xornal de Galicia, S.A.	1,998	-	-	-	-
Cadena de Tiendas, S.A.U.	-	-	-	554	-
Constructora San José, S.A.	-	9,338	-	77,830	115
SJB Mullroser Baugeschellsaft	-	-	5,052	-	-
Udra Medios, S.A.U.	14,100	-	-	4,541	-
San José Inmobiliaria Perú S.A.C.	-	236	-	-	-
Constructora San José Colombia, S.A.S.	-	1	-	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	-	27	-	-	-
Constructora San José Cabo Verde, S.A.	-	214	-	-	-
Centro Comercial Panamericano, S.A	-	15	-	-	-
Soc. Concesionaria Chile Tecnocontrol	-	286	-	-	-
San Jose Constructora Chile Ltda.	-	4,334	-	-	-
Pinos Altos XR, S.L.	-	-	-	-	10
San José Tecnologías Chile Limitada	-	302	-	-	-
Cartuja Inmobiliaria, S.A.	-	42	-	-	-
Fotovoltaica El Gallo, S.A.	-	-	-	-	-
Udra México, S.A. de CV	-	259	-	-	-
GSJ Solutions, S.L.	38	-	-	135	-
Constructora San José Argentina, S.A.	-	357	-	-	-
Other companies of the Group	-	98	-	-	-
Balances with companies of the group by tax consolidation (Note 12)	**-**	**-**	**3,608**	**519**	-
Total	**16,536**	**15,864**	**10,671**	**86,073**	**125**

Year 2016:

	Thousands of Euros				
	Long-term loans (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	-	-	-
Constructora 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**

At 31 December 2017, the amount recorded under "Long-term Group loans and advances to companies", amounting to EUR 16,536 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 985 thousand and EUR 1,422 thousand at 31 December 2017 and 2016, 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 2017, 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 2017 the Company has receivables from and payables to partners, directors and executives amounting to EUR 90 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 2016, said amounts were EUR 5 thousand and EUR 98 thousand, respectively.

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 2017 and 2016, as well as the balance of payments to suppliers at 31 December 2017 and 2016:

	Year 2017	Year 2016
Average payment term to suppliers (days)	**33**	**25**
Ratio of paid transactions (days)	33	26
Ratio of transactions pending payment (days)	24	23
Total payments made (thousands of Euros)	12,556	8,219
Total pending payments (thousands of Euros)	518	3,359

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.

Finance 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 2017 and 2016 by the members of the Board of the Company is as follows:

	Thousands of Euros	
Type of Directors	2017	2016
Executive board members	2,407	2,296
Independent board members	230	130
Other external board members	18	27
Total	**2,655**	**2,453**

Total remuneration paid by the Company in years 2017 and 2016 of non-member executives amounts to EUR 344 thousand and EUR 761 thousand, respectively.

The Board of Directors of the Company is compromised of ten men and one women in 2017 and 2016.

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.
- 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 2017 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.

15.4 Explanation added for translation into English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain. Certain accounting practises applied by the Company that comply with that regulatory framework may not comply with other generally accepted accounting principles and rules.

16. Events after the reporting period

There are no significant events occurred after 31 December 2017 which may have impacted on the accompanying financial statements.

GRUPO EMPRESARIAL SAN JOSE, S.A. AND SUBSIDIARIES

Consolidated Directors' Report for the year ending 31 December 2017 that incorporates information related to Non-Financial Information and Diversity

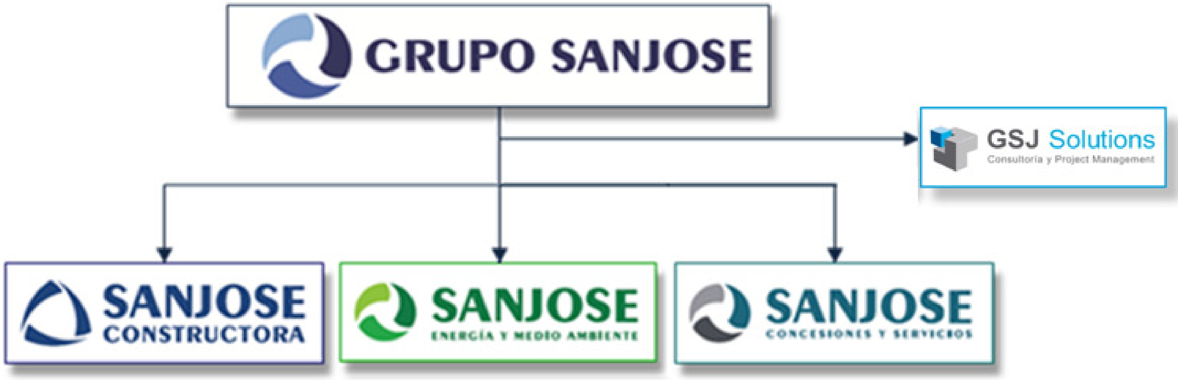
1. Situation of the Company

1.1. Organisational Structure

Grupo SANJOSE is arranged as a group of companies operating in different sectors. Since its foundation, the main business activity of the Group is construction, becoming even more important during the last years.

The main lines of activity developed by Grupo SANJOSE are the following:

- Construction
- Concessions and services
- Energy and environment
- Engineering and Project management



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 2017, 56.4% total revenue of the Group comes from overseas (58.9% in 2016).

The Group is present in more than 20 countries all around the world, especially in the Middle East and Latin America.

The main objective of the Group is to continue balancing the turnover, taking the construction activity as the main engine, increasing the weight in the international arena -powering the development in the countries where we are already present and in those of future penetration-, maintaining the levels of quality in the production and customer's and supplier's satisfaction, that have positioned Grupo SANJOSE as a reference in the market, analyzing and encouraging the application of innovations and technological progress, and maintaining a reduced level of costs that guarantees the profitability of the projects.

2. <u>Evolution of the market</u>

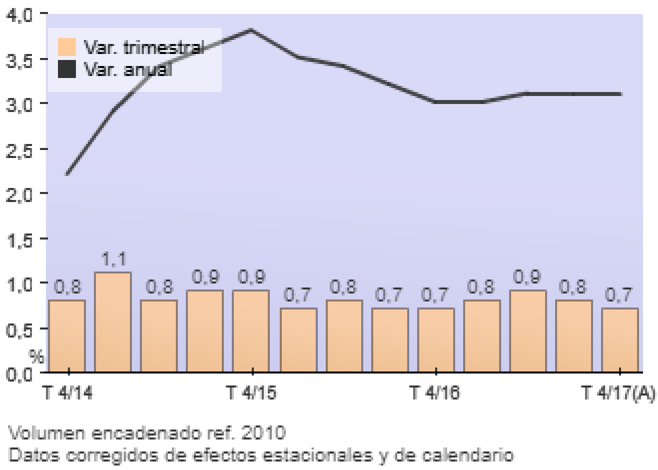
2.1. Market performance

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.

Since 2013, there has been a turning point in the domestic economy, technically coming out of recession. During 2014 and 2015, an upward trend was maintained. In the 2016, according to data from the National Institute of Statistics (INE), gross domestic product (GDP) growth reached 3.2%. The gross domestic product (GDP) grew by 0.8% in the first three months of 2017, which implies exceeding, for the first time, the 1,116 billion registered in 2008. In that year, the last production record of goods and services was recorded in Spain. This means that the economy has accelerated compared to the last quarter of 2016 when it grew by 0.7%. The gross domestic product of Spain in the fourth quarter of 2017 has grown 0.7% with respect to the previous quarter. This rate is 1 tenth less than that of the third quarter of 2017, when it was 0.8%. The interannual variation of the GDP has been 3.1%, then there has been no change since the previous quarter, which adds four years of recovery and three consecutive years growing above 3%.

As a result, at the International Monetary Fund (IMF) meeting held in spring, was anticipated a growth of 2.4% for 2018 and 2.1% for 2019 for Spain. In any case, this slowed growth would mean a significant slowdown, to 2017, which closed with an increase of the GDP of 3.1%. The IMF has decided to revise upwards its growth forecast this year of all the major economies of the world except Spain, due to the impact of "political uncertainty". If in its last auguries of October it predicted a growth of 2.5% for this year, this time it drops one tenth to 2.4%, and it increases another one for 2019, to 2.1%. This shows a deeper downturn in the face of the upturn in activity in 2017, which was finally 3.1% as forecast by the institution based in Washington. This is how it appears in the update of forecasts presented in Davos (Switzerland) at the start of the annual meeting of the World Economic Forum. Although not mentioned in the report, the chief economist of the IMF, Maurice Obstfeld, has pointed out that the situation of the Spanish economy "is definitely due to Catalonia."

