Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2018 and Directors' Report, together with Independent Auditor's Report

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

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

Opinion

We have audited the financial statements of Grupo Empresarial San José, S.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

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C.I.F.: B-79104469. Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Impairment of ownership interests in Group companies and associates	
Description	**Procedures applied in the audit**
The Company has ownership interests in the share capital of Group companies and associates that are not listed on regulated markets. As detailed in Note 4.d, the measurement of these ownership interests requires the use of significant judgements and estimates by Company management, which considers that the best evidence of the recoverable amount of these ownership interests is the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement. As a result of the foregoing, as well as the significance of the investments held, which amounted to EUR 107 million at year-end and for which an accumulated impairment loss of EUR 5 million had been recognised up to 2018, we consider the situation described to be a key matter in our audit.	Our audit procedures consisted of obtaining and analysing the conclusions prepared by Company management in relation to the existence of impairment losses on the aforementioned ownership interests, verifying their clerical accuracy and the adequacy of the valuation method used in relation to the investment held and verifying that it meets the requirements of the applicable regulations. For this purpose, we checked the underlying carrying amount of the investees and the related unrealised gains. Lastly, we evaluated whether the disclosures included in Notes 4.d and 7 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Other Information: Directors' Report

The other information comprises only the directors' report for 2018, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

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

a) A specific level that applies to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report and, if this is not the case, reporting this fact.

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

Based on the work performed, as described above, we have checked that the specific information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 28 February 2019.

Engagement Period

The Annual General Meeting held on 21 June 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

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

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

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

28 February 2019

Appendix I to our auditor's report

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Grupo Empresarial San José, S.A.

Financial Statements for the year ended 31 December 2018, Directors' Report and non-Financial Information Statement together with Independent Auditor’s Report

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

BALANCE SHEET AS DECEMBER 31ST 2018 AND DECEMBER 31 ST 2017

(Thousand of Euros)

	Note	31/12/2018	31/12/2017
NON-CURRENT ASSETS:			
Intangible assets	5	**4,267**	**4,877**
Property, plant and equipment	6	**413**	**422**
Investments in associates and joint ventures	7.1	**118,703**	**118,688**
Equity Investments in associates		102,189	102,152
Loans to related companies	14.2	16,514	16,536
Other non-current financial assets		**111**	**133**
Deferred tax assets	12.3	**36,029**	**36,531**
TOTAL NON-CURRENT ASSETS		**159,523**	**160,651**
Trade and other receivables		**8,039**	**16,370**
Realetd companies receivables	14.2	6,409	15,864
Other current assets		42	312
Public admisnitrations	12.1	1,588	194
Investments in associates and joint ventures	7.2	**16,469**	**10,671**
Cash and cash equivalents	8.1	**558**	**1,509**
TOTAL CURRENT ASSETS		**25,066**	**28,550**
TOTAL ASSETS		**184,589**	**189,201**

	Note	31/12/2018	31/12/2017
EQUITY:			
Share capital		**1,951**	**1,951**
Issurance premium		**155,578**	**155,578**
Reserves		**167,412**	**167,412**
Legal and statutory		263	263
Otras reserves		167,149	167,149
Negative results from previous years		**(364,638)**	**(365,039)**
Profit for the year		**490**	**401**
TOTAL EQUITY	9	**(39,207)**	**(39,697)**
NON-CURRENT LIABILITIES			
Long-term provisions	10.1	**17,972**	**17,972**
Non-current bank borrowings	11	**-**	**107,883**
Deferred tax liabilities	12.3	**14,742**	**14,579**
TOTAL NON-CURRENT LIABILITIES		**32,714**	**140,434**
CURRENT LIABILITIES:			
Short-term provisions	10.2	**545**	**545**
Current bank borrowings	11	**111,473**	**90**
Payable to Group and associated companies	14.2	**74,627**	**86,073**
Trade and other payables		**4,437**	**1,756**
Trade payables		120	393
Suppliers Group ans associated companies	14.2	965	125
Staff, remuneration payable		1,137	995
Tax Payable	12.1	2,215.00	243.00
TOTAL CURRENT LIABILITIES		**191,082**	**88,464**
TOTAL EQUITY AND LIABILITIES		**184,589**	**189,201**

Notes 1 to 16 of the accompanying notes form an integral part of the Balance Sheet at 31 December 2018.

Translation into English of financial statements for the year ending 31 December 2018 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

INCOME STATEMENTS FOR YEARS 2018 AND 2017

(Thousand of Euros)

	Note	31/12/2018	31/12/2017
CONTINUING OPERATIONS			
Revenue	13.1	**499**	**2,300**
Other operating income	13.1	**21,453**	**21,586**
Staff costs		**(7,248)**	**(6,965)**
Wages and salaries		(6,129)	(5,854)
Social charges	13.2	(1,119)	(1,111)
Other operating expenses		**(7,156)**	**(10,177)**
Outside services	13.4	(7,128)	(8,034)
Tributes		(28)	(28)
Impairment losses and changes in provisions for trade	14.2	-	(2,113)
Other operating expenses		-	(2)
Depreciation and amortisation charge	5 y 6	**(631)**	**(631)**
PROFIT FROM OPERATIONS		**6,917**	**6,113**
Finance income		**102**	**5**
In third		102	5
Finance costs		**(6,190)**	**(5,906)**
On debts to Group companies and associates	14.1	(2,656)	(2,659)
On debts to third parties		(3,534)	(3,247)
Impairment and gains or losses on disposal of financial instruments		**-**	**388**
FINANCIAL PROFIT		**(6,088)**	**(5,513)**
PROFIT (LOSS) BEFORE TAXES		**829**	**600**
Income Tax	12.2	(339)	(199)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**490**	**401**
PROFITS / (LOSSES) OF THE YEAR		**490**	**401**

Notes 1 to 16 of the accopanying notes form an integral part of the income statement at 31 December 2018

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR PERIOD ENDED AT DECEMBER 2018 AND 2017

A) STATEMENTS OF RECOGNISED INCOMES AND EXPENSES

(Thousand of Euros)

	Note	Year 2018	Year 2017
PROFITS/(LOSSES) OF THE YEAR		**490**	**401**
Income and expenses recognised directly in equity			
-For cash flow hedges		-	-
-Tax effect		-	-
Total Income and expenses recognized directly in equity		**-**	**-**
Transfer to income statement			
-For cash flow hedges		-	-
-Tax effect		-	-
Total Trasfers to profits and losses account		**-**	**-**
TOTAL RECOGNISED INCOMES/(EXPENSES)		**490**	**401**

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR PERIOD ENDED AT DECEMBER 2018 AND 2017

B) STATEMENTS OF CHANGES IN EQUITY

(Thousand of Euros)

	Note	Share capital	Issurance premium	Legal reserve	Voluntary reserves	Negat. results previous years	Profit of the year	TOTAL
Balance at December 31, 2016		**1,951**	**155,578**	**263**	**167,149**	**(323,380)**	**(41,659)**	**(40,098)**
Distribution of profit for year 2016:								
-To negative results from previous years		-	-	-	-	(41,659)	41,659	-
Total recognized income/expenses year 2017		-	-	-	-	-	401	**401**
Balance at December 31, 2017		**1,951**	**155,578**	**263**	**167,149**	**(365,039)**	**401**	**(39,697)**
Distribution of profit for year 2017:								
-To negative results from previous years		-	-	-	-	401	(401)	-
Total recognized income/expenses year 2018		-	-	-	-	-	490	**490**
Balance at December 31, 2018		**1,951**	**155,578**	**263**	**167,149**	**(364,638)**	**490**	**(39,207)**

Notes 1 to 16 of the accompanying notes form an integral part of the statement of changes in equity at 31 December 2018.

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

CASH FLOW STATEMENTS FOR YEARS 2018 AND 2017

(Thousands of Euros)

	Note	Year 2018	Year 2017
Cash flows from operating activities:			
(+) Profit (Loss) before tax		829	600
(+) Depreciation and amortisation charge		631	631
(+/-) Changes in operating allowances		-	2,113
(-) Financial income	14.1	(601)	(2,305)
(+) Financial costs		6,190	5,906
(+/-) Other gains or losses		-	(388)
Total Cash Flows from operating activities		**7,049**	**6,557**
Other adjustments			
(-) Income tax paid in the year		(218)	(605)
(+/-) (Increase) / Decrease in working capital		11,077	(8,125)
(+/-) Other collections / (payments) due to operating activities		-	342
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES		**17,908**	**(1,831)**
Investments:			
(-) Intangible assets		(7)	-
(+) Property, plant and equipment		(5)	(3)
(-) Shares and other financial assets		(15)	(1,091)
Total Investments		**(27)**	**(1,094)**
Dividends received	13.1	**257**	**2,200**
Other collections / (payments) due to financing activities		**(5,210)**	**(1,206)**
2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES		**(4,980)**	**(100)**
Increase / (decrease) in borrowings		**(14,004)**	**1,545**
Net interests:		**125**	**(381)**
Received		152	2,305
Paid		(27)	(2,686)
Other collections / (payments) due to financial activities		**-**	**1,081**
3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES		**(13,879)**	**2,245**
TOTAL CASH FLOWS FOR THE YEAR		**(951)**	**314**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,509**	**1,195**
Changes in the year		(951)	314
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**558**	**1,509**

Notes 1 to 16 of the accompanying notes form an integral part of the Cash Flow Statement for year 2018.

Grupo Empresarial San José, S.A.
Notes for the year ended 31 December 2018

1. Incorporation, legal framework and business activities

Incorporation

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

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

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

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

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

Legal framework

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

Activities

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

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

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

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

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

2. Basis of presentation of the Financial Statements

a) Legal framework on financial information applicable to the Company

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

i) Code of Mercantile Law and similar.

ii) Accounting Standard approved by Royal Decree 1514/2007, adapted by Royal Decree 602/2016 and adaptation for construction companies.

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

iv) Applicable Spanish regulation on the issue.

b) Fair view

These financial statements were prepared from the accounting records of the Company and are prepared in accordance with the accounting principles and rules in force, so that they show a true and exact image of the equity and financial situation of the company, changes in equity and cash flows occurred within the year. These financial statements, which were prepared by Directors of the company, will be subject to approval at the Shareholders' General Meeting are expected to be approved without any changes. As far as they are concerned, the financial statements for year 2017 were approved by the Ordinary General meeting of Shareholders held on 21 June 2018, and recorded at the Trade Registry of Pontevedra.

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

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

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

d) Non-compulsory accounting principles applied

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

e) Associated items

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

f) Comparative information

Information recorded on the financial statements for year 2017 is provided for comparison purposes only with that provided as of the year ended 31 December 2018.

g) Working capital and assets

As shown in the accompanying balance sheet as of 31 December 2018 and 2017, the Company has at said date a negative working capital amounting to EUR 166,016 thousand and EUR 59,914 thousand, respectively, as current assets are less than current liabilities.

The increase recorded during 2018 was mainly due to the classification as current liability of the syndicated financial debt related to the "Grupo Empresarial San José, S.A." contract, amounting to EUR 111,390 thousand, as of 31 December 2018, due to this contract maturity date. Company's directors foresee that financial creditors will proceed to execute the right granted to them by the warrants issued, proceeding to the full capitalisation of said amount (see Note 11.2.b)

Further, the Company records under current liabilities the amount of the debt with Group companies, derived from the existence of current account financing agreements with subsidiaries, as well as the fact that the Company is the parent of a Tax Group (see Notes 4. and 14.2). Director of the Company do not expect difficulties to face payments of debts at maturity dates.

