Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2017 and Consolidated Directors' Report, together with Independent Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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 Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue from long-term construction contracts

Description	Procedures applied in the audit
The Group uses the percentage of completion method to recognise revenue from certain long-term contracts. This revenue recognition method was a key matter in our audit, as it affects a highly significant amount of total consolidated revenue, as well as the measurement of the amounts to be billed for work performed, and requires Group management to make highly significant estimates relating mainly to the expected outcome of the contract, the amount of costs to be incurred at the end of the construction work, the measurement of work completed in the period and the recognition of variations in the initial contract, all of which impact the revenue recognised in the year. These judgements and estimates are made by the persons in charge of performing the construction work, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.	Our audit procedures included, among others, the performance of tests on the design and implementation of the relevant controls that mitigate the risks associated with the process of recognising contract revenue by reference to the stage of completion, as well verification that the aforementioned controls operate effectively. Also, we performed a detailed analysis of a sample of projects in order to evaluate the reasonableness of the assumptions and hypotheses used by the Group. We also reviewed the consistency of the estimates made by the Group in 2016 with the actual data for the contracts in 2017. As regards the amounts to be billed for work performed, we analysed the recognition of revenue from work in progress and its recoverability on the basis of a sample of contracts, based on qualitative and quantitative factors. Lastly, we focused our work on verifying that the accompanying consolidated financial statements include the related disclosures required by the applicable financial reporting framework. In this connection, Note 4.12 discloses the fact that the percentage of completion method is used to recognise revenue from long-term contracts, and Note 13.1 includes additional disclosures in relation to balances recognised corresponding to amounts to be billed for work performed.

Other Information: Consolidated Directors' Report

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

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

a) A specific level that applies to the consolidated 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 consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated 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 this section of the consolidated 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 information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 pages 6 and 7, which forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

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

Engagement Period

The Annual General Meeting held on 22 June 2017 appointed us as auditors of the Group 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 consolidated 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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent'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 Parent'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 Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated 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. and Subsidiaries

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

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiairies

Consolidated balance sheet at 31 December 2017 and 31 December 2016

(Thousand of Euros)

	31.12.2017	31.12.2016		31.12.2017	31.12.2016
NON-CURRENT ASSETS:			**EQUITY:**		
Property, plant and equipment (Note 7)	**45,349**	**45,900**	**Share capital**	**1,951**	**1,951**
Investment property (Note 8)	**3,297**	**4,711**	**Issurance premium**	**155,578**	**155,578**
Goodwill on consolidation (Note 9)	**9,984**	**9,984**	**Reserves**	**(157,772)**	**(167,854)**
Intangible assets (Notes 10)	**19,581**	**20,557**	**Translation differences**	**(60,365)**	**(43,421)**
Investments in associates and joint ventures (Note 11)	**50,373**	**53,121**	**Equity-Valuation adjustments**	**(67)**	**(262)**
Equity Investments in associates	49,918	52,666	**Profit of the year attibutable to the parent company**	**11,440**	**10,082**
Loans to related companies (Note 13.4)	455	455	**Equity attribtable to shareholders of the Parent**	**(49,235)**	**(43,926)**
Other non-current financial assets (Notes 11 and 13.4)	**123,481**	**150,947**	**Minority interests**	**20,866**	**21,297**
Deferred tax assets (Note 20)	**35,135**	**32,839**	**TOTAL EQUITY (Note 14)**	**(28,369)**	**(22,629)**
TOTAL NON-CURRENT ASSETS	**287,200**	**318,059**			
			NON-CURRENT LIABILITIES		
			Long-term provisions (Note 15)	**30,313**	**28,963**
			Non-current bank borrowings (Note 16)	**419,505**	**488,280**
			Bonds and other securities	102,463	138,075
			Bank loans and overdrafts	313,418	346,524
			Finance lease creditors	-	162
			Other financial liabilities	3,624	3,519
			Derivative financial instruments (Notes 16 and 17)	**591**	**906**
			Deferred tax liabilities (Note 20)	**19,541**	**15,491**
			Long-term advances	**904**	**965**
			TOTAL NON-CURRENT LIABILITIES	**470,854**	**534,605**
			CURRENT LIABILITIES:		
			Short-term provisions (Note 22.10)	**37,895**	**42,386**
CURRENT ASSETS:			**Current bank borrowings (Note 16)**	**65,825**	**63,722**
Assets held for sale (Note 2.4.d)	**-**	**4,186**	Bonds and other securities	33,426	33,594
Inventories (Note 12)	**104,704**	**104,122**	Bank loans and overdrafts	28,904	26,871
Trade and other receivables	**258,412**	**237,282**	Finance lease creditors	162	372
Trade receivables for sales and services (Note 13.1)	227,314	202,864	Other financial liabilities	3,333	2,885
Realetd companies receivables (Note 23)	234	1	**Derivative financial instruments (Notes 16 and 17)**	**3**	**2**
Sundry accountes receivable	4,549	4,928	**Payables to related companies (Nota 23)**	**5,838**	**2,620**
Public admisnitrations (Note 20)	25,225	28,610	**Trade and other payables (Note 18)**	**406,579**	**395,742**
Other current assets	1,090	879	Trade payables	379,128	371,026
Other current financial assets (Note 13.3)	**91,206**	**101,884**	Tax Payable (Note 20)	19,524	14,464
Short term accruals	**2,720**	**5,247**	Other current liabilities	7,927	10,252
Cash and cash equivalents (Note 13.2)	**220,134**	**251,839**	**Trade and other payables**	**5,751**	**6,171**
TOTAL CURRENT ASSETS	**677,176**	**704,560**	**TOTAL CURRENT LIABILITIES**	**521,891**	**510,643**
TOTAL ASSETS	**964,376**	**1,022,619**	**TOTAL EQUITY AND LIABILITIES**	**964,376**	**1,022,619**

Accompanying Notes 1 to 26, as w ell as the Appendix I, II and III, are part of the consolidated balance sheet as 31 December 2017.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED INCOME STATEMENT FOR
YEARS 2017 AND 2016
(Thousand of Euros)

	Year 2017	Year 2016
A CONTINUING OPERATIONS		
Revenue (Note 22.1)	**682,868**	**613,394**
Work performed by the Group for its property, plant and equipment (Note 7)	**547**	**-**
Other operating income	**8,871**	**9,806**
Change in inventories of finished goods and work in progress (Note 22.11)	**(2,200)**	**(4,204)**
Procurements (Note 22.2)	**(464,147)**	**(402,902)**
Cost of raw materials and other consumables used	(198,062)	(214,561)
Works performed by other companies	(263,972)	(188,231)
Impairment of goods held for resale, raw materials and other supplies	(2,113)	(110)
Staff costs (Note 22.3)	**(103,034)**	**(94,706)**
Other operating expenses	**(85,274)**	**(89,978)**
Losses on impairment and change in allowances for trade receivables	(6,586)	(15,429)
Other current operating expenses (Note 22.2)	(78,688)	(74,549)
Depreciation and amortisation charge (Notes 7,8 and 10)	**(6,762)**	**(5,819)**
Excessive provisions	**88**	**281**
Impairment and gains or losses on disposal of non-current assets (Note 22.9)	**106**	**(796)**
PROFIT FROM OPERATIONS	**31,063**	**25,076**
Finance income (Note 22.7)	**16,298**	**21,442**
Finance costs (Note 22.8)	**(22,455)**	**(27,671)**
Change in fair value of financial instruments	**27**	**-**
Exchange differences	**(392)**	**17**
Impairment and gains or losses on disposal of financial instruments (Note 22.12)	**(1,936)**	**(109)**
FINANCIAL PROFIT / (LOSS)	**(8,458)**	**(6,321)**
Profit/ (loss) of companies accounted for using the equity method (Note 11)	**(210)**	**953**
PROFIT (LOSS) BEFORE TAX	**22,395**	**19,708**
Income Tax (Note 20)	**(10,127)**	**(11,636)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**12,268**	**8,072**
PROFIT (LOSS) FOR THE YEAR	**12,268**	**8,072**
PROFIT (LOSS) ATTRIBUTABLE TO EXTERNAL PARTNERS	**828**	**(2,010)**
PROFIT (LOSS) FOR THE YEAR	**11,440**	**10,082**
Earnings per share (Euros/share)		
-Basic	**0.18**	**0.16**
-Diluted	**0.18**	**0.16**

Accompanying notes 1 to 27 to the Annual Report and Anex I, II and III form an integral part of the Consolidated Income Statement at 31 December 2017

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES

FOR YEARS 2017 AND 2016

(Thousand of Euros)

	Year 2017	Year 2016
CONSOLIDATED PROFITS / (LOSSES) OF THE YEAR	**12,268**	**8,072**
Income and expenses recognised directly in equity		
-For cash flow hedges	(43)	(121)
-Other	-	93
-Tax effect	10	(50)
	(33)	**(78)**
Transfer to income statement		
-For cash flow hedges	354	412
-Other	(12)	(51)
-Tax effect	(85)	(90)
	257	**271**
TOTAL RECOGNISED INCOMES / (EXPENSES)	**12,492**	**8,265**
a) Attributable to Parent	**11,611**	**10,242**
b) Attributable to minority interests	**881**	**(1,977)**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of of the consolidated statement of recognized income and expenses at 31 December 2017.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2017 AND 2016

(Thousand of Euros)

			Others reservers		Consolidated Reserves							
	Share Capital	Issurance premium	Legal Reserve	Other reserves of the parent	In consolidated companies	In associated companies	Translation differences	Equity Adjustments	Profit of the year	Total Equitty attributable to parent	Minority interests	Total Equity
Balance at December 31, 2015	**1,951**	**155,578**	**263**	**(191,520)**	**12,444**	**2,306**	**(45,268)**	**(428)**	**8,653**	**(56,021)**	**21,680**	**(34,341)**
Distribution of profit for year 2015:												
-To reserves	-	-	-	35,289	(25,791)	(845)	-	-	(8,653)	-	-	-
-Dividend payment	-	-	-	-	-	-	-	-	-	-	(801)	**(801)**
Translation differences	-	-	-	-	-	-	1,847	-	-	**1,847**	2,695	**4,542**
Variation of the consolidation perimeter	-	-	-	-	(2,427)	2,427	-	-	-	-	(299)	**(299)**
Other equity movements	-	-	-	-	-	-	-	6	-	**6**	(1)	**5**
Total recognized income/expenses year 2016	-	-	-	-	-	-	-	160	10,082	**10,242**	(1,977)	**8,265**
Balance at December 31, 2016	**1,951**	**155,578**	**263**	**(156,231)**	**(15,774)**	**3,888**	**(43,421)**	**(262)**	**10,082**	**(43,926)**	**21,297**	**(22,629)**
Distribution of profit for year 2016:												
-To reserves	-	-	-	(41,659)	50,788	953	-	-	(10,082)	-	-	-
-Dividend payment	-	-	-	-	-	-	-	-	-	-	(1,030)	**(1,030)**
Translation differences	-	-	-	-	-	-	(16,944)	-	-	**(16,944)**	(975)	**(17,919)**
Variation of the consolidation perimeter (Note2.4)	-	-	-	-	(398)	398	-	-	-	-	693	**693**
Other equity movements	-	-	-	-	-	-	-	24	-	**24**	-	**24**
Total recognized income/expenses year 2017	-	-	-	-	-	-	-	171	11,440	**11,611**	881	**12,492**
Balance at December 31, 2017	**1,951**	**155,578**	**263**	**(197,890)**	**34,616**	**5,239**	**(60,365)**	**(67)**	**11,440**	**(49,235)**	**20,866**	**(28,369)**

Accompanying notes 1 to 26 to the Annual Report and Anex I, II and III form an integral part of the Consolidated Statement of Changes in Equity at 31 December 2017.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENTS

FOR YEARS 2017 AND 2016

(Thousand of Euros)

		Year 2017	Year 2016
	Cash flows from operating activities:		
(+)	Profit (Loss) before tax	22,395	19,708
(+)	Depreciation and amortisation charge	6,762	5,819
(+/-)	Changes in operating allowances	8,689	15,359
(-)	Financial income	(16,298)	(21,442)
(+)	Financial costs	22,455	27,671
(+/-)	Exchange differences	392	(17)
(+/-)	Result of changes in value of financial instruments	(27)	-
(+/-)	Result of companies accounted for using the equity method	210	(953)
(+/-)	Other gains or losses	5,296	1,533
	Total Cash Flows from operating activities	**49,874**	**47,678**
	Other adjustments		
(-)	Income tax paid in the year	(2,345)	(8,937)
(+/-)	(Increase) / Decrease in working capital		
	a) (Increase) / Decrease in inventories	(2,963)	(10,141)
	b) (Increase) / Decrease in debtors and other receivables	(26,296)	18,664
	c) (Increase) / decrease in other current assets	2,527	154
	d) (Increase) / Decrease in trade payables	8,995	29,502
	e) (Increase) / decrease in other current liabilities	(419)	862
(+/-)	Other collections / (payments) due to operating activities	(7,597)	(1,959)
	1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**21,776**	**75,823**
	Investments:		
(-)	Property, plant and equipment and investment property	(3,497)	(4,958)
(-)	Intangible assets	(600)	(3,063)
(-)	Shares and other financial assets	(2,080)	(5,686)
	Total Investments	**(6,178)**	**(13,707)**
	Dividends received	**1,995**	**2,960**
	Disposals:		
(+)	Property, plant and equipment and investment property	790	2,580
(+)	Intangible assets	-	22
(+)	Shares and other financial assets	3,520	886
	Total Disposals	**4,310**	**3,488**
	Other collections / (payments) due to financing activities	**40,150**	**3,364**
	2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES	**40,278**	**(3,895)**
	Dividends payed	**(1,030)**	**(801)**
	Increase / (decrease) in borrowings	**(70,838)**	**(44,060)**
	Non current	(885)	(3,837)
	Current	(69,953)	(40,223)
	Net interests:	**(6,410)**	**(4,666)**
	Received	6,536	10,077
	Paid	(12,946)	(14,744)
	Other collections / (payments) due to financial activities	**(15,480)**	**(2,396)**
	3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES	**(93,759)**	**(51,923)**
	TOTAL CASH FLOWS FOR THE YEAR	**(31,705)**	**20,005**

	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**251,839**	**231,834**
	Changes in the year	(31,705)	20,005
	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**220,134**	**251,839**

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

Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated notes
for the year ended 31 December 2017

1. Activities of the Group

Incorporation

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

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

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

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

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

Activities

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

1. Development of all forms of real estate construction.
2. Performance of all manner of public or private construction work, mainly buildings, road networks and hydraulic works.
3. Purchase and sale, administration, operation and any other similar activities in relation to all manner of rural or urban property.
4. Lease of all manner of assets.
5. Design, construction and management of electricity and renewable energy facilities.
6. Storage, distribution, purchase and sale and import of manufactured products.
7. Management and recruitment of personnel for all types of company, association and organisation.
8. Study, design, development and purchase and sale of all manner of electronic, computer, telecommunications and audio-visual components, products and systems.
9. Full maintenance of hospital facilities, maintenance of operating theatres and electro medical equipment, and manufacture and sale of integrated systems for operating theatres, ICUs and patient rooms.
10. Study, design and installation of air conditioning, heating, industrial cooling and plumbing facilities; purchase and sale or manufacture of all kinds of related mechanisms; to sell and act as representative for third-party products.
11. Healthcare: construction of hospital facilities and public and private healthcare maintenance services; electro medicine and gas facilities and maintenance.

12. Facilities and services: integral installation work, electrical, mechanical and hydraulic installation work, turnkey projects and special installation work, as well as the maintenance of all manner of other facilities not related to the healthcare industry such as industrial facilities, other properties, etc.

13. Infrastructure and transport: performance of infrastructure and transport studies, projects and installation work, including those relating to airports, ports, railways and other types of transport infrastructure.

14. Energy and environment: performance of studies and projects focused on the production and sale of energy and industrial maintenance, waste water treatment, installation of water treatment plants and other environmental activities.

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

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

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

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

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

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

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

2.1 Regulatory framework and accounting principles

These consolidated financial statements for 2017 of Grupo Empresarial San Jose, S.A. and Subsidiaries ("Grupo San Jose " or "the Group") are formally prepared by the Parent's directors, in accordance with International Financial Reporting Standards as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council ("EU-IFRSs"), taking into account all the mandatory accounting principles and rules and measurement bases in IFRSs, and, accordingly, they present fairly the Grupo San Jose's consolidated equity and financial position at 31 December 2017 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

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

The consolidated financial statements of Grupo San Jose and Subsidiaries for 2016, prepared in accordance with EU-IFRSs, were approved by the shareholders at the Annual General Meeting of Grupo Empresarial San Joes, S.A. (formerly named Udra, S.A.) held on 22 June 2017. Also, 2017 consolidated financial statements of the Group and the individual financial statements of the Group companies for the year have not yet been approved by the shareholders at the respective Annual General Meetings. However, the Parent's directors consider that the aforementioned consolidated financial statements will be approved without any changes.

Standards and interpretations applicable for the year

During year 2017 the following standards and interpretations, compulsory as from year 2017 onwards and adopted by the European Union, became in force and have been applied by the Group for the elaboration of the accompanying consolidated financial statements for the year ended at 31 December 2017:

New standards and amendments:		**Compulsory application for the Group:**
Amendment of IAS 7 - Breakdown Initiative (published in January 2016).	It introduces additional breakdown requirements in order to improve the information provided to users.	1 January 2017
Amendment of IAS 12 - Recognition of deferred tax assets for unrealized losses (published in January 2016).	Clarification of the principles established regarding the recognition of deferred tax assets for unrealized losses.	1 January 2017
IFRS Improvements Cycle 14-16 - Clarification in relation to IFRS 12.	The clarification in relation to the scope of IFRS 12 and its interaction with IFRS 5 comes into effect in this period.	1 January 2017

The Group has been applying the aforementioned standards and interpretations since its entry into force on 1 January 2017, without having a significant impact on the Group financial statements.

Non-applicable issued standards and interpretations

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

Adopted for use within the EU		**Compulsory application as from**:
New standards		
IFRS 15 income from contracts with clients (released in May 2014)	New income recognition standard (It replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
IFRS 9 on Financial Instruments	It replaces former classification requirements, evaluation of assets and liabilities, accounting hedges of IAS 39.	1 January 2018
Amendment of IFRS 4 - Insurance contracts	It allows entities under the scope of IFRS 4, the option to apply IFRS 9 ("overlay approach") or its temporary exemption.	1 January 2018
IFRS Improvements Cycle 14-16	Minor modifications of a series of rules	1 January 2018
IFRS 16 Leases	Replaces IAS 17 and the associated interpretations. The central new lies in a single accounting model for lessees, which will include	1 January 2019

	in the balance sheet all leases (with some limited exceptions) with an impact similar to that of current financial leases (there will be amortization of the asset for the right of use and an expense financial cost for the amortized cost of the liability).	