Gross Domestic Product. GPD



Source: INE

The main causes of this growth have been the increase of the tourism sector, the moderate increase in domestic consumption and the progressive de-indebtedness of Spanish families (supported by the notable improvement in expectations and financial conditions, as well as in the decline of the prices of the last exercise). The creation of jobs is precisely the main driver of GDP. Although these are largely precarious jobs, this employment increase is directly transferred to the disposable income of households and, therefore, to consumption. The good performance of the foreign sector is also one of the main reasons for the recovery.

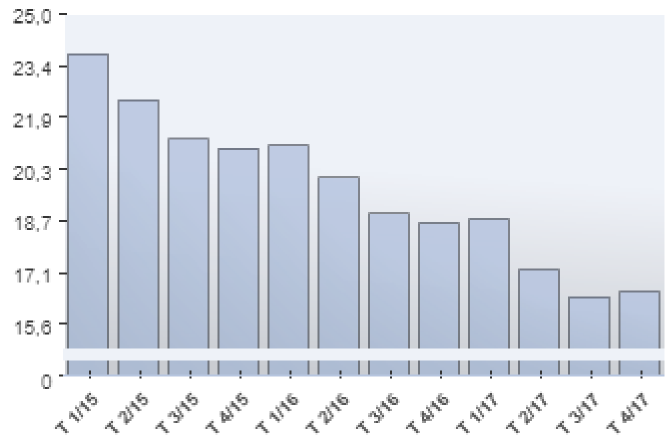
The influence of the construction sector on the cycle of global economic activity in Spain is very significant. Over the past few years, its role has been reduced by the current situation. Its importance lies in the drag effect of the construction sector on the whole economy, for the impact on suppliers and because it provides the country with the necessary measures to enable the economy infrastructure, thus contributing to the increase the productivity and the long-term growth capacity of the economy in general.

The change in the trend of the Spanish economy has been well seen from the outside. As a consequence, the risk perception of the foreign investor, which is translated into the risk premium (the difference between the 10-year Spanish bond with regards to the German bond for the same term, the most used indicator to quantify the risk) that had already closed the first quarter of 2017 at 138 points, what already represented a slight decrease compared to the end of 2016 and a return to 2015 levels, has closed 2017 at 114 points, what confirms the improvement in international perception.

Therefore, economic activity shows signs of recovery although these signs are not sufficient for the country to be fully recovered. So that the change tendency that has taken place in the domestic economy consolidates, the improvement of aspects such as employment, public debt and public deficit must be maintained.

With regard to employment, in 2017 the unemployment decline of previous years was maintained, being the unemployment figure 16.55%:

Labour Force Survey. Unemployment rate (%)



Source.: INE

The unemployed fell in 2017, but not as much as in 2015 and 2016. The total number of unemployed registered in the offices of public employment services stood at the end of December 2017 at 3.41 million people, after decreasing by 290,193 unemployed people in the whole year (-7.84%). Thus, 2017 adds a fifth consecutive annual decline, although with a decrease lower than that reached in the two previous years.

By economic sectors, registered unemployment decreased in 2017 in all sectors: especially in Construction (-16.42%) and Industry (-11.29%), followed by Agriculture (-8.42%) and Services (-6.14%).

In November the public debt has grown by 9,044 million euros compared to October 2017, so that it has gone from 1,133,757 million to 1,142,801 million. Thus, the debt in November was 99.23% of GDP and the debt per capita, which has increased this month, has been EUR 24,550. If we compare it with the one of November 2016, we see that, in the last year, the debt has grown EUR 859 per inhabitant. Public debt in Spain has decreased in the third quarter of 2017 by 1,688 million euros and stands at 1,136,171 million. This figure means that the debt reached 98.7% of GDP in Spain, while in the previous quarter, second quarter of 2017, it was 99.8%.

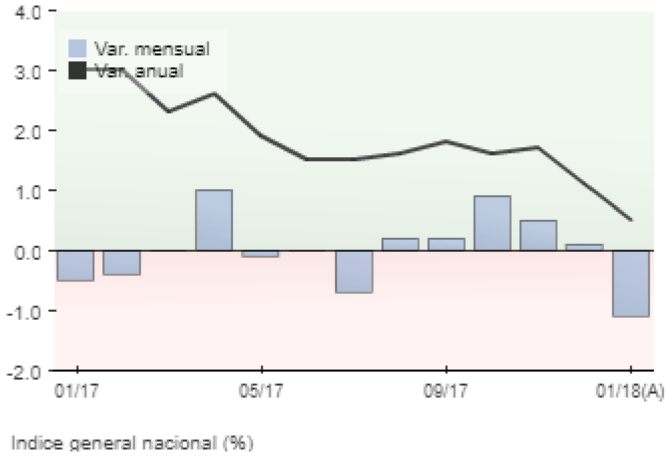
With regards to public deficit, the closure of 2016 was positive for Spain: it met the deficit target of Public Administrations marked by European institutions. However, Spain is the EU country with a greater difference between public revenue and expenditure. The deficit last year reached 4.5% (4.3% excluding banking aid). The State deficit decreased by 31.6% in May compared to the same period of the previous year and stood at EUR 16,161 million, equivalent to 1.39% of GDP, thanks to the increase arising from the measures to increase corporate income tax.

As for the public deficit, the figure for 2016 stood at 5.51%. In the third quarter of 2017 amounted to 1.5%, which is 1.3 points less than at the end of the same quarter a year ago when it was 2.88%. The Minister of Finance and

Public Service, Cristóbal Montoro, said in November that Spain would close 2017 with a public deficit of 3% of GDP, one tenth below what was foreseen in the latest budget plan sent to Brussels. If this information is confirmed, Spain would be at the door of the exit of the excessive deficit procedure in which it is found to have a deficit of more than 3%.

In terms of inflation, Spain's Consumer Price Index (CPI) in December 2017 was 1.1%, six tenths less compared to November 2017, and one tenth less of what the INE has advanced during December 2017:

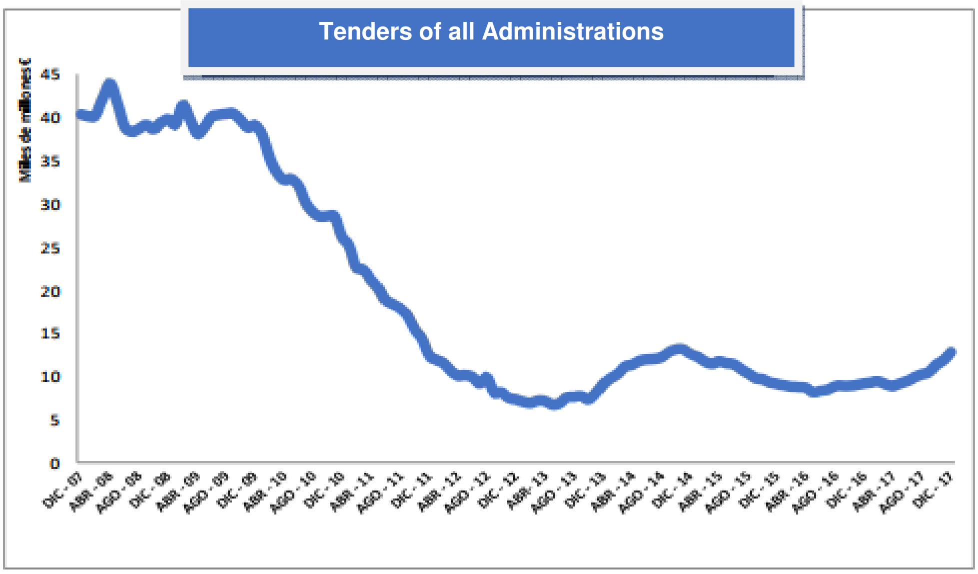
Consumer price index.



Source.: INE

This decrease in the CPI, is related to the price of transportation fuels increase in December, an interannual rate of 3%, much less than a year ago, when they experienced an interannual increase of 8.5% . The same does not happen with home fuels, which last month became more expensive than the previous year. However, in the housing chapter, electricity is heavier, which fell 0.2% in December compared to the same month in 2016, while it was up an interannual 3.7% compared to one year earlier. These movements cause the inflation rate of the housing chapter to stand at 1.3%, one point less than in November, while the transport rate falls from 3.5% in November to 1.9%.

The main domestic market in which the Group operates, construction, remains heavily affected by the recession, although there are indications of the country's economic recovery that are beginning to be seen. During 2017, it maintained a level of tenders similar to that of 2016, given the continuity of the public policy of reduction of the investment, of reduction of investment, by the adjustments to reach the objectives of deficit imposed by The European Commission (12,847 million SEOPAN data).