At 31 December 2018, the Company records a negative net equity amounting to EUR 39,207 thousand. However, it is not in the situation of asset imbalance pursuant to Articles 327 and 363 of the Companies Act (see Note 9.7) to the extent that the syndicated credit facilities of the "Grupo Empresarial San José, S.A." contract, amounting at 31 December 2018 to EUR 111,390 thousand (see Note 11.2.b), qualify as equity loan, received from creditor financial institutions in order to strengthen its financial position and thus, these financial statements have been prepared on a "going concern" basis.

h) Consolidation

The Company is head of the group of dependent companies and associated (see Note 7), which issue separate financial statements. Consolidated financial statements for year 2018 have been prepared by the Directors of the Company, as well as the accompanying statements, in compliance with International Financial Regulations and Standards as adopted by the UE, the EC No 1606/2002 (hereinafter, "NIIF-UE"). Financial statements for year ended 31 December 2017 were approved on at the Annual General Meeting held on 21 June 2018 and registered at the Register of Companies of Pontevedra

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

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

	Thousand of Euros
Share capital and issuance rights	157,529
Reserves abd equity attributed to the Parent	(201,121)
Net profit/(loss) for the year attributable to the Parent	13,198
Total assets	995,797
Turnover	758,423

3. Distribution of profit/(loss)

Directors of the Company will propose the AGM the distribution of EUR 490 thousand as 2018 profit to offset "Loss carry-forwards".

4. Accounting principles and measurement basis

Main accounting principles and measurements used in the preparation of the accompanying financial statements for year 2018 and 2017 pursuant to Spanish National Chart of Accounts are as follows:

a) Intangible assets

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

Goodwill:

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

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

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

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

Computer software:

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

b) Property, plant and equipment

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

Regular maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred into. On the other hand, replacements or renewals of complete items that lead to a lengthening of the useful life of the assets or to an increase in their economic capacity are recognised as additions to property, plant and equipment.

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

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

c) Asset impairment

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

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

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

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

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

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

d) Financial Instruments

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

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

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

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

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

Financial Assets

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

- Loans and receivables: financial assets originated by the Group in exchange for supplying cash, goods or services directly to a debtor, which are measured at amortised cost.

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

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

Initial recognition

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

Subsequent recognition

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

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

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

Financial liabilities and net equity

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

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

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

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

e) Income tax

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

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

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

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

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

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

At 31 December 2018, the following companies of Grupo SANJOSE filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Comercial Udra, S.A.U.
- Udramedios, S.A.U.
- Cadena de Tiendas, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U.
- Vision King, S.A.U.
- Running King, S.A.U.
- Enerxías Renovables de Galicia, S.A.
- Xornal de Galicia, S.A.U.
- San José Concesiones y Servicios, S.A.U.

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

f) Revenue and expenditure

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received or receivable, t of discounts, VAT and other sales-related taxes.

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

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

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

g) Provisions and contingencies

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

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

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

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

As of 31 December 2018, the Company has recorded provisions for risks and expenses, which are intended to cover possible contingencies arising from the holding of financial investments (see Note 10.1).

h) Termination benefits

In accordance with current legislation, the Company is obliged to pay compensation to those employees who, under certain circumstances, have their employment contracts terminated. Compensation for redundancy liable to objective quantification is registered as an expense for the financial year in which the decision concerning the redundancy is taken. At 31 December 2018, the company has not recorded any entry for this item.

i) Transactions with associates

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

j) Treasury shares

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

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

As 31 December 2018 and 2017, the Company does not hold treasury shares. Likewise, no transactions involving treasury shares were carried out during years 2018 and 2017 (see Note 9.5).

k) Environmental issues

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

l) Current and non-current items

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

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

m) Cash flow statement

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

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

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

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

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

5. Intangible assets

Breakdown of this item for years 2018 and 2017 is as follows:

Year 2018:

	Thousand of Euros			
	Balance 31/12/2017	**Additions / (Provisions)**	**Disposals**	**Balance 31/12/2018**
Cost:				
Goodwill	6,095	-	-	6,095
Computer software	135	7	-	142
Total Cost	**6,230**	**7**	**-**	**6,237**
Accumulated amortisation:				
Goodwill	(1,220)	(609)	-	(1,829)
Computer software	(133)	(8)	-	(141)
Total Accumulated Amortisation	**(1,353)**	**(617)**	**-**	**(1,970)**
Coste Neto	**4,877**	**(610)**	**-**	**4,267**

Year 2017:

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

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

In order to proceed with its amortisation, the Company estimates a 10-year useful life, and a linear recovery according to a prospective approach, as of 1 January 2016. Further, the directors of the Company carry out regular reviews of the recovery of these assets, according to expected flows pursuant to the business plan of the Group. At 31 December 2018, no impairment is recorded under this item.

The cost of the assets fully amortised at 31 December 2018 and 2017 amounts to EUR 132 thousand.

6. Property, plant and equipment

Breakdown of this item for years 2018 and 2017 is as follows:

Year 2018:

	Thousand of Euros		
	Balance 31-12-2017	Additions / (Provisions)	Balance 31-12-2018
Cost:			
Other items of property, plant and equipment	1,260	5	1,265
Total Cost	**1,260**	**5**	**1,265**
Accumulated amortisation:			
Other items of property, plant and equipment	(838)	(14)	(852)
Total Accumulated Amortisation	**(838)**	**(14)**	**(852)**
Net property, plant and equipment	**422**	**(9)**	**413**

Year 2017:

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

This item includes mainly equipment for the treatment of information.

Carrying net cost at 31 December 2018 and 2017 amounts to EUR 809 thousand and EUR 787 thousand, respectively.

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

7. Group companies and associates

7.1 Long-term investments in Group companies and associates

Breakdown of this item of the accompanying balance sheet at 31 December 2018 and 2017, as well as main movement under said item, is as follows:

Year 2018:

	Thousand of Euros			
	Balance at 31/12/2017	Interests and exchange differences	Transfers	Balance at 31/12/2018
Equity intruments				
Cost	**107,566**	-	37	**107,603**
Impairment	**(5,414)**	-	-	**(5,414)**
	102,152		**37**	**102,189**
Granted loans and credits	**16,536**	15	(37)	**16,514**
Total	**118,688**	**15**	**-**	**118,703**

Year 2017:

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

Additions recorded in year 2018 correspond mainly to the capitalisation of the participatory loan of the company with its investee “GSJ Solutions, S.L.U.”.

Transfers made during year 2017 corresponded, mainly, to the offset of losses of the investee company "San José Energía y Medio Ambiente, SAU", through the contribution of the participative loan that the Company had been granted, in order to reinforce the equity situation of this company. Likewise, during year 2018, the company recorded a partial reversal of the impairment associated to its financial holdings, amounting to EUR 342 thousand, under the item "Impairment and profit/(loss) arising from the disposal of financial instruments" in the accompanying consolidated income statement for year 2017.

Detail of stakes in Group companies, as well as of credits and loans granted as of 31 December 2018 and 2017 is as follows:

Year 2018:

	Ownership %		Thousand of Euros				
			Net carrying amount of the stake				Long-term loans (*)
	Direct	Indirect	Cost	Impairment of the year	Accumulated impairment	Net cost	
Group companies:							
Constructora San José, S.A. (a)	99.79%	-	92,510	-	-	92,510	-
San José Concesiones y Servicios, S.A.U. (b)	100.00%	-	2,446	-	-	2,446	-
San José Energía y Medio Ambiente, S.A.U. (b)	100.00%	-	7,564	-	(2,634)	4,930	400
Enerxías Renovables de Galicia, S.A (b)	25.00%	75.00%	662	-	(529)	133	-
Cadena de Tiendas, S.A.U. (b)	100.00%	-	60	-	-	60	-
Comercial Udra, S.A.U. (b)	100.00%	-	1,748	-	-	1,748	-
Constructora Udra Limitada (a)	7.00%	69.85%	25	-	-	25	-
SJB Müllroser Baugesellschaft GmbH (b)	100.00%	-	730	-	(730)	-	-
Udra Medios, S.A.U. (b)	100.00%	-	1,500	-	(1,500)	-	14,100
Xornal de Galicia. S.A. (b)	-	92.73%	-	-	-	-	2,014
Udra México, S.A. de C.V. (c)	0.09%	99.91%	21	-	(21)	-	-
GSJ Solutions, S.L.U.(a)	100%	-	337	-	-	337	-
TOTAL			**107,603**	**-**	**(5,414)**	**102,189**	**16,514**

(a) Companies audited by Deloitte.
(b) Non-audited companies
(c) Companies audited by other auditing company.
(*) At 31 December 2018, "Credits and Loans granted" amounting to EUR 16,514 thousand, corresponds mainly to participating loans granted by the Company to its investees. These loans bear variable interest rates according to the performance of said investees (see Note 14).

Year 2017:

	Ownership %		Thousands of Euros				
			Net carrying amount of the stake				Long-term loans (*)
	Direct	Indirect	Cost	Impairment for the year	Accumulated impairment	Net Cost	
Group companies:							
Constructora San José, S.A. (a)	99.79%	-	92,510	-	-	92,510	-
San José Concesiones y Servicios, S.A.U. (b)	100.00%	-	2,446	-	-	2,446	-
San José Energía y Medio Ambiente, S.A.U.	100.00%	-	7,564	335	(2,634)	4,930	400
Enerxías Renovables de Galicia, S.A (b)	25.00%	75.00%	662	4	(529)	133	-
Cadena de Tiendas, S.A.U. (b)	100.00%	-	60	-	-	60	-
Comercial Udra, S.A.U. (b)	100.00%	-	1,748	-	-	1,748	-
Constructora Udra Limitada (a)	7.00%	69.85%	25	-	-	25	-
SJB Müllroser Baugesellschaft GmbH (b)	100.00%	-	730	-	(730)	-	-
Udra Medios, S.A.U. (b)	100.00%	-	1,500	-	(1,500)	-	14,100
Xornal de Galicia. S.A. (b)	-	92.73%	-	-	-	-	1,998
Udra Mexico S.A. de C.V. (c)	0.0874%	99.9126%	21	-	(21)	-	-
GSJ Solutions, S.L.U.(a)	100%	-	300	3	-	300	38
TOTAL			**107,566**	**342**	**(5,414)**	**102,152**	**16,536**

(a) Companies audited by Deloitte.
(b) Non-audited companies
(c) Companies audited by other auditing company.
(*) At 31 December 2017, "Credits and Loans granted" amounting to EUR 16,536 thousand, corresponds mainly to participating loans granted by the Company to its investees. These loans bear variable interest rates according to the performance of said investees (see Note 14).

Additionally, at 31 December 2018 and 2017 the Company records a provision for EUR 17,972 thousand under the item “Provisions for risks and expenses” as non-current liabilities within the accompanying balance sheet, devoted to potential contingencies of Group companies (see Note 10.1).