Non - adopted for use within the EU		**Compulsory application as from:**
New standards		
Amendment to IFRS 2 Classification and valuation of share-based payments	These are limited modifications that clarify specific issues such as the effects of accrual conditions on payments based on shares to be settled in cash, the classification of share-based payments when it has net settlement clauses and some aspects of the type of payment modifications based on actions.	1 January 2018
Amendment to IAS 40 Reclassification of real estate investments	The amendment clarifies that a reclassification of an investment from or to real estate investment is only allowed when there is evidence of a change in its use.	1 January 2018
IFRIC 22 Transactions and advances in foreign currency	This interpretation establishes the "transaction date" for purposes of determining the exchange rate applicable in transactions with advances in foreign currency.	1 January 2018
IFRIC 23 Uncertainty about tax treatment	This interpretation clarifies how to apply the registration and valuation criteria of IAS 12 when there is uncertainty about the acceptability by the fiscal authority of a specific tax treatment.	1 January 2019
Amendment to IFRS 9 Advance cancellation characteristics with negative compensation	The valuation at amortized cost of some financial instruments with characteristics of prepayment is allowed allowing the payment of an amount less than the unpaid amounts of principal and interest.	1 January 2019
Amendment to IAS 28 Long-term interest in associates and joint ventures	Clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not applied.	1 January 2019
Amendment of IAS 19 Modification, reduction or liquidation of a plan	In accordance with the proposed amendments, when a change occurs in a defined benefit plan (due to a modification, reduction or liquidation), the entity will use updated hypotheses in the determination of the cost of the services and the net interest for the period after the change of plan.	1 January 2019
IFRS 17 Insurance contracts	Replaces IFRS 4 reflects the principles of registration, valuation, presentation and disclosure of insurance contracts with the objective that the entity provides relevant and reliable information that allows the users of the information to determine the effect that the contracts have on the financial statements.	1 January 2021

Amendment to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate / joint venture	Clarification in relation to the result of these operations if they are business or assets.	No date defined

IFRS 15 establishes the new model for the recognition of income derived from contracts with customers. In this regard, the Group has estimated that the application of IFRS 15 "Revenue from contracts with customers" on 1 January 2018, will have a negative impact on reserves amounting to 3,071 thousand euros, mainly as a result of the reestimation of income previously recognized under IAS 11 "Construction Contracts" and IAS 18 "Revenue" that do not meet the requirements to be recognized as income under the new standard, which establishes more restrictive criteria for the recognition of income, mainly by requiring the existence of approval by the client (see Note 13.1).

The estimated impact mainly deals with the cancellation of previously recognized income from modifications in construction contracts not approved by the client, which, in accordance with the regulations in force at the end of 2017 (the aforementioned IAS 11 and IAS 18), were recorded when they existed reasonable expectations that the client's approval would occur in the future. Said expectations have been based to date on the past experience of previous contracts with the same client and on works of similar characteristics, as well as on the evaluation that is carried out at the time of the contracting of each counterpart, in the existence and content of the negotiations with the client and, additionally, in which it is possible to assess with sufficient reliability the amount of the consideration to which one is entitled. Except as indicated above, the Group has not estimated that the application of IFRS 15 will have other effects on these consolidated financial statements.

Additionally, IFRS 15 establishes the need to identify the different performance obligations included in the same contract when clearly differentiated activities are carried out. The Group, after analyzing its portfolio of contracts, has concluded that, in general, there is no more than one performance obligation in the contracts it carries out: either integration services are provided for the different services that are provided, or because such services are highly interrelated. Similarly, as established by the regulations, the Group has developed a homogeneous method to recognize revenues in contracts with similar characteristics.

With respect to IFRS 9, regarding the recognition and valuation of financial assets, the directors of the parent company estimate that the impact derived from the first application will not be significant, having estimated a negative effect on reserves of approximately 425 thousand euros. This impact comes, fundamentally, from the application of the impairment model of financial assets that the new regulations establish must be estimated based on the expected credit loss instead of the credit loss incurred, as included in IAS 39 "Financial Instruments: recognition and valuation. "

IFRS 9 develops a new valuation scheme in the area of hedge accounting, which may imply that, in certain cases, hedging operations are defined as transactions that under the previous regulations did not meet the requirements to be considered as hedges. Given the type of financial instruments that the Group uses to mitigate the financial risks to which it is exposed, no new transactions have been identified that should be considered as hedging in application of IFRS 9.

IFRS 16 "Leases", which is first applied on 1 January 2019, establishes that for the lessor all leases (except for certain exceptions for being of reduced amount or duration) generate the accounting for an asset for the right of use and a liability for future payment obligations incurred. At the date of preparation of these annual accounts, the Group continues with the evaluation of its impact.

2.2 Responsibility for the information and use of estimates

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

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

1. The useful life of the property, plant and equipment and intangible assets (see Notes 4.3 and 4.4).

2. Measurement of goodwill arising on consolidation (see Note 4.2).

3. The budgetary estimates which are considered for the recognition of results on contracts to which the percentage of completion method is applied (construction and industrial areas, see Note 4.12).

4. The assessment of potential impairment losses of certain assets (see Notes 4.1, 4.2, 4.3, 4.4, 4.5, 4.7, 4.8 and 4.9).

5. The probability of occurrence and the amount of uncertain or contingent liabilities (see Note 4.17 and 4.18).

6. The fair value of certain financial instruments (see Note 4.9).

7. The fair value of assets and liabilities acquired in joint ventures (see Notes 2.4 and 9).

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

9. Management of financial risk (Note 20)

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, events that might take place in the future might make it necessary to significantly change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the consolidated income statements for the years affected.

2.3 Currency

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

The breakdown of the closing and average exchange rates of the period used to prepare the consolidated financial statements for 2017 is as follows:

Country	Currency	Year-end exchange rate	Average exchange rate
The United States /East-T	US Dollar (USD)	1.1979	1.1367
Mexico	Mexican Peso	23.5722	21.3619
Argentina	Argentine Peso (ARS)	22.7031	19.1147
Cape Verde	Cape Verde Escudo	110.318	110.265
Panama	Panamanian Balboa	1.1979	1.1367
Uruguay	Uruguayan Peso	34.3548	32.1226
Paraguay	Guaraní	6,628.34	6,280.485
Peru	Peruvian Sol	3.8673	3.6595
Chile	Chilean Peso (CLP)	736.0770	732.6139
Brazil	Brazilian Real	3.9660	3.6341
India	Indian Rupee	76.3216	73.7337
Morocco	Morocco Dirham	11.1747	10.8573
Colombia	Colombian Peso	3,561.23	3,352.12
Nepal	Nepalian Rupee	121.6560	116.6151
Mozambique	New Metical	69.91	71.2633
United Arab Emirates	UAE Dirham	4.3993	4.1743

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

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

2.4 Basis of Consolidation

a) *Subsidiaries*

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

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

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

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

1. The equity of their investees: It is presented within the Group's consolidated equity under "Minority Interests" in the consolidated balance sheet.

2. Differences are recorded under "Exchange rate differences" in the accompanying income statement.

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

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

b) Joint ventures

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

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

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

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

Assets and liabilities assigned by the Group to jointly controlled operations and the Group's share of the jointly controlled assets are recognised in the consolidated balance sheet classified according to their specific nature. Similarly, the Group's share of the income and expenses of joint ventures is recognised in the consolidated income statement on the basis of the nature of the related items.

Financial information provided by consolidated financial statements of the Group by multi-group companies, in aggregate, at 31 December 2017 and 2016 is as follows:

	Million of Euros	
	31.12.2017	**31.12.2016**
Non-current assets	2.9	3.2
Ccurrent assets	268.8	262.7
Non-current liabilities	0.1	0.7
Current liabilities	264.9	255.2
Total income	191.0	159.7
Total expense	(183.0)	(149.4)

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

c) Associates

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

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

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

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

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

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

d) Changes in the scope of consolidation

The main changes in the scope of consolidation in 2017 were as follows:

1. On 3 January 2017, the Group company "GSJ Solutions S:L." has established a branch office in Peru. The purpose of this branch office is the development of the activity of the Group in said country.

2. On 25 January 2017, the contract for the sale of shares of the group company “Eskonel Company, S.A.” has been formalised, outstanding verification and review by the buyer. As a result, as of 31 December 2016, the Group recorded the stake it held in the associates "Vengano, SA", "Fingano, SA" and "Drilpen, SA" as higher value of the item "Non-current assets held for sale" under current assets of the consolidated balance sheet at that date.

   On 25 May 2017, and after completion of the verification and closing procedures established in the agreement of intent, the sale operation was perfected, by which the Group has fully sold its stake in the company Group "Eskonel Company, SA", whose main activity is the holding of shares in the share capital of the companies "Vengano, SA", "Fingano, SA" and "Drilpen, SA", all related to the development of activity In construction and management of wind farms in Uruguay. The price amounted to € 3,370 thousand, reflecting a positive result for the Group amounting to € 1,619 thousand, recorded under "Impairment and result from disposal of financial instruments" in the accompanying consolidated income statement for the year ending 31 December 2017.

3. During 2017, the Group company Carlos Casado, S.A. has constituted the Paraguayan companies "Agropecuaria de El Chaco, SA" (formerly "Meditación SA") and "Casado Agropecuaria, SA", companies in which at 31 December 2017 it holds 100% and 99.99% of its share capital, respectively, and through which it plans to develop the agricultural activity arising from the partial split of its investee company "Cresca, SA” This transaction is expected to be completed during the first quarter of 2018.

4. On 31 August 2017, and due to the inactivity following the sale of its sole asset in 2015, the Group has proceeded with the liquidation of the investee "1681 West Avenue LLC", without having effect on the consolidated income statement of the Group for the year ending on 31 December 2017.

5. On 8 December 2017, the Group Companies "Udra México S.A. de CV" and " Constructora San José, S.A.", have set up the company "Udra Obras Integrales, S.A. of CV " with a share capital of 2 million Mexican Pesos (approximately EUR 85 thousand), with a percentage of participation of 99% and 1%, respectively, being its corporate purpose the execution of all types of construction and development of public and private works.

6. On 26 July 2017, “San Jose Colombia, S.A.S" has been settled. As a result of this transaction, a EUR 334 thousand profit has been recorded under the item "Impairment and profit/(loss) from disposal of financial instruments" in the accompanying consolidated income statement for year 2017.

7. On 19 July 2017, the investee “Fotovoltaica El Gallo 10, S.L.” repaid its partnes EUR 1,753 thousand, due to capital decrease. As a consequence, the Group has reduced its participation in this company with a total net cost amounting to EUR 1,454 thousand,

8. On 8 December 2017, “SC Pontus Euxinus Tehnologii Renovabile” has been settled.

9. On 21 December 2017, the investee company "Constructora San José, SA" has increased the capital of its branch in Chile, amounting to 5,000 million Chilean pesos (approximately EUR 6.8 million), through the capitalisation of credits previously granted.

10. During the month of December 2017, the subsidiary "Constructora San José, SA" has sold its stake in the company "San José Congo, SA", recording a profit amounting to EUR 1,847 thousand under the item "Impairment and profit/(loss) result from disposal of financial instruments" in the accompanying consolidated income statement for year 2017.

The main changes in the scope of consolidation in 2016 were as follows:

1. On 13 January and 19 May 2016, the Company of the Group “Constructora San Jose, S.A." has established branches in Malta and Bolivia.

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

3. On 19 July 2017, the investee “Fotovoltaica El Gallo 10, S.L.” repaid its partnes EUR 1,753 thousand, due to capital decrease. As a consequence, the Group has reduced its participation in this company with a total net cost amounting to EUR 1,454 thousand,

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

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

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

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

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

2.5 Comparison of information

Information recorded on the consolidated financial statements for year 2016 is provided for comparison purposes only with that provided as of the year ended 31 December 2017.

2.6 Changes in the accounting criteria

Accounting criteria applied during year 2017 is the same as that implemented in year 2016.

During year 2017, no significant changes have been applied compared to those applied in year 2016.

3. Distribution of the Parent's profit

The Directors of the Parent Company will propose the General Shareholders' Meeting the recognition of EUR 401 thousand as 2017 profit to offset against "Loss of previous years".

4. Accounting principles and policies and measurement bases

The accounting principles and policies and measurement bases used in preparing the Group's consolidated financial statements for 2017 were as follows:

4.1 Non-current assets classified as held for sale

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

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

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

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

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

4.2 Goodwill

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

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

2. If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.

3. The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

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

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

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

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

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

Any excess of the cost of the investments in the consolidated companies and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

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

2. The remaining amount is presented under "Other Operating Income" in the consolidated statement for the year in which the share capital of the subsidiary or associate is acquired.

4.3 Other intangible assets

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

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

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

Administrative concessions and patents

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

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

Main features to be taken into consideration are as follows:

- Assets object of concession regime are usually property of the Grantor.

- The Grantor controls or monitors the Concessionaire, as well as funding conditions and terms.

- Concessional Rights imply the monopoly exploitation of a service for a period of time according to concession terms. Upon completion of the concession period, real estate necessary for the provision of services becomes property of the concessional company

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

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

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

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

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

Computer software

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

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

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

Usage rights

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

Likewise, the Group has also included under this item the construction rights of Carlos Cisternas de Calama Hospital, which were acquired during 2016 as part of the acquisition of the company Consorcio Hospital Carlos Cisternas de Calama, S.A. (see Notes 2.4 and 13), being fully amortized at 31 December 2017.

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

4.4 Property, plant and equipment and investment property

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property investment

"Investment Property" in the consolidated balance sheet reflects the net values of land, buildings and other structures (whether they are owned by the Group or are being used by the Group under a finance lease) held either to earn rentals or for capital appreciation. At 31 December 2017, the assets recognised under "Investment Property" related mainly to office buildings, hotels, leisure centres, land and parking spaces and the items of property, plant and equipment associated with them, such as machinery and furniture, whether owned by the Group or held under finance lease.

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

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

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

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

Borrowing Costs

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

In 2017 and 2016, the Group has not capitalised borrowing costs under "Property, plant and equipment" and "Investment Property" in the attached consolidated balance sheet.

4.5 Asset impairment

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

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

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

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

These projections cover the coming five years and cash flows for the following years are estimated by applying zero growth rates. These cash flows are discounted to present value at a pre-tax rate which reflects the cost of capital of the business and the geographical area in which it is carried on. In order to calculate the rate, the current time value of money and the risk premiums generally used by analysts for the business and the geographical area are taken into account.

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

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

4.6 Leases

4.6.1 Finance Leases

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

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

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

4.6.2 Operating Leases

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

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

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

4.7 Inventories

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

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

Inventories are stated at the lower of acquisition or production cost and net realisable value. Cost comprises direct materials and, where applicable, directs labour costs and production overheads, including the costs that have been incurred in bringing the inventories to their present location and condition at the point of sale. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

The cost of inventories sold or applied to the production process is calculated using the weighted average method. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Agricultural inventories

Biological assets shall be recorded at their fair value less the estimated costs at the point of sale, as long as it can be reliably determined. For assets lacking prices or securities set by the market and not reasonably reliable, the cost shall be valued according to their cost minus accumulated depreciation and accumulated losses due to impairment.

In any case, for agricultural products, at the time of harvesting or gathering, they shall be valued at their fair value less the estimated costs at the point of sale.

Property inventories

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

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

"Developments under construction" includes the land development costs incurred up to year-end and the costs of construction or acquisition of real estate developments, increased by the expenses directly allocable to them (costs of construction subcontracted to third parties, fees inherent to construction and project management fees), in addition to the reasonable portion of the costs indirectly allocable to the related assets, to the extent that these costs correspond to the development period, and the borrowing costs incurred during the construction period. During years 2017 and 2016, no borrowing costs have been capitalised under "Inventories".

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

Further, at 31 December 2017 and 2016, "Inventories" includes advances to suppliers for the purchase of inventories amounting to EUR 22,842 thousand and EUR 17,801 thousand, respectively (see Note 12).

Usage rights

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

Initial recognition -

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

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

Subsequent recognition -

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

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

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

4.8 Trade receivables and customer advances

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

The amount of customer advances received prior to the recognition of the sale of the buildings is recognised under "Current Liabilities - Trade and Other Payables" in the consolidated balance sheet (see Notes 13.1 and 18.3).

4.9 Financial Instruments

Definitions

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

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

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

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

- Investments in associates.
- Rights and obligations under employee benefit plans.
- The rights and obligations arising from insurance policies
- Contracts and obligations relating to share-based employee remuneration

Initial recognition of financial instruments

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

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

Derecognition of financial instruments

Financial assets are only derecognised when:

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

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

Fair value of financial instruments

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

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

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

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

Amortised cost of financial instruments

"Amortised cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments, plus or minus, as appropriate, the portion allocated to the consolidated income statement, calculated using the effective interest method, of the difference between the initial cost and the repayment value of the financial instruments. In the case of financial assets, amortised cost also includes any write-downs due to impairment.

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

Classification and measurement of financial assets and liabilities

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

Financial Assets

- <u>Held-for-trading financial assets:</u> financial assets acquired with the intention of realising them at short term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and derivatives not designated as hedging instruments.
- <u>Held-to-maturity investments:</u> financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity.

They do not include loans and accounts receivable from third parties. These assets are measured at "amortised cost.

- Originated loans and receivables: financial assets originated by the Group in exchange for supplying cash, goods or services directly to a debtor, which are measured at amortised cost.
- Available-for-sale financial assets: these include securities acquired that are not held for trading purposes and are not classified as held-to-maturity investments, and equity instruments owned by the Group and issued by entities other than subsidiaries, joint ventures or associates.

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

Financial Liabilities

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

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

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

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

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

Net equity

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

4.10 Treasury shares

Grupo SANJOSE did not hold any treasury shares at 31 December 2017 and 2016. Likewise, no transactions involving treasury shares were carried out during years 2017 and 2016.

4.11 Derivative financial instruments and hedge accounting

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

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

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

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

Hedges are classified into the following categories

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

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

When, pursuant to the foregoing paragraph, hedge accounting of a fair value hedge is discontinued, in the case of hedged items carried at amortised cost, the value adjustments made as a result of the hedge accounting discussed above are recognised in the consolidated income statement through maturity of the hedged items using the effective interest rate recalculated at the date of discontinuation of hedge accounting.

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

In the case of the derivative financial instruments arranged by the Group that meet the aforementioned requirements for classification as a cash flow hedge, the changes in the fair value in 2017 were recognised under "Equity - Valuation Adjustments" in the accompanying consolidated balance sheet (see Note 14.6).

Changes in the fair value of the derivative financial instruments arranged by the Group that do not fully meet the aforementioned requirements for classification as a hedge were recognised under "Changes in Fair Value of Financial Instruments" in the consolidated income statement (see Note 17).

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

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

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

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

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

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

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

Further, for the adjustment of credit risk, total exposure of the Company to counterparties has been taken into consideration. In the event of counterparties with credit information. credit spreads are provided by CDS (Credit Default Swaps) listed on the stock exchange; companies lacking credit information use reference information available. At 31 December 2017 and 2016, the Group held interest rate swaps (IRSs and collars) for a total notional amount of EUR 15,835 thousand million and EUR 15,799 million, respectively, with maturity dates in 2017 and 2021. The negative impact on the consolidated net equity of the Group of the changes in fair value resulting from these arrangements at the end of 2017 and 2016 was EUR 497 thousand and EUR 711 thousand, respectively.

4.12 Revenue recognition

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

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

2. Specifically, revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

3. Revenue from completed work or projects (in both the construction and industrial businesses) is recognised using the percentage of completion method, whereby revenue from completed work is recognised by reference to the stage of completion of the contract at year-end. Under this method, revenue is determined on the basis of the percentage of total revenue per the main contract or approved amendments or addenda thereto. This percentage is established on the basis of the proportion that costs incurred for work performed to date bear to the total contract costs.

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

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

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

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

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

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

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

4. The main activity carried out by the Real Estate Division is the sale of houses and land. Revenue from this activity is recognised when the risks and rewards of ownership of the goods have been transferred to the buyer which usually is the date on which the public deed is executed. In this regard:

   a. Sales of properties and land, and related costs, are recognised in the consolidated income statement when substantially all the risks and rewards of ownership have been transferred, i.e., when the properties are delivered and the sale is executed in a public deed. The deliveries of cash by the customers as payments on account, from the date of the signing of the private agreement to the date on which the sale is executed in a public deed, are recognised under "Trade Payables" on the liability side of the consolidated balance sheet.