Source.: SEOPAN

Grupo SANJOSE is present in the Middle East, South America and Asia. At the close of 2017, the foreign business volume stood at 56.4% of the Group's total turnover compared to 58.9% in 2016.

The world economy will grow by an average of 3.9% in 2018, two tenths more than last October, thanks to the improvement in the last few months in the United States, the Eurozone, Japan and South Korea, among others. The IMF now bet that the US will grow by 2.7%, four tenths more than expected in October: Germany, 2.3%, five tenths more; and the Eurozone in general, 2.2%, three tenths more. Among the emerging countries, the positive perspectives of Latin America stand out (1.9% this year and 2.6% in 2019), thanks to the improvements in Mexico and the solid recovery in Brazil. Also emerging countries of emerging Europe, such as Poland or Turkey, framed in that region, and the maintenance of Asia at not inconsiderable levels of 6.5%.

With this macroeconomic situation, the Group's basic lines of activity are the effort to improve profitability, being flexible in adapting its structure to the reality existing in Spain, and strengthening its intention to present a business with a diversification and growing 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 1,630 million, ensuring its medium and long-term future, both in the execution of work, and in the realisation and provision of services in concession and energy projects.

2.2. Main figures of the GROUP

Main consolidated figures of Grupo SANJOSE for the first half of 2017 are as follows:

Consolidated Management Balance Sheet

Thousands of euros

	Dic. 17		Dic. 16		
	Amount	%	Amount	%	Var.
Intangible assets	19,581	2.0%	20,557	2.0%	-4.7%
Property, plant and equipment	45,349	4.7%	45,900	4.5%	-1.2%
Real state investments	3,297	0.3%	4,711	0.5%	-30.0%
Investments accounted	50,373	5.2%	53,121	5.2%	-5.2%
Long term finantial investments	123,481	12.8%	150,947	14.7%	-18.2%
Deferred taxes assets	35,135	3.6%	32,839	3.2%	7.0%
Goodwill on consolidation	9,984	1.0%	9,984	1.0%	0.0%
TOTAL NON-CURRENT ASSETS	**287,200**	**29.8%**	**318,059**	**31.1%**	**-9.7%**
Non current assets held for sale	0	0.0%	4,186	0.4%	
Inventories	104,704	10.9%	104,122	10.2%	0.6%
Trade and other receivables	261,132	27.1%	242,529	23.7%	7.7%
Other short term finantial investments	91,206	9.5%	101,884	10.0%	-10.5%
Cash and cash equivalents	220,134	22.8%	251,839	24.6%	-12.6%
TOTAL CURRENT ASSETS	**677,176**	**70.2%**	**704,560**	**68.9%**	**-3.9%**
TOTAL ASSETS	**964,376**	**100.0%**	**1,022,619**	**100.0%**	**-5.7%**

Thousands of euros

	Dic. 17		Dic. 16		
	Amount	%	Amount	%	Var.
Equity attributable to shareholders of the parent (*)	58,645	6.1%	60,737	5.9%	-3.4%
Minority interest	20,866	2.2%	21,297	2.1%	-2.0%
TOTAL EQUITY	**79,511**	**8.2%**	**82,034**	**8.0%**	**-3.1%**
Long term provisions	30,313	3.1%	28,963	2.8%	4.7%
Long term finantial liabilities	311,623	32.2%	383,617	37.5%	-18.8%
Long term derivative finantial contracts	591	0.1%	906	0.1%	-34.7%
Deferred taxes liabilities	19,541	2.0%	15,491	1.5%	26.1%
Other long term liabilities	904	0.1%	965	0.1%	-6.3%
TOTAL NON CURRENT LIABILITIES	**362,972**	**37.6%**	**429,942**	**42.0%**	**-15.6%**
Short term provisions	37,895	3.9%	42,386	4.1%	-10.6%
Short term finantial liabilities	65,828	6.8%	63,724	6.2%	3.3%
Trade accounts and other current payables	418,170	43.4%	404,533	39.7%	3.4%
TOTAL CURRENT LIABILITIES	**521,893**	**54.1%**	**510,643**	**50.0%**	**2.2%**
TOTAL EQUITY & LIABILITIES	**964,376**	**100.0%**	**1,022,619**	**100.0%**	**-5.7%**

(*) **Management Net Equity:** EUR 107.8 million and EUR 104.7 million have been recorded under this item at 31 December 2017 and 31 December 2016, respectively, as shareholder loan of Grupo Empresarial San José, S.A.

Consolidated Management Income Statement

Thousands of euros

	Grupo SANJOSE			
	Dic. 17		Dic. 16	
	Amount	%	Amount	%
Revenue	**682,868**	**100.0%**	**613,394**	**100.0%**
Other operating income	9,382	1.4%	9,754	1.6%
Change in i nventories	-2,235	-0.3%	-5,177	-0.8%
Procurements	-462,034	-67.7%	-402,791	-65.7%
Staff costs	-103,034	-15.1%	-94,706	-15.4%
Other operating expenses	-78,688	-11.5%	-74,549	-12.2%
EBITDA	**46,259**	**6.8%**	**45,925**	**7.5%**
Amortisation chargue	-6,762	-1.0%	-5,819	-0.9%
Imparment on inventories	-2,078	-0.3%	862	0.1%
Changes in trade provisions and other imparment	-6,357	-0.9%	-15,893	-2.6%
EBIT	**31,063**	**4.5%**	**25,076**	**4.1%**
Ordinary finantial results	-6,158	-0.9%	-6,229	-1.0%
Foreign exchangue results and others	-2,328	-0.3%	-92	0.0%
NET FINANTIAL RESULT	**-8,458**	**-1.2%**	**-6,321**	**-1.0%**
Results on equity method	-210	0.0%	953	0.2%
PROFIT BEFORE TAX	**22,395**	**3.3%**	**19,708**	**3.2%**
Income tax	-10,127	-1.5%	-11,636	-1.9%
CONSOLIDATED PROFIT	**12,268**	**1.8%**	**8,072**	**1.3%**

Alternative Performance Measures (MAR):

In the consolidated financial statements for the year ending 31 December 2017, the Group presents its results in accordance with generally accepted accounting standards (IFRS - see Note 2.1 of the accompanying consolidated notes). However, directors of the Group believe that certain alternative performance measures (MARs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and therefore must be considered to adequately assess the performance of the Group.

Among others, the Group identifies the following MARs:

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

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

  (*) The Group does not include as bank financial debt the derivative of the syndicated loan agreement of "Grupo Empresarial San José, SA", amounting to EUR 107.8 million and EUR 104.7 million have been recorded under this item at 31 December 2017 and 31 December 2016, respectively, as shareholder loan of Grupo Empresarial San José, S.A.

- **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:

The revenues of Grupo SANJOSE for the year 2017 rises to 682.9 million euros, which supposes an increase of 11.3% over the previous year.

The main activity of Grupo SANJOSE is Construction, which represents 88% of the total revenues for the period, and 56% of the total portfolio of the Group at the end of 2017. The revenues of this line of activity in 2017 it stood at 601 million euros, experiencing an increase of 11.8% with respect to the figure obtained in the previous year.

Revenue of Grupo SANJOSE by type of activity is as follows:

Thousands of euros

	Grupo SANJOSE				
Revenues by activity	**Dic. 17**		**Dic. 16**		**Var.(%)**
Construction	600,994	88.0%	537,354	87.5%	11.8%
Real estate and property development	6,769	1.0%	15,673	2.6%	-56.8%
Energy	11,165	1.6%	10,191	1.7%	9.6%
Concessions and services	47,740	7.0%	39,455	6.4%	21.0%
Adjustment and other	16,200	2.4%	10,721	1.7%	
TOTAL	**682,868**		**613,394**		**11.3%**

As it has been happening in the recent years, the importance of the international market for Grupo SANJOSE stands out. In 2017, it contributed with 56% of the Group's total revenues, increasing by 6.7% with respect to 2016.

There is also a recovery of the national market, experiencing an increase of 18% compared to 2016.

Thousands of euros

	Grupo SANJOSE				
Revenues by geography	**Dic. 17**		**Dic. 16**		**Var.(%)**
National	297,444	44%	252,063	41%	18.0%
International	385,424	56%	361,331	59%	6.7%
TOTAL	**682,868**		**613,394**		**11.3%**

Profit:

The **operating profit (EBITDA)** of Grupo SANJOSE for the year 2017 amounts to 46.3 million euros, representing a margin of 6.8% over the net amount of the turnover.

The EBITDA in the Construction activity, contributed in the year 2017 with an amount of 32.7 million euros, representing 70.8% of the Group's EBITDA.