The most significant information regarding investees in which the Company takes parts, at 2018 and 2017 year-end is as follows:

Year 2018:

			Thousand of Euros (*)				
			Capital and issuance fee	Profit/(Loss) for the year		Remaining net equity	Total net equity
				from operations	for the Year		
Empresas del Grupo:							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalía de Castro, 44 (Pontevedra)	8,076	11,112	3,249	109,061	120,386
GSJ Solutions, S.L.U.	Engineering services	Ronda de Poniente, 11 – Tres Cantos (Madrid)	300	(225)	(168)	30	162
San José Concesiones y Servicios, S.A.U.	Provision of healthcare and social services	Rosalía de Castro, 44 (Pontevedra)	2,446	(6)	7	131	2,584
San José Energía y Medio Ambiente, S.A.U.	Contruction, provisions of services and management of energy contracts	Ronda de Poniente, 11 – Tres Cantos (Madrid)	4,039	(358)	(359)	(1,710)	1,970
Cadena de Tiendas, S.A.U.	Storage, destruction and sale of goods	Rosalía de Castro, 44 (Pontevedra)	60	-	9	625	694
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured products	Rosalía de Castro, 44 (Pontevedra)	4,182	-	430	1,917	6,529
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1º de Dezembro, 12-14 - Monçào (Portugal)	350	254	322	5,150	5,822
SJB Müllroser Baugesellschaft GmbH	Construction	Gewerparkrinh, 1315299 Mullroser. Alemania	625	(5)	(5)	(5,716)	(5,096)
Enerxias Renovables de Galicia, S.A.	Production and trade of electric energy by renewable energy resources	Rosalía de Castro, 44 (Pontevedra)	2,649	(17)	18	(2,115)	552
Udra Medios, S.A.U.	Edition, production, reproduction and release of books, newspapers, magazines and video	Rosalía de Castro, 44 (Pontevedra)	1,500	11	263	(14,528)	(12,765)
Udra México, S.A. de C.V.	Holding company	Miravalle, México	1,628	99	31	(427)	1,232

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

Year 2017:

			Thousands of Euros (*)				
			Capital and issuance fee	Profit/ (Loss)		Remaining net equity	Total net equity
				from operations	for the Year		
Group companies:							
Constructora San José, S.A.	Construction, purchase and sale of land	Rosalia de Castro, 44 (Pontevedra)	8,076	8,218	2,459	106,677	117,212
GSJ Solutions, S.L.U.	Engineering services	Ronda de Poniente, 11 – Tres Cantos	300	53	39	(38)	301

San José Concesiones y Servicios, S.A.U.	Provision of healthcare and social services	Rosalia de Castro, 44 (Pontevedra)	2,446	(7)	441	(325)	2,562
San José Energía y Medio Ambiente, S.A.U.	Construction, provisions of services and management of energy contracts	Ronda de Poniente, 11 – Tres Cantos (Madrid)	4,039	(466)	(438)	1,329	4,930
Cadena de Tiendas, S.A.U.	Storage, distruction and sale of goods	Rosalia de Castro, 44 (Pontevedra)	60	(1)	12	612	684
Comercial Udra, S.A.U.	Storage, distribution and sale of manufactured	Rosalia de Castro, 44 (Pontevedra)	4,181	(39)	286	1,889	6,356
Constructora Udra Limitada	Construction, maintenance and repair	C/ 1º de Dezembro, 12-14 - Monçào (Portugal)	350	731	625	4,526	5,501
SJB Müllroser Baugesellschaft GmbH	Construction.	Gewerparkrinh, 1315299 Mullroser. Germany	625	14	14	(5,731)	(5,092)
Enerxias Renovables de Galicia, S.A.	Production and trade of electric energy by renewable energy resources	Rosalia de Castro, 44 (Pontevedra)	2,649	(7)	17	(2,132)	534
Udra Medios, S.A.U.	Edition, production, reproduction and release of books, newspapers, magazines and video	Rosalia de Castro, 44 (Pontevedra)	1,500	(1)	30	(14,575)	(13,045)
Udra Mexico S.A. de C.V.	Holding company	Miravalle, Mexico	1,628	414	289	(758)	1,159

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

None of the associates is listed on the stock exchange market at 31 December 2018 and 2017.

7.2 Long-term investments in Group companies and associates

The balance of "Investments in Group companies and associates in the short term" corresponds mainly to current account financial contracts maintained by the Company with Group companies, which accrue interest at Euribor plus a market spread. Breakdown for associates at 2018 and 2017 year-end is detailed on Note 14.2.

In addition, due to the fact that the Company is the head of the consolidated tax group, this item of the balance sheet includes the debit position vis-à-vis the various companies that make up the tax group, for a total amount of EUR 3,738 thousand and EUR 3,608 thousand at 31 December 2018 and 2017, respectively, corresponding to the amount to be paid as corporate income tax of Group companies that are included in the tax perimeter (see Note 14.2).

8. Cash and cash equivalents

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

Information on the nature and level of risk of financial instruments

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

a) Credit risk

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

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

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

The Company does not have a significant concentration of credit risk, being its exposure concentrated in Group companies and associates, and therefore the credit risk associated to the activity of these companies.

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

b) Liquidity risk

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

On 30 December 2014, Grupo SANJOSE signed non-terminating amendments to the syndicated debt of the Group in Spain, entering new conditions to accommodate repayment terms of the same to the Group's generation of flows (see Note 11).

c) Market risk

- Interest rate risk: Both the treasury and the financial debt of the Company are exposed to interest rate risk, which could have an adverse impact on financial outcome and cash flows. In order to minimise this impact, the Company's policy is to contract derivative financial instruments to hedge interest rates. At 31 December 2018, since most of the funding of the Company is repaid on a fix interest rate (see Note 11.2.b), there are no derivative financial instruments.

- Exchange rate risk: The Company does not bear at 31 December 2018 any positions in other currency than in Euro. Likewise, there are no coverage contracts for exchange rates. Its currency exposure corresponds mainly to its stake in group companies operating in markets with a currency other than the Euro (see Note 7.1). The Group's policy is that funding of these units, if applicable, would be in local currency.

9. Net Equity

9.1 Share Capital

At 31 December 2018 and 2017, share capital of the Parent was represented by 65,026,083 shares of EUR 0.03 par value each.

At 20 July 2009, shares of the Company are admitted to trading on the Continuous Market, with a market value of EUR 12.86 per share. The closing and mean quote for the last quarter of the year has been EUR 4.6 and EUR 4.89 for year 2018 and EUR 3.55 and 3.14 for year 2017, respectively.

At 31 December 2018, the only shareholder with a stake exceeding 10% in the share capital of the Company was Mr. Jacinto Rey González, with a direct and effective participation of 24,952% and 48.292%, respectively.

On 30 December 2014, the Group has entered into with a majority of the creditor banking entities a novation agreement of its syndicated credit loan in Spain, pursuant to which it commits to issue Warrants for 35% of its current social capital, whose execution shall depend on the level of performance of the Group of the amortisation of the participating loan granted as on said date, for a total amount of EUR 100 million. The AGM at its meeting held on 24 June 2015, resolved to issue the above-mentioned warrants, with execution date on October 2019 (see Note

11.2).

The Company's directors foresee that financial creditors will proceed to execute the right granted to them by the warrants issued, proceeding to the full capitalisation of said amount (see Note 11.2.b) This transaction will be carried out at market value, taking as reference the average share price in the last 20 sessions prior to the execution date. Consequently, no economic dilution effect is expected for current shareholders.

9.2 Issuance rights

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

9.3 Legal reserve

Under the Consolidated Spanish Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose. At year-end 2018 the legal reserve has not been fully provided.

9.4 Restrictions on the distribution of dividends

There are no significant restrictions on the distribution of dividends, apart from those established for the Group's syndicated banking funding system (see Note 11.2), in addition to the above-mentioned ones regarding goodwill reserve (see Note 9.6).

9.5 Treasury shares

At 31 December 2018 and 2017 the Company did not hold any treasury shares neither had executed transactions with treasury shares during 2018 and 2017.

9.6 Goodwill reserves

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

At 31 December 2018 and 2017, said reserve amounted to EUR 762 thousand and was recorded under "Voluntary Reserves" under net equity. Since the net book value of goodwill recorded at 31 December 2018 is greater, the goodwill reserve is qualified as a restricted reserve at said date.

9.7 Equity

At 31 December 2018, the Company records a negative net equity amounting to EUR 39,207 thousand. However, it is not in the situation of asset imbalance pursuant to art. 363 of the Companies Act to the extent that it records an equity loan amounting to EUR 111,390 thousand (see Note 11.2 and 9.1), received from creditor financial institutions in order to strengthen its financial position.

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

10. Provisions and contingencies

10.1 Long-term provisions

The detail of long-term provisions under the balance sheet at 2018 y 2017 year-end, as well as main movements during years 2018 and 2017, are as follows:

Year 2018:

	Thousand of Euros		
	Balance at 31-12-2017	Additions	Balance at 31-12-2018
Provision for risks and expenses	17,972	-	17,972
Total	**17,972**	**-**	**17,972**

Year 2017:

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

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

Breakdown, by associate, is as follows:

	Thousand of Euros	
	Balance at 31/12/2018	Balance at 31/12/2017
SJB Müllroser Baugesellschaft mbH	5,110	5,110
Udra Medios, S.A.U.	12,862	12,862
Total	**17,972**	**17,972**

10.2 Short-term provisions

At 31 December 2018 and 2017, the Company has short-term provisions amounting to EUR 545 thousand in order to meet contingencies arising from its activity.

10.3 Contingencies

Directors of the Company do not consider any liability arising in connection to the committed guarantees, in addition to those recorded in the accompanying financial statements at 31 December 2018.

11. Financial debt

Breakdown of this item in the accompanying balance sheet is as follows:

Year 2018:

	Thousand of Euros		
	Other financial liabilities with changes in income statement	**Debts and accounts payable**	**Total**
Syndicated loan (Note 11.2)	-	111,390	**111,390**
Other financial liabilities (Note 11.1)	-	83	**83**
Total current financial liabilities	**-**	**111,473**	**111,473**

Year 2017:

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

11.1. Other financial liabilities

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

11.2. Syndicated credit facilities

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

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

These agreements involved the novation of the syndicated credit facilities signed in April 2009, as well as a set of funding bilateral contracts: The terms and conditions of the new financing are detailed pursuant to the following two separate financing agreements:

a) “Constructora San José, S.A.” Contract

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

Tranche 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 2018, the amount recorded amounts to EUR 191.5 million. During years 2018 and

2017, the Company voluntarily amortized EUR 516 thousand and EUR 6,265 thousand, respectively.

As of 31 January 2019, the Group has carried out an additional early repayment for EUR 7 million (see Note 16).

Although maturity date for this stretch is 31 October 2019, according to the termas of the contact, "Constructora San José, SA" has the possibility of extending the maturity of this loan until 31 October 2020, in accordance with the following requirements: i) Repayment or full conversion of the debt related to the "Grupo Empresarial San José, SA" Contract (see Note 11.2.b); ii) Full compliance by "Constructora San José, S.A." with its payment obligations for Tranche A and with the rest of the terms of the contract; iii) That "Constructora San José, S.A." has sufficient working capital facilities for the development of its activity.

At the date of issue of these consolidated Financial Statements, all the conditions established by the contract for the exercise of said option are currently fulfilled. The Group intends to make use of the power conferred by the contract, proceeding to its extension until 31 October 2020.

Maturity of the outstanding amount shall be paid according to the following schedule:

Thousand of Euros		
Year 2019	Year 2020	TOTAL
18,273	174,202	**192,475**

Quarterly settlement of accrued financial interest is established.