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

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

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

   c. Rental income is recognised on an accrual basis and incentive-related income and the initial costs of lease agreements are allocated to income on a straight-line basis.

   d. Asset exchange transactions. An asset exchange transaction is an acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

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

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

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

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

5. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset to that asset's carrying amount.

6. Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

7. Government grants related to property, plant and equipment are recognised in the consolidated balance sheet as deferred income when the Group has satisfied the conditions established for their award and, consequently, there are no reasonable doubts as to their collection. These grants are allocated to income, with a credit to "Other Operating Income" in the consolidated income statement, systematically over the years of useful life of the assets, for which the grants were provided.

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

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

An expense is recognised immediately when a disposal does not produce future economic benefits nor meets accounting criteria to be recorded as an asset.

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

4.13 Borrowing Costs

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

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

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

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

4.14 Currency

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

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

1. Assets and liabilities are translated to Euros at the exchange rates prevailing on the balance sheet date.

2. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly.

3. Equity is translated at the historical exchange rates.

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

Goodwill arising on the acquisition of a foreign company is treated as an asset of the foreign company and is translated at the closing rate. Goodwill arising on the acquisition of a foreign company is treated as an asset of the foreign company and is translated at the closing rate.

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

Company	Address	Activity
Constructora San José Cabo Verde, S.A.	Cape Verde	Construction
Branch office of Constructora Udra, Ltda. in Cape Verde	Praia (Cape Verde)	Construction
Constructora San José Argentina, S.A.	Buenos Aires (Argentina)	Construction
Tecnoartel Argentina, S.A.	Buenos Aires (Argentina)	Maintenance and facilities
Carlos Casado, S.A.	Buenos Aires (Argentina)	Agricultural productions
Branch office of Constructora San José in Argentina	Buenos Aires (Argentina)	Construction
Hospes Brasil Participaciones e Empreendimientos Lda.	Brazil	Construction and Real Estate Development
Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.	Brazil	Construction and Real Estate Development
Concesionaria San José - Tecnocontrol, S.A.	Santiago de Chile (Chile)	Hospital Construction and Management
San José Tecnologías Chile Limitada	Chile	Construction
Tecnocontrol Chile Limitada	Chile	Industrial maintenance
Inversiones San José Chile, Lda.	Santiago de Chile (Chile)	Investment and real estate
Inversiones San José Andina, Ltda.	Santiago de Chile (Chile)	Investment and real estate
San Jose India Infraestructure & Construction Private Limited	New Delhi (India)	Construction
San José Construction Group, Inc	Washington (USA)	Construction
Inmobiliaria 2010, S.A.	Lima (Perú)	Construction and Real Estate
San José Inmobiliaria Perú, S.A.C.	Lima (Perú)	Construction
San José Perú Constructora, S.A.	Lima (Perú)	Construction
Parsipanny Corp. S.A.	Uruguay	Agricultural productions
Rincon S.A.G.	Paraguay	Agricultural productions
Agropecuaria de El Chaco, S.A.	Paraguay	Agricultural productions
Casado Agropecuaria, S.A.	Paraguay	Agricultural productions

Puerta de Segura, S.A.	Uruguay	Industrial, Trade
Branch office of Constructora San José, S.A. in Nepal	Nepal	Construction
Branch office of Constructora San José, S.A. in Timor	Timor	Construction
Branch office of Constructora San José, S.A. in Abu Dhabi	Abu Dhabi	Construction
SJ Contracting, LLC.	Abu Dhabi	Construction
Consorcio Hospital Carlos Cisternas de Calama, S.A.	Chile	Construction
Sociedad Concesionaria Rutas del Loa	Chile	Construction
San José Nuevos Proyectos Salud Limitada	Chile	Construction

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

4.15 Profit (Loss) from operations

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

4.16 Income tax

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

The income tax expense represents the sum of the current tax expense and the changes in the deferred tax assets and liabilities recognised (see Note 20).

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

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

Tax assets relating to tax credits and tax relief and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not deducted for tax purposes in the related tax return until the conditions for doing so established in the related tax regulations are met. The Group considers it probable that they will be deducted in future periods.

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

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

Notwithstanding the foregoing:

1. Deferred tax assets arising from temporary differences, tax credits, tax relief and tax loss carry forwards, if any, are recognised to the extent that it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised; and

2. No deferred tax liabilities are recognised for non-deductible goodwill arising on an acquisition.

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

Since 1 January 2006, the Parent forms an integral part of the consolidated tax group. At 31 December 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.
- Poligeneraciones parc de L´Alba, S.A.
- Xornal Galinet, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

Further, as from 1 January 2015, the associate “Erainkuntza Birgaikuntza Artapena, S.L.U.” has become the Parent of a consolidation tax group under the tax regime of the Basque Country, which also includes the following company within its scope of consolidation: Alexín XXI, S.L.U.

4.17 Provisions

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

1. Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing; and

2. Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies.

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

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

4.17.1 Provisions for urban development costs

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

4.17.2 Provisions for completion of construction projects and warranty costs

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

4.17.3 Litigation and/or claims in process

At the end of 2017 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and the Parent's directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

4.18 Termination benefits

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

Also, the Company has recognised sufficient provisions under "Other Current Liabilities" on the liability side of the accompanying consolidated balance sheet at 31 December 2017 to meet the contract termination costs of temporary employees in accordance with legal provisions.

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

4.19 Classification of current assets and liabilities

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

The Group holds financial liabilities which are classified as current liabilities in the consolidated balance sheet, since they are subject to the financing of current property assets (see Note 16.2).

4.20 Transactions with associates

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

4.21 Assets of natural environment

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

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

4.22 Consolidated cash flow statements

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

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

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

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

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

5. Earnings per share

5.1 Basic earnings per share

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

	Year 2017	Year 2016	Changes
Net profit/(loss) for the year attributable to the Parent (thousands of Euros)	11,440	10,082	1,358
Weighted average number of shares (shares)	65,026,083	65,026,083	-
Basic profit/(loss) per share (Euros/Share)	0.18	0.16	0.02

5.2 Diluted earnings per share

There is no potential dilutive effect derived from options on shares, warrants, convertible debt or other instruments as of 31 December 2017, apart from that which could be evidenced as a result of the execution of the warrants that the parent has issued, and whose execution, if applicable, would be in 2019 (see Note 16.3). At 31 December 2017, the diluted earnings per share is equal to the basic earnings per share.

6. Segment reporting

6.1 Basis of segmentation

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

Primary business segments

The business lines described below were established on the basis of the organisational structure of Constructora San Jose, S.A and Subsidiaries at 2017 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In years 2017 and 2016, Constructora San Jose, S.A. and Subsidiaries engaged mainly in the following major lines of business, which were the basis for the Group's primary segment reporting:

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

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

Secondary business segments

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

6.2 Basis and methodology for segment reporting

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

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

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

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

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

Segment information about these businesses is presented below.:

Year 2017:

	Thousands of Euros					
	Construction	**Real estate and property developmen t**	**Energy**	**Concessions and Services.**	**Adjustments and other**	**TOTAL**
Net Revenues:						
External sales	598,468	6,769	11,165	47,546	18,920	682,868
Inter-segment sales	2,526	-	-	194	(2,720)	-
	600,994	**6,769**	**11,165**	**47,740**	**16,200**	**682,868**
EBITDA	**32,695**	**1,784**	**3,576**	**1,614**	**6,590**	**46,259**
Amortisation	(4,161)	(207)	(1,516)	(731)	(147)	(6,762)
Provisions	(5,564)	(159)	(136)	(55)	(2,520)	(8,540)
Profit/(Loss) after disposal	209	-	-	10	(113)	106
Profit/(Loss) from operations	**23,179**	**1,418**	**1,924**	**838**	**3,704**	**31,063**
Financial income	7,941	1,799	1	13,009	(6,452)	16,298
Financial costs and similar expenses	(13,247)	(1,118)	(620)	(8,816)	1,346	(22,455)
Changes in fair value of financial assets	-	-	-	-	27	27
Translation differences and other	(4,274)	223	129	3,714	(2,120)	(2,328)
Profit/(loss) from associates	(125)	895	-	-	(980)	(210)
Profit/(Loss) before tax	**13,474**	**3,217**	**1,434**	**8,745**	**(4,475)**	**22,395**

Year 2016:

	Thousands of Euros					
	Construction	**Real estate and property development**	**Energy**	**Concessions and Services.**	**Adjustments and other**	**TOTAL**
Net Revenues:						
External sales	534,098	15,673	10,191	39,219	14,213	613,394
Inter-segment sales	3,256	-	-	236	(3,492)	-
	537,354	**15,673**	**10,191**	**39,454**	**10,721**	**613,394**
EBITDA	**33,268**	**6,536**	**2,883**	**1,269**	**1,969**	**45,925**
Amortisation	(2,984)	(301)	(1,496)	(918)	(119)	(5,819)
Provisions	(16,256)	1,233	30	(122)	(193)	(15,307)
Profit/(Loss) after disposal	280	-	-	(4)	(0)	276
Profit/(Loss) from operations	**14,308**	**7,468**	**1,418**	**225**	**1,656**	**25,076**
Financial income	9,902	2,760	15	15,315	(6,549)	21,442
Financial costs and similar expenses	(16,009)	(1,117)	(884)	(9,909)	248	(27,671)
Changes in fair value of financial assets	-	-	-	-	-	-
Translation differences and other	(40)	305	(71)	3,446	(3,733)	(92)
Profit/(loss) from associates	(6)	1,111	(361)	-	209	953
Profit/(Loss) before tax	**8,156**	**10,526**	**117**	**9,077**	**(8,168)**	**19,708**

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

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

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

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

Year 2017:

	Thousands of Euros					
	Construction	**Real estate and property development**	**Energy**	**Concessions and Services.**	**Adjustments and other**	**TOTAL**
Balance sheet:						
Non-current assets:						
Intangible assets	1,919	-	17,638	1,522	8,486	29,565
Property, plant and equipment	12,670	8	10,092	2,225	20,354	45,349
Real estate investments	602	2,692	-	-	3	3,297
Deferred tax assets	18,751	1,786	2,061	3,405	9,132	35,135
Other	22,064	34,992	5	105,950	10,843	173,854
Current assets:						
Inventories	66,850	33,271	-	1,130	3,453	104,704
Receivables	228,752	2,735	2,790	15,533	8,602	258,412
Other current assets	2,305	-	55	138	8,693	11,191
Short-term financial investments	4,735	24	1	77,543	432	82,735
Cash and cash equivalents	166,477	26,820	4,232	12,151	10,454	220,134
Total Assets						
In Spain	224,296	38,940	36,874	10,347	36,861	347,318
In foreign countries	300,829	63,388	-	209,250	43,591	617,058
	525,125	**102,328**	**36,874**	**219,597**	**80,452**	**964,376**
Non-current liabilities:						
Long-term payables	198,875	2,840	7,858	102,546	107,977	420,096
Deferred tax liabilities	4,588	-	1,422	11,375	2,156	19,541
Other non-current liabilities	17,636	1,373	1,284	9,651	1,273	31,217
Current liabilities:						
Short-term debts	20,325	8,218	892	33,427	2,966	65,828
Trade payables	378,983	8,796	2,148	9,447	7,205	406,579
Other current liabilities	20,922	5,846	799	8,683	13,234	49,484
Total Liabilities						
In Spain	412,890	5,815	14,403	4,052	123,446	560,606
In foreign countries	228,439	21,258	-	171,077	11,365	432,139
	641,329	**27,073**	**14,403**	**175,129**	**134,811**	**992,745**
Additions to fixed assets:						
In Spain	1,027	-	599	83	(6)	1,703
In foreign countries	1,992	-		10	390	2,392
	3,019	**-**	**599**	**93**	**384**	**4,095**

Year 2016:

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

There are no significant non-operating assets.

Information on secondary segments:

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

	Thousands of Euros					
	Net Revenue		Total assets		Additions to property, plant and equipment and investment property	
	2017	2016	2017	2016	2017	2016
Spain	297,444	252,063	347,318	340,125	1,702	1,679
Portugal	68,705	64,424	31,505	24,727	19	41
Cape Verde	27,561	54,538	20,786	37,161	924	1,504
The United States	-	-	911	1,242	1	2
Argentina	9,035	3,775	64,038	66,869	389	103
Uruguay	-	-	-	4,722	-	-
Peru	9,274	32,835	57,125	69,936	17	8
Panama	-	-	548	667	-	-
France	-	-	402	745	-	-
Germany	-	-	41	41	-	-
Brazil	-	-	8,119	8,472	-	-
India	19,039	27,614	5,570	6,155	35	15
Chile	98,179	48,925	274,298	299,023	101	3,419
Morocco	-	-	69	70	-	-
Abu Dhabi	139,360	111,931	127,785	123,364	907	900
Nepal	-	2,002	11,181	18,313	-	337
Timor	121	5,759	3,462	5,219	-	-
Republic of Congo	-	195	-	5,792	-	-
Mexico	7,385	5,888	6,960	6,279	-	13
Colombia	-	-	-	10	-	-
Mozambique	-	-	76	60	-	-
Malta	6,765	3,445	4,182	3,627	-	-
TOTAL	**682,868**	**613,394**	**964,376**	**1,022,619**	**4,095**	**8,021**

Note 2.3 of the accompanying consolidated Notes includes a list of the main countries where the Group operates in a currency other than the Euro. From total assets at 31 December 2017 and 2016, EUR 580,928 thousand and EUR 653,354 thousand, respectively, correspond to assets in foreign currency. Likewise, from total revenue for years 2017 and 2016 the activity developed in said countries amounts to EUR 309,954 thousand and EUR 293,462 thousand, respectively.

7. Property, plant and equipment

Changes in 2017 and 2016 under "Property, Plant and Equipment" in the consolidated balance sheet were as follows:

Year 2017:

	Thousands of Euros						
	Balance at 31/12/2016	**Additions / Provisions**	**Disposals**	**Transfers (Notes 8 and 13.4)**	**Change in the scope of consolidation**	**Exchange rate differences and other**	**Balance at 31/12/2017**
Cost:							
Land and buildings	**32,423**	160	-	27	-	125	**32,735**
Plant and machinery	**36,367**	1,146	(1,829)	(632)	(2,008)	(486)	**32,558**
Other items of property, plant and equipment	**30,857**	1,526	(1,400)	(300)	-	(267)	**30,416**
Ongoing property, plant and equipment	**710**	662	**-**	122	**-**	(24)	**1,470**
Total expense	**100,357**	**3,494**	**(3,229)**	**(783)**	**(2,008)**	**(652)**	**97,179**
Accumulated amortisation:							
Land and buildings	**(4,826)**	(350)	-	(137)	-	61	**(5,252)**
Plant and machinery	**(20,149)**	(1,785)	1,116	275	1,530	353	**(18,660)**
Other items of property, plant and equipment	**(28,438)**	(1,299)	1,289	396	-	158	**(27,894)**
Total Accumulated Amortisation	**(53,413)**	**(3,434)**	**2,405**	**534**	**1,530**	**572**	**(51,806)**
Total Accumulated Impairment (Note 22.9)	**(1,044)**	-	-	577	422	21	**(24)**
Net carrying amount	**45,900**	**60**	**(824)**	**328**	**(56)**	**(59)**	**45,349**

Year 2016:

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

Year 2017:

Additions occurred in year 2017 correspond mainly to investment in machinery and technical facilities incurred into by the Group for the development of construction activity.

Likewise, in 2017, for the development of business activity new technical and office equipment has been purchased for renewal of previous systems.

Main derecognitions during 2017 refer mainly to already amortised materials and facilities, recording a total net befit of EUR 219 thousand, recorded under "Impairment and disposal of property, plant and equipment" in the accompanying profit and loss account for year 2017 (see Note 22.9).

During the year, the Group has carried out works for its property, plant and equipment for an amount of EUR 547 thousand, included under "Works carried out by the Group for its fixed assets" in the accompanying consolidated income statement for the year 2017, recorded as "Fixed assets in progress".

Transfers during 2017 correspond mainly to the reclassification as property, plant and equipment of improvements in the offices of the parent of the Group, as well as the reclassification of "Property, plant and equipment in progress" to "Land and buildings". "And" Other items of property, plant and equipment ", of offices that were in the construction stage.

Likewise, on 1 January 2017, the Group has reclassified "Long-term financial investments" under non-current assets of the accompanying balance sheet (see Note 13.4), the net balance of items of property, plant and equipment registered by the branch in Nepal of the Parent Company, which amounted to EUR 184 thousand, recognising the right of collection of said assets, whose ownership has been transferred to the local customer.

Changes within the scope during the year refer to the disposal of the tangible fixed assets of the investee "San José Congo, S.A.", which were sold during year 2017 (see Note 2.4).

Year 2016:

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

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

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

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

At 31 December 2017 and 2016, investment hold in foreign countries by the Group, detailed by associate is as follows:

	Thousands of Euros			
	31-12-2017		31-12-2016	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Portugal	2,314	(2,273)	2,295	(2,245)
Argentina	19,224	(85)	18,354	(225)
Cape Verde	4,023	(1,939)	3,177	(1,452)
Chile	828	(246)	853	(188)
India	100	(36)	100	(66)
Peru	1,448	(1,420)	1,653	(1,595)
Congo	-	-	2,008	(1,586)
Timor	30	(21)	1,419	(1,010)
Abu Dhabi	3,621	(2,774)	3,139	(1,937)
Nepal	41	(26)	1,231	(1,029)
Other countries	11	(11)	469	(445)
TOTAL	**31,640**	**(8,831)**	**34,698**	**(11,778)**

"Land and buildings" mainly includes a net amount of EUR 18,447 thousand and EUR 19,203 thousand as of 31 December 2017 and 2016, respectively, corresponding to lands of the "Carlos Casado, SA" group, mainly agricultural land in the Paraguayan Chaco.

At 31 December 2017 and 2016, the cost of the land upon which property for own use is located amounted to EUR 1.3 million and EUR 1.6 million, respectively.

At 31 December 2017 and 2016 there are specific property acting, with a carrying amount of approximately EUR 8,147 thousand and EUR 8,347 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 23.4 million (see Note 16.3).

Fair value of own use buildings at 31 December 2017 and 2016 amounts to EUR 20.2 million and EUR 18.7 million, respectively, according to estimates carried by independent valuers (Savills Espaa, S.A.). Carrying net cost at 31 December 2017 and 2016 amounts to EUR 9.1 million and EUR 8.4 million, respectively.

At 2017 and 2016 year-end, there were fully amortised items in use, with a total cost amounting to EUR 28.7 million and EUR 25.8 million, respectively.

At year-end 2017 the Group does not hold significant investment commitments in property, plant and equipment.

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

Finance Leases

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

8. Property investment

The detail of "Investment Property" and changes therein in 2017 and 2016 is as follows:

Year 2017:

	Thousands of Euros				
	Balance at 31/12/2016	**Additions / Provisions**	**Transfers**	**Exchange rate differences**	**Balance at 31/12/2017**
Cost:					
Land and buildings	**6,725**	-	(403)	(1,436)	**4,886**
Plant and machinery	**972**	-	-	(194)	**778**
Furniture, tools and other items	**120**	-	-	(32)	**88**
Total expense	**7,817**	**-**	**(403)**	**(1,662)**	**5,752**
Accumulated amortisation:					
Buildings	**(2,008)**	(195)	156	475	**(1,572)**
Technical facilities	**(957)**	(5)	-	191	**(771)**
Furniture, tools and other items	**(116)**	(2)	-	31	**(87)**
Total Accumulated Amortisation	**(3,081)**	**(202)**	**156**	**697**	**(2,430)**
Total Accumulated Impairment (Note 22.9)	**(25)**	**-**	**-**	**-**	**(25)**
Net carrying amount	**4,711**	**(202)**	**(247)**	**(965)**	**3,297**

Year 2016:

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

The cost of the investment property at 31 December 2017 and 2016 includes approximately EUR 1.5 million and EUR 2.0 million, relating to the carrying amount of the land relating thereto.