It should also be noted the good evolution experienced in the lines of activity of Energy and Concessions and Services, where in 2017 an increase in EBITDA of 24% and 27.2%, respectively, is evident.

Breakdown of EBITDA by sector for 2017 is as follows:

Thousands of euros

EBITDA by activity	Grupo SANJOSE Dic. 17		Dic. 16		Var.(%)
Construction	32,695	70.8%	33,268	72.5%	-1.7%
Real estate and property development	1,784	3.9%	6,536	14.2%	-72.7%
Energy	3,576	7.7%	2,883	6.3%	24.0%
Concessions and services	1,614	3.5%	1,269	2.7%	27.2%
Adjustment and other	6,590	14.2%	1,969	4.3%	
TOTAL	**46,259**		**45,925**		**0.7%**

The **net operating profit (EBIT)** of Grupo SANJOSE for the year 2017 amounts to 31.1 million euros, representing a margin of 4.5% over the net amount of the turnover

The **Profit after tax** of Grupo SANJOSE at the end of 2017 amounts to 12.3 million euros, which is a positive result that grows for the third consecutive year.

Net equity

The net equity of Grupo SANJOSE at December 31, 2017 stands at -28.3 million euros, the main variation with respect to the amount shown in December 2015 being that corresponding to the results of the period.

At December 31, 2017, the Group's Net Equity is composed of 65.0 million shares, which implies a participation of -0.44 € per share in said equity.

The stock market evolution and any other related information may be seen in note 9 of the accompanying directors' report.

Cash Flow

Thousands of Euros

CASH FLOW	Grupo SANJOSE Dic. 17	Dic. 16
Cash flow from operating activities	49,874	47,678
Working capital	-18,156	39,042
Others adjustments	-8,206	-10,896
Operating cash flow	**23,512**	**75,823**
Divestments / (Investments)	-1,867	-10,219
Others adjustments	36,200	6,324
Investment cash flow	**34,333**	**-3,895**
Free cash flow	**57,845**	**71,928**
Capital flow & Minorities	-1,030	-801
Increase / (Decrease) in borrowings	-67,565	-44,060
Net interest	-6,410	-4,666
Others adjustments	-14,544	-2,396
Financing cash flow	**-89,550**	**-51,923**
Total cash flow	**-31,705**	**20,005**

In 2017, the resources generated by operations amounted to 49.8 million euros, an increase of 4.6% with respect to 2016.

Noteworthy is the decrease in the financial leverage: in the year 2017 it has been reduced by 67.6 million euros, 53.3% higher than the reduction in 2016.

Backlog

The backlog of Grupo SANJOSE, which indicates the Group's future contracted business, amounts to EUR 1,630 million at December 31, 2017. The detail is as follows:

Millions of euros

BACKLOG by segment	Grupo SANJOSE Dic. 17		Dic. 16		Var.(%)
Construction	**916**	**56%**	**1,134**	**60%**	**-19.2%**
Civil works	176	10.8%	214	11.4%	-17.7%
Non residential building	537	32.9%	720	38.2%	-25.3%
Residential building	195	11.9%	195	10.4%	-0.3%
Industrial	8	0.5%	7	0.3%	22.5%
Energy	**496**	**30%**	**507**	**27%**	**-2.1%**
Concessions and services	**218**	**13%**	**248**	**13%**	**-12.2%**
Maintenance	18	2%	23	1%	-20.6%
Concessions	200	12%	226	12%	-11.7%
TOTAL BACKLOG	**1,630**	**100%**	**1,889**	**100%**	**-13.7%**

Millions of euros

BACKLOG by geography	Grupo SANJOSE Dic. 17		Dic. 16		Var.(%)
National	**909**	**56%**	**872**	**46%**	**4.3%**
International	**720**	**44%**	**1,017**	**54%**	**-29.2%**
TOTAL BACKLOG	**1,630**		**1,889**		**-13.7%**

Millions of euros

BACKLOG by client	Grupo SANJOSE Dic. 17		Dic. 16		Var.(%)
Public client	**916**	**56%**	**1,215**	**64%**	**-24.6%**
Private client	**714**	**44%**	**674**	**36%**	**5.9%**
TOTAL BACKLOG	**1,630**		**1,889**		**-13.7%**

At December 31, 2017, the Group's backlog amounts to 1,630 million euros. The reduction experienced with respect to the end of 2016 is mainly due to variations in the perimeter.

The Construction backlog, the main activity of the Group, represents 56% of the total portfolio.

2.3. Analysis by sector

Construction

This construction line of activity has generated revenues for EUR 601million during 2017, representing a 11.8% increase compared to the previous year.

EBITDA for 2017 stands at EUR 32.7 million, representing a 5.4% margin on sales.

The net operating profit reached EUR 23.2 million, achieving a growth of 62% with respect to that obtained in 2016 and representing a margin over sales of 3.9%.

Likewise, the result before taxes grew 65.2% with respect to the previous year and stood at EUR 13.5 million.

At the end of 2017, project backlog for this line of activity amounts to EUR 916 million.

Thousands of euros

	Grupo SANJOSE		
CONSTRUCTION	**Dic. 17**	**Dic. 16**	**Var.(%)**
Revenue	600,994	537,354	11.8%
Earnings before interest, taxes, D&A (EBITDA)	32,695	33,268	-1.7%
EBITDA margin	5.4%	6.2%	
Earnings before interest and taxes (EBIT)	23,179	14,308	62.0%
EBIT margin	3.9%	2.7%	
Earnings before tax of continued operations	13,474	8,155	65.2%

Revenue breakdown for this line of activity of Grupo SANJOSE, taking into consideration the main types of business, as well as the geographical distribution, is as follows:

Thousands of euros

DETAIL OF CONSTRUCTION REVENUES	**National**		**Internac.**		**Total**	
Civil works	13,347	5.4%	25,804	7.3%	39,151	6.5%
Non residential building	170,198	69.2%	258,539	72.7%	428,738	71.2%
Residential building	48,989	19.9%	70,140	19.7%	119,128	19.8%
Industrial	13,270	5.4%	707	0.2%	13,977	2.3%
TOTAL	**245,804**	**41%**	**355,190**	**59%**	**600,994**	

Construction revenue at international level for 2017 stands at EUR 355.2 million, recording a 7.6% increase compared to the same period of the previous year, and representing 29% total revenue of this line of activity.

On the other hand, sales at domestic market stand at EUR 245.8million compared to EUR 207.4million for the same period of the previous year, recording a 18.5% increase. Domestic sales represent 41% total sales of this line of activity.

Real estate

The Real Estate activity of Grupo SANJOSE in 2017 was conditioned by the lower delivery of homes produced during the year 2017, as at the end of 2016 the deliveries were completed in the promotion of Parques de la Huaca, in Lima (Peru).

In 2016, the Group acquired a new land (also in Lima, Peru), having worked on its development during the year 2017, and planning to begin the construction phase in the first half of the year 2018.

Revenue for 017 for the real estate activity of Grupo SANJOSE stands at EUR 6.8 million.

There was a 56.8% decrease in sales of this line of activity with respect to the previous year, for the reasons explained above.

EBITDA amounts to 1.8 million euros, and the result before taxes reaches the figure of 3.2 million euros.

Thousands of euros

	Grupo SANJOSE		
REAL ESTATE AND PROPERTY DEVELOPMENT	**Dic. 17**	**Dic. 16**	**Var.(%)**
Revenue	6,769	15,673	-56.8%
Earnings before interest, taxes, D&A (EBITDA)	1,784	6,536	-72.7%
EBITDA margin	26.4%	41.7%	
Earnings before interest and taxes (EBIT)	1,418	7,468	-81.0%
EBIT margin	21.0%	47.6%	
Earnings before tax of continued operations	3,217	10,527	-69.4%

Energy

Net revenue for 2017 stands at EUR 11.2 million.

EBITDA increases up to EUR 3.6 million.

The EBITDA percentage over total sales for this line of activity for 2017 stands at 32%, improving that for the previous year, what represents stability and recurrence.

EBIT for 2017 increases up to 35.8% with regard to 2016.

Thousands of euros

	Grupo SANJOSE		
ENERGY	**Dic. 17**	**Dic. 16**	**Var.(%)**
Revenue	11,165	10,191	9.6%
Earnings before interest, taxes, D&A (EBITDA)	3,576	2,883	24.0%
EBITDA margin	32.0%	28.3%	
Earnings before interest and taxes (EBIT)	1,924	1,417	35.8%
EBIT margin	17.2%	13.9%	
Earnings before tax of continued operations	1,434	116	1140.2%

Grupo SANJOSE has for this line of activity at the end of 2017 a contracted backlog amounting to EUR 496 million, which are materialized as higher activity of the Group in an average period of approximately 25 years.