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

- Trade and financial discount tranche amounting to EUR 49 million
- "Confirming" tranche amounting to EUR 28.8 million
- Guarantees for the bidding and execution of works amounting to EUR 241.4 million.
- Financial bank guarantees amounting to EUR 98 million for recurrent financial bank guarantees, and USD 8 million of non-recurrent financial bank guarantees.
- Tranche B: additional credit facilities in the event of 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 service coverage ratio: also referred to the Subgroup "Constructora San José, S.A. and subsidiaries". It shall be calculated quarterly on a year-on-year basis.

The Directors of the Company deem at 31 December 2018 that the Group meets all the requirements.

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

Pursuant to the modifying novation agreement of the debt of Grupo SANJOSE, the Company assumed a EUR 100 million participating loan on a 2% fixed interest rate to be increased up to 3% 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. Warrants will not be listed on any secondary markets and shall only be transferable with debt of Grupo San José. Consequently, and to the extent that the execution price is referenced to the market value of the share, its fair value is zero, both at the time of initial recognition and subsequent valuation.

The Company's directors foresee that the financial creditors will proceed to execute the right granted to them by the warrants issued, proceeding to the full capitalization of the amount of the associated financial debt (see Note 9.1).

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

At 31 December 2018 and 31 December 2017, the Group has real estate assets amounting to EUR 18,260 and EUR 17,994 thousand, which guarantee the syndicated credit for EUR 34,176 thousand at both dates. Additionally, it has constituted pledges on the credit rights that may derive from certain real estate assets, whose net book value EUR 13,169 and EUR 13,743 thousand at said dates, respectively.

12. Taxation

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

12.1. Tax receivables and payables

Breakdown of tax receivables at 31 December 2018 and 2017 is as follows:

	Thousand of Euros	
	31/12/2018	**31/12/2017**
Current assets:		
VAT receivables	534	-
Income tax receivables	1,054	194
Total	**1,588**	**194**

Breakdown of tax payables at 31 December 2018 and 2017 is as follows:

	Thousand of Euros	
	31/12/2018	31/12/2017
Current liabilities:		
VAT payables	1,865	438
Personal income payable	255	265
Offsetting tax	-	(540)
Social Security payables	95	80
Total	**2,215**	**243**

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

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

The reconciliation of the accounting profit/(loss) and the taxable base for income tax purposes for year 2018 and 2017 is as follows:

	Thousand of Euros	
	2018	2017
Profit/(Loss) before tax	829	600
Permanent differences		
Increase	853	382
Decrease	(257)	-
Prior taxable profit	**1,425**	**982**
BI not included in the accounting record	-	-
BI for the calculation od accounting expense	1,425	982
Prior setting 25%	**356**	**(246)**
Deductions	(89)	1
Income tax expense payable abroad	-	-
Income tax expense	**267**	**(245)**
Temporary differences		
Increase prepaid tax	64	-
Decrease prepaid tax	-	(1)
Increase deferred tax	-	-
To offset tax credit	(87)	(904)
To offset outstanding deductions		(421)
Payments on account	(1,223)	(2,122)
Amount (payable) / receivable	**(979)**	**(3,203)**
-Offset against tax group	(744)	(3,106)
-Tax credit	(235)	(97)

Royal Decree Law 3/2016 on 2 December 2016, approving tax measures, introduces significant limitations in fiscal legislation regarding the ability of large companies to offset the negative tax bases that could have been generated in previous years, as well as the application of deductions. Likewise, a tax reversal is required on the impairment of financial holdings, which were tax deductible in tax base prior to 1 January 2013. The Company has regularised an outstanding amount, in addition to that of years 2016 and 2017, recording a lower tax expense in this year amounting to EUR 46 thousand.

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

12.3. Deferred tax assets and liabilities

The detail of deferred tax assets under the balance sheet at 2018 y 2017 year-end, as well as main movements during said years are as follows:

Year 2018:

	Thousand of Euros			
	31.12.2017	Tax for the year	Regularisation and other	31.12.2018
Temporary differences on investment portfolio	-	-	-	-
Temporary differences on other items	2,295	259	(1)	2,553
Tax credit carry forwards	-	-	-	-
Tax losses carry forwards orior to the Group	2,429	(681)	-	1,748
Offset of tax loss carry forwards (Note 14.2)	31,807	(80)	1	31,728
Total	**36,531**	**(502)**	**-**	**36,029**

Year 2017:

	Thousands of Euros			
	31.12.2016	Tax for the year	Regularisation and other	31.12.2017
Temporary differences on investment portfolio	-	-	-	-
Temporary differences on other items	2,372	-	(77)	2295
Tax credit carry forwards	346	(421)	75	-
Tax losses carry forwards prior to the Group	2,429	-	-	2,429
Offset of tax loss carry forwards (Note 14.2)	33,138	(904)	(427)	31,807
Total	**38,284**	**(1.325)**	**(6429)**	**36,531**

The most significant amounts under "Deferred tax assets" at 31 December 2018 relate basically to credits for negative taxable bases pending to be offset and to be applied outstanding tax deductions.

The detail of deferred tax assets under the balance sheet at 2018 y 2017 year-end, as well as main movements during said years are as follows:

Year 2018:

	Thousand of Euros			
	31.12.2017	Tax for the year	Regularisation and other	31.12.2018
Translation differences for investment portfolio	137	-	(46)	91
Temporary differences in margins for group transactions	13,447	(46)	46	13,447
Payable to group companies for income tax (Note 14.2)	995	209	1	1,205
Total	**14,579**	**163**	**1**	**14,743**

<u>*Year 2017:*</u>

	Thousands of Euros			
	31.12.2016	**Tax for the year**	**Regularisation and other**	**31.12.2017**
Translation differences for investment portfolio	182	(46)	1	137
Temporary differences on group transactions	13,447	-	-	13,447
Tax Payables to Group companies (Note 14.2)	1,422	(180)	(247)	995
Total	**15,051**	**(226)**	**(246)**	**14,579**

Loss carry-forwards

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

Year of inclusion	Thousand of Euros
2004	0.06
2005	0.27
2006	538
2007	6,695.00
2008	12,198.00
	19,431.33

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

Year of inclusion	Thousand of Euros
2008	26,059.00
2009	40,177.00
2010	0.05
2012	751
2013	10
2015	402,084.00
	469,081.05

At 31 December 2018 and 2017, the Company has recorded tax loss due to tax credit amounting to EUR 34,236 thousand and EUR 32,236 thousand, respectively.

The Directors of the Group have assessed the recovery of assets for deferred taxes based on the activities developed by the Group for the term 2019-2028, including variable arising from the applicable regulation in force (Tax Plan).

Projections used are in line with the Strategic Plan of Group SANJOSE, appropriately reviewed and updated by the directors of the Group according to the most recent trade projections, which take 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 of the Group are based on profits, which have, in fact, already been obtained in the last years. The most significant assumptions used to apply such Tax Plan at 31 December 2018, 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 an 9% annual growth of total construction activity for the period 2019-2028.
  - A relatively margin EBITDA standing at 6.5%.
  - 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 2018, in a given period of 9 years.

Tax credits

Applicable regulations in force with regards to income tax includes sundry tax incentives. Tax credits generated within in a year, in excess of the applicable legal limits may be deducted from the income tax payable in the coming years, subject to the limits and deadlines established in this connection by the related tax legislation

The Company has the following tax credits outstanding application, arising from both the activities performed and the deductions from absorbed companies:

Deductions	**Year**	**Thousand of Euros**
Tax credits for donations	2017	0.6
Deduction for amortisation	2017	0.08
Double taxation tax credit	2016	6
Tax credits for donations	2016	0.6
Deduction for amortisation	2016	0.08
Double taxation tax credit	2015	23
Tax credits for donations	2015	0.5
Deduction for amortisation	2015	0.08
Tax credit for training activities	2011	0.1
Tax credit for training activities	2010	0.06
Tax credit for training activities	2009	0.08
		31.18

At 31 December 2018, the Company has not recorded any tax credits outstanding application.

12.4. Years open for review

Years open for review are as follows:

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

With regard to corporation tax, according to the new regulations the right of the Spanish administration to initiate the verification procedure of the paid, offset or outstanding quotas or any deductions applied or to be applied in future is extended to ten years as from the day following that on which the statutory deadline for filing them or for the year or taxable period in which the right was generated to offset such quotas or apply such deductions, being therefore only subject to review deductions and tax losses generated since 2007.

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

12.5. Transactions under the special tax neutrality regime

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

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

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

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

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

12.6 Subrogation of the Company of tax liabilities of absorbed companies

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

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

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

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

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

The contribution of this branch of activity has accounting retroactive effect as from 1 January 2010. The aforementioned spin-off took place pursuant to provisions under the Structural Amendment Act of Companies, number 3/2009 and Chapter VIII of Title VII on the Special regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 on 5 March approving the Consolidated Spanish Corporation Tax Law, having been notified to the Large Taxpayers Central Office of the Department of the Treasury on 2 November 2010.

13. Revenue and expenditure

13.1 Net Revenue and other operating income

Net revenue by activity for years 2018 and 2017 is as follows:

	Thousand of Euros	
	2018	**2017**
Income from holding activity (Note 14.1):		
Dividends received	257	2,200
Financial incomes	242	100
Total	**499**	**2,300**

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

"Other operating income" in the accompanying income statement for years 2018 and 2017 amounts to EUR 21,331 thousand and EUR 21,574 thousand, respectively, and corresponds mainly to income from the provisions of management services by the Company to its investees (see Note 14.1).

13.2 Social security costs

Breakdown for years 2018 and 2017 is as follows:

	Thousand of Euros	
	2018	2017
Social security	782	770
Other social costs	337	341
Total	**1,119**	**1,111**

13.3 Staff costs

The average number of employees during years 2018 and 2017 is as follows:

	2018		2017	
Category	**Men**	**Female**	**Men**	**Female**
Executives	26	14	27	16
Managers	9	10	9	10
Clerical staff	2	12	4	13
Technicians	2	0	0	0
Total	**39**	**36**	**40**	**39**

The number of employees at 31 December 2018 was 79, of which 40 were men and 39 women, being the distribution by type similar to that of the year.

The average number of people employed in the course of the year with a disability greater than or equal to 33% is 1 worker, who is herself a university graduate. The Company, taking into account the specific risk involved in its activity, has recognised the exception of hiring disabled workers, fulfilling it by contracting services with different special employment centres. These contracts are on an annual basis, incurring into an average expense higher than the minimum required by law.

13.4 External services

Breakdown for years 2018 and 2017 is as follows:

	Thousand of Euros	
	2018	2017
Rents and royalties	391	389
Independent professional services	692	607
Insurrance premiums	467	302
Banking services and similar	1	2
Advertising, publicity and public relations	19	18
Utilities	4	3
Other Services	5,554	6,713
Total	**7,128**	**8,034**

"Other services" includes mainly services provided by companies of the Group amounting to EUR 4,892 thousand and EUR 5,754 thousand in years 2018 and 2017, respectively (see Note 14.1).