During year 2017, pursuant to the assessment of investment assets committed by Grupo SANJOSE to independent valuers, no significant reduction in value of investment property was recorded (see Note 8.2).

Use or nature of the investment property

Substantially all of the Group's investment property relates to properties earmarked for lease, mainly in Argentina. The detail of the use or nature of the Group's investment property devoted to leasing purposes at 31 December 2017 and 2016 is as follows:

Lease purpose	2017 Surface for lease (m2)	2017 Percentage	2016 Surface for lease (m2)	2016 Percentage
Administrative building	651	1%	651	1%
Shopping Centres	177,875	98%	175,919	98%
Other	1,869	1%	1,869	1%
	180,395	**100%**	**178,439**	**100%**

Mortgaged investment property

At 31 December 2017 the Group dos not have real estate assets as collateral for mortgage investments.

At 31 December 2017 and 2016 there are specific property acting, with a carrying amount of approximately EUR 602 thousand and EUR 870 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 2,566 thousand (see Note 16.3).

Income and expenses from rental of investment property

At 31 December 2017 commercial premises, office building and car park spaces had been leased out to third parties under operating leases.

The detail, by maturity, of the lease payments payable to the Group under the operating leases and subleases contracted for by the Group with third parties at 31 December 2017 and 2012 is as follows:

Term	Thousands of Euros Year 2017	Thousands of Euros Year 2016
Up to a year	4,879	4,142
From one to five years	8,352	3,954
More than five years	2,558	832
	15,789	**8,928**

The increase was mainly due to the fact that during year 2017 the investee "Argentimo, S.A." has formalized with new clients multi-year rental contracts for commercial spaces related to the commercial centres of its property in Buenos Aires, Argentina. Likewise, it has proceeded to the renewal and revision of existing contracts.

Calculation has not taken into consideration increase of CPI and, regarding variable rate contracts, amount for year 2017 has been considered.

Total investment property rental income of the Group for years 2017 and 2016 excluding potential costs charged to clients, amounts to EUR 4,046 thousand and EUR 3,879 thousand recorded under "Provision of services" in the accompanying consolidated income statement for year 2017.

Insurance policy

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

Fair value of the investment property

Each year the Group commissions studies from independent valuers to determine the fair value of its investment property at year-end. At 31 December 2017 and 2016, the aforementioned studies were conducted mainly by Instituto de Valoraciones, S.A. Such valuations were performed on the basis of the sale value and lease value of the property on the market (which consists of capitalising the net income from each property and discounting future flows), as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions. The fair value was calculated using the discount rates acceptable to a prospective investor and in line with those applied by the market for properties of similar characteristics in similar locations.

According to the above-mentioned study, no change has been recorded under the real estate investments of the Group (see Notes 22.9 and 23.9).

At 31 December 2017 and 31 December 2016, the fair value of the Group 's inventories based on the aforementioned study amounted to EUR 86,3 million and EUR 74.6 million, respectively. Said amount, at 31 December 2017, includes EUR 37.4 million and EUR 36.6 million corresponding to real estate investments of investees of the Group.

9. Goodwill

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

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Cartuja Inmobiliaria, S.A.U.	600	600
San José Perú Inmobiliaria, S.A.	1,601	1,601
Constructora San José, S.A.	7,662	7,662
Other	121	121
Total net	**9,984**	**9,984**

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

The most important goodwill is that referring to the associate “Constructora San José, S.A", representing 77% total goodwill of the Group. At 31 December 2017, the key assumptions on which the Group's management has based its cash flow projections for the valuation of the cash generating unit (CGU) representing this society, are as follows:

- Consolidation of economic recovery in the target areas.
- Portfolio diversification regarding activities: significant increase in the weight of the non-residential construction in the coming years, in line with what happened in recent years.
- Sales: total construction revenue is distributed among countries where the Group operates, based on the current activity and contracted portfolio (short and medium term) and the guidelines established in the business plan Group (medium and long term), assuming a 10% annual growth of total construction activity (5% and 12% for domestic and international activity, respectively).
- For the discount of the projected cash flows a rate based on the weighted average cost of capital (WACC) is calculated. The Group uses a risk-free rate taking as reference the 5-year bond, depending on the location, and a market premium based on recent studies of long-term premiums used by analysts for the business and geographical areas where it operates. At 31 December 2017, the discount rate used by the Group in the UGE of “Constructora San José, S.A.” is 6.5%.
- A 0% growth rate envisaged in perpetuity is considered.

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

The projections used by the top management are in line with the Strategic Plan of Group SANJOSE, which was submitted to an Independent Business Review (IBR) in years 2013 and 2014 by an independent third party, having been updated according to recent trade projections, taking into account the historical evolution in recent years, and the financial stability achieved after the restructuring of the financial debt of the Group (see Note 16) completed in 2014.

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

The result of the impairment test of goodwill associated with CGU, conducted by the Group's management team at year-end 2017, shows a significant surplus of the recoverable amount over the carrying amount of the CGU, and basis said calculation in pessimistic scenarios that contemplate a reduction of 3 and 2.5 percentage points in growth and margin for the coming years, respectively, and an increase in the applied discount rate of 0.5 percentage points, without having to record any deterioration.

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

- Derived from the purchase of the group company "Carlos Casado SA" in 2008, and the subsequent domain position, the Group recorded as increased value of land under "Property, plant and equipment" of the consolidated balance sheet the surplus with respect to the price paid compared to the carrying value in books of the purchased stake (price purchase allocation - PPA). At 31 December 2017, the amount recorded amounts to EUR 18,640 thousand.

- The Group also records a PPP, as higher cost of inventories, as a result of the operations related to the takeover of the investee companies, "Zivar, Investimentos Inmobiliarios, SA" and "Cartuja Inmobiliaria, SA" amounting to EUR 4,911 thusand and EUR 1,543 thousand.

- During 2016, as a result of the purchase transaction to reach 100% of the share capital of the Group "Consorcio Hospital Carlos Cisternas de Calama, SA", the Group recorded as "Other intangible assets" in the consolidated balance sheet, the amount of the price paid exceeding the book value of the acquired share, which at 31 December 2017 amounted to EUR 2,389 thousand (see Note 10).

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

10. Intangible assets

This item includes the Group's concessions and licences.

The detail in the consolidated balance sheets at 31 December 2017 and 2016 is as follows:

Year 2017:

	Thousands of Euros					
	Balance at 31/12/2016	**Additions / Provisions**	**Disposals**	**Transfers**	**Exchange rate differences**	**Balance at 31/12/2017**
Concessions	28,402	599	(1,959)	-	-	27,042
Patents, licences and trade marks	82	-	-	-	-	82
Other intangible assets	5,811	2	-	2,089	(131)	7,771
Total expense	**34,295**	**601**	**(1,959)**	**2,089**	**(131)**	**34,895**
Concessions	(12,912)	(1,016)	1,959	-	-	(11,969)
Patents, licences and trade marks	(8)	(9)	-	-	-	(17)
Other intangible assets	(818)	(2,101)	-	(426)	17	(3,328)
Total Accumulated Amortisation	**(13,738)**	**(3,126)**	**1,959**	**(426)**	**17**	**(15,314)**
Net carrying amount	**20,557**	**(2,525)**	**-**	**1,663**	**(114)**	**19,581**

Year 2016:

	Thousands of Euros					
	Balance at 31/12/2015	**Additions / Provisions**	**Disposals**	**Transfers**	**Exchange rate differences**	**Balance at 31/12/2016**
Concessions	30,403	564	(2,565)	-	-	28,402
Patents, licences and trade marks	82	-	-	-	-	82
Other intangible assets	3,555	2,499	(276)	(94)	127	5,811
Total expense	**34,040**	**3,063**	**(2,841)**	**(94)**	**127**	**34,295**
Concessions	(14,314)	(1,276)	2,678	-	-	(12,912)
Patents, licences and trade marks	(4)	(4)	-	-	-	(8)
Other intangible assets	(725)	(89)	-	-	(4)	(818)
Total Accumulated Amortisation	**(15,043)**	**(1,369)**	**2,678**	**-**	**(4)**	**(13,738)**
Total Accumulated Impairment (Note 23.9)	**(141)**	**-**	**141**	**-**	**-**	**-**
Net carrying amount	**18,856**	**1,694**	**(22)**	**(94)**	**123**	**20,557**

During the year 2017 there have been no significant changes arising from additions or withdrawals of items of the "Other intangible assets" caption. The increase in "Other intangible assets" in 2016 was mainly due to the acquisition of construction rights by the company "San José Constructora Chile, Ltda" Group, as part of the purchase transaction of 50% of the capital of the company "Consorcio Hospital Carlos Cisternas de Calama, SA" (see Notes 2.4 and 9).

During the 2017 and 2016 financial year, the maintenance and sale of energy concessions referring to the hospitals of Puerto Real and Jaén have expired. As a result, the Group has proceeded to write off the cost of these concessions, fully amortised.

During year 2017, the Group recorded a transfer for a net amount of EUR 1,633 thousand, corresponding to the investments incurred into in previous years by the Chilean subsidiary "Sociedad Concesionaria San José Tecnocontrol, SA", which, as of 31 December 2016, were recorded as "Short-term accruals" under current assets in the consolidated balance sheet. It corresponds to investments made in the construction stage of the hospitals that the Group manages under concession regime in Chile, as well as to subsequent improvements of the facilities, which have an impact on improvements and, therefore, lower costs of the exploitation stage. The amount is recorded as income through its linear amortisation during the exploitation period of the concession.

Additions under "Concessions" are mainly due to the expenses incurred into by the Group's "Polygeneration Parc de l'Alba ST-4, SA" company in the pipelines and adjustments made to provide energy supply to new customers, amounting in 2017 to a total of EUR 599 thousand.

Additionally, at 31 December 2017, main intangible assets of the Group as as follows:

- Construction elements and technical installations constituting the polygeneration plant for the production of electric power, cold and heat, of the company of the Group Polygeneration Parc de l'Alba ST-4, SA, located in the Partial Plan "Centro Direcional de Cerdanyola del Valles "(Barcelona), for a net cost at 31 December 2017 of EUR 14,664 thousand.

- Leasing rights for a period of 25 years, arising from the stake of the Group in “Fotovoltaica el Gallo 10, S.L." referred to the use of land where the PV plant is located are recorded at 31 December 2017 for a total amount of EUR 2,448 thousand.

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

At 31 December 2017 there are no significant investment commitments in intangible assets.

Finance Leases

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

Breakdown at 31 December 2017 is as follows:

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

The rent paid in 2017 amounted to EUR 372 thousand, including a finance charge of EUR 22 thousand.

At year-end 2017 and 2016, total items pending amortisation corresponding to finance leases amounted to EUR 162 thousand and EUR 534 thousand (see Note 17.).

11. Investments accounted for using the equity method

Investments in associates

The Group's most significant investments in associates at 31 December 2017 and 2016 were as follows:

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Distrito Castellana Norte, S.A. (DCN)	27,797	26,400
Panamerican Mall, S.A. (PM)	6,220	8,484
Cresca, S.A.	10,360	12,117
Pinar de Villanueva, S.L.	5,541	5,665
Total net	**49,918**	**52,666**

The changes, by company, in "Investments Accounted for Using the Equity Method" in 2017 and 2016 are as follows:

Year 2017:

	Thousands of Euros						
	Balance 31-12-2016	**Changes scope/ Transfers**	**Profit/(Loss) for the year**	**Additions**	**Dividends received**	**Exchange rate differences**	**Balance 31-12-2017**
Cresca, S.A. (Note 26)	12,117	-	(982)	-	-	(775)	10,360
Pinar de Villanueva, S.L.	5,665	-	(124)	-	-	-	5,541
Distrito Castellana Norte, S.A.	26,400	-	(690)	2,087	-	-	27,797
Panamerican Mall, S.A.	8,484	-	1,586	-	(1,995)	(1,855)	6,220
Total	**52,666**	**-**	**(210)**	**2,087**	**(1,995)**	**(2,630)**	**49,918**

Year 2016:

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

The main addition of 2017 corresponds to the investee "Castellana Norte District, S.A." whose Shareholders' Meeting approved a capital increase for a total amount of EUR 8,534 thousand, granted through public deed on 25 July 2017. The Group, through its associate "Desarrollos Urbanísticos Udra, S.A.U.", has subscribed and paid up the totality of its shares, for a total value of EUR 2,087 thousand. Therefore, it keeps its 24.46% participation within the share capital of "Distrito Castellana Norte, S.A.".

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

"Distrito Castellana Norte, S.A." submitted a review of the PPRI of APR 08.03, having been approved initially by the Governing Board of the City of Madrid on 19 February 2015. During 2016, the decision of the Board of the City of Madrid, at the proposal of the Municipal Planning Commission, has been released, denying its approval, although to date the Group has no information on the Technical reasons underlying this decision.

On 30 November 2016, the investee company, together with the city Council of Madrid, the Community of Madrid, the Ministry of Development and other affected operators, agreed on the creation of a mixed commission with the aim of reaching a common agreement for the preparation of a new Internal Reform Partial Plan that includes a new urban framework for the project.

Likewise, during December 2016, the investee has signed an extension of the contract with ADIF, extending the term agreed on the Basic Agreement on 22 January 2015 for the approval of the Internal Reform Partial Plant within the following two years.

On 27 July 2017, the parties have reached an understanding on the basic guidelines of the future urban planning of the project, thus unblocking the operation. These basic guidelines shall be subject to the development and concretion in a specific modification of the general urban planning plan of Madrid.

To the extent that, there is evidence of an uncertainty in the fair value of the Group's financial holding in this company. However, currently existing expectations are very positive. The Group supports the project as it has been doing since its inception and does not doubt about the recoverability of the amount for which this stake is recorded in its consolidated financial statements. This fact is reflected on the fact that shareholders have attended capital increase transactions in the last years (see Note 26).

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

At 31 December 2017

	Millions of Euros		
	DCN	**PM**	**Cresca**
Non-current assets	4.0	289.0	2.9
Current assets	124.1	16.5	44.0
Total Assets	**128.1**	**305.5**	**46.9**
Non-current liabilities	7.5	66.6	0.0
Current liabilities	7.0	11.9	18.2
Total Liabilities	**14.5**	**78.5**	**18.2**
Income from ordinary activities	0.0	26.4	0.0
Profit/(Loss) from continued operations	-2.8	66.7	-1.5
Profit/(Loss) for the year	-2.8	66.7	-1.5

At 31 December 2016

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

Details of summarised information corresponding to the main investees, with the amount in consolidated books of the Group, are provided:

At 31 December 2017

	Millions of Euros		
	DCN	**PM**	**Cresca**
Total net equity	113.6	227.0	28.81
% ownership of Grupo SANJOSE	24.459%	20.0%	50.0%
Net carrying amount of the stake (NCV)	27.8	45.4	14.4
Amendments of the NCV and other	-	(39.2)	(4.0)
Cost of the Groups' stake	**27.8**	**6.2**	**10.4**

During 2017, the investee “Panamerican Mall, S.A.” has performed a change in the criteria applicable to appraisal of investment assets, adopting fair value. Prior to its incorporation into the financial statements of the Group, this criterion has been applied.

At 31 December 2016

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

Non-current loans to related companies

As of 31 December 2017, and 2016, this item in the consolidated balance sheet includes an amount of EUR 455 thousand, corresponding to the equity loan granted by the company "Constructora San José, SA" to its investee "Pinar de Villanueva, SL" (see Notes 13.4 and 23).

12. Inventories

The detail in the consolidated balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros					
	Balance 31-12-2016	**Additions**	**Disposals**	**Transfers**	**Exchange rate differences and other**	**Balance 31-12-2017**
Acquired property	**9,723**	-	-	-	-	**9,723**
Land and plots of land	**70,122**	2,479	-	(953)	(2,025)	**69,623**
Raw materials and other	**5,475**	8,856	(9,830)	1,061	(303)	**5,259**
Developments under construction						
- Short-cycle developments under construction	**108**	-	-	(108)	-	**-**
Completed construction works	**10,756**	-	(1,633)	-	(57)	**9,066**
Advances to suppliers	**17,801**	5,041	-	-	-	**22,842**
Usage rights	**7**	13	(110)	-	-	**(90)**
Impairment losses on inventories	**(9,870)**	(2,113)	35	-	229	**(11,719)**
Total	**104,122**	**14,276**	**(11,538)**	**-**	**(2,156)**	**104,704**

During year 2017, and based on the valuation of real estate assets carried out by an independent expert (see Note 12.7), the Group deems it necessary to record an additional impairment of its real estate inventories amounting to EUR 2,113 thousand.

12.1 Acquired property

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

- Car parking spaces, commercial premises and housing units in Legazpi, Madrid.
- Further, also under this item are recorded the housing units of Promóplis, in Seville.
- Car parking spaces and housing units in Puerto Llano, Ciudad Real.
- Car parking spaces and housing units in Mairena de Aljarafe, Seville.
- Car parking spaces and storage rooms in Manilva, Malaga.

During years 2017 and 2016, no significant changes have been recorded under this item.

12.2. Land and plots of land

This account balance corresponds to the acquisition price of several plots of land in their final phase or under urban management at 31 December 2017 basically for residential purposes (even though there are also institutional or industrial plots). The Group has planned to allocate them to direct sale or property development by Group companies.

The main movement occurred during year 2017, corresponds to the adjudication by judicial auction, within the process of collecting an outstanding debt, of 10 farms in Hormigos (Toledo) with an area of 196,896 m2, for an amount of EUR 1,853 thousand.

Likewise, during year 2017 there have been additions in this item, amounting to EUR 305 thousand, corresponding to the investments made by the company "San José Inmobiliaria Perú, SAC", related to the development of the land located in the district of Bellavista, of Lima (Peru).

Further, at 31 December 2017 “Land and plot of land” includes the following properties:

1. Plot of land in La Tablada, Seville, with a total surface of 149,619 sqm.

2. Urban plot of land Las Arenas and RP-9 Jalón industrial, both in Valladolid, with a surface amounting to 68,290 and 6,215 m^2.

3. Two plots of land of 3,965 and 9,532 m^2, La Catalana and Pueblo Mediterráneo, located in Vicalvaro (Madrid) and Manilva (Malaga).

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

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

6. Land located in the district of Bellavista, in the city of Lima, with a surface of 20,000 square meters arranged into two plots, with the aim of building more than 1,000 housing units distributed in 15-storey buildings. The execution term shall depend on sale, yet it is expected to be not less than 6 years,

At 31 December 2017 and 2016, the Group did not have lands acting as collateral of mortgage loans.

In addition, several assets recorded under this item at 31 December 2017 and 2016 for a total net cost amounting to EUR 4,740 thousand act as collateral, in both years, for part of the loan syndicated by the Group (see Note 16.3) for EUR 4,561 thousand in both years,

At 2017 year-end the Group owned land with a total area of 1,785,526 square meters, of which 71% amounting to 1,261,554 square meters are qualified as buildable land. The detail, by location, of the Group's land is as follows:

	Total m^2	
	31.12.2017	31.12.2016
Spain	723,140	526,244
Peru	20,000	20,000
Argentina	1,012,101	1,012,101
Brazil	30,285	30,285
TOTAL	**1,785,526**	**1,588,630**

12.3 Land purchase commitments

At 31 December 2017 and 2016, the Group had entered into various memorandums of understanding or agreements with purchase options for land totalling approximately EUR 2.4 million, of which the Group had paid EUR 651 thousand, amount recognised under "Advance payments to suppliers" in the Note herein. Final purchase price shall depend upon final purpose of the same.