The reduction of the backlog with respect to the one existing at the end of 2016 is derived mainly from the normal production and exploitation of contracts in force maintained by Grupo SANJOSE, as well as by the periodic review carried out by the Group due to the effect of the regulatory and financial modifications, the estimated demand and occupation levels.

Concessions & Services

Net turnover for 2017 stands at EUR 47.7 million.

There is an improvement in the revenues of this line of activity of 21% and EBITDA grew by 27.2% to reach 1.6 million euros, representing a margin of 3.4% on the sales figure.

The result before taxes for the year 2017 is a profit of 8.7 million euros.

At the end of 2017, contracted backlog of the Group for this line of activity amounts to EUR 218 million.

Thousands of euros

CONCESSIONS AND SERVICES	Grupo SANJOSE Dic. 17	Dic. 16	Var.(%)
Revenue	47,740	39,455	21.0%
Earnings before interest, taxes, D&A (EBITDA)	1,614	1,269	27.2%
EBITDA margin	3.4%	3.2%	
Earnings before interest and taxes (EBIT)	828	225	267.5%
EBIT margin	1.7%	0.6%	
Earnings before tax of continued operations	8,735	9,077	-3.8%

2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2017 with an average payment term of approximately 48 days. This figure is within the average legal period established by law 15/2010 which is 30 days, extended to 60 days in those cases with agreements between the parties.

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.

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 2017, net cash position is as follows:

Thousands of euros

NET CASH POSITION	Dic. 17 Amount	%	Dic. 16 Amount	%	Var.
Other short term finantial investments	91,206	29.3%	101,884	28.8%	-10.5%
Cash and cash equivalents	220,134	70.7%	251,839	71.2%	-12.6%
Total cash	**311,340**	**100%**	**353,723**	**100%**	**-12.0%**
Long term finantial liabilities (*)	311,623	82.4%	383,617	85.1%	-18.8%
Long term derivative finantial contracts	591	0.2%	906	0.2%	-34.7%
Short term finantial liabilities	65,828	17.4%	66,344	14.7%	-0.8%
Total debt	**378,042**	**100%**	**450,867**	**100%**	**-16.2%**
TOTAL NCP	**66,702**		**97,143**		**-31.3%**

(*) 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 cash position at 2017 amounts to EUR 66.7 million compared to EUR 97.1 million at 31 December 2016, which represents a reduction of 7.5%.

There was a reduction in the liabilities of 16.2%, mainly due to the periodic maturity and annual amortization of the bond issue that finances the concession of the two hospitals in Chile, as well as the start in 2017 of the amortization phase of the syndicated debt in Spain.

Net cash position at 31 December 2017 includes the funding of other non-recourse projects of Grupo SANJOSE for EUR 143.3 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 2018. 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

The main obligations which the Group is exposed to are those deriving from financing agreements (see Note 16 of the accompanying notes), as well as the intrinsic obligations of construction and service contracts with clients. There are no future commitments of investment or purchase of assets for significant amounts.

4. <u>Main risks</u>

The Group operates in sectors, countries and socio-economic and legal environments that involve the assumption of different levels of risk caused by these conditions. The Company manages these risks in order to avoid involving a loss of profitability for its shareholders or cause trouble to customers. In order to exercise this control, the Group has a risk management function through which it: i) identifies; Ii) measures; Iii) controls; Iv) monitors and, v) evaluates, the different types of risk from an integrated and global perspective.

Operational risks

Main risks arising from the activity of the Group are the market risk (those related to the sufficiency of the demand for services and products), the regulatory and political risk, laboral risk, environmental risk, maintenance of quality and adequacy to the established contractual framework with clients, etc.

In the phase of projects acceptance, and in order to be able to guarantee its realization according to the established contractual parameters, with parameters of maximum quality, guaranteeing the satisfaction of the client and meeting the minimum profitability levels required, an individualized study is made of each project.

Additionally, the Group holds an International Tax and Legal Department, which analys the potential impact of different regulatory frameworks in the activity of the Group, due to its growing internalization, as a way to avoid risks arising from local regulations.

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 January 30, 2018, the Extraordinary General Shareholders' Meeting of the associated company "Distrito Castellana Norte, S.A." was held, decided the share capital increased by a total amount of 18,871 thousand euros. Grupo SANJOSE, through "Desarrollos Urbanísticos Udra, S.A.U." subscribed and fully disbursed a total of 15,386 shares, corresponding to 24.46% of the share capital, amounting to 4,624 thousand euros.

There are no events subsequent to 31 December 2017 that could have any impact on these consolidated financial statements.

6. Future outlook

The change of trend in the economic cycle of Spain during the last years, together with the growth forecasts for the 2018 and 2019 years, and the improvement of GDP in 2016 and 2017, suggests that the domestic economy will maintain in 2018 the path of recovery initiated in the last year, within a framework of global 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 sense, in 2017, the Group is working on the achievement of new projects, which accompany those already awarded in 2016 that are already being developed during the year. In 2016, the Group was awarded the first phase of the residential Mamsha Al Saadiyat to SANJOSE, in a 50% joint venture with Pivot Engineering & General Contracting, for 300 million euros (1,250 million AED - dirhams of the United Arab Emirates), as well as as of the work of earthworks and soil stabilization of the Navi Mumbai airport, in a 50% joint venture with GVK Projects & Technical Services Ltd, with an approximate budget of 105 million euros. Additionally, the Group was also awarded the construction of a new resort in Cabo Verde, specifically on the island of Boavista. The 5 star White Sands Hotel & Spa will have a constructed area of 70,606 m² on a plot of 130,500 m².

During 2017, the Judiciary Administrative Corporation of the Ministry of Justice of Chile, has awarded Grupo SANJOSE, for an amount of approximately 25 million dollars, the execution of the new Judicial Center of La Serena in the province of Coquimbo (Chile), work that has begun in the last quarter of the year. Additionally, during 2017, the Group has been awarded the Mexican Institute of Social Security (IMSS) the project and integral work related to the emergency program for the rehabilitation of two hospitals in the states of Puebla and Morelos that suffered significant damage after the earthquake that hit the country on September 19, 2017. The Group has also been awarded the project and construction of the expansion of the Belgrano water treatment plant in Buenos Aires (Argentina) to the JV formed by SANJOSE Constructora and de Desalinización de Agua, which is one of the largest undertakings in water developed in the district and amounts to an investment of more than 130 million dollars, which will be financed by the National State and the Development Bank of Latin America (CAF), as well as the new headquarters of the Central Bank of Cape Verde, for 16.7 million euros to SANJOSE Constructora Cabo Verde in joint venture with SGL - Sociedade de Construções, designed by the Pritzker Álvaro Siza Vieira Prize.

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.

During 2017, within the strategy of expanding the portfolio of services in the domestic market, the Group was awarded by the Ministry of Development, to the JV formed by SANJOSE Constructora and Eifagge Infraestructuras, the execution of various operations of conservation and exploitation of the CC-3 sector of Cáceres, Extremadura. The contract involves the integral conservation and maintenance of state-owned roads for 4 years, of 254 kilometers in length.

In addition, the awarding of the construction work for the new building of the NH de Málaga hotel stands out, which will involve the construction of a ground floor property with 4 floors and a capacity for 115 rooms, as well as the award by the Secuoya communication group to SANJOSE Constructora, of the works to build in Tres Cantos (Madrid), a large business project called Ciudad de la Tele.

A big 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 1,630 million, its organic stability is ensured, foreseeing to maintain the average size of projects, trying to seize new opportunities, both in Spain and in foreign countries, especially in those where it has presence and knowledge.

The Group is not estimated, based on information available to date, to face risk and / or uncertainty substantially different from those already taken place in year 2017.

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

Grupo SANJOSE aspires to be a reference in technological development. The type of activities carried out by the Group requires continuous innovation, both due to the evolution of the technology surrounding the projects and to the Group's strategy, which is committed to the introduction in new markets that demand high added value and technical specialization.

The R&D system of Grupo SANJOSE addresses the application of new construction technologies, the optimisation of procedures and services, the usage of innovation as main searching tool for the implementation of new improvement opportunities, the promotion of new technologies and the cared protection of the environment. The company has implemented a working method based upon guidelines set out by UNE 166002. This method allows the optimisation of activities and R&D&i Project, as well as defining documentation and management.

Among the main strategic technology areas for the development of R&D&i projects, highlight, among others, technology applicable to building and civil works, renewable energy and energy efficiency, new materials and construction processes, development of tools for the improvement in the provision of maintenance and services. Within the portfolio of projects of the last year, of special importance is the project for detection and dissipation of fog by hygroscopic agents, financed by the Industrial Technology Development Centre under file number IDI-20150870 and within the framework of the INNODEMANDA programme.