13.5 Audit fees

In 2018 and 2017 the expense corresponding to the financial audit services provided to the Company by Deloitte, S.L. and associated of the same, as well as fees for audit services for independent financial statements of associated and related companies was as follows:

Year 2018:

Description	Thousand of Euros
Audit fees	38
Other verification services	31
Total audit services and related services	**69**
Tax advisory services	-
Other Services	-
Total	69

Year 2017:

Description	Thousands of Euros
Audit fees	37
Other verification services	30
Total audit services and related services	**67**
Tax advisory services	-
Other Services	-
Total	**-**

14. Transactions and balances with associates

14.1. Transactions with associates

The detail of transactions with associates for years 2018 and 2017 is as follows:

Year 2018:

	Thousand of Euros			
	Provision from services (Note 13.1)	**Reception of services** (Note 13.4)	**Expenses financial**	**Income financial** (Note 13.1)
Comercial Udra, S.A.U.	435	-	53	257
Pinos Altos X.R., S.L.	-	115	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	286	-	-	-
Cartuja Inmobiliaria, S.A.U.	416	-	-	-
Constructora San José, S.A.	14,525	4,892	2,427	1
San Jose Concesiones y Servicios, S.A.U.	507	-	14	-
San Jose Energía y Medio Ambiente, S.A.U.	234	-	-	69
Xornal de Galicia, S.A.U.	-	-	-	16
Udramedios, S.A.U.	-	-	142	-
Constructora Udra Limitada	906	-	-	-
Cadena de Tiendas, S.A.	-	-	18	-
San José Inmobiliaria Perú S.A.C.	312	-	-	-
Constructora San José Colombia, S.A.S.	-	-	-	-
Constructora San José Timor, Unipessoal Lda.	-	-	-	-
Concesionaria San Jose Tecnocontrol, S.A.	594	-	-	11
Constructora Sanjose Chile Ltda.	1,527	-	-	144
Fotovoltaica El Gallo, S.A.	113	-	-	-
Constructora San José Argentina, S.A.	50	-	-	-
Udra México S.A. de C.V.	416	-	-	-
GVK Projects & Technical Services Ltd	922	-	-	-
Otras sociedades del Grupo	84	-	2	1
Total	**21,327**	**5,007**	**2,656**	**499**

Year 2017:

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

The amount of services rendered by the investee company "Constructora San José, SA" in 2018 and 2017 is mainly for the provision of management services provided by this investee, which, in turn, the Company partially re-invoices to the rest of the Group companies in which it takes part in.

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

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

14.2. Balances with associates

Breakdown of balances with associates is as follows:

<u>*Year 2018:*</u>

	Thousand of Euros				
	Long-term loans (Note 7.1)	**Trade receivables**	**Short-term Credits**	**Short-term Debts**	**Trade payables**
Comercial Udra, S.A.U.	-	44	-	1,221	-
San José Energía y Medio Ambiente, S.A.U.	400	71	2,385	-	-
San José Concesiones y Servicios, S.A.	-	102	204	-	-
Constructora Udra Limitada	-	152	-	-	-
Inversiones San José Andina Lda.	-	-	-	-	-
San José France, S.A.S.	-	1	-	-	-
Xornal de Galicia, S.A.	2,014	-	-	-	-
Cadena de Tiendas, S.A.U.	-	-	-	604	-
Constructora San José, S.A.	-	3,849	-	67,775	955
SJB Mullroser Baugeschellsaft	-	-	5,060	-	-
Udra Medios, S.A.U.	14,100	-	-	4,613	-
San José Inmobiliaria Perú, S.A.C.	-	-	278	-	-
Constructora San José Colombia, S.A.S.	-	1	-	-	-
Eraikuntza Birgaikuntza Artapena, S.L.U.	-	29	-	-	-
Constructora San José Cabo Verde, S.A.	-	-	-	-	-
Centro Comercial Panamericano, S.A	-	15	-	-	-
Soc. Concesionaria Chile Tecnocontrol	-	198	-	-	-
San Jose Constructora Chile Ltda.	-	509	4,468	-	-
Pinos Altos XR, S.L.	-	-	-	-	10
San José Tecnologías Chile Limitada	-	-	310	-	-
Cartuja Inmobiliaria, S.A.	-	84	-	-	-
Fotovoltaica El Gallo, S.A.	-		-	-	-
Udra México, S.A. de CV	-	277	-	-	-
GSJ Solutions, S.L.	-		37	-	-
Constructora San José Argentina, S.A.	-	99	-	-	-
Tecnocontrol Servicios, S.A.			-		
Other companies of the Group	-	978	-	-	-
Balances with companies of the group by tax cosolidation	-	-	**3,727**	**414**	-
Total	**16,514**	**6,409**	**16,469**	**74,627**	**965**

<u>*Year 2017:*</u>

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

At 31 December 2018, the amount recorded under "Long-term Group loans and advances to companies", amounting to EUR 16,514 thousand, corresponds mainly to the participatory loans granted by the Company to its investees, for the purpose of strengthen their equity position (see Note 7.1).

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

Due to the fact that the Company is the head of the consolidated tax group for corporate income tax, the Company recorded under "Deferred Tax Liability" a long-term credit position against the Group, for a total amount of EUR 1,181 thousand and EUR 985 thousand at 31 December 2018 and 2017, respectively, corresponding to the Company's accounts payable to companies within the tax group, for the tax credit recorded by the Company under "Deferred tax assets", corresponding to negative tax bases contributed to the tax perimeter by them (see Note 12.3).

Additionally, as of 31 December 2018 and 2017, the Company has granted loans to senior management amounting to EUR 102 thousand and EUR 125 thousand, recorded under "Long-term financial investments" under the non-current assets of the accompanying balance sheet. Said loans bear interest rate at Euribor plus a market spread.

Further, at 31 December 2018 and 2017, the Company has receivables from and payables to partners, directors and executives amounting to EUR 83 thousand and EUR 90 thousand, respectively, recorded under “Other current financial assets” and “Other short-term financial liabilities” in the accompanying balance sheet (see Note 11.1).

15. Other disclosure

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

Regarding information required by the supplementary third provision of Act 15/2010 on 5 July, detailed below is the average payment term to suppliers of the Company during years 2018 and 2017, as well as the balance of payments to suppliers at 31 December 2018 and 2017:

	Year 2018	Year 2017
Average payment term to suppliers (days)	**25**	**33**
Ratio of paid transactions (days)	25	33
Ratio od transactions pendind payment (days)	16	24
Total payments made (thousands of Euros)	8,808	12,556
Total pending payments (thousand of Euros)	331	518

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

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

15.2. Remuneration of Directors and Executives

The detail of the remuneration of all kinds earned in 2018 and 2017 by the members of the Board of the Company is as follows:

	Thousand of Euros	
Type of Directors	2018	2017
Executive	2,409	2,407
Independent board members	207	230
Other external board members	16	18
Total	**2,632**	**2,655**

Total remuneration paid by the Company in years 2018 and 2015 of non-member executives amounts to EUR 503 thousand and EUR 344 thousand, respectively.

The Board of Directors in 2018 and 2017 is formed by 10 men and 1 woman.

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

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

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

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

- Have not performed on their own account or for any other third parties the same business activity or any other similar activity.
- Do not hold shares in the capital of entities with the same, analogous or complementary type of activity to the corporate purpose of the Company.
- Have not performed with the Company or any Group company transactions other than those in the normal course of business or under non-usual market conditions.

At year-end 2018 neither the members of the Board of Directors of the Company or any third parties related to them, as defined in the Companies Act, have reported to the other members of the Board of Directors any conflict of interests, either direct or indirect, with the interests of the Company.

16. Events after the reporting period

On 31 January 2019, the Group made a voluntary partial repayment of the syndicated financing agreement of the company "Constructora San José, SA", for an amount of EUR 7 million (see Note 11.2.a).

There are no other significant events occurred after 31 December 2018 which may have impacted on the accompanying financial statements.

GRUPO EMPRESARIAL SAN JOSE, S.A.

Directors’ Report for the year ending 31 December 2018

1. Situation of the Company

1.1. Organisational Structure

The company is the holding of Grupo SANJOSE. The Group 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 2018, 50.8% total revenue of the Group comes from overseas (56.4% in 2017).

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, analysing and encouraging the application of innovations and technological progress, and maintaining a reduced level of costs that guarantees the profitability of the projects.

2. Evolution of the market

2.1. Market performance

The economic and financial crisis since the end of 2007 has resulted in an abrupt reduction in the level of activity from 2007 to present date, not only in Spain but worldwide. In the last two years, signs of a slight 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 2017, according to data from the National Institute of Statistics (INE), gross domestic product (GDP) reached 3.0%. The Gross Domestic Product (GDP) grew by 0.8% in the first three months of 2018, 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 0.6%. The gross domestic product of Spain in the fourth quarter of 2018 reached an increase of 2.5% with respect to year 2017. This rate is 0.5% less than in the previous year. In 2018, the GDP figure was EUR 1,207 billion, wat involves that the absolute value of GDP in Spain grew by 0.41 trillion compared to 2017.

A slow-down in GDP growth can be observed compared to previous years. The International Monetary Fund, which in October estimated a 2.7% GDP advance for this year, has reduced this forecast to 2.5% at its last meeting at the beginning of 2019, and keeps it unchanged for 2019, at 2.2%, and 1.9% for year 2020. The Spanish economy continues to recover the lost ground during the crisis, according to the IMF, although it points out that the growth rate will be moderate in the coming years to converge with the growth of potential GDP.

Gross Domestic Product. GPD

Source: INE

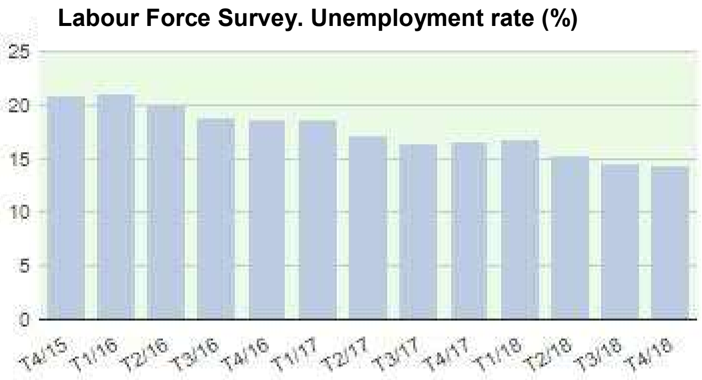
The main reasons of this growth have been the increase in tourism, the moderate increase in domestic consumption and the progressive de-indebtedness of Spanish families. The creation of jobs is precisely the main driver of GDP. However, the fall in external demand moderated this growth.

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 of trend in the country has been perceived abroad. As a consequence, the risk perception of foreign investors, 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), which has closed year 2018 in 118 points, staying at levels of 2017, confirming the improvement of the international perception already experimented therein.

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 2018 the unemployment decline of previous years was maintained, being the unemployment figure 14.55%:



Source: INE

The number of unemployed fell in 2018. The total number of unemployed registered in the offices of public employment services stood at the end of the third quarter of 2018 at 3.33 million people, after falling by 290,193 unemployed people in the year as a whole (-10.87%). Thus, 2018 added a sixth consecutive annual decline. For the first time in 10 years, the unemployment rate has fallen below 15%. The first two EPAs of the year had anticipated the expected news but it was the third quarter that confirmed it, with the quarterly average standing at 14.55%. At 2018 year-end, the unemployment rate stood at 14.45%, with the total number of unemployed, in any case, at minimum since 2008. The figure stood at the end of 2018 at 3.3 million people, recording the creation of 433,900 new positions for the year.

At 2018 year-end, public debt has grown compared to 2017, so that it has increased from EUR 1,144 billion to EUR 1,171 billion. Thus, public debt closed the year at 97% of GDP.