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

The rest of the advances correspond to advances to suppliers associated with the group's construction activity, mainly in Abu Dhabi, Chile and India, for amounts of EUR 16.3, EUR 3.9 and EUR 4.5 million, respectively.

12.4 Developments under construction

At 31 December 2017, the Group has no development under construction.

12.5 Completed construction works

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

- 111 housing units in Larrein" located in Vitoria- Gasteiz property of the Group company "Alexin XXI, S.L.U".
- Items under "Borinbizcarra" and "62 housing units in Mariturri", for "Eraikuntza, Birgaikuntza Artapena, S.L.U." (EBA).
- Promociones Quinta do Moleao (Lagos) of the branch office in Portugal of "Constructora San José, S.A.".
- Promoción Feria Internacional del Pacífico, located in Lima, Peru, of the Company of the Grupo "San José Inmobiliaria Perú, S.A.C.".

During 2016, the company "San José Inmobiliaria Perú, S.A.C.", has commissioned the last stage of the construction works of the urban development Feria Internacional del Pacífico, located in Lima, Peru, started in year 2008 by the Group company "San José Perú, S.A.C.". Said urban development consists of a total surface of 102 thousand sqm which shall house over 3,000 homes. In year 2017 and 2016, 57 and 258 housing units have been completed and delivered for a total amount of EUR 2,080 thousand and EUR 11,600 thousand.

Additionally, during year 2017 there were sales for a total amount of EUR 758 thousand, of housing units and car park spaces of the Larrein and Boronbizkarra urban development (Vitoria).

At 31 December 2017 and 2016, certain real estate assets are recorded under "Completed Buildings " in the Note herein for a total net cost amounting to EUR 7,026 thousand and EUR 7,613 thousand, respectively, which act as mortgage hedge for banking borrowings amounting to EUR 4,318 thousand and EUR 4,830 thousand (see Note 16.2).

At 31 December 2017 the Group hold completed developments for a total net cost amounting to EUR 4,504 thousand which guarantee the syndicated debt for EUR 3,683 (see Note 16.3).

12.6 Commitments to sell property developments in progress and completed buildings

At 31 December 2017 and 2016, the Group had entered into private agreements and reservation documents for the sale of property developments in progress and completed buildings at that date, for a total amount of EUR 6,694 thousand and EUR 7,829 thousand, for which the Group had received advances from the related customers totalling EUR 66 thousand and EUR 406 thousand, respectively (see Note 18.3).

12.7 Impairment losses on inventories

Each year the Group commissions studies from independent valuers to determine the fair value of its investment property at year-end. At 31 December 2017 and 2016, said studies were conducted by "Instituto de Valoraciones, S.A.". Such valuations were performed on the basis of the sale value and lease value of the property on the market (which consists of capitalising the net income from each property and discounting future flows), as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions.

The comparison method (for finished products) and the static and dynamic residual method (basically for plots of land and developments under construction) were used to calculate the fair value. Under the Residual Method, the residual value of property is obtained by discounting the cash flows calculated on the basis of projected expenses and income at the established rate by taking into account the period until these flows are realised. The total cash receipts deemed to have been received prior to the valuation date are added to this amount in order to obtain the total value. The discount rate used is that which represents the average annual return on the project, without taking borrowings into account, that an average developer would obtain from a development similar to that analysed.

This discount rate is calculated by adding the risk premium (determined by evaluating the risk of the development, taking into account the property asset to be constructed, its location, liquidity, construction period and investment required) to the risk-free interest rate. When the determination of the cash flows takes into account borrowings, the aforementioned risk premium is increased in proportion to the percentage of the borrowings (degree of leverage) attributed to the project and the habi1tual interest rates in the mortgage market.

At 31 December 2017 and 31 December 2016, the fair value of the Group 's inventories based on the aforementioned study amounted to EUR 159,4 million and EUR 164.3 million, respectively, having recorded an impairment in 2017 amounting to EUR 2,113 thousand (See Note 22.2).

12.8 Insurance policy

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

12.9 Issuance rights

At 31 December 2017, "Inventories" includes the emission rights of greenhouse gases received by the company of the Group "Polygeneration Parc de l'Alba ST-4, SA" which are pending redemption against the Public Administration, with a total cost amounting to EUR 20 thousand, not having associated any deterioration. During 2017, we received emission rights for EUR 13 thousand, having proceed to the redemption against the public administration for the emission rights for CO2 emissions for year 2016 amounting to EUR 87 thousand, being largely provisioned under the item "Short-term provisions" under current liabilities on the consolidated balance sheet of the Group at 31 December 2016.

At 31 December 2017, under "Emission rights", the Group also includes a negative amount of EUR 110 thousand for the consumption of rights in 2017, which at the end of the year have not yet been subject of redemption before the Public Administration. This expense has been recorded under "Provisions" in the accompanying consolidated income statement for the year 2017.

13. Financial Assets

13.1 Trade receivables and sundry receivables

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

The detail of "Trade receivables for sales and services" at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Progress billings receivable and trade receivables for sales and provision of services	178,345	142,477
Executed works pending billing (OEPC)	37,204	47,275
Retentions for guarantees	21,164	22,328
Customers, discounted instruments	21,158	25,441
Impairment (Note 22.10)	(30,557)	(34,657)
Total	**227,314**	**202,864**
Advances (Note 18.3)	(118,670)	(140,472)
Total net accounts receivable	**108,644**	**62,392**

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

"Amounts to be billed for executed works (OEPC)" includes the work performed during the year but not yet billed to customers, which is recognised as period revenue in accordance with the method of recognition of revenue for completed construction work (completion of the works), based on the percentage of completion method used by the Group detailed in Note 4.12. To the extent that the accounting criterion adopted by the Group for the recording of sales revenue, for the purpose of calculating the degree of progress, takes into account as total revenue budget of the work / project only the justified and technically approved part, and on which there is no doubt about its approval, the amount of the TPRB corresponds entirely to production executed to date associated with properly signed and valid contracts. The Group does not record receivables from customers, resulting from modifications or claims not approved by the competent technical body. In this regard, as an exception, the only claim that the Group has registered in this section amounts to EUR 3,071 thousand, and corresponds to a claim that is being negotiated with the client and which is estimated to be materialised in the next months.

Additionally, at 31 December 2016, this item included the amount of the work performed pending invoicing related to the main contract signed with the client, which had not been approved as of that date, when the contract was unilaterally terminated by the client, being in complaint. During the 2017 financial year, as a result of the fact that there are no resolution expectations in the short term, the Group has reclassified it as a higher amount under "Other non-current financial assets" in the accompanying consolidated balance sheet, amounting to EUR 7,104 thousand (see Notes 13.4 and 15).

The amount of OEPC arises from amendments of the main contract and, at the end of the year, its impact is little.

The current liabilities "Advances" item from the consolidated balance sheet at 31 December 2017 and 2016 include EUR 86,064 thousand and EUR 100,717 thousand corresponding to "Amounts to be billed for work performed", which is recognised as the Group's lowest period revenue in accordance with the method of recognition of revenue based on the percentage of completion method.

In some cases, Group companies sell trade receivables to banks, without the possibility of recourse against them in the event of default. The receivables sold at year-end, which were deducted from the balance of accounts receivable, totalled EUR 6,120 thousand at 31 December 2017 and 2016. This amount is fully derived from investments from Constructora San Jose, S.A. in joint ventures (see Appendix III). These transactions bear interest at normal market rates. Group companies continue to manage collection.

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

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

Breakdown of trade receivables from Public Sector Customer and Private Sector Customers at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Public Sector Customers	72,279	94,276
Private Sector Customers	155,035	108,588
	227,314	**202,864**

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

Average collection period for trade receivables is approximately 123 and 127 days for years 2017 and 2016, slighting reduced in 2017.

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

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

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

Proper compliance with the internal risk control process means that the amount of financial assets in arrears at the end of the year 2017 and 2016 is very relevant.

13.2 Cash and cash equivalents

"Cash and Cash Equivalents" includes the Group's cash and short-term deposits with an original maturity of three months or less. The carrying value of these assets is its fair value (there are no limitations, apart from those arising from syndicated credit facilities of the Group - see Note 16.3).

Breakdown at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Other cash equivalents	67,182	115,276
Cash	239	368
Banks and credit entities	152,713	136,195
Total cash and other cash equivalents	**220,134**	**251,839**

Out of the total balance of this item, EUR 18,016 thousand and EUR 19,335 thousand correspond to joint ventures (see Annex III) for year 2017 and 2016, respectively.

13.3 Other current assets

This item includes deposits at banks, short-term deposits and other receivables maturing in over three months. At 31 December 2017, it mainly includes amounts arising from short-term loans amounting to EUR 35,574 thousand.

Further, it includes short-term payments to be collected from the Ministry of Public Works of Chile, for the certificates issued by the Group company "Sociedad Concesionaria San Jose-Tecnocontrol, S.A.", for a total value of EUR 39,760 thousand and EUR 41,051 thousand at 31 December 2017 and 2016 for the construction of the Hospitals of Maipu and La Florida, in Santiago de Chile. During years 2017 and 2016, finance income due to update of such items has been recorded amounting to EUR 2,547 thousand and EUR 2,663 thousand, respectively (see Note 22.7).

Likewise, this item includes the amount receivable from the company "Sociedad Concesionaria San José Rutas del Loa, SA" for an amount of EUR 5,766 thousand, as a result of the termination of the contract and execution of the guarantees to first requirement. The Group has recorded a provision in the non-current liability of the accompanying consolidated balance sheet, which reasonably covers the contingencies that may arise associated with this claim process (see Note 15).

At 31 December 2016, this item included an amount receivable from the CAAN (Civil Aviation Authority of Nepal), amounting to EUR 5,945 thousand, as a consequence of the termination of the contract by the contract and execution of the guarantees to first requirement, duly provisioned at that date (see Note 15). During year 2017, and as a result of the fact that there are no resolution expectations in the short term, the Group has reclassified it as a higher amount under "Other non-current financial assets" in the accompanying consolidated balance sheet (see Notes 13.4).

13.4 Non-current financial assets and loans to related companies

The detail of "Loans to related companies" and "Other financial assets" in the accompanying consolidated balance sheet at 31 December 2017 is as follows:

	Thousands of Euros					
	Other financial assets, with changes in income statement (Note 11)	**Loans to related companies**	**Investments available for sale**	**Investments until maturity**	**Impairment**	**Total**
Balance at 31 December 2015	**56,792**	**455**	**9,652**	**156,350**	**(11,671)**	**211,578**
Entries or provisions	6,639	-	23	11,762	(174)	18,250
Change in the scope of consolidation (Note 2.4)	(1,777)	-	1,482	-	-	(295)
Transfers	(4,186)	-	-	(34,901)	-	(39,087)
Translation differences	(1,842)	-	(610)	19,574	(540)	16,582
Disposals, withdrawals or redundancies	(2,960)	-	-	-	-	(2,960)
Balance at 31 December 2016	**52,666**	**455**	**10,547**	**152,785**	**(12,385)**	**204,068**
Entries or provisions	2,087	-	-	7,215	(1,332)	7,970
Change in the scope of consolidation (Note 2.4)	-	-	-	-	-	-
Transfers	-	-	-	(25,040)	(5,723)	(30,763)
Translation differences	(2,630)	-	(232)	(3,331)	977	(5,216)
Disposals, withdrawals or redundancies	(2,205)	-	-	-	-	(2,205)
Balance at 31 December 2017	**49,918**	**455**	**10,315**	**131,629**	**(18,463)**	**173,854**

13.4.1 Investments available for sale

The financial assets presented above basically represent investments in equity securities of unlisted entities. These ownership interests are stated at the underlying carrying amount. From total impairment recorded above, EUR 7,146 and EUR 6,487 thousand refer to investment available for sale at 31 December 2017 and 2016 (see Note 22.12).

Net cost at which interest ownership of the Group is recorded, by associate, at 31 December 2017 and 2016, is as follows:

	Thousands of Euros	
Company	**31.12.2017**	**31.12.2016**
Bodegas Altanza, S.A.	994	994
Unirisco S.C.R., S.A.	469	469
Filmanova, S.A.	-	37
Editorial Ecoprensa, S.A.	835	847
Oryzon Gernomics, S.A. (*)	693	1,411
Other	141	303
	3,169	**4,061**

(*) company listed in the Stock Exchange Market

13.4 Credits receivable and other receivables

This item includes mainly the participation loan of "Pinar de Villanueva, S.L." amounting to EUR 455 thousand (see Note 3.6).

13.4.3. Other investments

This item includes mainly loans and receivables due to certifications issued by "Sociedad Concesionaria San José-Tecnocontrol, S.A.", for a total amount of EUR 105,446 thousand and EUR 140,457 thousand at 31 December 2017 and 2016, respectively, as payment of the execution works of the Hospitals of Maipu and La Florida, in compliance with IFRIC12 (see Note 2.1) for concessions with no demand risk.

The payment of the Chilean Ministry of Public Works is arranged into 8 annual instalments of UF 1.1 million each, having collected instalments on 31 March 2014, 2015, 2016 and 2017. The Group records said amount deducting the financial effect of the deferred payment. During years 2017 and 2016, finance income arising from the update of said items amounting to EUR 7,215 thousand and EUR 8,702 thousand, respectively, were recorded (see Note 22.7).

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

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

As of 31 December 2017, this item also includes EUR 15,071 thousand with an associated impairment of EUR 5,723 thousand, corresponding to the Group's collection right against clients for executed works prior to the termination of the Contract by the Client (see Note 13.1, 13.3 and 15). The Group considers that the reasons alleged by the client lacked a legal basis, setting in motion all the mechanisms contemplated in the contract for the effective defence of its interests.

14. Net equity

14.1 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 2013 and 2016 has been EUR 3.55 and EUR 3.14 for year 2017 and EUR 3.23 and 3.04 for year 2011, respectively.

At 31 December 2017, the shareholder with a stake exceeding 10% in the share capital of the Parent Company was Mr. Jacinto Rey González, with a direct and effective participation of 24,952% and 48.292%, respectively

On 30 December 2014, the Group has entered into with a majority of the creditor banking entities a novation agreement of its syndicated credit loan in Spain, pursuant to which it commits to issue Warrants for 35% of its social capital, whose execution shall depend on the level of performance of the Group of the amortisation of the participating loan granted as on said date, for a total amount of EUR 100 million (see Note 16.3).

14.2 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.

14.3 Legal reserve

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

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

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

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

14.4 Restrictions on the distribution of dividends

There are no significant restrictions on the distribution of dividends, apart from those established for the Group's syndicated banking funding system (see Note 16.3).

14.5 Consolidated reserves

Breakdown in the accompanying consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31.12.2017	**31.12.2016**
Reserves of the Parent	(197,627)	(155,968)
Consolidation reserves		
-From consolidated companies	34,616	(15,744)
-From companies considered equivalent	5,239	3,888
TOTAL	**(157,772)**	**(167,854)**

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

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

	Thousands of Euros			
	2017		2016	
	Reserves	Profit/ (Loss) for the year	Reserves	Profit/ (Loss) for the year
Grupo Empresarial San José, S.A.	(216,499)	(1,624)	(216,512)	411
SJB Melrose	(5,836)	14	(5,808)	(28)
Construction subgroup	63,087	12,726	53,643	9,444
Trade subgroup	10,384	391	10,215	169
Udra Medios subgroup	(13,450)	(7)	(12,901)	(549)
Subgrupo San José Concesiones y Servicios	2,594	132	2,239	355
Subgrupo San José Energía y Medio Ambiente	(4,731)	(33)	(4,191)	(540)
Cadena de Tiendas, S.A.U.	1,477	12	1,575	(98)
GSJ Solutions, S.L.U.	(37)	39	(2)	(35)
	(163,011)	**11,650**	**(171,742)**	**9,129**

Net profit/(loss) for the year attributable to the Parent by entities valued by the equity method:

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

	Thousands of Euros			
	2017		2016	
Company	Reserves	Profit/ (Loss) for the year	Reserves	Profit/ (Loss) for the year
Distrito Castellana Norte, S.A.	(990)	(690)	(531)	(459)
Panamerian Mall, S.A.	9,239	1,585	7,670	1,569
Pinar de Villanueva, S.L.	(757)	(125)	(751)	(6)
Cresca, S.A.	(2,311)	(980)	(2,520)	209
Eskonel sub-group branch offices	-	-	(37)	(361)
Other	58	-	57	1
	5,239	**(210)**	**3,888**	**953**

14.6 Valuation adjustments

"Valuation adjustments" in the consolidated balance sheet includes the net amount of fair value adjustments of certain derivative instruments (see Notes 4.9, 4.11 and 17) due to the application of IAS 32 and 39.

14.7 Treasury shares

At 31 December 2017 and 2016, the Group did not hold any treasury shares.

In year 2017, no transactions with treasury shares took place.

14.8 Minority interests

At 31 December 2017 the of "Minority Interests" and "Profit (Loss) Attributable to Minority Interests" of consolidated companies is as follows:

Company	Thousands of Euros Total Interest Interests	 Profit/ (Loss) for the year attributed to minority
Construction subgroup	19,553	834
Trade subgroup	(197)	(59)
Udra Medios subgroup	(244)	5
Subgrupo San José Energía y Medio Ambiente	1,754	48
	20,866	**828**

Changes under this item during years 2017 and 2016 are as follows:

	Thousands of Euros 2017	 2016
Opening balance	**21,297**	**21,680**
Change in the scope of consolidation (Note 2.4)	693	(299)
Profit/(Loss) for the year	828	(2,010)
Exchange rate differences	(975)	2,695
Dividends	(1,030)	(801)
Adjustments attributable to minority interests and other	53	32
Closing balance	**20,866**	**21,297**

14.9 Capital management

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

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

At 31 December 2017, the amount mentioned is as follows:

	Thousands of Euros 31.12.2017	 31.12.2016
Non-current bank borrowings and other financial liabilities (Note 16)	312,213	384,523
Current bank borrowings and other financial liabilities (Note 16)	65,828	63,724
Other current financial assetsw (Note 13.3)	(91,206)	(101,884)
Cash and cash equivalents (Note 13.2)	(220,134)	(251,839)
Total net	**66,701**	**94,524**
Corrected net equity	**91,266**	**89,475**
Leverage (%)	**73.08%**	**105.64%**

(*) The Group does not include as bank financial debt that arising from the syndicated loan agreement of "Grupo Empresarial San José, S.A.", amounting to EUR 107,883 thousand and EUR 104,663 thousand at 31 December 2017 and 2016. Due to its participative nature, the Group considers this amount as equity as for management purposes

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

Among other, the Group identifies as MAR the net financial debt (DFN), defining it as the total amount of bank and non-bank financial debt, including financial leasing creditors and the valuation of obligations associated with financial derivative instruments, cecorded under "Other current financial assets" and "Cash and cash equivalents" in the current assets of the balance sheet.

14.10 Equity status of the Patent

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

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

At 31 December 2017, the parent records a positive net equity amounting to EUR 39,697 thousand, representing 80% of the subscribed and paid up capital. Therefore, there is an equity unbalance according to provisions of Art. 327 and Art 363 of the Companies Act. Yet, the Parent Company has a participating loan at 31 December 2017 amounting to EUR 107,883 thousand (see Note 16.3), received from creditor financial institutions, that comes to strengthen its financial position.