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 organisation 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.

8. Treasury share transactions

The Company hand not carried out transactions involving treasury shares at 31 December 2017 and 2016.

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:

	2017	2016
*Capitalization ** *(thousands of shares)*	230,843	210,034
Nº of shares *(x 1.000)*	65,026	65,026
Last price of the period *(euros)*	3.55	3.23
Last price of the period *(euros)*	3.55	3.23
Higher price of the period *(euros)*	4.7	4.95
Lower price of the period *(euros)*	2.58	0.7
Volume *(thousands of shares)*	92,077	119,561
Actual *(thousands of euros)*	333,066	306,897

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

Source.: Bolsas y Mercado Españoles (BMEX)

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 to compensate the 2017 benefit, amounting to 401 thousand euros, with of "Negative results from previous years".

10. Non-Financial Information

Through the present state of non-financial information, Grupo SANJOSE aims to inform on environmental, social and human resources issues, as well as information related to human rights, and the company's efforts to fight against corruption and bribery.

10.1. Business model

Grupo SANJOSE is structured as a conglomerate of companies that act in diverse sectors worldwide. Since its foundation, the core of activity has been construction.

The Group has its headquarters and central offices in Spain. However, it operates in more than 20 countries throughout the 5 continents.

The Group's business model is designed with the aim of seeking diversification, both by activity and geographical area, achieving a lower exposure to the risks inherent in a single type of activity or to geographical concentration.

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

10.2. Lines of activity

The main lines of activity developed by the Group are the following:

- Construction
- Concessions and services
- Energy and environment
- Engineering and Project management

Construction

Since its foundation, Grupo SANJOSE has been identified as a construction group, covering construction work, as well as civil works and industrial construction, standing out for the high level of quality in the production process and its customers' satisfaction.

The main objective is to maintain quality standards and customers' and suppliers' satisfaction, fall on the process of territorial diversification, both in areas and countries, with sustainable growth, high economic solvency and interesting business opportunities, combined with the search for greater efficiencies in the cost structure.

The Group creates value, improving the profitability of investment and promoting the development of regions and countries with the construction of unique buildings, the development of transport infrastructures that are more respectful with the natural environment and the most innovative and sustainable projects.

Concessions and services

Grupo SANJOSE provides industrial maintenance, building and infrastructure services, as well as the conservation of parks and gardens, both nationally and internationally.

From the international perspective, the concession contracts for the construction and subsequent maintenance of the hospitals in Chile stand out: the construction phase was completed during the second half of 2013, and the maintenance began immediately, as well as the provision of other services established in the contract, within a period of exploitation of 15 years.

At the national level, a relatively fragmented and stable portfolio of services is maintained, specializing in hospital maintenance, office and commercial buildings, large infrastructures, etc.

Energy

Grupo SANJOSE builds and maintains plants or power plants: polygeneration plants, photovoltaic plants, wind farms, etc., focusing on the development of clean energy, respecting the environment and betting on policies of sustainable development and energy efficiency.

It stands out the construction and operation of the polygeneration plant of Cerdanyola del Vallés, whose concession extends until March 2047. Also, the management and operation of a photovoltaic electric power generation plant in Jaén, constructed by the Group.

The Group also participated in the construction and management of two wind farms in Uruguay, with a total capacity of 90 MW, which became operational at the end of 2015. During the year 2017, the Group sold the holding company of those wind farms.

Engineering and Project management

The Group has a department of studies and engineering with many years of accumulated experience. These are multidisciplinary and dynamic teams, made up of consultants, economists, engineers, architects, etc.

The projects are studied from different points of view and specialties, until developing a strategy and an action able to meet the objectives defined by the client and the return of their investment in all phases of the project: evaluation, study and design phases; execution, and; exploitation.

Other Businesses:

Due to the existence of synergies with the main activities of the Group, with the aim of diversifying activities, or taking advantage of existing business opportunities, the Group deals, from a more residual and marginal perspective, other business areas. The following should be highlighted:

- Real Estate: currently the Group understands the real estate activity as secondary and complementary to the residential construction activity.

- Commercial distribution: in qualitive terms, and in relation to the figures provided by the rest of the activities, the importance of this activity within the Group is lower. However, through the group of companies led by "Comercial Udra, S.A.", Grupo SANJOSE is one of the most important distributors and with the greatest projection in Spain and Portugal. It has been active for more than 20 years, specializing in international sports and fashion brands of the highest prestige.

- Agricultural activity: Grupo SANJOSE participates in a majority share in the capital of Carlos Casado, S.A. It is one of the main agricultural companies in Latin America, founded in 1909, it is listed on the Stock Exchange of Buenos Aires and New York. It is the parent company of an operating group in Argentina, Paraguay and Uruguay, which counts among its most relevant assets, approximately 200,000 hectares of land in the Paraguayan Chaco area. We work every year to improve the agricultural productivity of the land, with the maximum respect to the environment, and incorporating technological advances that result in an increase in the efficiency of the crops, which has allowed it to settle as an important supplier of food. globally.

- Urban development: Grupo SANJOSE participates in two major urban projects, one located in Buenos Aires, Argentina (urban transformation of La Matanza - Lagos Park) and another in Madrid (Distrito Castellana Norte). Both cases are in the process of study and definition, pending on the corresponding permits and administrative authorizations.

10.3. Control and management systems

Grupo SANJOSE, is empowered with a local management in each of the countries in which it has a presence, with professionals with great experience and knowledge related to the country and the type of activity. Additionally, it has support and control departments at headquarters level, located at the group's offices in Madrid.

The scope of the risk management system covers the entire Group, regardless of the activity and geographical region.

The Internal Audit Department of the Group, based on the following principles:

- integrated risk management,
- valuation of risks and establishment of the level of risk assumed,
- respect for the ethical and anti-corruption code, and
- consistency of the internal control system of financial information,

Identifies and evaluates the risks to which it is exposed (including tax risk). This process allows to identify in advance and assess the risks to which the Group is exposed, based on its probability of occurrence and its potential impact on the strategic objectives of the business, in order to take management and assurance measures best suited to the nature and location of the risk.

The Board of Directors approves the policy on risk control and management that the audit committee, or other special according to the matter, analyze and evaluate with the reports of the Internal Audit Department.

The main risks to which the Group is exposed, arising from the type of activity it carries out and related to the risks inherent to the markets in which it operates, which affect the development of the Group's strategy, is its ability to create value and, in general, to the achievement of its objectives, are the following:

- <u>Market risk:</u> in particular, those related to the demand of services and products offered by the Group.

The slow growth in the economic activity worldwide as a result of the economic and financial crisis has reduced the demand for infrastructure and construction in general. This circumstance increases competition, with the consequent price increase pressure and margins reduction.

- Regulatory and political risk: relating to compliance with legal requirements that affect the development of the activity. The number of countries in which the Group operates is high, being subject to the regulatory framework of each country. Additionally, some of the assets managed by the Group are subject to specific regulation, considered in the preparation of their business plans. Regulatory or unforeseen legislative changes may occur that may modify the legal and regulatory environment, conditioning the Group's ability to manage and capitalize on its business.
In certain cases, the Group's adequate and complete business development may be affected and conditioned by political decisions or changes in governance structures that may be contrary to the interests of the Group, increasing the difficulty of achieving the business plan.

- Safety of information and cyber-attacks: occurrence of criminal acts, of cybernetic nature, that may affect their assets and suppose prolonged paralysis of operations.

- Conflict work: provision of labor-intensive services, diversity of geographical locations and applicable labor laws. Possibility that individual or collective conflicts may arise with employees that damage the productive capacity of the Group and / or the corporate reputation.

- Financial risk: exposure to credit risk, liquidity risk, exchange rate risk and interest rates.

- Operational risk: the Group's activity consists mainly on the design, development and management of construction projects. The Group is empowered with very demanding controls in order to ensure the good development of its activity, and the provision of the highest quality services to its customers. Compliance with the levels of quality and the delivery deadlines committed to the goods and services provided by the Group.

- Contracted breach with third parties: potential breach of contractual obligations assumed with third parties (customers, suppliers, financial entities, public administrations, etc.) that may cause sanctions or endanger the continuity of the projects and / or the financial position of the Group.

- Damage to the environment: actions that may have a potential negative impact on the environment and the natural environment in which the Group operates.

- Fraud risk and corruption: the diversity of projects, geographical locations and the high number of clients, suppliers, workers and, in general, stakeholders with which it interacts, expose the Group to the risk of given space to fraudulent practices that seek to obtain a benefit, at the expense of generating a direct financial loss to the Group, or to any of the stakeholders.