As for the public deficit, the figure for 2017 stood at 3.1%. According to data from the Ministry of Finance, it is estimated that Spain closed 2018 with a figure of 2.7%, meeting the EU's deficit target.

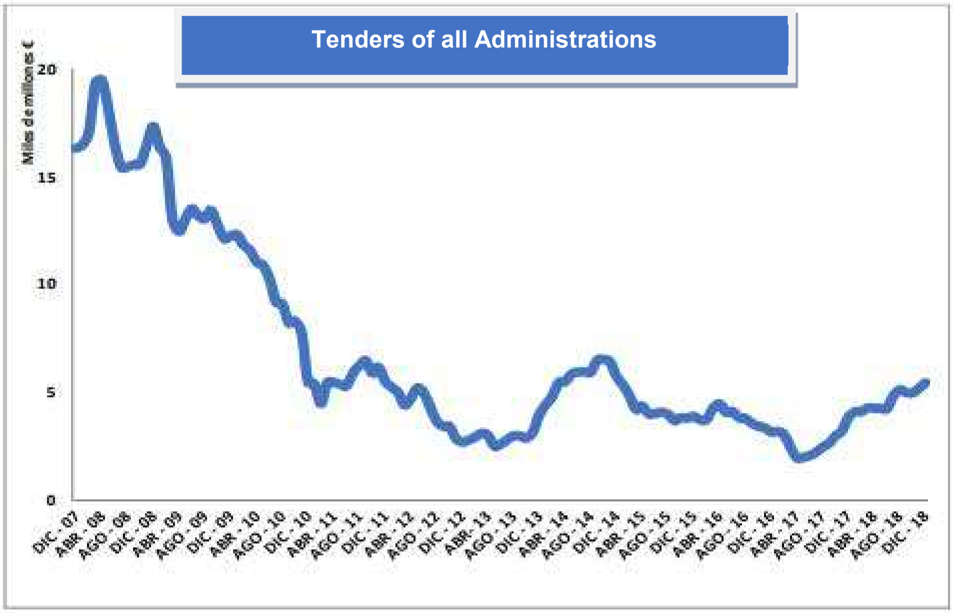
The deficit and the public debt are two of the outstanding issues for the budgetary stability of Spain. The debt is around 97% of GDP and begins to fall, yet at a very slow pace. The deficit-building factor is the deficit, which remains at a high level a decade after the financial crisis. In fact, Spain is the EU country with the highest budgetary mismatch. Despite this alarming panorama in public accounts, the Government makes progress. It is one step away from the excessive deficit procedure (PDE), the Brussels corrective protocol for countries with red numbers above 3% of GDP. Spain closed 2018 with a deficit close to 2.7% of GDP, with a correction of four tenths over the figure of the previous year.

The CPI stood at December 2018 at 1.2%, five tenths less than in the month of November:

Source: INE

This decrease in the increase in prices is related to the price of fuels. In November and a good part of December, the price of crude oil continued to fall, down to 53 dollars, with which the CPI in Spain, a country very dependent on oil, has plummeted to 1.2%, its lowest level since April.

The main national market where the Group operates, construction, continues to be very affected by the crisis, although there are indications of the country's economic recovery. During 2018, a level of tenders has been somewhat higher than in 2017 (there has been an increase of 31%), as part of the greater investment of public expenditure, although within the austerity framework of the Administrations (16.843 million- SEOPAN- data).



Source: SEOPAN

In addition to the domestic market. Grupo SANJOSE is also present in the markets of the Middle East, South America and Asia. At the end of 2018 year, the foreign business volume stood at 50.8% compared to 56.4% in 2017.

The world economy will grow by an average of 3.7% in 2018, two tenths less than in previous revisions of the IM, due to commercial measures announced by the United States, and the tariffs applied to China's exports. The IMF is now betting that in the emerging market and developing economies, the growth prospects of many energy exporters are favoured by the rise in oil prices, but the growth of Argentina, Brazil, Iran and Turkey, among other countries, has been revised downwards as a result of specific domestic factors, the constriction of financial conditions, geopolitical tensions and the rising cost of oil imports. Further, following the recently announced trade measures, China and several Asian economies are projected to experience a weaker growth in 2019.

In view of this macroeconomic situation, the Group keeps as basic lines of its activity the effort to improve profitability, being flexible in adapting its structure to the reality existing in Spain, and also strengthening business with diversification and increasing internationalisation.

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 year 2018 are as follows:

Consolidated Management Balance Sheet

Thousands of euros

	Dic. 18		Dic. 17		
	Amount	**%**	**Amount**	**%**	**Var.**
Intangible assets	18,079	1.8%	19,581	2.0%	-7.7%
Property, plant and equipment	71,033	7.1%	45,349	4.7%	56.6%
Real state investments	10,731	1.1%	3,297	0.3%	225.5%
Investments accounted for using the equity method	40,422	4.1%	50,373	5.2%	-19.8%
Long term finantial investments	87,738	8.8%	123,481	12.7%	-28.9%
Deferred taxes assets	36,558	3.7%	35,135	3.6%	4.1%
Goodwill on consolidation	9,984	1.0%	9,984	1.0%	0.0%
TOTAL NON-CURRENT ASSETS	**274,545**	**27.6%**	**287,200**	**29.8%**	**-4.4%**
Inventories	114,885	11.5%	104,704	10.9%	9.7%
Trade and other receivables	259,865	26.1%	258,412	26.8%	0.6%
Other short term finantial investments	58,166	5.8%	91,206	9.5%	-36.2%
Short-term accruals	4,902	0.5%	2,720	0.3%	80.2%
Cash and cash equivalents	283,434	28.5%	220,134	22.8%	28.8%
TOTAL CURRENT ASSETS	**721,252**	**72.4%**	**677,176**	**70.2%**	**6.5%**
TOTAL ASSETS	**995,797**	**100.0%**	**964,376**	**100.0%**	**3.3%**

Thousands of euros

	Dic. 18		Dic. 17		
	Amount	**%**	**Amount**	**%**	**Var.**
Equity attributable to shareholders of the parent	80,996	8.1%	58,645	6.1%	38.1%
Minority interest (*)	24,262	2.4%	20,866	2.1%	16.3%
TOTAL EQUITY (*)	**105,258**	**10.6%**	**79,511**	**8.2%**	**32.4%**
Long term provisions	40,121	4.0%	30,313	3.1%	32.4%
Long term finantial liabilities	252,084	25.2%	311,625	32.3%	-19.1%
Long term derivative finantial contracts	351	0.0%	591	0.1%	-40.7%
Deferred taxes liabilities	25,635	2.6%	19,541	2.0%	31.2%
Long-term accruals	865	0.1%	904	0.1%	-4.3%
TOTAL NON CURRENT LIABILITIES	**319,056**	**32.0%**	**362,974**	**37.6%**	**-12.1%**
Short term provisions	31,227	3.1%	37,895	3.9%	-17.6%
Short term finantial liabilities	65,759	6.6%	65,828	6.8%	-0.1%
Trade accounts and other current payables	474,497	47.6%	418,168	43.5%	13.5%
TOTAL CURRENT LIABILITIES	**571,483**	**57.4%**	**521,891**	**54.2%**	**9.5%**
TOTAL EQUITY & LIABILITIES	**995,797**	**100.0%**	**964,376**	**100.0%**	**3.3%**

(*) **Management Net Equity**: EUR 111.4 million have been recorded under this item as shareholder loan of Grupo Empresarial San José, S.A.

Consolidated Management Income Statement

Thousands of euros

	Grupo SANJOSE				
	Dic. 18		Dic. 17		
	Amount	%	Amount	%	Variac.
Revenue	**758,423**	**100.0%**	**682,868**	**100.0%**	**11.1%**
Other operating income	11,816	1.6%	9,382	1.4%	25.9%
Change in i nventories	1,933	0.3%	-2,235	-0.3%	--
Procurements	-507,779	-67.0%	-462,034	-67.7%	9.9%
Staff costs	-116,801	-15.4%	-103,034	-15.1%	13.4%
Other operating expenses	-95,912	-12.6%	-78,688	-11.5%	21.9%
EBITDA	**51,680**	**6.8%**	**46,259**	**6.8%**	**11.7%**
Amortisation chargue	-5,040	-0.7%	-6,762	-1.0%	-25.5%
Imparment on inventories	-258	0.0%	-2,078	-0.3%	-87.6%
Changes in trade provisions and other imparment	-5,351	-0.7%	-6,357	-0.9%	-15.8%
EBIT	**41,031**	**5.4%**	**31,063**	**4.5%**	**32.1%**
Ordinary finantial results	-8,766	-1.2%	-6,158	-0.9%	42.4%
Foreign exchangue results and others	-5,357	-0.7%	-2,328	-0.3%	130.1%
NET FINANTIAL RESULT	**-14,123**	**-1.9%**	**-8,459**	**-1.2%**	**67.0%**
Results on equity method	88	0.0%	-210	0.0%	--
PROFIT BEFORE TAX	**26,996**	**3.6%**	**22,395**	**3.3%**	**20.5%**
Income tax	-8,828	-1.2%	-10,127	-1.5%	-12.8%
CONSOLIDATED PROFIT	**18,168**	**2.4%**	**12,268**	**1.8%**	**48.1%**

Alternative Performance Measures (APM):

In the consolidated financial statements for the year ending 31 December 2018, 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 (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and therefore must be considered to adequately assess the performance of the group.

Among others, the Group identifies the following APMs:

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

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

  (*) The Group does not include as bank financial debt that arising from the syndicated loan agreement of "Grupo Empresarial San José, SA", amounting to EUR 111.4 million and EUR 107.8 million at 31 December 2018 and 31 December 2017, respectively. Due to its participatory nature, it is recorded as equity.

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

Revenue

The net amount of the revenues of Grupo SANJOSE for year 2018 rises to 758.4 million euros, which supposes an increase of 11.1% over the previous year.

The main activity of Grupo SANJOSE is Construction, which represents 89% of the total revenues for the period, and 70% of the total portfolio of the Group at the end of 2018. Revenue from this line of activity in 2018 it stood at 676.0 million euros, experiencing an increase of 12.5% 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. 18**		**Dic. 17**		**Var.(%)**
Construction	675,961	89.1%	600,994	87.9%	12.5%
Real estate and property development	3,761	0.5%	6,769	1.0%	-44.4%
Energy	9,711	1.3%	11,165	1.6%	-13.0%
Concessions and services	50,875	6.7%	47,740	7.0%	6.6%
Adjustment and other	18,115	2.4%	16,200	2.4%	
TOTAL	**758,423**		**682,868**		**11.1%**

As it has been happening in recent years, turnover from international markets shows great strength and remains of great importance for Grupo SANJOSE. In 2018, it contributed 51% of the Group's total turnover, maintaining the same volume as in the previous year 2017.

Likewise, there is an important growth in the domestic market turnover, experiencing a 25.4% increase with respect to year 2017.

Thousands of euros

	Grupo SANJOSE				
Revenues by geography	**Dic. 18**		**Dic. 17**		**Var.(%)**
National	372,893	49%	297,444	44%	25.4%
International	385,530	51%	385,424	56%	0.0%
TOTAL	**758,423**		**682,868**		**11.1%**

Profit:

The operating profit (EBITDA) of Grupo SANJOSE for year 2018 amounts to 51.7 million euros, representing a margin of 6.8% over the net amount of the turnover.