15. Non-current provisions

Changes under this item during years 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	**2016**
Opening balance	**28,963**	**19,233**
Provision for the year	4,822	11,878
Reversals	(566)	(281)
Applications	(2,302)	(624)
Change in the scope of consolidation	(651)	-
Exchange rate differences	(1,745)	608
Reclassifications and other	1,792	(1,851)
Closing balance	**30,313**	**28,963**

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

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

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

Associated to this procedure, and despite there being positive expectations for the Group, as of 31 December 2016, a long-term provision was recorded that substantially covers the possible contingency that could arise for the Group in a negative resolution scenario, based on the estimates made by the Group Management (see Note 13.4.3). During year 2017, the Group has recorded under "Other non-current financial assets" the collection rights that it maintained at year-end 2016 with respect to CAAN for work performed pending collection, the guarantees executed in an inappropriate manner by the client, as well as other investments made prior to the termination of the contract and associated to it. As a result, the amount recorded at 31 December 2016 under "Long-term provisions", for EUR 5,046 thousand has also been reclassified as non-current assets (see Note 13.4).

16. Bank borrowings and debt instruments and other marketable securities

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

Year 2017:

	Thousands of Euros		
	Debts and accounts payable	**Derivatives**	**Total**
Non-current financial liabilities:			
Obligations and other securities (Note 16.4)	102,463	-	**102,463**
Bank borrowings (Note 16.1)	313,418	-	**313,418**
Derivatives (Note 17)	-	591	**591**
Other financial liabilities	3,624	-	**3,624**
Total non-current	**419,505**	**591**	**420,096**
Current financial liabilities:			
Obligations and other securities (Note 16.4)	33,426	-	**33,426**
Bank borrowings (Note 16.1)	29,066	-	**29,066**
Derivatives (Note 17)	-	3	**3**
Other financial liabilities	3,333	-	**3,333**
Total current	**65,825**	**3**	**65,828**

Year 2016:

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

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

The detail of changes in year 2017, in terms of total financing, is as follows:

	Thousands of Euros						
	31.12.2016	Cash flows	Transfers	Changes in fair value	Changes in the scope	Translation differenmces	31.12.2017
Non-current financial liabilities:							
Obligations and other securities	**138,075**	-	(31,510)	-	-	(4,102)	**102,463**
Bank borrowings	**346,685**	(224)	(36,263)	3,220	-	-	**313,418**
Derivatives	**906**	(275)	-	(40)	-	-	**591**
Other financial liabilities	**3,520**	139	-	-	-	(35)	**3,624**
Total non-current	**489,186**	**(360)**	**(67,773)**	**3,180**	**-**	**(4,137)**	**420,096**
Current financial liabilities:							
Obligations and other securities	**33,594**	(36,911)	31,510	6,448	-	(1,215)	**33,426**
Bank borrowings	**27,242**	(30,814)	36,263	(159)	(2,580)	(887)	**29,066**
Derivatives	**2**	-	-	1	-	-	**3**
Other financial liabilities	**2,886**	520	-	13	-	(86)	**3,333**
Total current	**63,724**	**(67,205)**	**67,773**	**6,303**	**(2,580)**	**(2,188)**	**65,828**

16.1 Bank borrowings

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

	Thousands of Euros	
	31.12.2017	31.12.2016
Non-current		
Finance leasing (Notes 7 and 10)	-	162
Bank loans and credit facilities	13,516	15,035
Syndicated facilities “Grupo Empresarial San José, S.A.” (Note 16.3)	107,883	104,664
Syndicated facilities “Constructora San José, S.A” (Note 16.3)	192,019	226,824
Total non-current	**313,418**	**346,685**
Current:		
Finance leasing (Notes 7 and 10)	162	372
Syndicated facilities (Note 16.3)	20,700	15,260
Payables from discounted notes and bills	-	-
Bank loans and credit facilities	2,832	5,595
Mortgage loans secured by inventories (Note 12 and 16.2)	5,372	6,015
Total current	**29,066**	**27,242**
TOTAL	**342,484**	**373,927**

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

"Bank loans and credit facilities" from non-current liabilities includes at 31 December 2017 the following:

- EUR 6,701 thousand corresponding to Project finance, granted for the construction, commissioning and operation of the Plant and the facilities of the Group company Poligeneraci Parc de LAlba ST-4, S.A.'s Policy Project (see Notes 10). Said plant acts as collateral for credit facilities.

- EUR 6,052 thousand for credit facilities granted by Banco Popular, with maturity in 2019 and for a variable interest rate according to three-month Euribor plus 0.8 %.

"Bank loans and credit facilities" from current liabilities of the attached consolidated balance sheet at 31 December 2017 and 2016 includes EUR 1,185 thousand and EUR 1,344 thousand, respectively, for financial expenses pending settlement at year-end close. EUR 1,081 thousand (EUR 1,231 thousand at 31 December 2016) refer to the syndicated credit of the company (see Note 16.3).

16.2 Mortgage loans

The Group provides as collateral for mortgage loans real estate assets for a total net cost amounting to EUR 9,142 thousand.

Mortgage loans secured by investment property

The Group does not hedge mortgage loan on real estate investments at 31 December 2017.

Mortgage loans secured by inventories

As indicated in Note 4.19, all the bank borrowings associated with "Inventories" (regardless of the maturity thereof) are presented in the consolidated balance sheet under "Current Liabilities". Mortgage loans secured by inventories at 31 December 2017 have a long-term maturity and concern entirely on subsidiaries.

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

The outstanding principal of these loans at 31 December 2017 matures approximately as follows:

Thousands of Euros				
Year 2018	**Year 2019**	**Year 2020**	**Year 2021 and following**	**TOTAL**
329	339	349	4,355	**5,372**

16.3 Syndicated financing

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

On 30 December 2014, Group SANJOSE and its main subsidiaries have entered into a modifying novation 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.

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

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

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

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 thousand. During years 2017 and 2016, the Company voluntarily amortized EUR 6,265 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. At 31 December 2017, accrued finance expense pending payment amounts to EUR 1,081 thousand (see Note 16.1).

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

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

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

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

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

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

Pursuant to the modifying novation agreement of the debt of Grupo SANJOSE, the Company assumed a EUR 100 million participating loan on a 2% fixed interest rate to be increased up to 3% interest rate on the third and fourth year and a 4% interest rate on the fifth year, including a variable rate according to the outcome of the Group, with a 5-year bullet maturity, while being released from the guarantees granted pursuant to the previous financing agreement.

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

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

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

Warrants will not be listed on any secondary markets and shall only be transferable with debt of Grupo San José. Therefore, its fair value of zero, both at the initial and subsequent recognition.

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

At 31 December 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. In addition, it has pledged credit rights that may derive from certain real estate assets, whose net book value is EUR 13,743 thousand and EUR 14,236 thousand at these dates, respectively.

16.4 Obligations and other securities

On 24 March 2015 the Group issued bond in the capital market of Chile, through its associate “Sociedad Concesionaria San José-Tecnocontrol, S.A.” relying on Banco Itaú Chile as finance advisor. Total emission amounted to EUR 6,302 thousand UF (nearly EUR 223,684 thousand). Said bonds were used for the early repayment of the syndicated loan granted to the Group in Chile in 2011 for the financing of the construction of the hospitals of Maipú and La Florida in Chile. Further, the surplus has been used to partially settle the syndicated loan of “Constructora San José. S.A.” amounting to EUR 7 million (see Note 16.3), and the settlement of derivative financial instruments, property of “Sociedad Concesionaria San José-Tecnocontrol S.A.”.

It is repaid on an annual basis by equal instalments of 1,014 thousand UF, with maturity on 30 June 2021, with an average interest rate amounting to 3.1%. Said transaction had been guaranteed, with an average annual rate of 4.0%. During June 2017, the Company has paid the third instalment.

There are no other additional guarantees from said financing transaction.

Syndicated loan amortisation shall be executed in seven annual payments due as of 30 June from 2015 to 2021. The outstanding principal of these loans at 31 December 2017 matures approximately as follows:

Thousands of Euros (*)				
Year 2018	**Year 2019**	**Year 2020**	**Year 2021**	**Total**
33,426	33,127	34,144	35,192	**135,889**

(*) Gross amounts prior to deducing borrowing costs, amounting to EUR 3,224 thousand at 31 December 2017.

17. Derivative Financial Instruments

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

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

At 31 December 2017, derivative financial instruments of Grupo SANJOSE are mainly Interest Rate Swaps and cross-currency swaps.

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

Interest rate derivatives contracted by the Group and effective at 31 December 2017 and 2016, together with their fair values at said date, are the following:

Year 2017:

Company	Financial Instrum.	Maturity	Thousands of Euros		
			Initial par value	Remaining par value at 31.12.2017	Balance at 31.12.2017 (Note 16.1)
Efficient Hedges:					
Trendy King, S.A.U.	CCS-usd	15/06/2018	112	112	1
Trendy King, S.A.U.	CCS-usd	17/09/2018	182	182	(3)
Poligeneraciò Parc de l´Álba ST-4, S.A.	IR Swap	15/12/2021	15,541	5,475	(591)
TOTAL			**15.835**	**5.769**	**(594)**

Year 2016:

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

Assets and liabilities as hedge financial instruments include the changes in the measurement of fair value of hedge financial instruments. At 31 December 2017, instruments hold by the Group company "Poligeneració Parc De L'Alba, S.A. (ST4)" and the commercial subgroup are Interest Rate Swaps and cross-currency swaps linked to assets and liabilities of the consolidated balance sheet, as well as to potential transactions in compliance with requirements established by IAS 39 so as to be classified as hedge accounting.

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

The Group records as equity the change in fair value of hedge accounting financial instruments. At 31 December 2017 and 2016 the change in fair value of Derivative Financial Instruments allocated as Hedge Elements for their effective portion accumulated in Equity amounts, in negative, to EUR 497 thousand and EUR 711 thousand, respectively

During 2017 and 2016, EUR 354 thousand and EUR 412 thousand before tax have been recycled from Equity to Interests costs as financial liabilities' interests being hedged pursuant to allocated Hedging Relationships were registered.

Measurement of efficiency of financial instruments

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

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

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

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

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

Classification of financial instruments

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

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

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

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

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

Derivatives of the Group are classified as Level 2.Atv 31 December 2017, the Group qualifies at Level 1 the investment in shares of an investee (see Note 13.4).

No transfers from Level 1 to Level 2 have taken place during year 2017. Neither had taken place inputs or outputs of Level 3 at 31 December 2016.

Sensitivity analysis of interest rate and exchange rate

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

a) Changes in the long-term Euro interest rate and Swaps curve and CLP interest rate curve.

b) Changes in currency swaps depend on the average exchange rate of Unidades de Fomento (UF) and Chilena Pesos (CLP).

At 31 December 2017, changes in the value of financial instruments due to changes in interest rates is not significant.

Fair value of financial instruments

Fair value of financial instruments at amortised cost

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

Applicable pricing techniques and hypothesis to measure fair value:

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

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

• The fair value of other financial assets and liabilities (excluding derivatives) will be established according to generally accepted pricing models based on cash flow discounts using market trading prices and quotes from contributors for similar instruments.

• To determine the fair value of interest rate derivatives, cash flow discount based on assumptions established by the interest rate curve according to market conditions is used. To determine the fair value of the interest rate derivatives (IRSs), the Group uses an in-house IRS valuation model where the inputs are the Euribor market curves and long-term swap rates to establish the fair value of the interest rate derivative structures.

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

• Level 1: Those tied to quoted prices (without adjustment) in active markets for identical assets or liabilities.

• Level 2: Those tied to other inputs (excluding quoted prices included in level 1) observed for assets and liabilities, either directly (i.e., prices) or indirectly (i.e., derived from prices).

• Level 3: Those tied to pricing techniques, including inputs for assets and liabilities not based on observable market data (non-observable inputs).

The Group's derivative financial instruments at 31 December 2017 are classified under Level 2.

18. Trade payables and sundry payables

18.1 Trade payables

"Trade and other payables" includes mainly the amounts outstanding for trade purchases and any related costs, as well as advances from customers (see Note 18.3).

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

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

Regarding information required by the supplementary third provision of Act 15/2010 on 5 July, detailed below is the average payment term to suppliers of the Parent Company and its domestic subsidiaries during year 2017, as well as the balance of payments to suppliers at 31 December 2017:

	Year 2017:	Year 2016:
Average payment term to suppliers (days)	**48**	**45**
Ratio of paid transactions (days)	44	43
Ratio of outstanding transactions (days)	59	50
Total payments made (thousands of Euros)	288,233	241,183
Total outstanding payments (thousands of Euros)	112,309	93,246

According to Act 15/2010 as of 5 July, amendment of Act 3/2004 on 29 December on default payment measures, maximum payment time is 30 days, up to 60 days in case of agreement.

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

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

18.2 Other current liabilities

Other current liabilities" includes mainly the accounts payable relating to joint ventures. It also includes the provisions totalling EUR 4,446 thousand and EUR 5,228 thousand, at 31 December 2017 and 2016, respectively, for remuneration payable.

18.3 Customer advances

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

Real estate advances at 31 December 2017 and 2011 amount to EUR 171 thousand and EUR 406 thousand, respectively, and relate fundamentally to the advances received from the buyers for the properties relating to the developments in progress or completed developments at year-end, the completion and/or delivery of which are scheduled for subsequent years (see Note 12).

At 31 December 2017 and 2016 this item includes "Amounts Billed in Advance for Construction Work" totalling EUR 86,064 and thousand and EUR 100,717 thousand, respectively, (see Note 13.1) which relates to progress billings issued during the year for construction work yet to be performed and which are not recognised as revenue for the period in accordance with the method of recognition of revenue for completed construction work, based on the percentage of completion method used by the Group, described in Note 4.12.

Advances received from customers are recorded to finance the advancement of the works amounting to EUR 32,435 thousand and EUR 39,251 thousand at 31 December 2017 and 2016. Additionally, EUR 97 thousand are also recorded under this item as other advances at 31 December 2016.

19. Risk exposure

19.1 Credit risk exposure

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

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

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

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

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

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

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

19.2 Interest rate risk exposure

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

The objective of interest rate risk management is to mitigate the impact on borrowing costs arising from fluctuations in interest rates. Financial derivatives which guarantee fixed interest rates or rates with caps and floors are for a substantial portion of the borrowings that may be affected by this risk. (see Notes 16 and 17).

The sensitivity of profit and equity of the Group to changes in the interest rate at 31 December 2017, considering the existing hedging instruments and financing fixed rate is as follows (considering fluctuations of fifty basic points in applicable interest rates):

	Variatrion scenarios	
(in millions of Euros)	**- 50 pb**	**+ 50 pb**
Impact on the total profit/(loss) for the year	0.1	-0.1
Impact on Equity	-2.1	2.2

19.3 Exchange rate risk exposure

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

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

Exchange rate and equity sensitivity at 31 December 2017, considering the existing hedging instruments and a fixed interest rate, is as follows (considering fluctuations of fifty basic points in applicable interest rates):

(in millions of Euros)		Impact of the profit/(loss) for the year		Impact on Equity	
Country	**Currency**	**-5%**	**+5%**	**-5%**	**+5%**
Chile	CLP	(0.4)	0.5	(0.4)	0.4
Argentina	ARS	(0.1)	0.1	(1.9)	2.2
México	MEX	(0.0)	0.0	(0.0)	0.1
Perú	PEN	(0.1)	0.1	(2.2)	2.4
Abu Dhabi	AED	0.7	(0.7)	0.5	(0.5)
TOTAL		**0.1**	**0.0**	**(4.0)**	**4.6**

19.4 Liquidity risk exposure

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

On 30 December 2014 the Group has entered into the modifying novation agreement of the syndicated credit facilities, as well as bilateral liabilities with a large majority of its financial creditors. Due to this transaction, the Group has a stable financing status in the medium and long term, since it does not have to face significant amortisation commitments until year 2019. Maturity dates of the remaining financial liabilities are listed in Note 16.

At 31 December 2017, the Group records a positive working capital amounting to EUR 155.3 million, what guarantees its feasibility regarding all current financial liabilities included within the accompanying consolidated balance sheet.

20. Taxation

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

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

At 31 December 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.
- San José Concesiones y Servicios, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- Comercial Udra, S.A.U.

- Basket King, S.A.U.
- Arserex, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U.
- Vision King, S.A.U.
- Running King, S.A.U.
- Udramedios, S.A.U.
- Xornal de Galicia, S.A.U.
- Xornal Galinet, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneració Parc de L´Alba ST-4, S.A.
- Enerxías Renovables de Galicia, S.A.
- Cadena de Tiendas, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

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

20.1 Years open for review by the tax authorities

Grupo Empresarial San Jose, S.A. and the subsidiaries forming the consolidated tax group have the last four years and 2013 open for review.

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

With regard to corporation tax, according to the new regulations the right of the Spanish administration to initiate the verification procedure of the paid, offset or outstanding quotas or any deductions applied or to be applied in future is extended to ten years as from from the day following that on which the statutory deadline for filing them or for the year or taxable period in which the right was generated to offset such quotas or apply such deductions, being therefore only subject to review deductions and tax losses generated since 2006.

With respect to the other subsidiaries that are either not domiciled in Spain or do not form part of the consolidated tax group, the years open for review are in accordance with the maximum periods established in the legislation applicable in each country of residence, not having undergone tax inspections during 2017.

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

20.2 Income tax

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

Country	**Applicable tax rate**
Spain	25%
Peru	28%
Cape Verde	34%
Portugal	21%
Chile	25.5%
Mexico	30%
India	34.6%
Abu Dhabi	0%
Malta	35.5%
Argentina	35%

The balance of "Income Tax" in the accompanying consolidated income statement for 2017 and 2016 was determined as follows:

	Thousands of Euros	
	2017	2016
Profit/(Loss) before tax	**22,395**	**19,708**
Increases at individual companies	27,008	28,927
Decreases at individual companies	(14,358)	(9,737)
Elimination trade consolidation	15,648	5,002
Non recorded losses tax credit	1,887	4,446
Equity method	210	465
Offset of prior years' tax losses	(15,474)	(345)
Taxable profit	**37,316**	**48,466**
Less taxable profit of companies not resident in Spain	(15,329)	(30,547)
Less taxable profit excluded from accounting records	-	-
Tax loss of consolidated group resident in Spain	**21,987**	**17,919**
Gross tax payable (25% in 2016 / 28% in 2015)	**5,497**	**4,480**
Plus - deductions	(1,478)	(561)
Accrued tax expense	**4,019**	**3,919**
Regularisation previous year and change of tax rate	(1,491)	(160)
Non resident tax expense	7,599	7,877
Tax expense	**10,127**	**11,636**

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

The impact of this regulatory change in the Group's consolidated financial statements as of 31 December 2017 has been negligible

20.3 Tax loss carry forwards

At 31 December 2017 total tax loss carry forwards pending Offset amounts to EUR 582,399 thousand, The Group records under “Deferred tax assets” in the accompanying consolidated balance sheet at 31 December 2017 a tax credit arising from said tax loss carry forwards amounting to EUR 10,174 thousand.

The Directors of the Group have assessed the recovery of assets for deferred taxes based on the activities developed by the Group for the term 2018-2027, including the applicable Tax Plan.

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

Forecasts are based on profits, which have, in fact, already been obtained in 2016. 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 the period 2018-2015.
- A relatively margin EBITDA standing at 7%.
- Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

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

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

As a result of the Tax Plan made, it is concluded that the Group generates sufficient taxable income to offset the amount of deferred tax assets recorded at 31 December 2017, in a given period of nine years.

The detail of the tax loss carry forwards of the consolidated companies at 31 December 2017 is as follows:

Company	Year of inclusion	Thousand of Euros
Grupo Empresarial San José S.a. and subsidiaries Tax consolidated group	2002.-2015	526,470
Spanish companies not included within the consolidated tax group	2006.-2015	831
Foreign companies	1997.-2016	55,098
TOTAL		582,399

In the case of the Spanish companies and under current legislation, the tax losses of a given year since 1997 can be carried forward for tax purposes for an indefinite period of time. Tax loss carry forwards of companies for offset when becoming an integral part of the group, may be forwarded for the parent with the limit of the individual company. However, the final amount of the tax losses to be offset may be modified as a result of the review by the tax authorities of the years in which the losses were incurred into.