Code of conduct

Grupo SANJOSE has an Organization and Management Model for the Prevention of Crimes that has as its main objective to institutionalize the corporate ethical culture implanted in the Group, which is oriented towards regulatory compliance and the development and improvement of corporate social responsibility.

The Model is mainly composed of a Code of Conduct, the Anticorruption Policy and the Internal Code of Conduct in the Securities Markets, being approved by the Group's Board of Directors, and informed to the rest of the organization, published on the Group's corporate website.

Formative actions are considered that affect the entire organization, so that the adequate diffusion, understanding and commitment of all affected agents is guaranteed.

The principles that constitute the sources on which the Group's Code of Conduct is based are those included in the United Nations Global Compact on human rights.

The Model considers, as a basic pillar an adequate compliance with its culture, the existence of tools, manuals, protocols and procedures that the Group has in place, which allow to mitigate the risk of non-compliance or infringement. It is worth noting the existence of IT tools for integrated control of information implemented in the Group. It provides a complete computer system that, among others, includes the management of human resources, the planning and control of financial resources, commercial management, the integral management of works and projects, etc. In particular, it provides a powerful support for the registration of financial information and document management, ensuring an adequate, safe, complete system of registration, documentation and approval of operations.

The department in charge of analyzing potential non-compliances and proposing, if necessary, corrective actions and / or sanctions is the Surveillance Body. It is an internal collegiate body in charge of supervising the operation and compliance of the Model through the execution of, among others, the following functions:

- Revision of the adequacy of the Model and promotion of its update whenever it considers it appropriate.
- Promotion of the dissemination of the Model and supervision of the training activities carried out.
- Reception and management of complaints received through the Whistleblowing Channel.
- Instruction of internal review processes that are carried out when there is any indication of wrongful acts.
- Inform the Board of Directors.

The Supervisory Body is appointed by the Board of Directors, following a report from the Appointments, Remuneration and Good Governance Committee, and enjoys full autonomy and independence in the performance of its duties. Its components include the figure of the Compliance Officer, person responsible for leading the actions entrusted to the Surveillance Body.

Whistleblower channel

The Organization and Management Model for the Prevention of Crimes established by the Group contemplates, among others, the existence of a whistleblowing channel.

The administrators, officers and employees of the Group are obliged to inform the Supervisory Body of any fact that they have knowledge that may constitute an offense or breach of the Model and of the controls to which the Model refers (Code of Conduct, Policy Anti-corruption, and other tools, manuals, protocols and internal procedures), including those related to aspects of a financial or accounting nature.

For the reporting of allegedly unlawful or constitutive acts of noncompliance (including irregular conduct of a financial, accounting or any other similar nature), the complainant may use any of the following channels, constituting the group's whistleblower channel:

- By email, at the address established by the Group for these purposes.

- Making personal interview or telephone conversation with the Compliance Officer.

Regardless of the formula chosen by the complainant, the Group fully guarantees the confidentiality of the complainant.

The Compliance Officer will conduct the instructional activities that he deems appropriate to assess, analyze and resolve the complaints presented to him, for which, and always within the total and absolute confidentiality and discretion, will rely on internal experts and external that he understands opportune.

In particular, with regard to irregularities of a financial and accounting nature, the Supervisory Body will adequately inform the Audit Committee.

Commitment to quality

The quality policy of Grupo SANJOSE aims to achieve the full satisfaction of our customers, increasing the level of quality of the works and services developed, through continuous improvement and the involvement of the staff.

The result of this strategy is an effective quality system suitable for the operation of the Group, based on the guidelines in the ISO 9001 standard.

SANJOSE's commitment to quality provides the framework to establish and review the following goals:

- Offer a service adapted to the needs and expectations of our customers.
- Provide a high level of quality in our works and services, ensuring compliance with specifications, legislation and applicable regulations.

- Involve, motivate and commit both the management and workers to get an active participation in the management, development and application of the system.
- Establish permanent training programs, which allow us to have personnel with a high level of qualification.

Grupo SANJOSE has obtained the recognition of its commitment to quality through the certification of the systems implemented in the following companies of the Group:

> CONSTRUCTORA SAN JOSÉ, S.A.

Certificate type: Quality management

Certificate Nº: ER-0510/1997

> SANJOSE ENERGÍA Y MEDIO AMBIENTE, S.A.

Certificate type: Quality management

Certificate Nº: ER-1202/1998-002/00

> CARTUJA INMOBILIARIA, S.A.U.

Certificate type: Quality management

Certificate Nº: ER-1363/1999

> EBA, S.L.

Certificate type: Quality management

Certificate Nº: ER-1170/2004

> TECNOCONTROL SERVICIOS, S.A.

Certificate type: Quality management

Certificate Nº: ER-1202/1998

> TECNOCONTROL SERVICIOS, S.A.

Certificate type: Sanitary products quality management

Certificate Nº: GS-0010/2016

> CONSTRUCTORA SAN JOSÉ, S.A. (Portugal Branch)

Certificate type: Quality management

Certificate Nº: ER-0011/2002

> CONSTRUTORA UDRA LDA.

Certificate type: Quality management

Certificate Nº: ER-0102/2011

> SAN JOSE CONTRACTING, L.L.C. (ABU DHABI)

Certificate type: Quality management

Certificate Nº: AE-BAS-Q0003670

> CONSTRUCTORA SAN JOSE, S.A. (Peru branch)

Certificate type: Quality management

Certificate Nº: ER-0510/1997 - 002/00

> SOCIEDAD CONCESIONARIA SAN JOSE TECNOCONTROL, S.A. (CHILE)

Certificate type: Quality management

Certificate Nº: BVCSG5570

Environment

The environmental policy of Grupo SANJOSE integrates the protection of the environment as an essential component, implicit in its activities and objectives.

The Group's commitment focuses on strengthening the defense, protection and preservation of the natural environment that could be affected by its activity. The Group has the following strategic objectives in environmental matters:

-- To offer a service adapted to the needs and expectations of our customers.

- To provide a high level of quality in our works and services, ensuring compliance with specifications, legislation and applicable regulations.

- To involve, motivate and commit both the management and workers to get an active participation in the management, development and application of the system.
- To establish permanent training programs, which allow us to have personnel with a high level of qualification.

The Group has obtained recognition of its commitment to the environment through certification by the ISO 14001 standard, of the management systems implemented in the following companies of the Group:

> CONSTRUCTORA SAN JOSÉ, S.A.

Certificate type: Environmental management

Certificate Nº: GA-2006/0028

> SANJOSE ENERGÍA Y MEDIO AMBIENTE, S.A

Certificate type: Environmental management

Certificate Nº: GA-2007/0371

> CARTUJA INMOBILIARIA, S.A.U.

Certificate type: Environmental management

Certificate Nº: GA-2006/0028

> EBA, S.L.

Certificate type: Environmental management

Certificate Nº: GA-2007/0371

> TECNOCONTROL SERVICIOS, S.A.

Certificate type: Environmental management

Certificate Nº: GA-2007/0395

> CONSTRUCTORA SAN JOSÉ, S.A. (Portugal Branch)

Certificate type: Environmental management

Certificate Nº: GA-2009/0351

> CONSTRUTORA UDRA LDA.

Certificate type: Environmental management

Certificate Nº: GA-2011/0013

> SAN JOSE CONTRACTING, L.L.C. (ABU DHABI)

Certificate type: Environmental management

Certificate Nº: AE-BAS-E0003671

> CONSTRUCTORA SAN JOSE, S.A. (Perú Branch)

Certificate type: Environmental management

Certificate Nº: GA-2003/0398 - 002/00

> SOC. CONCESIONARIA SAN JOSE TECNOCONTROL, S.A. (CHILE)

Certificate type: Environmental management

Certificate Nº: BVCSG5571

10.3. Corporate Social Responsibility

Grupo SANJOSE assumes as its own the 10 principles of the United Nations Global Compact on human rights, labor, environment and anti-corruption, which derive from the Universal Declaration of Human Rights, the Declaration of the International Labor Organization regarding the Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption.

These 10 principles are the following:

1. To support and respect the protection of human rights proclaimed in the international arena.
2. To make sure you are not complicit in human rights abuses.
3. To respect the freedom of association and the effective recognition of the right to collective bargaining.
4. To eliminate all forms of forced or compulsory labor.

5. To abolish child labor effectively.
6. To eliminate discrimination with respect to employment and occupation.
7. To support preventive methods with respect to environmental problems.
8. To adopt initiatives to promote greater environmental responsibility.
9. To encourage the development and diffusion of harmless technologies for the environment.
10. To work against corruption in all its forms, including extortion and bribery.