EBITDA from the Construction activity, recorded in year 2018 36.7 million euros, representing 71% 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 at 2018 year-end an increase in EBITDA of 42.3%, is evident.

Breakdown of EBITDA by sector for 2018 is as follows:

Thousands of euros

	Grupo SANJOSE				
EBITDA by activity	**Dic. 18**		**Dic. 17**		**Var.(%)**
Construction	36,695	71.1%	32,695	70.8%	12.2%
Real estate and property development	27	0.1%	1,784	3.9%	-98.5%
Energy	2,705	5.2%	3,576	7.7%	-24.3%
Concessions and services	2,297	4.4%	1,614	3.4%	42.3%
Adjustment and other	9,956	19.3%	6,590	14.2%	51.1%
TOTAL	**51,680**		**46,259**		**11.7%**

The net operating profit (EBIT) of Grupo SANJOSE for year 2017 amounts to 34.0 million euros, representing a margin of 5.4% over the net amount of the turnover and recording a 32.1% increase with regards to the previous year.

The **Profit after tax** of Grupo SANJOSE at the end of 2018 amounts to 18.2 million euros, which is a positive result that grows 48.1% with that recorded the previous year.

Net equity

The net equity of Grupo SANJOSE at 31 December 2018 stands at -6.1 million euros, being the main variation with respect to the amount shown for December 2016 that corresponding to the profit/(loss) for the period.

At 31 December 2018, the Group's Net Equity is composed of 65.0 million shares, what involves a participation of EUR -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.

Management Cash Flow

Thousands of Euros

	Grupo SANJOSE	
CASH FLOW	**Dic. 18**	**Dic. 17**
Cash flow from operating activities	56,552	49,874
Working capital	41,290	-18,154
Others adjustments	-12,467	-8,206
Operating cash flow	**85,375**	**23,512**
Divestments / (Investments)	-6,236	-1,867
Others adjustments	56,533	36,200
Investment cash flow	**50,297**	**34,333**
Free cash flow	**135,672**	**57,845**
Capital flow & Minorities	-261	-1,030
Increase / (Decrease) in borrowings	-63,215	-67,565
Net interest	-7,180	-6,410
Others adjustments	-1	-14,544
Financing cash flow	**-70,657**	**-89,550**
Diferences due to changes in exchange rates	**-1,715**	**0**
Total cash flow	**63,300**	**-31,705**

In year 2018, the resources generated by operations amounted to 56.6 million euros.

There was a significant improvement in net operating cash flow, which increased from 23.5 million euros in 2017 to 85.4 million euros in 2018.

The decrease in financial indebtedness should be noted: a reduction of EUR 63.2 million and EUR 67.6 million in 2018 and 2017, respectively.

Backlog

The backlog of Grupo SANJOSE, indicating the Group's future contracted business, amounts to EUR 1,916 million at 31 December 2018. The detail is as follows:

Millions of euros

BACKLOG by segment	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
Construction	**1,334**	**70%**	**916**	**57%**	**45.7%**
Civil works	169	8.8%	177	10.9%	-4.5%
Non residential building	829	43.2%	537	33.1%	54.3%
Residential building	331	17.3%	195	12.0%	70.3%
Industrial	5	0.2%	8	0.7%	-40.3%
Energy	**395**	**21%**	**496**	**30%**	**-20.4%**
Concessions and services	**187**	**10%**	**218**	**13%**	**-14.1%**
Maintenance	18	0.9%	19	1%	-7.9%
Concessions	169	8.5%	200	12%	-15.2%
TOTAL BACKLOG	**1,916**	**100%**	**1,630**	**100%**	**17.6%**

Millions of euros

BACKLOG by geography	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
National	**1,098**	**57%**	**909**	**56%**	**20.8%**
International	**818**	**43%**	**721**	**44%**	**13.4%**
TOTAL BACKLOG	**1,916**		**1,630**		**17.6%**

Millions of euros

BACKLOG by client	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
Public client	**820**	**43%**	**916**	**56%**	**-10.5%**
Private client	**1,097**	**57%**	**714**	**44%**	**53.6%**
TOTAL BACKLOG	**1,916**		**1,630**		**17.6%**

At 31 December 2018, the Group's total backlog amounted to EUR 1,916 million, showing a growth of 17.6% with respect to that obtained at the end of 2017.

This increase in the backlog compared to 2017 year-end is shown both in the domestic market, where the Group's contracting grew by 20.8%, and in the international market, where growth was 13.4%.

Similarly, there is a shift in contracts towards private customers versus public customers, as has been shown in recent quarters.

The Construction backlog, main activity of the Group, represents 70% of the total backlog.

Analysis by sector

Construction

The construction line of activity has generated revenue for EUR 676.0 million, representing a 12.5% increase compared to the previous year.

EBITDA for 2018 stands at EUR 36.7 million, representing a 5.4% margin on sales.

The net operating profit reached EUR 27.3 million, achieving a 17.8% increase with respect to that obtained in 2017.

Likewise, profit before tax grew 113.0% with respect to the previous year and stood at EUR 28.7 million.

At the end of 2018, project backlog for this line of activity amounts to EUR 1.334 million versus the EUR 916 million at 2017 year-end (45.7% improvement).

Thousands of euros

	Grupo SANJOSE		
CONSTRUCTION	Dic. 18	Dic. 17	Var.(%)
Revenue	675,961	600,994	12.5%
Earnings before interest, taxes, D&A (EBITDA)	36,695	32,695	12.2%
EBITDA margin	5.4%	5.4%	
Earnings before interest and taxes (EBIT)	27,296	23,179	17.8%
EBIT margin	4.0%	3.9%	
Earnings before tax	28,703	13,474	113.0%

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	26,007	8.1%	33,613	9.4%	59,620	8.8%
Non residential building	196,665	61.4%	221,380	62.1%	418,045	61.8%
Residential building	85,681	26.8%	100,055	27.9%	185,735	27.5%
Industrial	10,601	3.3%	80	0.0%	10,682	1.6%
Others	1,271	0.4%	606	0.2%	1,877	0.3%
TOTAL	320,227	47%	355,734	53%	675,961	

Construction revenue at international level for 2018 stands at EUR 355.7 million, recording a slight increase compared to the same period of the previous year, and representing 53% total revenue of this line of activity.

On the other hand, sales at domestic market stood at EUR 320.2 million compared to EUR 245.8 million for year 2017, recording a 30.3% increase. Domestic sales represent 47% total sales of this line of activity.

Real estate

The main Real Estate activity carried out by the Group during the year 2018 was the one corresponding to the "Condominio Nuevavista" promotion in Lima, Peru. During 2018, the Group has begun the construction work, which includes the construction of a total of 1,104 homes distributed in 10 buildings.

Stages I and II of the aforementioned development are currently underway, stage I has reached a commercialisation level of 92%, and commercialisation of stage II has been very well welcomed.

Stage I is expected to be delivered during the year 2019, allowing Grupo SANJOSE to progressively recover the turnover and EBITDA figures obtained in previous periods for this line of activity.

Turnover for year 2018 for the Real Estate business of Grupo SANJOSE stands at EUR 3.8 million.

Thousands of euros

	Grupo SANJOSE		
REAL ESTATE AND PROPERTY DEVELOPMENT	**Dic. 18**	**Dic. 17**	**Var.(%)**
Revenue	3,761	6,769	-44.4%
Earnings before interest, taxes, D&A (EBITDA)	27	1,784	-98.5%
EBITDA margin	0.7%	26.4%	
Earnings before interest and taxes (EBIT)	-633	1,418	-144.6%
EBIT margin	-16.8%	21.0%	
Earnings before tax	-6,311	3,217	-296.2%

Energy

Revenue for this line of activity in year 2018 stands at EUR 9.7 million.

EBITDA corresponding to year 2018 of this line of activity amounts to EUR 2.7 million.

Thousands of euros

	Grupo SANJOSE		
ENERGY	**Dic. 18**	**Dic. 17**	**Var.(%)**
Revenue	9,711	11,165	-13.0%
Earnings before interest, taxes, D&A (EBITDA)	2,705	3,576	-24.3%
EBITDA margin	27.9%	32.0%	
Earnings before interest and taxes (EBIT)	1,446	1,924	-24.9%
EBIT margin	14.9%	17.2%	
Earnings before tax	914	1,434	-36.3%

EBITDA percentage on sales of this business activity corresponding to 2018 stands at 27.9%.

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.

Grupo SANJOSE has in this line of activity, at 2018 year-end, a contracted backlog amounting to EUR 395 million, that will be materialised as greater activity for a period of approximately 25 years.

Concessions & Services

Revenue for year 2018 stands at EUR 50.9 million, resulting in an increase of 6.6% with respect to the revenue for year 2017.

EBITDA increased by 42.3% with respect to the previous year, which stood at EUR 2.3 million, representing a margin of 4.5% on sales (3.4% in year 2017).

The net operating result (EBIT) experienced a 90.3% increase and reached EUR 1.6 million for the year.

Likewise, profit before tax for year 2018 amounted to EUR 5.9 million.

Thousands of euros

CONCESSIONS AND SERVICES	Grupo SANJOSE Dic. 18	Dic. 17	Var.(%)
Revenue	50,875	47,740	6.6%
Earnings before interest, taxes, D&A (EBITDA)	2,297	1,614	42.3%
EBITDA margin	4.5%	3.4%	
Earnings before interest and taxes (EBIT)	1,576	828	90.3%
EBIT margin	3.1%	1.7%	
Earnings before tax	5,936	8,735	-32.0%

At the end of 2018, contracted backlog of the Group for this line of activity amounts to EUR 187 million.

2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2018 with an average payment term of 44 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 2018, net cash position is as follows:

Thousands of euros

NET CASH POSITION	Dic. 18 Amount	%	Dic. 17 Amount	%	Var.
Other short term finantial investments	58,166	17.0%	91,206	29.3%	-36.2%
Cash and cash equivalents	283,434	83.0%	220,134	70.7%	28.8%
Total cash	**341,600**	**100%**	**311,340**	**100%**	**9.7%**
Long term finantial liabilities (*)	252,084	79.2%	311,625	82.4%	-19.1%
Long term derivative finantial contracts	351	0.1%	591	0.2%	-40.7%
Short term finantial liabilities	65,759	20.7%	65,828	17.4%	-0.1%
Total debt	**318,194**	**100%**	**378,044**	**100%**	**-15.8%**
TOTAL NCP	**23,406**		**-66,704**		**--**

(*) 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".

The net cash position at 2018 year-end is a positive cash amounting to EUR 23.4 million, compared to the EUR 66.7 million net financial debt at the end of 2017, representing a significant improvement in the net cash position, having increased by more than EUR 90 million during the year.

This is possible, due to a combined effect of a 9.7% improvement of assets and a 15.8% reduction of liabilities, mainly due to the periodic maturity and annual amortisation of the bond issue that finances the two hospitals in Chile, as well as for the amortizations of the syndicated debt in Spain, according to the established schedules.

Net cash position at 31 December 2018 includes the funding of other non-recourse projects of Grupo SANJOSE for EUR 105.9 million.

Capital Resources

The Group estimates that in 2019, the warrants that has currently issued will be executed and, as a result, the Company's current financial creditors will proceed to capitalize the full amount of the financial debt, which at 31 December 2018 amounts to EUR 111,390 thousand.