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

20.4 Deferred tax assets and liabilities

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2017 and 2016 arose as a result of the following:

Year 2017:

	Thousands of Euros				
	31.12.2016	**Changes affecting profit/(loss) for the year**	**Equity adjustments**	**Reclassifications and other**	**31.12.2017**
Assets from deductible temporary differences:					
- Concessions and projects in progress	6,815	6,067	-	(5,623)	7,259
- Non deductible amortisation	428	(63)	-	(55)	310
- Receivables	2,674	(274)	-	5,485	7,885
- Other items	4,152	1,317	(69)	316	5,716
Tax credit carry forwards	**4,639**	**(855)**	**-**	**7**	**3,791**
Tax credits to offset loss (Note 21.3)	**14,131**	**(3,819)**	**-**	**(138)**	**10,174**
	32,839	**2,373**	**(69)**	**(8)**	**35,135**

Year 2016:

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

The balance of "Deferred tax liabilities" at 31 December 2017 relates basically to the following items:

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

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2017 and 2016 arose as a result of the following:

Year 2017:

	Thousands of Euros				
	31.12.2016	**Changes affecting profit/(loss) for the year**	**Equity adjustments**	**Reclassifications and other**	**31.12.2017**
Different criteria projects in progress	8,157	2,666	-	(336)	10,487
Deferral for reinvestment of extraordinary gains	434	(9)	-	(1)	424
Deferred consolidation profit and other	3,701	133	-	1,403	5,237
Accelerated amortisation	1,291	5	-	2	1,298
Other adjustments	1,908	66	-	121	2,095
	15,491	**2,861**	**-**	**1,189**	**19,541**

Year 2016:

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

The balance of "Deferred tax liabilities" at 31 December 2017 relates basically to the following items:

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

20. 5 Tax credits

Tax credits earned in the year in excess of the applicable legal limits may be deducted from the income tax payable in the coming years, subject to the limits and deadlines established in this connection by the related tax legislation

The Group availed itself of the tax benefits provided for in the aforementioned legislation and recognised EUR 628.7 thousand as an increase in the income tax asset accrued in 2017, as follows:

Item	Year of inclusion	Thousands of Euros
Earned by the consolidated tax group Grupo Empresarial San Jose S.A.		
Double taxation tax credit	2017	611.0
Deducción por amortización reversión medidas temporales DT 37ª	2017	9.3
Tax credits for donations	2017	8.4
		628.7

At 31 December 2017 the following tax credits remain outstanding:

Earned by the consolidated tax group Grupo Empresarial San Jose S.A.	Year of inclusion	Thousands of Euros
Deduction for reversal of temporary amortisation DT 37ª	2017	9.3
Double taxation tax credit	2017	611.0
Tax credits for donations	2017	8.3
Deduction for R&D	2016	29.2
Double taxation tax credit	2016	538.3
Tax credits for donations	2016	13.0
Deduction for reversal of temporary amortisation DT 37ª	2016	9.3
Double taxation tax credit	2015	1,520.0
Tax credits for donations	2015	4.0
Deduction for reversal of temporary amortisation DT 37ª	2015	10.0
Tax credits for donations	2014	72.0
Tax credits for donations	2013	4.0
Tax credits for donations	2012	10.0
Deduction for R&D	2012	14.0
Deduction for R&D	2011	379.1
Tax credit for training activities	2011	0.4
Tax credits for donations	2011	82.0
Tax credits for donations	2010	45.0
Tax credit for environmental actions	2010	354.0
Tax credit for training activities	2010	0.3
Deduction for R&D	2010	92.0
Tax credits for donations	2009	42.0
Tax credit for training activities	2009	1.0
Deduction for R&D	2008	279.0
Tax credit for training activities	2008	0.4
Total		**4,127.6**

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

20.6 Tax receivables and payables

The detail of the Group's tax receivables and payables at 31 December 2017 is as follows:

	Thousands of Euros			
	31.12.2017		31.12.2016	
	Current	Non-current	Current	Non-current
Tax assets:				
Deferred tax assets	-	35,135	-	32,839
Tax receivables				
VAT receivables	13,172	-	25,916	-
Sundry receivables	12,053	-	2,694	-
	25,225	-	28,610	-
Total tax assets	**25,225**	**35,135**	**28,610**	**32,839**
Tax liabilities				
Deferred tax liabilities	4,115	19,541	4,906	15,491
Tax payables				
VAT payables	9,872	-	4,469	-
Personal income tax payable	1,653	-	1,362	-
Sundry payables	2,056	-	2,029	-
Social Security payables	1,828	-	1,698	-
		-	9,558	-
Total tax liabilities	**19,524**	**19,541**	**14,464**	**15,491**

20. 7 Restructuring transactions

The following restructuring transactions have been executed pursuant to the provisions of the Structural Modifications Act 3/2009 and according to the provisions of the tax regulations applicable during the the years which they took place in, that is Chapter VIII of Title VII on the Special Regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 on 5 March approving the Consolidated Spanish Corporation Tax Law in force until 2015.

Transactions executed within the previous years:

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

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

3.- As of 29 December 2008 Constructora San José S.A. absorbed the subsidiaries Alcava Mediterranea S.A., Constructora Avalos S.A., Balltagi Mediterriani SA and Construcción, Rehabilitación y Conservación S.A. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2008 of Constructora San José S.A.

4.- As of 30 January 2009 Sanjose Tecnologias S.A. absorbed the subsidiaries Artel Ingenieros S.L., Sefri Ingenieros S.A. Instal 8 S.A. y S.M.Klima S.A. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Sanjosé Tecnologias S.A.

5.- On 16 June 2009 took place the merger trough absorption of Parquesol Inmobiliaria y Proyectos, S.A. as absorbing company of the associates Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestión, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. and Parque Usera, S.L. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Grupo Empresarial Sanjose S.A.

6.- On 16 June 2009 took place the merger trough absorption of “Udra, S.A.” (currently GRUPO EMPRESARIAL SAN JOSÉ, S.A.) with “Grupo Empresarial San José, S.A.”, “San José Infraestructuras y Servicios, S.A.”, “Udramed, S.L.U.”, “Parquesol Inmobiliaria y Proyectos, S.A.” and “LHOTSE Desarrollos Inmobiliarios, S.L.”. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Grupo Empresarial Sanjose S.A.

7.- On 28 December 2009 took place the merger trough absorption of Sanjose Tecnologías S.A. as absorbing company and Tecnocontrol S.A.U. as absorbed company. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Sanjose Tecnologías S.A.

8.- On 28 December 2009 Tecnocontrol transferred its branch of activity of maintenance of mechanical facilities in favour of Tecnocontrol Servicios SA. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Tecnocontrol Servicios S.A..

9.- As of the 30 July 2010, segregation of the real estate branch of activity of Grupo Empresarial San Jose, S.A. (formerly, Udra, S.A.) in favour of "San Jose Desarrollos Inmobiliarios, S.A." (formerly, Inmobiliaria Udra, S.A.) and capital increase of the beneficiary company. Segregation of the real estate branch of activity. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of San José Desarrollos Inmobiliarios, S.A.More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of Tecnocontrol Servicios S.A..

10.- Spin-off of "Sanjose Tecnologias, S.A.U." in favour of "Constructora San Jose, S.A.", "Sanjose Energia y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U." on 27 December 2010. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of Constructora San José, S.A.”, “Sanjosé Energía y Medio Ambiente, S.A.” and “Sanjose Concesiones y Servicios, S.A.U..

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

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

21. Guarantee commitments to third parties

At 31 December 2017 and 2016, the Group had received from banks and insurance companies guarantees provided to third parties amounting to EUR 338 million and EUR 365 million (mainly project and definite tender and performance bonds to public and private bodies). EUR 0.04 million of which correspond to the parent company and the rest to the subsidiaries at the previous years.

Of the total of guarantees provided to third parties by the Group, EUR 210 million (approximately 62 %) relate to the international activity of the Group, mainly in Abu Dhabi and India, amounting to EUR 125.5 million and EUR 49.1 million, respectively

In addition, some associates have guarantee commitments to third parties, related to the corresponding business for EUR 9,516 thousand, which correspond to a guarantee registered by "Desarrollo Urbanístico Chamartín, S.A." before the Community of Madrid Tax Department to guarantee the suspension of the collection proceeding in order to file a claim before the Regional Tax Appeal Board in Madrid against the liquidation derived from the payment record and receipt received on 23 December 1998 for Estate and Property Transfer Tax for the tender agreement for the urban development of the RENFE rights at the Chamartín railroad building.

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

22. Revenue and expenditure

22.1 Revenue

The detail of "Revenue" in the accompanying consolidated income statements for 2017 and 2016 is as follows (in thousands of Euros):

	Thousands of Euros	
	2017	**2016**
Construction		
-Civil works	39,151	60,469
-Residential	119,129	60,750
-Non Residential	428,736	385,135
-Industrial	13,978	31,000
	600,994	**537,354**
-Real Estate	6,769	15,673
Concessions and Services.	47,740	39,454
Energy	11,165	10,191
Consolidation adjustments and other	16,200	10,722
Net turnover	**682,868**	**613,394**

56.0% and 43.75% of construction revenues refer to sales to the public sector in years 2017 and 2016, respectively.

In year 2017, EUR 86.2 million of the more than EUR 682.9million of net revenue relate to joint ventures (see Annex III).

Virtually all the work was performed as prime contractor.

Contracted backlog pending execution at 31 December 2017 and 2016 amounts to EUR 1,630 million and EUR 1,889 million, respectively, being its breakdown as follows:

	Millions of Euros	
	2017	**2016**
Construction		
-Civil works	175.8	212.6
Residential	194.7	195.2
Non Residential	537.3	719.7
Industrial	7.9	6.5
Subtotal construction	**915.7**	**1,134.0**
Concessions and Services (*)	218.0	248.2
Energy	496.0	506.8
Total Backlog	**1,629.7**	**1,889.0**
Details by type of client:		
-Public-sector	56.2%	64.31 %
-Private-sector	43.8%	35.69 %
Details by geographical area:		
-Domestic market	55.8%	46.15%
-International market	44.2%	53.85%

(*) According to concessions economic model.

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

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

22.2 Procurements and other external expenses

The detail in the accompanying consolidated income statements for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Procurement of raw materials and other supplies	198,062	214,561
Change in impairment of inventories (Note 12)	2,113	110
Works performed by other companies	263,972	188,231
Total procurement	**464,147**	**402,902**

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

The detail of "Other operating expense" in the accompanying consolidated income statements for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
R&D expenses	41	75
Utilities	9,910	7,282
Repair and maintenance services	2,334	1,621
Transport and freight costs	1,251	889
Insurance premiums and banking services	2,408	3,303
Independent professional services	15,643	15,198
Leases	17,412	16,507
Advertising and publicity	1,983	2,060
Other Services	21,658	21,400
Taxes and income tax	5,569	5,451
Other operating expense	479	763
Total	**78,688**	**74,549**

22.3 Staff costs

The detail for staff costs for years 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	**2016**
Wages and salaries	80,508	72,490
Termination benefits	1,460	3,438
Employer social security costs	16,610	13,998
Other social costs	4,456	4,780
Total	**103,034**	**94,706**

The average workforce by professional category is as follows:

	2017		2016	
Category	**Men**	**Female**	**Men**	**Female**
University graduates	379	92	396	78
University three-year degree graduates	347	79	251	57
Clerical staff	127	108	200	123
Officers and technical personnel	1,666	80	1,618	78
	2,519	**359**	**2,465**	**336**

The number of employee at 31 December 2017 was 2,895, of which 2,534 were men and 361 women, being the distribution by type similar to that of the year.

The average number of people employed in the course of the year with a disability greater than or equal to 33% is 10 workers, at 31 December 2017 and 2016, mainly diploma graduates. The Company, taking into account the specific risk involved in its activity, has recognised the exceptionality of hiring disabled workers, fulfilling it by contracting services with different special employment centres. These contracts are on an annual basis, incurring into an average expense higher than the minimum required by law.

22.4 Compensation in kind

At 31 December 2017 there was no significant compensation in kind.

22.5 Share-based payment

There are no share-based payment systems.

22.6 Leases

Operating Leases

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

Finance Leases

At 31 December 2017, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 162thousand, most of which will be amortised during 2018. Said balance is included under "Bank borrowings" (see Note 16.1).

22.7 Finance Income

The detail in the accompanying consolidated income statements is as follows:

	Thousands of Euros	
	2017	**2016**
Interest on receivables	16,277	21,437
Income from equity investments	21	5
	16,298	**21,442**

"Interests on receivables" for years 2017 and 2016 includes mainly includes mainly the financial revenues from updating the accounts receivable from the Chilean Ministry of Public Works as a result of the deferral of payment for the construction of hospitals in Chile, amounting approximately to EUR 9,762 thousand and EUR 11,365 thousand, respectively. (see Note 13.4.3)

"Interests on receivables" for year 2017 and 2016 includes approximately EUR 1 million and EUR 3.3. million corresponding to late interest for deferral of collection of customers. The outstanding amount corresponds mainly to late interest for deferral of collection to customers and settlement of exchange rate hedge instruments.

22.8 Finance Expense

Breakdown is as follows:

	Thousands of Euros	
	2017	**2016**
Interest on receivables	15,418	18,925
Expense for finance update	-	890
Other Finance Expense	7,037	7,856
	22,455	**27,671**

At 31 December 2017, under this item there are EUR 9,515 thousand arising from the settlement of interests of the syndicated credit (see note 16.3).

During 2017, and as a result of the deferral of certain receivables to customers, the Group has estimated the loss of value of these assets due to the financial effect, recording an expense of EUR 890 thousand.

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

The detail is as follows:

	Thousands of Euros	
	2017	**2016**
Gains/Losses on write-offs of fixed assets (Note 7)	219	276
Impairment of fixed assets (Note 7)	-	(1,003)
Other	(113)	(69)
	106	**(796)**

22.10 Changes in operating provisions

Changes under this item during years 2017 and 2106 are as follows:

Year 2017:

	Thousands of Euros		
	Operating insolvencies (Note 13)	**Other operating provisions**	**Total**
Balance at 31 December 2016	**34,657**	**42,386**	**77,043**
Provisions	1,344	13,528	14,872
Applications	(2,918)	(3,555)	(6,473)
Reversals	(1,263)	(8,377)	(9,640)
Change in the scope of consolidation	(591)	(671)	(1,262)
Transfers and other	(672)	(5,416)	(6,088)
Balance at 31 December 2017	**30,557**	**37,895**	**68,452**

Year 2016:

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

Current provisions classified under "Short-term provisions" include estimated amounts to face possible business contingencies.

At 31 December 2017 and 2016, “Provisions for traffic insolvencies” includes an accumulated impairment amounting to EUR 355 thousand associated to “Sundry receivables" under assets in the accompanying consolidated balance sheet.

22.11 Change in inventories of finished goods and in progress

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

	Thousands of Euros	
	2017	**2016**
Changes in inventories for recorded expenses /sales	2,235	5,176
Change in impairment of inventories (Note 12)	(35)	(972)
Total	**2,200**	**4,204**

22.12 Impairment and gains or losses on disposals of financial investments

This item includes the impairment of assets and financial interests held by the Group, amounting to EUR 5,886 thousand in 2017 (EUR 178 thousand in 2016), as well as the profits or losses that may have been derived from its realization against third parties, which in the year 2017 amounts to a profit of EUR 3,950 thousand (EUR 69 thousand profit in the year 2016).

The profit obtained is derived, mainly, from the sale operations of the companies of the "Eskonel" Group, "San José Congo, SA" and "Pontus Euxinus Tehcnologii Renovabile, SRL", for EUR 1,619 thousand, EUR 1,847 thousand and EUR 151 thousand, respectively (see Note 2.4).

During year 2017, impairment amounting to EUR 1,085 thousand was recorded (see Note 13.4). Additionally, related to financial assets derived from the ordinary management of the business, during the year 2017 the Group recorded a total impairment amounting to EUR 5,658 thousand.

22.13 Audit fees

In 2017 and 2016 the expense corresponding to the financial audit services and other services provided to the Group by Deloitte, S.L. and companies associated of the same, as well as fees for audit services for independent financial statements of associated and related companies was as follows:

Year 2017:

Description	Thousands of Euros	
	Services provided by the main auditor	**Services provided by other auditing firms**
Audit services	213	193
Other verification services	43	20
Total audit services and related services	**256**	**213**
Tax and fiscal advice services	-	41
Other Services	-	-
Total	**256**	**254**

Year 2016:

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

23. Balances and transactions with non-consolidated associates and joint ventures

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

	Thousands of Euros	
	2017	2016
Assets:		
Cresca, S.A. (Note 13)	8,470	9,014
Pinar de Villanueva, S.L. (Note 14.4.11)	455	455
Other	234	1
Liabilities:		
Other	5,838	2,620
Transactions:		
Revenue	2,043	-
Expenses	36,154	4,673

The item "Other" recorded under liabilities at 31 December 2017 corresponds mainly to current bank accounts at financial entities and people linked to the Group through joint ventures.

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

24. Remuneration

24.1 Remuneration of Directors

The detail of the remuneration of all kinds earned in 2017 and 2016 by the Directors of Grupo Empresarial San José, S.A., 10 men and 1 women, and of the Group company, jointly controlled entity or associated obliged to pay such remuneration are as follows:

Type of Directors	Thousands of Euros	
	2017	**2016**
Executive board members	2,533	2,305
Independent board members	230	129
Other external board members	18	27
Total	**2,781**	**2,461**

Breakdown according to type is as follows:

Type of compensation	Thousands of Euros	
	2017	**2016**
Salary	2,440	2,226
Allowance	203	187
Other items	138	48
Total	**2,781**	**2,461**

The amount for 2017 and 2016 includes Directors' remunerations for the furtherance of their duties as Senior Management for EUR 2,440 thousand and EUR 2,226 thousand, respectively.

At 31 December 2017 and 2016, no advances, loans or other types of guarantees had been granted to the former or current directors and there were no additional pension or life insurance obligations to them. In addition, the Group does not have any other kind of transactions with related parties.

The directors of the Company are covered by the "Corporate Liability Insurance Policies of Directors and Officers" contracted by the parent company of Grupo SANJOSE, in order to cover possible damages that may be claimed, and that they arise as a result of an error of management committed by its managers or directors, as well as those of its subsidiaries, in the exercise of their positions. Net value of the business activity branch amounts to EUR 88.5 thousand.

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

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

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

At year-end 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.

24.2 Remuneration and other benefits of senior executives

Total remuneration accrued for all items, from those employees who are considered Top Management in the Group, - excluding those who simultaneously have the status of member of the Board of Directors (whose remuneration has been detailed above) - during the years 2017 and 2016, can be summarized as follows:

Number of people	Thousands of Euros
Year 2017:	
9 directors	1,314
Year 2016:	
10 directors	1,716

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

25. Other information

25.1 Information on the environment

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

25.2 Explanation added for translation into English

These consolidated 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.

26. Events after the reporting period

On 30 January 2018 took place the Extraordinary Shareholders Meeting of the associate “Distrito Castellana Norte, S.A.” (formerly, “Desarrollos Urbanísticos Chamartín, S.A.”), which the capital was increased in EUR 23,246 thousand in. The Group, through its associate “Desarrollos Urbanísticos Udra, S.A.U.”, attended said capital increase subscribing and paying up 15,386 shares, representing 24.46% of the share capital, for a total value of EUR 4,624 thousand.