Grupo SANJOSE understands Corporate Social Responsibility as a firm commitment to the welfare of society and people. It is a fundamental component of its strategy and a differentiating element in which it has worked since its foundation. Acting in a responsible, transparent and sustainable manner with the aim of generating wealth and well-being and fostering its principles and commitments in each of the Group's professionals and in each of its actions where it operates:

- Maximum attention to people, the quality of their working conditions, equality and training.
- The prevention of risks, such as company culture, especially preventive, at all hierarchical levels of the Group.
- Respect for diversity and creation of a policy of equal opportunities, as well as human and professional development.
- Commitment to sustainable development and greater respect for the environment, avoiding pollution as much as possible and minimizing the generation of waste.
- Vocation public and wealth generation. Understanding R&D&i policies and the quality of products and services as the contribution of Grupo SANJOSE to improve the social, economic and environmental environment of the regions or countries where it operates.
- Implantation of formal procedures and open dialogue with all stakeholders.
- Policy of information transparency.

Commitment with employees

Grupo SANJOSE has its fundamental assets in its human team, which means that everything related to the selection of personnel, training, management and promotion of equipment is of special importance.

The experience, knowledge and adaption to different environments and markets is key to ensure the competitiveness of the Group and to achieve the objectives set.

The Management of human resources is inspired by the ethical codes of equal opportunities, cultural diversity, internal promotion of the best and the need for values such as involvement and empathic attitude, responsibility, perseverance and commitment.

<u>Training:</u>

During 2017, the Group has developed 389 training courses aimed to improve the staff skills in their respective jobs, which represents 7,456 hours, distributed among the different Group companies, and distributed among the staff of all professional categories.

<u>Prevention of occupational hazards:</u>

Given the Group's activity, the prevention of occupational risks takes on special importance. The fundamental commitment of Grupo SANJOSE with its employees is to ensure their physical integrity and health. This is set out in the occupational risk prevention policy, from which a management system is derived, which complies with the legislation on prevention and promotes the preventive culture.

The objectives set by the Group in relation to this aspect are very ambitious, and show a high commitment.

The occupational risk prevention management system has a certificate in accordance with the OHSAS 18001 standard.

In compliance with the prevention of occupational hazards regulations, since 2011 Grupo SANJOSE maintains a joint prevention service that provides services to the Group's main companies in Spain, covering a total of 1,018 workers having contracted the specialty of laboral medicine with Cualtis (external prevention service company).

During 2017, the Group has given specific training in the area of occupational risk prevention, consisting of a total of 9,467 hours (in addition to the skills improvement training provided by the Group).

Referring to the companies that constitute the joint prevention service, during the year 2017 the following preventive activities have been carried out:

Prevention activities	Nº of employees affected by these activities
Design and implementation of Prevention Plans according to Law 54/2003	635
Initial risk assessments	4
Review or update of risk assessments	8
Preventive activity planning	220
Monitoring of planned activities	635
Workers information	635
Workers training	291
Realization of emergency plans	120
Planning of individual health surveillance	635
Planning of collective health surveillance	635
Monitoring of planned health activities	635

Equality of opportunities and competitive policy:

The Group, through its ethical code, promotes equal opportunities, rejecting any type of discrimination in its entirety. Currently, more than 12% of the Group's average workforce are women, holding positions in all the Group's organizational strata.

The Group has a competitive remuneration policy according to market criteria, which guarantees non-discrimination. Likewise, the Group maintains an equality complaint channel.

Prevention of harassment:

The Group expresses its absolute rejection of any type of harassment, understanding prevention as the key to addressing this aspect. There is a policy of prevention of harassment and a protocol to prevent workplace and sexual harassment, and there is a whistleblowing channel that enjoys the highest levels of confidentiality.

The Group has a whistleblowing channel through which its employees can communicate any type of incident related to harassment.

10.4. Relationship with shareholders and investors

Grupo SANJOSE is committed to creating value for its shareholders and investors and with maximum transparency, so it adopts specific procedures to guarantee the integrity and veracity of the information it transmits, so shareholders, institutional investors , financial analysts or others, have the adequate knowledge and understanding of business strategies and the development of management.

Capital structure:

The share capital of Grupo Empresarial San José, S.A. (the parent company of Grupo SANJOSE) consists on 65,026,083 shares of 0.03 euros value each, represented by book entries and with the same political and economic rights. The shares are listed on the Spanish stock exchange and in the Continuous Market since their admission on July 20, 2009.

At the end of 2017 year, the shareholding structure is as follows:

- Mr. Jacinto Rey González	48.291%
- Mrs. Julia Sánchez Ávalos	7.52%
- Ms. Mªde las Virtudes Sánchez Ávalos	5.24%
- Mrs. Mª José Sánchez Ávalos	4.01%
- Other members of the Board of Directors	1.170%

Respect to shareholders and investors rights:

The Board of Directors of Grupo SANJOSE is responsible for the management and supervision at the highest level of the information provided to its shareholders, institutional investors and other market members, and must protect, and facilitate the exercise of their rights and interests in the framework of the defense of the social interest, in accordance with the following general principles:

- Transparency, integrity, immediacy, equality and symmetry in the dissemination of information.

- Equal treatment in the recognition and exercise of the rights of all shareholders, assure identical conditions and avoid conflicts of competence or interest that could affect their stake. Protection of the legitimate interests and rights of all shareholders.

- Promoting the regular and permanent information of the shareholders, and not only on the occasion of the General Shareholders' Meetings, putting at their disposal effective channels so that they are regularly informed about the management of the Group.

- Compliance with the provisions of the Law and the corporate governance regulations of Grupo SANJOSE and the principles of cooperation and transparency with the competent authorities, agencies, regulators and administrations.

- Compliance with the rules and regulations on the treatment of both privileged and relevant information, relations with shareholders and communication with the securities markets, complying with both in the applicable general regulations and in that of Grupo SANJOSE itself: regulations of the Board of Directors, internal rules of conduct in securities markets and code of conduct.

During the year 2017, the Group has published the following relevant facts on the CNMV website:

1. February 28, 2017: information on the financial information for the second half of 2016, as well as the consolidated and individual annual accounts of Grupo Empresarial San José, S.A.
2. February 28, 2017: Group results report for the year 2016.
3. February 28, 2017: publication of the annual corporate governance report for 2016.
4. February 28, 2017: publication of the annual remuneration report of the directors for the year 2016.
5. April 27, 2017: interim financial information on the results of the first quarter of fiscal year 2017.
6. May 10, 2017: call of the General Shareholders' Meeting of the parent company.
7. June 22, 2017: information on the resolutions adopted by the General Shareholders' Meeting of the parent company.
8. July 26, 2017: existence of a call for the meeting of the Board of Directors of the participated company "Distrito Castellana Norte, S.A." was informed.

9. July 27, 2017: information on the development of the Board of Directors of the participated company "Distrito Castellana Norte, S.A." celebrated that same day.
10. July 27, 2017: interim financial information on the results of the first half of 2017.
11. July 27, 2017: Group results report corresponding to the first semester of fiscal year 2017.
12. November 7, 2017: interim financial information on the results of the third quarter of fiscal year 2017.

11. 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 2017.

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 annual accounts prepared in accordance with applicable accounting standards present a true and fair view of the equity, the financial position and the results obtained by the issuer, and that the Directors' Report includes an accurate analysis of business development and results, the position of the issuer, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These Financial Statements consisting of the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements for the year ending on 31 December 2017, issued on 41 sheets of common paper, as well as the Directors' Report, issued on 78 sheets of officially stamped single-sheet paper were prepared by the Company's Board of Directors on 28 February 2018.

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

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 Alderei

Mr. Guillermo E.Nielsen

Member Mr. Roberto Álvarez has attended the Meeting through videoconference.

The members Mr. Guillermo E.Nielsen, Mr. Nasser Al Darei and Mr. Sunil Kanoria have submitted absence for leave due to duly justified professional reasons, agreeing to the content herein.

The Secretary of the Board of Directors

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

NEGATIVE CLEARANCE REGARDING ENVIRONMENTAL INFORMATION IN FINANCIAL STATEMENTS

Company`s identification:

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

Registered details of the Company:

R.M. Pontevedra, Volume 586, sheet 88, page 8119

Id #: A36.046.993 ***Tax year:*** 2017

The undersigned, as Director of the above-mentioned company state that accounting records of the financial statements issued in 69 sheets of paper do not include items to be included within the document apart from environmental information set forth by Ministerial Order 8 October 2001.

Signature and name of the Directors:

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

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

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

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