Additionally, it is not estimated that there will be any other change in the equity and debt structure, or in the cost related to capital resources during the year 2019. On the other hand, given that the entity's objective is to reduce the debt, this will mean a reduction of its proportion in relation with the Group the 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. Main risks

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

Operational risks

Main risks arising from the Group's activity are market risks (those related to the sufficiency of the demand for services and products), regulatory and political risks, labour risks, environmental risks, maintenance of quality and adaptation to the provisions of the contractual framework with clients, etc.

In the stage of acceptance of projects, and in order to be able to guarantee their realisation according to the established contractual terms, quality standards, guaranteeing the satisfaction of the client and meeting the minimum profitability levels required, tailored studies are carried out for each project.

Likewise, the Group has an International Tax and Legal Department, which analyses the impact of the different regulations, tax framework, etc. on the Group's activity, given its increasing international presence, 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 31 January 2019, the Group company "Constructora San José, S.A." has voluntarily amortised an amount of EUR 7,000 thousand, corresponding to part of the syndicated loan that this company has in force.

Further, there are no other significant events occurred after 31 December 2018 that could have an impact on the Group.

6. Future outlook

The change of trend in the economic cycle of Spain during the last years, together with growth forecasts for 2019 and 2020, and the improvement of the GDP in 2017 and 2018, suggests that the domestic economy in 2019 will maintain the path recovery started last year, within a framework of global growth.

The Group has focused its activity on the construction and provision of services, although without neglecting the real estate opportunities, related to the real estate assets it owns.

The main lines of action of the Group's business plan are:

- Maintenance of the level of contracting in domestic market.

- Continuation of the international activity, through geographical diversification, and by business line:
    - o Taking advantage of the value acquired in countries where it is present (Abu Dhabi, Chile, Mexico, etc.) to increase its presence.

- o Taking advantage of new expansion opportunities.

During year 2017, Grupo SANJOSE has been awarded several works abroad. Outstanding those awarded by the Corporación Administrativa del Poder Judicial, Ministry of Justice of Chile, and the execution of the new Judicial Centre of La Serena in the province of Coquimbo (Chile), the refurbishment of two hospitals that suffered significant earthquake damage in the states of Puebla and Morelos and the construction of the expansion of the Belgrano water treatment plant, as well as the new headquarters of the Central Bank of Cape Verde.

In this sense, in 2018, the Group has worked on the achievement of new projects, which accompany those already awarded in 2017 and that have been developed during the year.

Thus, during year 2018, the Group was awarded by Provias Nacional, the "Improvement of the Checca - Mazocruz Highway" works in the Province of El Collao, Puno region: an infrastructure of 73 kilometres in length, including the construction of four bridges that will be developed at an altitude close to 4,000 metres and which is considered of essential importance for the economic dynamisation of the area.

Further, Miral Asset Management LLC, a company of the Government of Abu Dhabi responsible for the construction of value for visitors in the Emirate, has awarded SANJOSE Contracting in joint venture with Fibrex Construction Group the execution of a 5* Hotel - Resort, including three leisure and restoration areas and sundry works associated with its integration in the Island of Yas. Overall, the construction project that SANJOSE will lead on the south of the island, involves approximately 190,000 sqm of built surface and the development of another 45,000 sqm.

Finally, it should be noted that the Ministry of Health - Health Service Valparaíso - San Antonio has awarded SANJOSE Constructora the execution works of the new San José de Casablanca Hospital (Chile) that will serve, upon completion, approximately 30,000 users. The project includes the construction and start-up of a hospital complex distributed in three attached buildings for sanitary use and a fourth isolated building for various facilities.

The trend of staying in countries where it has already operated, is reinforced by the position in Latin America. After the final delivery and commissioning of the Hospitals of Chile built by the Group in previous years, the exploitation of the non-healthcare services will continue for 15 years, providing recurring income throughout this period.

Likewise, after the good experience in the real estate development developed in Peru (of projects carried out in Lima stand out the Condominio Parques de la Huaca and the Condominio del Aire), Grupo SANJOSE bought at the end of 2016, a plot of approximately 20,000 sqm of surface in the district of Bellavista, in the province of Callao, Lima (Peru), which it intends to build more than 1,000 housing units. The term of execution is estimated to be not less than 6 years, with the development being carried out in successive stages. Construction of the first stage has begun during the year, and a large number of homes have already been committed to future sales.

During year 2017, the Group expanded its portfolio of services in the domestic market, through the award by the Ministry of Development, to the JV formed by SANJOSE Constructora and Eifagge Infraestructuras, the execution of sundry operations of conservation and exploitation of sector CC-3 of Caceres, Extremadura. The contract involves the full conservation and maintenance of 254 kilometres in length of state-owned roads for 4 years. Likewise, the award of the new building of the NH Hotel of Malaga should be highlighted. The new building will involve the construction of a ground floor and 4 floors with capacity for 115 rooms.

During year 2018, the Group has maintained the level of achievement of work in the domestic market. Highlighting the awarding by Mandarin Oriental and Olayan Group of the refurbishment works of the Rtiz Hotel in Madrid, one of the main luxury five star hotels in the capital city of Spain, which since its inauguration in 1910 by Alfonso XII, has been characterised as a benchmark for the social and cultural life of the city due to its exclusivity, its facilities and its unbeatable location in the heart of the city, Plaza de La Lealtad 5, between the Prado Museum and the Thyssen-Bornemisza Museum. The intense renovation will significantly improve the facilities and services of the hotel, maintaining its unique character, with the aim of improving the attractiveness of the property for local and international guests alike, while celebrating the pioneering spirit of César Ritz. The remodelling works that SANJOSE will execute have been designed by the architect Rafael de La-Hoz along with the collaboration of the French interior designers Gilles & Boissier. Upon completion of the works, the hotel will have reduced the total number of rooms from the current 166 rooms to 153 rooms, resulting in more spacious rooms, and will increase the number of suites to 47. Among them, stand out the exclusive Royal Suite and the Presidential Suite, with 188 sqm and 115 sqm, respectively. All spaces and meeting rooms will be refurbished to adapt the equipment to the current needs of luxury hotel guests.

Likewise, during year 2018, the Xunta de Galicia has awarded SANJOSE Constructora the execution works of the new City of Justice of Vigo designed by the architect Alfonso Penela. The project consists of the adaptation of the former Xeral Cíes Hospital of Vigo as the future City of Justice, affecting mainly the Main Body, Plaza and Annex Building. The adaptation of the complex to its new use will involve a built surface of 35,588 sqm and the development of 1.157 sqm.

It is also noteworthy the award by the Community of Mogan Mall to SANJOSE Constructora of the construction of the new Mogan Mall (44,000 sqm) located in the town of Mogan, in the south of the island of Gran Canaria, as well as the award by Global Incahuasi to the JV formed by SANJOSE Constructora and Fatecsa for the construction of the Park & Palace Residencial on Calle Irun 15 in Madrid, in a privileged environment between Parque del Oeste and the Palacio Real, for the construction of a new development, with a built surface amounting to14,000 square meters, including 110 housing units of 1, 2 and 3 bedrooms, garage, swimming pool and a roof-terraced solarium, garden and pond on the ground floor, gym and sundry facilities.

Finally, SANJOSE Constructora has been awarded the construction works for the new 4* H10 Hotel, in Benidorm, Alicante. In the first line of the Poniente beach in Benidorm, a modern hotel of 174 rooms and 15,814 sqm of built surface will be built, arranged into 8 floors above ground and 2 basements. The prestigious interior designer Lazaro Rosa-Violán has taken part in the design of the project.

A large increase in public tenders is not foreseeable in the short term in the domestic market, however, the international market, especially in emerging countries, has business opportunities for the Group that will, within its expansion policy, try to take advantage of. Likewise, it will continue working to consolidate its national presence even further, also relying on the forecast of a better behaviour in the private sector. All of the above, supported by the macroeconomic prospects of improving the economy, both nationally and internationally, are positive arguments for the future of construction, the main activity of the Group.

Taking into consideration the Group's backlog of EUR 1,916 million, its organic stability is assured, foreseeing to maintain the average size of projects, trying to take advantage of public tender opportunities, both at national and international level, especially in those where it has a presence and expertise.

The Company, as part of Grupo SANJOSE is not estimated, based on the information available to date, to face situations of risk and/or uncertainty substantially different from those already experienced in 2016.

7. R&D Activities

Grupo SANJOSE, aware of the importance that represent the activities of Research, Development and Innovation for competitiveness and business success, wishes to become a reference in technology development. The type of activities developed by Grupo SANJOSE requires continuous innovation, due to both, the evolution of the technology surrounding the projects and the Group's strategy, which is committed to the introduction into new markets that demand high added value and technical specialisation.

During year 2018, the Group has developed sundry initiatives, notably the "R&D&investment Project for a fixed and automatic detection and dissipation system for mist precipitation by means of hygrometric agents".

R&D&investment issues are widely developed in the non-financial information and diversity information report issued by Grupo Empresarial San José, S.A. and Subsidiaries for the year ended 31 December 2018, prepared by the Group and accompanying the financial statements.

8. Treasury share transactions

The Company hand not carried out transactions involving treasury shares at 31 December 2018 and 2017.

9. Other disclosure

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:

	2018	2017
*Capitalization * (thousands of shares)*	299,120	230,843
Nº of shares *(x 1.000)*	65,026	65,026
Last price of the period *(euros)*	4.6	3.55
Last price of the period *(euros)*	4.6	3.55
Higher price of the period *(euros)*	6.09	4.7
Lower price of the period *(euros)*	3.24	2.58
Volume *(thousands of shares)*	33,614	92,077
Actual *(thousands of euros)*	149,386	333,066

* 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 company will propose the General Meeting of Shareholders to compensate the 2018 benefit, amounting to 490 thousand euros, with of "Negative results from previous years".

10. Non-Financial Information

According to the new Law 11/2018 on non-financial information and diversity information amending the Code of Commerce, the consolidated restated text of the Companies Act passed by Royal Decree-law 1/2010, of 2 July, and Act 22/2015, of 20 July, on Accounts Auditing, in terms of non-financial information and diversity information (deriving from Royal Decree-law 18/2017), information of this nature is developed in the non-financial information and diversity report of Grupo Empresarial San José, S.A. and Subsidiaries for the year ended at 31 December 2018, accompanying the consolidated financial statements.

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 2018.

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 "Grupo Empresarial San José, S.A." hereby make the following statement of liability:

That, to the best of their knowledge, the consolidated annual accounts prepared in accordance with applicable accounting standards present a true and fair view of consolidated equity, the consolidated financial position and the consolidated results obtained by the issuer and its consolidated companies taken as a whole and that the consolidated Directors' Report includes an accurate analysis of business development and results, the position of the issuer and the companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These 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 2018, issued on 41 sheets of common paper, as well as the Directors' Report, issued on 19 sheets of officially stamped single-sheet paper were prepared by the Company's Board of Directors on 28 February 2019.

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

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

The members Mr. Guillermo E.Nielsen, Mr. Sunil Kanoira y Mr. Nasser Homaid Salem Ali Aldarei have submitted absence for leave due to duly justified professional reasons, not having expressed any type of discrepancy regarding the content herein.

The Secretary to the Board

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.

Company`s details:

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

TAX Id #: A36.046.993 ***Tax year:*** 2018

The undersigned, as Director of the above-mentioned company state that accounting records of the financial statements issued in 61 sheets of paper do not include items to be included within the document apart from environmental information set forth by Ministerial Order 8 October 2001.

Signature and name of the Directors:

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

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

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

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