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

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

Appendix I

Consolidated subsidiaries

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost (Thousands of Euros)
				Direct	Indirect	
Alexin XXI, S.L.U.	-	Bilbao (Vizcaya).	Real Estate Development	-	100	3
Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.	-	Brazil	Construction and Real Estate Development	-	100	4,090
Argentimo, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	20,932
Arserex, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	2,844
Basket King, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	977
Cadena de Tiendas, S.A.U.	-	Pontevedra	Trade, distribution, import and export of clothes	100	-	60
Carlos Casado, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	52.19	25,393
Cartuja Inmobiliaria, S.A.U.	Deloitte	Seville	Construction	-	100	3,884
Centro Comercial Panamericano, S.A	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	10,202
Tecnoartel Argentina, S.A.	Auren	San Luis (Argentina)	Civil works	-	100	(764)
Comercial Udra, S.A.U.	-	Pontevedra	Trade	100	-	1,748
Sanjose Panamá, S.A.	BDO Audit, S.A.	City of Panama (Panama)	Construction	-	100	270
Constructora San José Argentina, S.A.	Auren	Buenos Aires (Argentina)	Construction	-	96.947	1,684
Constructora San José Brasil Limitada	-	Salvador de Bahía (Brazil)	Construction and Real Estate Development	-	100	483
Constructora San José Cabo Verde, S.A.	Deloitte	Cape Verde	Construction	-	100	453
Constructora San José, S.A.	Deloitte	Pontevedra	Construction	99.79	-	92,510
Constructora San José Timor, Unipessoal Lda.	-	Timor	Construction	75	-	3
Constructora Udra Limitada	Deloitte	Monaco (Portugal)	Construction, maintenance and repair	7	70	270
Desarrollos Urbanísticos Udra, S.A.U.	-	Pontevedra	Real Estate Development	-	100	75,000

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost (Thousands of Euros)
				Direct	Indirect	
Eraikuntza Birgaikuntza Artapena, S.L.U.	Deloitte	Vitoria Gasteiz	Construction	-	100	435
Enerxías Renovables de Galicia, S.A.	-	Pontevedra	Energy	-	100	2,648
Athlelic King S.A.U.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
Fotovoltaica el Gallo 10, S.L.	-	Burgos	Energy	-	82.97	8,374
Gestión de servicios de la Salud S.L.	-	-	Hospital services	-	100	90
GSJ Solutions, S.L.	-	Madrid	Engineering services	100	-	300
Hospes Brasil Participaciones e Empreendimientos Lda.	-	Brazil	Construction and Real Estate Development	-	100	423
Inmobiliaria 2010, S.L.	Deloitte	Lima (Perú)	Construction and Real Estate Development	-	100	1,294
Inmobiliaria Americana de Desarrollos Urbanisticos, S.A.U.	-	Pontevedra	Real Estate Development	-	100	60
Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	680
Inversión SanJose Chile Limitada	-	Santiago de Chile (Chile)	Investment and real estate	-	100	22
Inversiones San Jose Andina Ltda.	Deloitte	Santiago de Chile (Chile)	Investment and real estate	-	100	14,969
Sociedad Educacional Andina Lda. (antes Inversiones Hospitalarias Ltda.)	-	Santiago de Chile (Chile)	Capital investment	-	100	1
Inversiones Viales Andina Ltda.	-	Santiago de Chile (Chile)	Capital investment	-	100	1
Outdoor King, S.A.U.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
O&M Parc de LÀlba ST-4, S.A.	-	Barcelona	Construction, remodelling and maintenance of facilities	-	65	39
Parsipanny Corp. S.A.		Uruguay	Real estate and agriculture and livestock	-	51.72	722
Poligeneraciones parc de L´Alba ST-4	Deloitte	Barcelona	Construction, implementation and maintenance of electric energy power stations	-	76	4,560
Puerta de Segura, S.A.		Uruguay	Industrial, Trade	-	51.72	5,086
San José Constructora Perú S.A.	Deloitte	Lima (Perú)	Construction	-	100	484
Rincon S.A.G.		Paraguay	Development of a tourist project in Alto Paraguay and agriculture activities in the same area.	-	51.72	239
Running King, S.A.U.	-	Pontevedra	Trade, distribution, import and export of clothes	-	100	1
Sociedad Concesionaria Rutas del Loa, S.A.	-	Santiago de Chile (Chile)	Construction	-	100	7,106
San José BAU GmBH	Wisbert & Partner	Berlin (Germany)	Construction	-	84	435

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Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost
				Direct	(Thousands of Euros)	(Thousands of Euros)
San José Concesiones y Servicios, S.A.U.	-	Pontevedra	Services Provider	100	-	2,446
San José Construction Group, Inc	Dixon Hughes Goodman	Washington (EE.UU)	Construction	-	100	24,654
San José France, S.A.S.	-	Le Haillan (Francia)	Investment	-	100	982
San José Maroc, S.A.R.L.A.U.	-	Rabat (Marruecos)	Construction	-	100	5
San José Perú Inmobiliaria, S.A.C.	Deloitte	Lima (Perú)	Construction	-	100	9,075
Sáo José Mozambique, Sociedade Limitada	-	Mozambique	Construction	-	100	142
San José Tecnologías Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
San Jose India Infrastructure & Construction Private Limited		Nueva Delhi (India)	Desarrollo, construcción y explotación de infraestructuras	-	99.99	2,420
Sanjose Mahavir Supreme Building One Private Limited		Nueva Delhi (India)	Construction	-	51	-
San José Real Estate Development, LLC	Dixon Hughes	Delaware (EE.UU)	Real Estate Development	-	100	394
San José Energía y Medio Ambiente, S.A.U.	-	Pontevedra	Energy	99.99	0.01	4,039
SanJosé Nuevos Proyectos Salud, Limitada	-	Chile	Construction	-	100	1
SanJosé Contracting, L.L.C.	EY	Abu Dhabi (EAU)	Construction	-	85	8,013
Sefri Ingenieros Maroc, S.A.R.L.	-	Marruecos	Servicios de ingeniería e instalaciones	-	75	258
Sociedad Concesionaria Chile Tecnocontrol	Deloitte	Santiago de Chile (Chile)	Concessions and infrastructures	-	100	14,414
San José Constructora Chile Ltda.	Deloitte	Santiago de Chile (Chile)	Construction	-	100	20
Constructora San José Colombia, S.A.AS.	-	Bogotá (Colombia)	Construction	-	100	22
SJB Mullroser	Wisbert & Partner	Mullroser (Alemania)	Construction	100	-	730
Tecnoartel Argentina, S.A.	Auren	Buenos Aires (Argentina)	Maintenance services	-	100	23,465
Tecnocontrol Mantenimiento, S.L.U.	-	Tres Cantos (Madrid)	Servicio de mantenimiento y recaudación de telefonía pública	-	100	3
Tecnocontrol Servicios, S.A.U.	Deloitte	Tres Cantos (Madrid)	Maintenance services	-	100	1,668
Tecnocontrol Sistemas de Seguridad, S.A.U.	-	Tres Cantos (Madrid)	Mantenimiento de sistemas de seguridad	-	100	120
Tecnocontrol Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
Top Brands, S.A.	-	Argentina	Commercial	-	65	195
Trendy King, S.A.U.	-	Madrid	Manufacturing, storage and distribution of sport goods	-	100	1,515
Udra Medios, S.A.U.	-	Pontevedra	Press	100	-	1,500
Udra México S.A. de C.V.		México	Construction		100	5,407
Udra Obras Integrales S.A. de CV	-	México	Construction		100	-
Vision King S.A.U. (before Fashion King, S.A.U.)	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
Xornal de Galicia, S.A.	-	Galicia	Press	-	92.73	5,653
Xornal Galinet, S.A.U.	-	La Coruña	Press	-	100	1,100
Zivar, investimentos inmobiliarios C.	-	Portugal	Real Estate Development	-	52.5	2,609

Appendix II
Associates within the consolidation scope

Company	Audit company	Address	Activity	% of voting rights controlled by Parent companies		Ownership cost
				Direct	Indirect	(Thousands of Euros)
Distrito Castellana Norte, S.A.	Deloitte	Madrid	Real Estate Development	-	24.459	31,114
Panamerican Mal, S.A.	PWC	Buenos Aires (Argentina)	Real Estate Development	-	20	17,914
Cresca S.A. (1)	EY	Misiones esquina Perú No 593, Asunción, Paraguay	Sale of any type of mix farming product and sale, rental and construction of urban and rural property	-	50	12,214
Pinar de Villanueva, S.L.	-	Valladolid	Real Estate Development	-	50	6,422

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

Appendix III

1. Joint ventures:

Joint ventures	**Ownership %**	**Net revenue** (*) (Thousands of Euros)
Ute Hospital Asturias	42.5%	-
Ute Conservación Lorca	50.0%	-
Ute Conservación Murcia	50.0%	1,461
Ute Hospital de Plasencia	45.0%	272
El Regueron	33.3%	4,162
Ute Nueva Terminal Aerop.De Barcelona (Cen)	33.3%	-
Ute Imhuca Hospital de Oviedo	36.7%	-
Ute Enlace Thader	50.0%	157
Ute Almanjayar	75.0%	-
Ute Nueva Ciudad Deportiva De Umbrete En Sevilla	100.0%	-
Ute Autovía A-50 Salamanca	100.0%	-
C/C Ute Csj-El Ejidillo (Fondo Operativo)	60.0%	-
Ute Autovia Encinas Reales Cordoba	70.0%	-
Ute Embalse Contreras	50.0%	-
Ute Hospital Valle de Los Pedroches	40.0%	-
Ute Kultur Etxea Hondarribia	20.0%	28
Ute Clinica Imq Bilbao	100%	1,096
Ute Miaman Ponte Ambia	70.0%	20
Ute San Jose El Ejidillo Valladolid	60.0%	-
Ute Variante Pajares - Lote Sur	60.0%	421
Ute Edar Gandarío	50.0%	-
Xardins de Ferrol	60.0%	580
Ute San Jose El Ejidillo Alcobendas	60.0%	209
Ute Patrimonio Jardines	40.0%	532
Ute Abastecimiento Burgos	55.0%	-
Ute Pontesur	50.0%	877
Ute El Ejidillo Ss.Reyes	60.0%	2,056
Ute El Ejidillo Arroyo De La Vega	60.0%	-
Ute Ant.Fabrica Tabacos	50.0%	981
Ute Reposicion Alumbrado Barcelona	75.0%	581
Ute Hospital Caceres	60.0%	3,225
Ute Centro Comercial Tamaraceite	60.0%	24,128
Ute Area Generacion Urbana De Jinamar	49.0%	608
Ute El Ejidillo Sur-Este Valladolid	60.0%	1,058
Ute El Ejidillo Paracuellos Del Jarama	60.0%	387
Ute margen izquierdo rio Pisuerga	60.0%	82
Ute Conservación de Cáceres	50.0%	127

Ute ampliación Parque Lineal del Manzanares	60.0%	271
Ute Al Ain (1)	50.0%	69,562
Ute Louvre (1)	33.33%	23,092
Ute Al Mamsha Project (1)	25.0%	22,412
Correso Cataluña	75.0%	-
Casa de la Cultura de Hondarribia	80.0%	111
Hospital Txagorritxu del Hua	80.0%	-
Centro de Salud Amurrio	80.0%	953
UTE Mantenimiento PS Mar	50.0%	1,007
Other		3,368
		163,824

(*) Data included in consolidation procedure (owenrship %)

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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

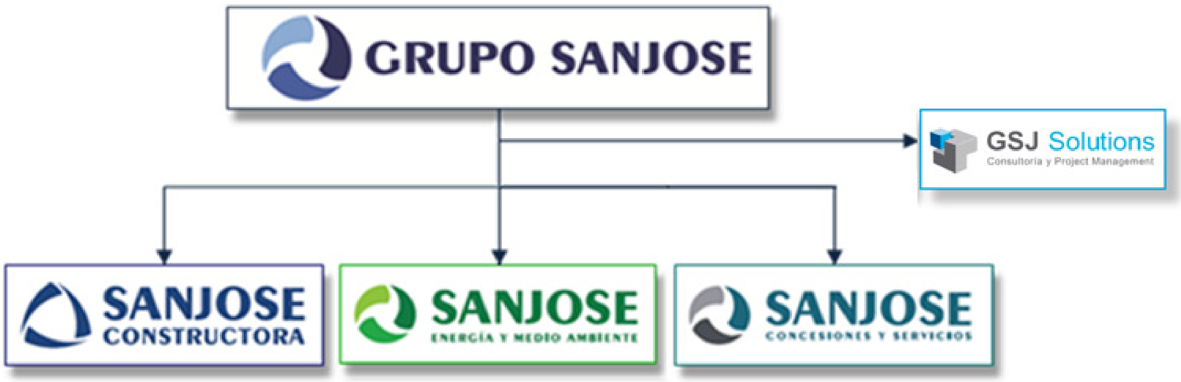
1. <u>Situation of the Company</u>

1.1. Organisational Structure

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

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>

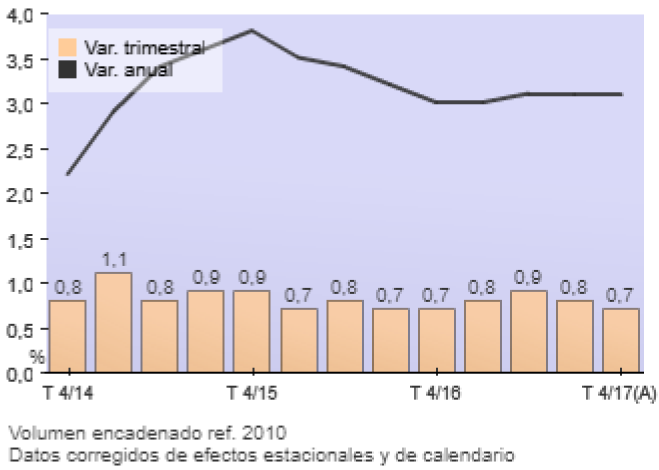
2.1. Market performance

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.

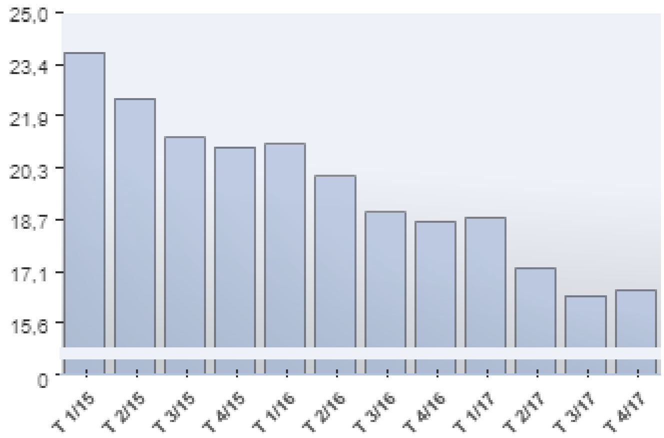
The influence of the construction sector on the cycle of global economic activity in Spain is very significant. Over the past few years, its role has been reduced by the current situation. Its importance lies in the drag effect of the construction sector on the whole economy, for the impact on suppliers 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%.

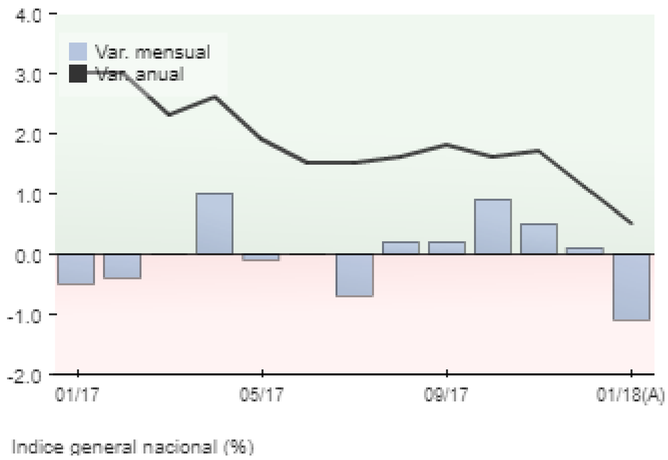
With regards to public deficit, the closure of 2016 was positive for Spain: it met the deficit target of Public Administrations marked by European institutions. However, Spain is the EU country with a greater difference between public revenue and expenditure. The deficit last year reached 4.5% (4.3% 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:

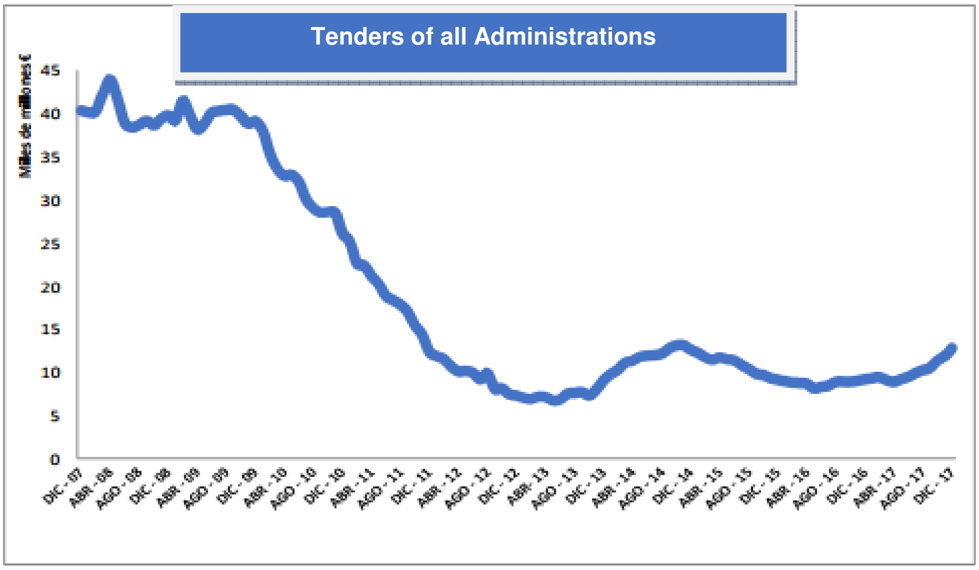
Consumer price index.



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:

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

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

	Grupo SANJOSE				
BACKLOG by segment	**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

	Grupo SANJOSE				
BACKLOG by geography	**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

	Grupo SANJOSE				
BACKLOG by client	**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

CONSTRUCTION	Grupo SANJOSE		
	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

	Grupo SANJOSE		
CONCESSIONS AND SERVICES	**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 internationalization 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:

- Market risk: 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:

- 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.

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 implement measures to minimize the environmental impact its activity, whether it is related to works or services.
- To reduce the generation of waste, headed to the recycling and recovery of them.
- To rational use of existing natural resources.
- To promote the ecological awareness of the workers by involving them in the Group's environmental strategy.

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-2003/0398

> SANJOSE ENERGÍA Y MEDIO AMBIENTE, S.A.

Certificate type: Environmental management

Certificate Nº: GA-2007/0395 - 002/00

> 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.

Training:

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.

Prevention of occupational hazards:

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 Jose, S.A. hereby make the following statement of liability:

That, to the best of their knowledge, the consolidated annual accounts prepared in accordance with applicable accounting standards present a true and fair view of consolidated equity, the consolidated financial position and the consolidated results obtained by the issuer and its consolidated companies taken as a whole and that the consolidated Directors' Report includes an accurate analysis of business development and results, the position of the issuer and the companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These 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 110 sheets of common paper, as well as the Directors' Report, issued on 75 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

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.

Mr. Guillermo E.Nielsen

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. and Subsidiaries

Company`s identification:

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
Mr. José Manuel Otero Novas	Mr. Roberto Alvarez Álvarez

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

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.